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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, 2017**.

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**

**74-3237581**

(State or other jurisdiction of incorporation or  
Organization)

(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 | <input type="checkbox"/>   | Accelerated filer         | <input checked="" type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input type="checkbox"/>            |
| Emerging growth company | <input type="checkbox"/>   |                           |                                     |

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant on June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price on that date of \$1.66 on the Nasdaq Stock Market, was approximately \$76,874,895.

At March 15, 2018, there were 63,640,034 shares of the registrant's common stock outstanding (the only class of common stock).

#### **EXPLANATORY NOTE**

The Company meets the "accelerated filer" requirements as of the end of its 2017 fiscal year pursuant to Rule 12b-2 of the Securities Exchange Act of 1934. However, pursuant to Rule 12b-2 and SEC Release No. 33-8876, the Company (as a smaller reporting company transitioning to the larger reporting company system based on its public float as of June 30, 2017) is not required to satisfy the larger reporting company requirements until its first quarterly report on Form 10-Q for the 2018 fiscal year and thus remains eligible to use the scaled disclosure requirements applicable to smaller reporting companies under Item 10 of Regulation S-K under the Securities Act of 1933 in this Annual Report on Form 10-K.

#### **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. We operate our business through TEI and four other wholly-owned subsidiaries, Torchlight Energy Operating, LLC, a Texas limited liability company, Hudspeth Oil Corporation, a Texas corporation, Torchlight Hazel LLC, a Texas limited liability company, and Warwink Properties LLC, a Texas limited liability company.

#### *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 four oil and gas projects, which projects are described in more detail below in the section titled “Current Projects.” We anticipate being involved in 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.

The core strategy of the Company is pursuing the ongoing development of its assets in the Permian basin consisting of the Orogrande and the Hazel Projects. These West Texas properties demonstrate significant value potential and future production capabilities based upon the analysis of scientific data already 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.

#### *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.

#### *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.

## **ITEM 1. BUSINESS - continued**

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 infills 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, 2017 the Company had interests in four oil and gas projects: the Orogrande Project in Hudspeth County, Texas, and the Hazel Project in Sterling, Tom Green, and Irion Counties, Texas, the Winkler Project in Winkler County, Texas, and the Hunton wells in partnership with Husky Ventures in Central Oklahoma ..

#### 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. As of December 31, 2017, leases covering 133,000 acres remain in effect. 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, 2017 have been met.

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 provided 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 following two years.

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.

## **ITEM 1. BUSINESS - continued**

On March 22, 2017, the Company, along with Founders, their operating partner, signed a Drilling and Development Unit (DDU) Agreement with University Lands on its Orogrande Basin Project. The agreement has an effective date of January 1, 2017 and required a payment from both Torchlight and Founders of \$335,323 as part of the extension fee. Torchlight's portion of the fee was paid by Founders in April 2017 and will be deducted from the required spud fee payable to Torchlight at commencement of the next well drilled.

The DDU agreement allows for all 192 existing leases covering the 133,000 net acres leased from University Lands to be combined into one lease for development purposes. The time to drill on the unit is extended through April of 2023 on the first extension. The agreement also grants exclusive right to continue through April of 2028 if compliance with the agreement is met and extension fee associated with the additional time paid. The Company's drilling obligations begin with one well in the first year, and increase to five wells per year by year 2023. The drilling obligation set is a minimum requirement and may be exceeded if acceleration is desired. The DDU agreement replaces all prior agreements and will govern future drilling obligations on the lease.

The Orogrande Rich A-11 test 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. Future utility of this well may be conversion to a salt water disposal well in the course of further development of the Orogrande acreage.

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 the third quarter of 2016 and indications of hydrocarbons were seen at the surface on this second Orogrande Project test well. Future utility of this well may be conversion to a salt water disposal well in the course of further development of the Orogrande acreage.

During the fourth quarter, 2017, the Company took back operational control from Founders Oil and Gas on the Orogrande Basin Project. Torchlight was joined by Wolfbone Investments, LLC, ("Wolfbone"), a company owned by Greg McCabe, Torchlight's Chairman. The two entities have entered into an Assignment of Farmout Agreement with Founders and will share the remaining commitments under the prior agreement with Founders. All original provisions of Torchlight's carried interest will remain in place including reimbursement to the Company on each wellbore. Founders will remain a 9.5% Working Interest owner in the project under the agreement for the \$9.5 million it has spent to date and be carried until the remaining \$40.5 million is spent by Wolfbone and Torchlight, with each contributing 50% of that capital spend, under the existing agreement. Torchlight's interest in the Project thereby increased by 20.25% Working Interest to a total of 67.75% and Wolfbone now owns 20.25%.

Founders will operate a newly drilled well called the University Founders #A25 with supervision from Torchlight and its Partners. The University Founders #A25 was spudded on the 27<sup>th</sup> of November and satisfies the obligation under the University Lands D&D Agreement. Once the #A25 is completed Torchlight will assume full operational control including managing drilling plans and timing for all future wells drilled in the Project.

### 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 is classified as a test well in the development pursuit of the Hazel Project. It is anticipated that this wellbore will be utilized as a salt water disposal well in support of future development.

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 the second Hazel Project well, the Flying B Ranch #2. The well is a vertical test similar to the Company's first Hazel Project well, the Flying B Ranch #1. Recompletion in an alternative geological formation for this well was performed during the three months ended September 30, 2017 however the results were uneconomic for continuing production. It is anticipated that this wellbore will be utilized as a salt water disposal well in support of future development.

The Company commenced planning to drill a horizontal well in the Project in June, 2017 in compliance with the continuous drilling obligation. The well, the Flying B Ranch #3, was spudded on June 10, 2017. The well was completed and began production in late September, 2017.

## **ITEM 1. BUSINESS - continued**

### Acquisition of Additional Interests in 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. Subsequent to the closing the name of Line Drive Energy, LLC was changed to Torchlight Hazel, LLC.

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, our Chairman. 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.

Since Mr. McCabe held the controlling interest in both Line Drive and Wolfbone Investments, LLC, the transactions were combined for accounting purposes. The working interest in the Hazel Project was the only asset held by Line Drive. The warrant cancellation was treated in the aggregate as an exercise of the warrants with the transfer of the working interests as the consideration. The Company recorded the transactions as an increase in its investment in the Hazel project working interests of \$3,644,431 which is equal to the exercise price of the warrants plus the cash paid to Wolfbone.

Upon the closing of the transactions, the Company’s working interest in the Hazel project increased by 40.66% to a total ownership of 74%.

Effective June 1, 2017, the Company acquired an additional 6% working interest from unrelated working interest owners in exchange for 268,656 shares of common stock valued at \$373,430, increasing its working interest in the Hazel project to 80%.

### Winkler Project, Winkler County, Texas

On December 1, 2017, the Agreement and Plan of Reorganization that we and our newly formed wholly-owned subsidiary, Torchlight Wolfbone Properties, Inc., a Texas corporation (“TWP”), entered into with McCabe Petroleum Corporation, a Texas corporation (“MPC”), and Warwink Properties, LLC, a Texas limited liability company (“Warwink Properties”) closed. Under the agreement, which was entered into on November 14, 2017, TWP merged with and into Warwink Properties and the separate existence of TWP ceased, with Warwink Properties becoming the surviving organization and our wholly-owned subsidiary. Warwink Properties was wholly owned by MPC which is wholly owned by Gregory McCabe, our Chairman. Warwink Properties owns certain assets, including a 10.71875% working interest in 640 acres in Winkler County, Texas. At closing of the merger transaction, our shares of common stock of TWP converted into a membership interest of Warwink Properties, the membership interest in Warwink Properties held by MPC ceased to exist, and we issued MPC 2,500,000 restricted shares of common stock as consideration. Also on December 1, 2017, MPC closed its transaction with MECO IV, LLC (“MECO”) for the purchase and sale of certain assets as contemplated by the Purchase and Sale Agreement dated November 9, 2017 (the “MECO PSA”), to which we are not a party. Under the MECO PSA, Warwink Properties received a carry from MECO (through the tanks) of up to \$1,475,000 in the next well drilled on the Winkler County leases. A Certificate of Merger for the merger transaction was filed with the Secretary of State of Texas on December 5, 2017.

Also on December 1, 2017, the transactions contemplated by the Purchase Agreement that our wholly-owned subsidiary, Torchlight Energy, Inc., a Nevada corporation (“TEI”), entered into with MPC closed. Under the Purchase Agreement, which was entered into on November 14, 2017, TEI acquired beneficial ownership of certain of MPC’s assets, including acreage and wellbores located in Ward County, Texas (the “Ward County Assets”). As consideration under the Purchase Agreement, at closing TEI issued to MPC an unsecured promissory note in the principal amount of \$3,250,000, payable in monthly installments of interest only beginning on January 1, 2018, at the rate of 5% per annum, with the entire principal amount together with all accrued interest due and payable on December 31, 2020. In connection with TEI’s acquisition of beneficial ownership in the Ward County Assets, MPC sold those same assets, on behalf of TEI, to MECO at closing of the MECO PSA, and accordingly, TEI received \$3,250,000 in cash for its beneficial interest in the Ward County Assets. Additionally, at closing of the MECO PSA, MPC paid TEI a performance fee of \$2,781,500 in cash as compensation for TEI’s marketing and selling the Winkler County assets of MPC and the Ward County Assets as a package to MECO.



## **ITEM 1. BUSINESS - continued**

### Hunton Play, Central Oklahoma

As of December 31, 2017, we were producing from one well in the Viking AMI, and one well in Prairie Grove.

#### *Legal Proceeding*

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) Our net cumulative investment through December 31, 2016 in undeveloped acres in the Viking AMI was \$1,387,928. In addition the company 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. As of December 31, 2017, to the best knowledge of the Company, substantially all of the leases have expired (although some may have been renewed without notice to Torchlight) and the leases remain subject to settlement negotiations in the legal action referenced above.

### 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) Our cumulative investment through December 31, 2016 in the Rosedale AMI was \$2,833,744. As of December 31, 2017, to the best knowledge of the Company, substantially all of the leases have expired (although some may have been renewed without notice to Torchlight) and the leases remain subject to settlement negotiations in the legal action referenced above.

### 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. The well is producing at December 31, 2017.

### 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 was 4,300 acres (Net undeveloped acres = 1,100). Our cumulative investment through December 31, 2016 in the Thunderbird AMI was \$949,530. As of December 31, 2017, to the best knowledge of the Company, substantially all of the leases have expired (although some may have been renewed without notice to Torchlight) and the leases remain subject to settlement negotiations in the legal action referenced above.

## **Industry and Business Environment**

We are experiencing a time of fluctuating 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.

## **ITEM 1. BUSINESS - continued**

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.

### ***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. In the future, environmental legislation and regulation may trend toward stricter standards. 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.

Hydraulic fracturing is regulated by state and federal oil and gas regulatory authorities, including specifically the requirement to disclose certain information related to hydraulic fracturing operations. Operators must follow applicable legal requirements for groundwater protection in our operations that are subject to supervision by state and federal regulators (including the Bureau of Land Management on federal acreage). Furthermore, well construction practices require the installation of multiple layers of protective steel casing surrounded by cement that are specifically designed and installed to protect freshwater aquifers by preventing the migration of fracturing fluids into aquifers. Regulatory proposals in some states and local communities have been initiated to require or make more stringent the permitting and compliance requirements for hydraulic fracturing operations. Federal and state agencies have continued to assess the impacts of hydraulic fracturing, which could spur further action toward federal and/or state legislation and regulation of hydraulic fracturing activities. In addition, in light of concerns about seismic activity being triggered by the injection of produced waters into underground wells and hydraulic fracturing, certain regulators are also considering additional requirements related to seismic safety for hydraulic fracturing activities. Further restrictions on hydraulic fracturing could make it prohibitive to conduct our operations, and also reduce the amount of oil and natural gas that we or our operators are ultimately able to produce in commercial quantities from our properties.

### 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, 2017 or 2016.

## **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:

## ITEM 1A. RISK FACTORS - *continued*

- 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.

### **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 \$.9 million for the year ended December 31, 2017 and an accumulated deficit in aggregate of approximately \$83.5 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, 2017, 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.

## **ITEM 1A. RISK FACTORS - *continued***

**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.

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 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 an impairment charge of \$70,080 for the year 2016.

During the year ended December 31, 2017 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, 2017), 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 Company identified impairment of \$2,300,626 in 2017 related to its unevaluated properties. Although we had no recognized impairment expense in 2017, the Company has adjusted the separation of evaluated versus unevaluated costs within its full cost pool to recognize the value impairment related to the expiration of unevaluated leases in 2017 in the amount of \$2,300,626. The impact of this change will be to increase the basis for calculation of future period's depletion, depreciation and amortization to include \$2,300,626 of cost which will effectively recognize the impairment on the Statement of Income over future periods. The \$2,300,626 has also become an evaluated cost for purposes of future period's Ceiling Tests and which may further recognize the impairment expense recognized in future periods.

### **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.**

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.



## **ITEM 1A. RISK FACTORS - *continued***

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.**

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.



## **ITEM 1A. RISK FACTORS - *continued***

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. The EPA is also engaged in a study of the potential impacts of hydraulic fracturing activities on drinking water resources in the states where the EPA is the permitting authority. 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.**

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.



## **ITEM 1A. RISK FACTORS - *continued***

### **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.**

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 32% 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 effective as of December 31, 2017. Our continued compliance with Section 404, will require that we incur substantial accounting expense and expend significant management efforts. We do not have an internal audit group. We have however, engaged independent professional assistance for the evaluation and testing of internal controls.

### **Terrorist attacks or cyber-incidents could result in information theft, data corruption, operational disruption and/or financial loss.**

Like most companies, we have become increasingly dependent upon digital technologies, including information systems, infrastructure and cloud applications and services, to operate our businesses, to process and record financial and operating data, communicate with our business partners, analyze mine and mining information, estimate quantities of coal reserves, as well as other activities related to our businesses. Strategic targets, such as energy-related assets, may be at greater risk of future terrorist or cyber-attacks than other targets in the United States. Deliberate attacks on, or security breaches in, our systems or infrastructure, or the systems or infrastructure of third parties, or cloud-based applications could lead to corruption or loss of our proprietary data and potentially sensitive data, delays in production or delivery, difficulty in completing and settling transactions, challenges in maintaining our books and records, environmental damage, communication interruptions, other operational disruptions and third-party liability. Our insurance may not protect us against such occurrences. Consequently, it is possible that any of these occurrences, or a combination of them, could have a material adverse effect on

our business, financial condition, results of operations and cash flows. Further, as cyber incidents continue to evolve, we may be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate any vulnerability to cyber incidents.

## ITEM 1A. RISK FACTORS - *continued*

### *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, 2017 and 2016 is detailed as follows:

|                            | 2017                | 2016                |
|----------------------------|---------------------|---------------------|
| Property acquisition costs | \$ 7,227,362        | \$ 3,265,807        |
| Development costs          | \$ 8,034,962        | \$ 2,055,526        |
| Exploratory costs          | \$ -                | \$ -                |
| Totals                     | <u>\$15,262,324</u> | <u>\$ 5,321,333</u> |

Property acquisition costs presented above exclude interest capitalized into the full cost pool of \$1,010,868 in 2017 and \$215,938 in 2016.

**ITEM 2. PROPERTIES - continued**

Property acquisition cost relates to the Company's acquisition of additional working interests in the Hazel Project in west Texas and the acquisition of the Warwink Project, also in west Texas. The development costs include work in the Orogrande and Hazel projects in west Texas. No development costs were incurred for Oklahoma properties in 2017.

**Oil and Natural Gas Reserves**

*Reserve Estimates*

*SEC Case.* The following tables sets forth, as of December 31, 2017, 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, 2017. For purposes of determining prices, we used the average of prices received for each month within the 12-month period ended December 31, 2017, adjusted for quality and location differences, which was \$48.53 per barrel of oil and \$2.58 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, 2017<br>Reserves |               |              | December 31, 2017<br>Future Net Revenue (M\$) |                                 |
|--|-------------------------------|---------------|--------------|---|---------------------------------|
|  | Oil (Bbls)                    | Gas (Mcf)     | Total (BOE)  | Total   | Present Value Discounted at 10% |
| Proved Producing   | 2,300                         | 43,800        | 9,600        | \$ 132  | \$ 96                           |
| Proved Nonproducing  | 0                             | 0             | 0            | \$ -  | \$ -                            |
| <b>Total Proved</b>  | <b>2,300</b>                  | <b>43,800</b> | <b>9,600</b> | <b>\$ 132</b>                                 | <b>\$ 96</b>                    |
| Standardized Measure of Future Net Cash Flows Related to Proved Oil and Gas Properties |                               |               |              |   | \$ 123                          |
| Probable Undeveloped   | 0                             | 0             | 0            | \$ -  | \$ -                            |

**ITEM 2. PROPERTIES - continued**

| Category   | December 31, 2016<br>Reserves |                |                | December 31, 2016<br>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                          |
| <b>Total Proved</b>  | <b>48,200</b>                 | <b>490,900</b> | <b>130,017</b> | <b>\$ 807</b>                                 | <b>\$ 330</b>                   |
| Standardized Measure of Future Net Cash Flows Related to Proved Oil and Gas Properties |                               |                |                |   | \$ 341                          |
| Probable Undeveloped   | 0                             | 0              | 0              | \$ -  | \$ -                            |

The upward revisions of previous estimates from 2016 to 2017 of proved producing reserves of 900 BBLS and 20,500 MCF results primarily from 2017 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 2016 to 2017.

Reserve values as of December 31, 2017 are related to a single producing well in Oklahoma – the Judy well in the Prairie Grove AMI.

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

Standardized Measure of Oil & Gas Quantities - Volume Rollforward  
Year Ended December 31, 2017

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

|   | Crude Oil<br>(Bbls) | Natural Gas<br>(Mcf) | BOE          |
|---|---------------------|----------------------|--------------|
| <b>TOTAL PROVED RESERVES:</b>               |                     |                      |              |
| Beginning of period                         | 48,200              | 490,900              | 130,017      |
| Revisions of previous estimates             | (35,509)            | (437,841)            | (108,483)    |
| Extensions, discoveries and other additions | -                   | -                    | -            |
| Divestiture of Reserves                     | -                   | -                    | -            |
| Acquisition of Reserves                     | -                   | -                    | -            |
| Production                                  | (10,391)            | (9,259)              | (11,934)     |
| End of period                               | <u>2,300</u>        | <u>43,800</u>        | <u>9,600</u> |
| <b>PROVED DEVELOPED RESERVES</b>            |                     |                      |              |
| Proved developed producing                  | 2,300               | 43,800               | 9,600        |
| Proved nonproducing                         | -                   | -                    | -            |
| <b>Total</b>                                | <u>2,300</u>        | <u>43,800</u>        | <u>9,600</u> |

**ITEM 2. PROPERTIES - continued**Standardized Measure of Oil & Gas Quantities  
Year Ended December 31, 2017 & 2016

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

|   | <u>2017</u>       | <u>2016</u>       |
|---|-------------------|-------------------|
| Future cash inflows   | \$ 240,370        | \$ 3,156,970      |
| Future production costs   | (108,000)         | (1,000,410)       |
| Future development costs  | -                 | (1,350,000)       |
| Future income tax expense   | -                 | -                 |
| Future net cash flows   | <u>132,370</u>    | <u>806,560</u>    |
| 10% annual discount for estimated timing of cash flows                              | <u>(9,102)</u>    | <u>(465,644)</u>  |
| Standardized measure of discounted future net cash flows related to proved reserves | <u>\$ 123,268</u> | <u>\$ 340,916</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 :

|  | <u>2017</u>       | <u>2016</u>       |
|--|-------------------|-------------------|
| Balance, beginning of period   | \$ 340,916        | \$ 5,935,188      |
| Net change in sales and transfer prices and in production (lifting) costs related to future production | 207,241           | (482,569)         |
| Changes in estimated future development costs  | 116,934           | (791,630)         |
| Net change due to revisions in quantity estimates  | (129,565)         | 482,272           |
| Accretion of discount  | 28,604            | 80,393            |
| Other  | (43,372)          | 172,169           |
| Net change due to extensions and discoveries   | -                 | -                 |
| Net change due to sales of minerals in place   | -                 | (191,470)         |
| Sales and transfers of oil and gas produced during the period  | (397,490)         | (29,749)          |
| Previously estimated development costs incurred during the period                                      | -                 | 58,575            |
| Net change in income taxes   | -                 | (4,892,263)       |
| Balance, end of period   | <u>\$ 123,268</u> | <u>\$ 340,916</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.



## **ITEM 2. PROPERTIES - *continued***

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 2017 reserve estimates for our Oklahoma Properties, is a Texas based 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, 2017, our proved nonproducing reserves totaled -0- barrels of oil equivalents (BOE) compared to 124,733 as of December 31, 2016, a decrease of 124,733 BOE. The proved nonproducing reserves at December 31, 2016 were associated with our Hunton project Judy and Loki wells located in Oklahoma. The Loki well was determined to be uneconomic at 12/31/17. The change consists of a decrease of 124,733 BOE based on the 2017 engineering. These numbers are taken from the third party reserves studies prepared by PeTech for 2017 and 2016. The net reserves change associated with nonproducing reserves from this property is a decrease of approximately 46,800 bbls of oil and a decrease of approximately 467,600 Mcf of gas (calculated with a gas-oil equivalency factor of six). The Company does not intend to pursue any behind pipe reserves which may exist and there is no additional acreage available to consider future development.

We made investments and development progress during 2017 to further develop proved producing reserves in the Orogrande and Hazel Projects in the Permian Basin in West Texas. As of December 31, 2017 three test wells have been developed in the Orogrande Project and four test wells have been developed in the Hazel Project. Although the Hazel wells have each produced a quantity of oil (the Flying B #3 is in continuous production at December 31, 2017), the wells remain categorized as test wells for 2017.

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 evaluation wells in the Orogrande and Hazel AMI's to continue to derisk the prospects and obtain initial production from the development efforts. The next scheduled well in the Hazel Project is scheduled to spud near the end of May, 2018. The first horizontal well in the Orogrande Project was spudded in November, 2017 and was in development as of December 31, 2017.

### **Production, Price, and Production Cost History**

During the year ended December 31, 2017, we produced and sold 10,391 barrels of oil net to our interest at an average sale price of \$52.37 per bbl. We produced and sold 9,259 MCF of gas net to our interest at an average sales price of \$2.84 per MCF. Our average production cost including lease operating expenses and direct production taxes was \$14.51 per BOE. Our depreciation, depletion, and amortization expense was \$7.39 per BOE.

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.

The changes in production were impacted by the divestiture of the Oklahoma Cimmaron and the Texas Marcelina properties early in 2016 and by the production from the Flying B #3 well in the Hazel Project beginning in late September, 2017.

Our 2017 production was from properties located in central Oklahoma and in west Texas. Reserves at the beginning of 2017 from central Oklahoma comprised more than 15% of total reserves. For 2017, approximately 2,000 BOE was produced in Oklahoma and 9,935 BOE produced in Texas, or 17% from Oklahoma and 83% from wells in west Texas.

**ITEM 2. PROPERTIES - continued**

Quarterly Revenue and Production by State for 2017 and 2016 are detailed as follows:

| <b>Property</b>                | <b>Quarter</b> | <b>Oil<br/>Production<br/>{BBLs}</b> | <b>Gas<br/>Production<br/>{MCF}</b> | <b>Oil<br/>Revenue</b> | <b>Gas<br/>Revenue</b> | <b>Total<br/>Revenue</b> |
|--------------------------------|----------------|--------------------------------------|-------------------------------------|------------------------|------------------------|--------------------------|
| Oklahoma                       | Q1 - 2017      | 101                                  | 2,303                               | \$ 5,346               | \$ 7,604               | \$ 12,950                |
| Hazel (TX)                     | Q1 - 2017      | 0                                    | 0                                   | -                      | -                      | -                        |
| <b>Total Q1-2017</b>           |                | <b>101</b>                           | <b>2,303</b>                        | <b>\$ 5,346</b>        | <b>\$ 7,604</b>        | <b>\$ 12,950</b>         |
| Oklahoma                       | Q2 - 2017      | 140                                  | 2,332                               | 6,594                  | 6,709                  | 13,303                   |
| Hazel (TX)                     | Q2 - 2017      | 0                                    | 0                                   | -                      | -                      | -                        |
| <b>Total Q2-2017</b>           |                | <b>140</b>                           | <b>2,332</b>                        | <b>\$ 6,594</b>        | <b>\$ 6,709</b>        | <b>\$ 13,303</b>         |
| Oklahoma                       | Q3 - 2017      | 132                                  | 2,041                               | 5,733                  | 3,727                  | 9,460                    |
| Hazel (TX)                     | Q3 - 2017      | 204                                  | 0                                   | 8,836                  | -                      | 8,836                    |
| <b>Total Q3-2017</b>           |                | <b>336</b>                           | <b>2,041</b>                        | <b>\$ 14,569</b>       | <b>\$ 3,727</b>        | <b>\$ 18,296</b>         |
| Oklahoma                       | Q4 - 2017      | 84                                   | 2,583                               | 4,739                  | 8,227                  | 12,966                   |
| Hazel (TX)                     | Q4 - 2017      | 9,730                                | 0                                   | 512,984                | -                      | 512,984                  |
| <b>Total Q4-2017</b>           |                | <b>9,814</b>                         | <b>2,583</b>                        | <b>\$ 517,723</b>      | <b>\$ 8,227</b>        | <b>\$ 525,950</b>        |
| <b>Year Ended<br/>12/31/17</b> |                | <b>10,391</b>                        | <b>9,259</b>                        | <b>\$ 544,232</b>      | <b>\$ 26,267</b>       | <b>\$ 570,499</b>        |
| Marcelina (TX)                 | Q1 - 2016      | 3,000                                | 0                                   | \$ 92,546              | \$ -                   | \$ 92,546                |
| Oklahoma                       | Q1 - 2016      | 2,026                                | 21,148                              | 54,289                 | 38,624                 | 92,913                   |
| Kansas                         | Q1 - 2016      | 312                                  | 0                                   | 8,854                  | -                      | 8,854                    |
| <b>Total Q1-2016</b>           |                | <b>5,338</b>                         | <b>21,148</b>                       | <b>\$ 155,689</b>      | <b>\$ 38,624</b>       | <b>\$ 194,313</b>        |
| Marcelina (TX)                 | Q2 - 2016      | 917                                  | 0                                   | \$ 38,812              | \$ -                   | \$ 38,812                |
| Oklahoma                       | Q2 - 2016      | 675                                  | 9,689                               | 30,411                 | 11,142                 | 41,553                   |
| Kansas                         | Q2 - 2016      | 731                                  | 0                                   | 28,834                 | -                      | 28,834                   |
| <b>Total Q2-2016</b>           |                | <b>2,323</b>                         | <b>9,689</b>                        | <b>\$ 98,057</b>       | <b>\$ 11,142</b>       | <b>\$ 109,199</b>        |
| Marcelina (TX)                 | Q3 - 2016      | 464                                  | 0                                   | \$ 20,190              | \$ -                   | \$ 20,190                |
| Oklahoma                       | Q3 - 2016      | 180                                  | 2,830                               | 7,925                  | 6,170                  | 14,095                   |
| Kansas                         | Q3 - 2016      | 0                                    | 0                                   | -                      | -                      | -                        |
| <b>Total Q3-2016</b>           |                | <b>644</b>                           | <b>2,830</b>                        | <b>\$ 28,115</b>       | <b>\$ 6,170</b>        | <b>\$ 34,285</b>         |
| Marcelina (TX)                 | Q4 - 2016      | 0                                    | 0                                   | \$ -                   | \$ -                   | \$ -                     |
| Oklahoma                       | Q4 - 2016      | 184                                  | 2,845                               | 8,024                  | 8,569                  | 16,593                   |
| Kansas                         | Q4 - 2016      | 0                                    | 0                                   | -                      | -                      | -                        |
| <b>Total Q4-2016</b>           |                | <b>184</b>                           | <b>2,845</b>                        | <b>\$ 8,024</b>        | <b>\$ 8,569</b>        | <b>\$ 16,593</b>         |
| <b>Year Ended<br/>12/31/16</b> |                | <b>8,488</b>                         | <b>36,513</b>                       | <b>\$ 289,885</b>      | <b>\$ 64,505</b>       | <b>\$ 354,390</b>        |

**ITEM 2. PROPERTIES** - *continued*

**Drilling Activity and Productive Wells**

*Central Oklahoma Projects*

Having sold the Chisholm Trail and Cimarron wells and acreage in previous years, the only remaining producing wells in Oklahoma are the Judy and the Loki wells as of December 31, 2017. The Company retains ownership of the Viking, Rosedale, and Thunderbird AMI's at December 31, 2017

*Combined Well Status*

The following table summarizes drilling activity and Well Status as of December 31, 2017:

| Drilling Activity/Well Status | Cumulative Well Status<br>at 12/31/2017 |             | Wells Drilled<br>2017 |             | Cumulative Well Status<br>at 12/31/2016 |             |
|-------------------------------|---|-------------|-----------------------|-------------|---|-------------|
|                               | Gross                                   | Net         | Gross                 | Net         | Gross                                   | Net         |
| <b>Development Wells:</b>     |   |             |                       |             |   |             |
| Productive -Texas (Hazel)     | 1.00                                    | 0.80        | 1.00                  | 0.80        | -                                       | -           |
| Productive - Okla             | 2.00                                    | 0.40        | -                     | -           | 2.00                                    | 0.40        |
| Test Wells (Dry) - Orogrande  | 2.00                                    | 0.95        | -                     | -           | 2.00                                    | 0.95        |
| Test Wells (Dry) - Hazel      | 2.00                                    | 1.60        | 2.00                  | 1.60        | -                                       | -           |
| <b>Exploration Wells:</b>     |   |             |                       |             |   |             |
| Productive                    | -                                       | -           | -                     | -           | -                                       | -           |
| Dry                           | -                                       | -           | -                     | -           | -                                       | -           |
| <b>Total Drilled Wells:</b>   |   |             |                       |             |   |             |
| Productive -Texas             | 1.00                                    | 0.80        | 1.00                  | 0.80        | -                                       | -           |
| Productive - Okla             | 2.00                                    | 0.40        | -                     | -           | 2.00                                    | 0.40        |
| Test Wells (Dry)              | 4.00                                    | 2.55        | 2.00                  | 1.60        | 2.00                                    | 0.95        |
| <b>Acquired Wells:</b>        |   |             |                       |             |   |             |
| Productive -Texas             | -                                       | -           | -                     | -           | -                                       | -           |
| Productive - Okla             | -                                       | -           | -                     | -           | -                                       | -           |
| <b>Total Wells:</b>           |   |             |                       |             |   |             |
| Productive -Texas             | 1.00                                    | 0.80        | 1.00                  | 0.80        | -                                       | -           |
| Productive - Okla             | 2.00                                    | 0.40        | -                     | -           | 2.00                                    | 0.40        |
| Test Wells (Dry)              | 4.00                                    | 2.55        | 2.00                  | 1.60        | 2.00                                    | 0.95        |
| Total                         | <u>7.00</u>                             | <u>3.75</u> | <u>3.00</u>           | <u>2.40</u> | <u>4.00</u>                             | <u>1.35</u> |
| <b>Well Type:</b>             |   |             |                       |             |   |             |
| Oil                           | -                                       | -           | -                     | -           | -                                       | -           |
| Gas                           | -                                       | -           | -                     | -           | -                                       | -           |
| Combination -Oil and Gas      | 3.00                                    | 1.20        | 1.00                  | 0.80        | 2.00                                    | 0.40        |
| Test Wells (Dry)              | 4.00                                    | 2.55        | 2.00                  | 1.60        | 2.00                                    | 0.95        |
| Total                         | <u>7.00</u>                             | <u>3.75</u> | <u>3.00</u>           | <u>2.40</u> | <u>4.00</u>                             | <u>1.35</u> |

**ITEM 2. PROPERTIES - continued**

Our acreage positions at December 31, 2017 are summarized as follows:

| Leasehold Interests - 12/31/2017 | Total Acres    |               | TRCH Interest Developed Acres |            | TRCH Interest Undeveloped Acres |               |
|----------------------------------|----------------|---------------|-------------------------------|------------|---------------------------------|---------------|
|                                  | Gross          | Net           | Gross                         | Net        | Gross                           | Net           |
| <b>Texas -</b>                   |                |               |                               |            |                                 |               |
| Orogrande                        | 133,000        | 90,108        | -                             | -          | 133,000                         | 90,108        |
| Hazel Project                    | 12,000         | 9,600         | -                             | -          | 12,000                          | 9,600         |
| <b>Oklahoma -</b>                |                |               |                               |            |                                 |               |
| Viking                           | 640            | 192           | 640                           | 192        | -                               | -             |
| Prairie Grove                    | 640            | 64            | 640                           | 64         | -                               | -             |
| <b>Total</b>                     | <b>146,280</b> | <b>99,964</b> | <b>1,280</b>                  | <b>256</b> | <b>145,000</b>                  | <b>99,708</b> |

**Current Projects**

As of December 31, 2017 the Company had interests in four oil and gas projects: the Orogrande Project in Hudspeth County, Texas, and the Hazel Project in Sterling, Tom Green, and Irion Counties, Texas, the Winkler Project in Winkler County, Texas, and the Hunton wells in partnership with Husky Ventures in Central Oklahoma ..

**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. As of December 31, 2017, leases covering 133,000 acres remain in effect. 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, 2017 have been met.

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 provided 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 following two years.

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.

On March 22, 2017, the Company, along with Founders, their operating partner, signed a Drilling and Development Unit (DDU) Agreement with University Lands on its Orogrande Basin Project. The agreement has an effective date of January 1, 2017 and required a payment from both Torchlight and Founders of \$335,323 as part of the extension fee. Torchlight’s portion of the fee was paid by Founders in April 2017 and will be deducted from the required spud fee payable to Torchlight at commencement of the next well drilled.

The DDU agreement allows for all 192 existing leases covering the 133,000 net acres leased from University Lands to be combined into one lease for development purposes. The time to drill on the unit is extended through April of 2023 on the first extension. The agreement also grants exclusive right to continue through April of 2028 if compliance with the agreement is met and extension fee associated with the additional time paid. The Company’s drilling obligations begin with one well in the first year, and increase to five wells per year by year 2023. The drilling obligation set is a minimum requirement and may be exceeded if acceleration is desired. The DDU agreement replaces all prior agreements and will govern future drilling obligations on the lease.

## **ITEM 2. PROPERTIES - *continued***

The Orogrande Rich A-11 test 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. Future utility of this well may be conversion to a salt water disposal well in the course of further development of the Orogrande acreage.

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 the third quarter of 2016 and indications of hydrocarbons were seen at the surface on this second Orogrande Project test well. Future utility of this well may be conversion to a salt water disposal well in the course of further development of the Orogrande acreage.

During the fourth quarter, 2017, the Company took back operational control from Founders Oil and Gas on the Orogrande Basin Project. Torchlight was joined by Wolfbone Investments, LLC, ("Wolfbone"), a company owned by Greg McCabe, Torchlight's Chairman. The two entities have entered into an Assignment of Farmout Agreement with Founders and will share the remaining commitments under the prior agreement with Founders. All original provisions of Torchlight's carried interest will remain in place including reimbursement to the Company on each wellbore. Founders will remain a 9.5% Working Interest owner in the project under the agreement for the \$9.5 million it has spent to date and be carried until the remaining \$40.5 million is spent by Wolfbone and Torchlight, with each contributing 50% of that capital spend, under the existing agreement. Torchlight's interest in the Project thereby increased by 20.25% Working Interest to a total of 67.75% and Wolfbone now owns 20.25%.

Founders will operate a newly drilled well called the University Founders #A25 with supervision from Torchlight and its Partners. The University Founders #A25 was spudded on the 27<sup>th</sup> of November and satisfies the obligation under the University Lands D&D Agreement. Once the #A25 is completed Torchlight will assume full operational control including managing drilling plans and timing for all future wells drilled in the Project.

### 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 is classified as a test well in the development pursuit of the Hazel Project. It is anticipated that this wellbore will be utilized as a salt water disposal well in support of future development.

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 the second Hazel Project well, the Flying B Ranch #2. The well is a vertical test similar to the Company's first Hazel Project well, the Flying B Ranch #1. Recompletion in an alternative geological formation for this well was performed during the three months ended September 30, 2017 however the results were uneconomic for continuing production. It is anticipated that this wellbore will be utilized as a salt water disposal well in support of future development.

The Company commenced planning to drill a horizontal well in the Project in June, 2017 in compliance with the continuous drilling obligation. The well, the Flying B Ranch #3, was spudded on June 10, 2017. The well was completed and began production in late September, 2017.

### Acquisition of Additional Interests in 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. Subsequent to the closing the name of Line Drive Energy, LLC was changed to Torchlight Hazel, LLC.

## **ITEM 2. PROPERTIES - *continued***

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, our Chairman. 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.

Since Mr. McCabe held the controlling interest in both Line Drive and Wolfbone Investments, LLC, the transactions were combined for accounting purposes. The working interest in the Hazel Project was the only asset held by Line Drive. The warrant cancellation was treated in the aggregate as an exercise of the warrants with the transfer of the working interests as the consideration. The Company recorded the transactions as an increase in its investment in the Hazel project working interests of \$3,644,431 which is equal to the exercise price of the warrants plus the cash paid to Wolfbone.

Upon the closing of the transactions, the Company’s working interest in the Hazel project increased by 40.66% to a total ownership of 74%.

Effective June 1, 2017, the Company acquired an additional 6% working interest from unrelated working interest owners in exchange for 268,656 shares of common stock valued at \$373,430, increasing its working interest in the Hazel project to 80%.

### Winkler Project, Winkler County, Texas

On December 1, 2017, the Agreement and Plan of Reorganization that we and our newly formed wholly-owned subsidiary, Torchlight Wolfbone Properties, Inc., a Texas corporation (“TWP”), entered into with McCabe Petroleum Corporation, a Texas corporation (“MPC”), and Warwink Properties, LLC, a Texas limited liability company (“Warwink Properties”) closed. Under the agreement, which was entered into on November 14, 2017, TWP merged with and into Warwink Properties and the separate existence of TWP ceased, with Warwink Properties becoming the surviving organization and our wholly-owned subsidiary. Warwink Properties was wholly owned by MPC which is wholly owned by Gregory McCabe, our Chairman. Warwink Properties owns certain assets, including a 10.71875% working interest in 640 acres in Winkler County, Texas. At closing of the merger transaction, our shares of common stock of TWP converted into a membership interest of Warwink Properties, the membership interest in Warwink Properties held by MPC ceased to exist, and we issued MPC 2,500,000 restricted shares of common stock as consideration. Also on December 1, 2017, MPC closed its transaction with MECO IV, LLC (“MECO”) for the purchase and sale of certain assets as contemplated by the Purchase and Sale Agreement dated November 9, 2017 (the “MECO PSA”), to which we are not a party. Under the MECO PSA, Warwink Properties received a carry from MECO (through the tanks) of up to \$1,475,000 in the next well drilled on the Winkler County leases. A Certificate of Merger for the merger transaction was filed with the Secretary of State of Texas on December 5, 2017.

Also on December 1, 2017, the transactions contemplated by the Purchase Agreement that our wholly-owned subsidiary, Torchlight Energy, Inc., a Nevada corporation (“TEI”), entered into with MPC closed. Under the Purchase Agreement, which was entered into on November 14, 2017, TEI acquired beneficial ownership of certain of MPC’s assets, including acreage and wellbores located in Ward County, Texas (the “Ward County Assets”). As consideration under the Purchase Agreement, at closing TEI issued to MPC an unsecured promissory note in the principal amount of \$3,250,000, payable in monthly installments of interest only beginning on January 1, 2018, at the rate of 5% per annum, with the entire principal amount together with all accrued interest due and payable on December 31, 2020. In connection with TEI’s acquisition of beneficial ownership in the Ward County Assets, MPC sold those same assets, on behalf of TEI, to MECO at closing of the MECO PSA, and accordingly, TEI received \$3,250,000 in cash for its beneficial interest in the Ward County Assets. Additionally, at closing of the MECO PSA, MPC paid TEI a performance fee of \$2,781,500 in cash as compensation for TEI’s marketing and selling the Winkler County assets of MPC and the Ward County Assets as a package to MECO.

### Hunton Play, Central Oklahoma

As of December 31, 2017, we were producing from one well in the Viking AMI, and one well in Prairie Grove.

### Central Oklahoma Projects

The Company retains any leases remaining effective in the 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, 2017 pending information which will come from and results of, the Husky legal matter. The Judy and the Loki wells are producing at December 31, 2017. Reserve value at December 31, 2017 is only from the Judy well.

### **ITEM 3. LEGAL PROCEEDINGS**

Torchlight Energy Resources, Inc. and its subsidiary Torchlight Energy, Inc. 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, we allege, among other things, that the defendants acted improperly in connection with multiple transactions, and that the defendants misrepresented and omitted material information to us 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.

On April 13, 2017, Husky Ventures, Inc. filed in the above lawsuit a counterclaim against Torchlight Energy Resources, Inc. and its subsidiary Torchlight Energy, Inc., and a third-party petition against John Brda, the Chief Executive Officer of Torchlight Energy Resources, Inc., and Willard McAndrew III, a former officer of Torchlight Energy Resources, Inc. (“Husky Counterclaim”). The Husky Counterclaim asserts breach of contract against Torchlight Energy Resources, Inc. and its subsidiary Torchlight Energy, Inc. and asserts a claim for tortious interference with Husky’s contractual relationship with Torchlight and a claim for conspiracy to tortiously interfere with unspecified Husky business and contractual relationships against Torchlight Energy Resources, Inc. and its subsidiary Torchlight Energy, Inc., John Brda and Willard McAndrew III. We believe the Husky Counterclaim is without merit and intend to vigorously defend against it.

On May 22, 2017, the Court granted Gastar Exploration, Inc., J. Russell Porter, Michael A. Gerlich, and Jerry R. Schuyler’s (“Gastar Defendants”) motion for summary judgment dismissing all of Torchlight’s claims against the Gastar Defendants with prejudice. The only claim remaining related to the Gastar Defendants is a counterclaim against Torchlight by Gastar Exploration, Inc. for Torchlight’s alleged breach of a release that Gastar Exploration, Inc. claims occurred because Torchlight filed this lawsuit against the Gastar Defendants. Torchlight alleges in its lawsuit that this release is unenforceable against all the Defendants including but not limited to Gastar Defendants. On January 12, 2018, the Court heard but has not yet ruled on cross-motions for summary judgment by Gastar and Torchlight to resolve Gastar’s remaining claims against Torchlight. The case is currently set for trial on May 30, 2018.

### **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 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, 2017 and 2016, according to NASDAQ, were as follows:

| <u>Quarter Ended</u> | <u>High</u> | <u>Low</u> |
|----------------------|-------------|------------|
| 12/31/2017           | \$ 1.51     | \$ 1.06    |
| 9/30/2017            | \$ 1.81     | \$ 0.95    |
| 6/30/2017            | \$ 1.96     | \$ 1.16    |
| 3/31/2017            | \$ 1.88     | \$ 1.06    |
| 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    |

#### Record Holders

As of March 8, 2018, there were approximately 239 stockholders of record of our common stock, and we estimate that there were approximately 3,900 additional beneficial stockholders who hold their shares in "street name" through a brokerage firm or other institution. As of March 15, 2018, we have a total of 63,640,034 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, 2017.

#### Equity Compensation Plan Information

The following table sets forth all equity compensation plans as of December 31, 2017:

| <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 | 7,414,931  | \$ 1.51  | 1,085,069  |



## **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 2017, we issued a total of 350,000 shares of common stock to a total of four consultants in connection with the acquisition of mineral interests.

During the three months ended December 31, 2017, we issued 278,099 shares of common stock in warrant exercises.

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**

Under SEC rules and guidance, an issuer that no longer qualifies as a smaller reporting company at the determination date may continue to use the scaled disclosures permitted for a smaller reporting company through its annual report on Form 10-K and begin providing non-scaled larger company disclosure in the first Form 10-Q of the next fiscal year. Although we are filing as an accelerated filer, we are allowed to continue reporting as a smaller reporting company in this Form 10-K. As such, we are not required to provide information under this Item.

## **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 year ended December 31, 2016 the Board of Directors initiated a review of Company operations in view of the divestiture of its Oklahoma properties, which included the previous sale of the Chisholm Trail and Cimarron properties. During 2016 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 projects to maximize shareholder value for the long run.

During 2017 the Company increased its commitment to the Orogrande and Hazel Projects. Additional working interests were acquired and test wells were drilled on the properties which is detailed in the Properties section of this filing. Near the end of 2017 the Warwink Project, also in West Texas, was acquired.

The strategy in divesting of projects other than the Orogrande and the Hazel Projects was 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, 2017 and 2016 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.

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

**Historical Results for the Years Ended December 31, 2017 and 2016**

For the year ended December 31, 2017, we had a net loss of \$919,910 compared to a net loss of \$7,684,346 for the year ended December 31, 2016.

Revenues and Cost of Revenues

For the year ended December 31, 2017, we had production revenue of \$570,499 compared to \$354,390 of production revenue for the year ended December 31, 2016. Refer to the table of production and revenue for 2017 included below. Our cost of revenue, consisting of lease operating expenses and production taxes, was \$173,187, and \$328,438 for the years ended December 31, 2017 and 2016, respectively.

The change in revenue was impacted by the new production from the Flying B #3 well in the Hazel Project that began in late September, 2017.

Total income for 2017 includes \$2,781,500 of Consulting Fees received by the Company in connection with the Warwink acquisition in the fourth quarter. Reference Item 1: Current Projects included in this filing.

Production and Revenue are detailed as follows:

| <b>Property</b>            | <b>Quarter</b> | <b>Oil Production {BBLs}</b> | <b>Gas Production {MCF}</b> | <b>Oil Revenue</b> | <b>Gas Revenue</b> | <b>Total Revenue</b> |
|----------------------------|----------------|------------------------------|-----------------------------|--------------------|--------------------|----------------------|
| Oklahoma                   | Q1 - 2017      | 101                          | 2,303                       | \$ 5,346           | \$ 7,604           | \$ 12,950            |
| Hazel (TX)                 | Q1 - 2017      | 0                            | 0                           | -                  | -                  | -                    |
| <b>Total Q1-2017</b>       |                | <b>101</b>                   | <b>2,303</b>                | <b>\$ 5,346</b>    | <b>\$ 7,604</b>    | <b>\$ 12,950</b>     |
| Oklahoma                   | Q2 - 2017      | 140                          | 2,332                       | 6,594              | 6,709              | 13,303               |
| Hazel (TX)                 | Q2 - 2017      | 0                            | 0                           | -                  | -                  | -                    |
| <b>Total Q2-2017</b>       |                | <b>140</b>                   | <b>2,332</b>                | <b>\$ 6,594</b>    | <b>\$ 6,709</b>    | <b>\$ 13,303</b>     |
| Oklahoma                   | Q3 - 2017      | 132                          | 2,041                       | 5,733              | 3,727              | 9,460                |
| Hazel (TX)                 | Q3 - 2017      | 204                          | 0                           | 8,836              | -                  | 8,836                |
| <b>Total Q3-2017</b>       |                | <b>336</b>                   | <b>2,041</b>                | <b>\$ 14,569</b>   | <b>\$ 3,727</b>    | <b>\$ 18,296</b>     |
| Oklahoma                   | Q4 - 2017      | 84                           | 2,583                       | 4,739              | 8,227              | 12,966               |
| Hazel (TX)                 | Q4 - 2017      | 9,730                        | 0                           | 512,984            | -                  | 512,984              |
| <b>Total Q4-2017</b>       |                | <b>9,814</b>                 | <b>2,583</b>                | <b>\$ 517,723</b>  | <b>\$ 8,227</b>    | <b>\$ 525,950</b>    |
| <b>Year Ended 12/31/17</b> |                | <b>10,391</b>                | <b>9,259</b>                | <b>\$ 544,232</b>  | <b>\$ 26,267</b>   | <b>\$ 570,499</b>    |
| Marcelina (TX)             | Q1 - 2016      | 3,000                        | 0                           | \$ 92,546          | \$ -               | \$ 92,546            |
| Oklahoma                   | Q1 - 2016      | 2,026                        | 21,148                      | 54,289             | 38,624             | 92,913               |
| Kansas                     | Q1 - 2016      | 312                          | 0                           | 8,854              | -                  | 8,854                |
| <b>Total Q1-2016</b>       |                | <b>5,338</b>                 | <b>21,148</b>               | <b>\$ 155,689</b>  | <b>\$ 38,624</b>   | <b>\$ 194,313</b>    |
| Marcelina (TX)             | Q2 - 2016      | 917                          | 0                           | \$ 38,812          | \$ -               | \$ 38,812            |
| Oklahoma                   | Q2 - 2016      | 675                          | 9,689                       | 30,411             | 11,142             | 41,553               |
| Kansas                     | Q2 - 2016      | 731                          | 0                           | 28,834             | -                  | 28,834               |
| <b>Total Q2-2016</b>       |                | <b>2,323</b>                 | <b>9,689</b>                | <b>\$ 98,057</b>   | <b>\$ 11,142</b>   | <b>\$ 109,199</b>    |

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

|                                |           |              |               |                   |                  |                   |
|--------------------------------|-----------|--------------|---------------|-------------------|------------------|-------------------|
| Marcelina (TX)                 | Q3 - 2016 | 464          | 0             | \$ 20,190         | \$ -             | \$ 20,190         |
| Oklahoma                       | Q3 - 2016 | 180          | 2,830         | 7,925             | 6,170            | 14,095            |
| Kansas                         | Q3 - 2016 | 0            | 0             | -                 | -                | -                 |
| <b>Total Q3-2016</b>           |           | <b>644</b>   | <b>2,830</b>  | <b>\$ 28,115</b>  | <b>\$ 6,170</b>  | <b>\$ 34,285</b>  |
| Marcelina (TX)                 | Q4 - 2016 | 0            | 0             | \$ -              | \$ -             | \$ -              |
| Oklahoma                       | Q4 - 2016 | 184          | 2,845         | 8,024             | 8,569            | 16,593            |
| Kansas                         | Q4 - 2016 | 0            | 0             | -                 | -                | -                 |
| <b>Total Q4-2016</b>           |           | <b>184</b>   | <b>2,845</b>  | <b>\$ 8,024</b>   | <b>\$ 8,569</b>  | <b>\$ 16,593</b>  |
| <b>Year Ended<br/>12/31/16</b> |           | <b>8,488</b> | <b>36,513</b> | <b>\$ 289,885</b> | <b>\$ 64,505</b> | <b>\$ 354,390</b> |

We recorded depreciation, depletion and amortization expense of \$100,156 for the year ended December 31, 2017 compared to \$636,426 for 2016. Impairment expense recognized was \$-0- in 2017 compared to \$70,080 for 2016. Although we had no recognized impairment expense in 2017, the Company has adjusted the separation of evaluated versus unevaluated costs within its full cost pool to recognize the value impairment related to the expiration of unevaluated leases in 2017 in the amount of \$2,300,626. The impact of this change will be to increase the basis for calculation of future period's depletion, depreciation and amortization to include \$2,300,626 of cost which will effectively recognize the impairment on the Statement of Income over future periods. The \$2,300,626 will also become an evaluated cost for purposes of future period's Ceiling Tests and which may further recognize the impairment expense recognized in future periods.

General and Administrative Expenses

Our general and administrative expenses for the years ended December 31, 2017 and 2016 were \$3,652,970 and \$6,447,706, respectively, a decrease of \$2,794,736. 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, 2017 compared to 2016 is detailed as follows:

|  |   |
|--|---|
| Increase(decrease) in non cash stock and warrant compensation  | <del>\$2,509,404</del>                      |
| Increase(decrease) in consulting expense                       | \$ (85,916)                                 |
| Increase(decrease) in professional fees                        | \$ (71,387)                                 |
| Increase(decrease) in investor relations                       | \$ 94,183                                   |
| Increase(decrease) in travel expense                           | \$ (18,760)                                 |
| Increase(decrease) in salaries and compensation                | \$ (367,234)                                |
| Increase(decrease) in legal fees                               | \$ 42,713                                   |
| Increase(decrease) in insurance                                | \$ (16,932)                                 |
| Increase(decrease) in general corporate expenses               | \$ 14,463                                   |
| Increase(decrease) in audit fees                               | <u>\$ 123,538</u>                           |
| <b>Total (Decrease) in General and Administrative Expenses</b> | <b><u><u><del>\$2,794,736</del></u></u></b> |

The decrease in noncash stock and warrant compensation arises from the decrease 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 valuation was 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 in 2016.

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

- continued

### Liquidity and Capital Resources

For the year ended December 31, 2017, we had a net loss of \$919,910 compared to a net loss of \$7,684,346 for the year ended December 31, 2016. The reduction in Net Loss is principally due to the receipt of Consulting Fee income of \$2,781,500 during the fourth quarter and the reduction in General and Administrative expense in 2017.

At December 31, 2017, we had current assets of \$3,165,951 and total assets of \$28,767,308. As of December 31, 2017, we had current liabilities of \$2,279,448. Stockholders' equity was \$15,959,305 at December 31, 2017.

Cash from operating activities for the year ended December 31, 2017, was \$465,594 compared to \$(4,826,089) for the year ended December 31, 2016, an increase of \$5,291,683. Cash from operating activities during 2017 can be attributed principally to net loss from operations of \$919,910 adjusted for noncash stock based compensation of \$1,151,061.

Cash used in operating activities during 2016 can be attributed principally to net losses from operations of \$7,684,346 adjusted for noncash stock based compensation of \$2,956,044.

Cash used in investing activities for year ended December 31, 2017 was \$9,458,648 compared to \$167,871 for the year ended December 31, 2016. Cash used in investing activities consisted primarily of investment in oil and gas properties during the year ended December 31, 2017. In 2016 the investment in properties was combined with proceeds from sale of leases in 2016.

Cash from financing activities for the year ended December 31, 2017 was \$8,275,275 as compared to \$5,736,859 for the year ended December 31, 2016. Cash from financing activities in 2016 consisted primarily of proceeds from common and preferred stock issues and warrant exercises. 2017 activity consisted principally of debt financing transactions. 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. Reference Note 11 to the Financial Statements regarding additional funding closed subsequent to December 31, 2017.

Our current assets are insufficient 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 past 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.

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

**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.

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 accounts for stock option awards using the calculated value method. The expected term was derived using the simplified method provided in Securities and Exchange Commission release Staff Accounting Bulletin No. 110, which averages an awards weighted average vesting period and contractual term for “plain vanilla” share options.

The Company accounts for any forfeitures of options when they occur. Previously recognized compensation cost for an award is reversed in the period that the award is forfeited.

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.

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

**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 \$84,197 and \$81,595 for the year ended December 31, 2017 and 2016, respectively.

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

| <b>Year Ending<br/>December 31,</b> | <b>Rent</b>       |
|-------------------------------------|-------------------|
| 2018                                | \$ 96,660         |
| To 2019 Expiration                  | 88,605            |
| <b>Total</b>                        | <b>\$ 185,265</b> |

As of December 31, 2017, the Company had interests in four oil and gas projects: the Orogrande Project in Hudspeth County, Texas, the Hazel Project in Sterling, Tom Green, and Irion Counties, Texas, the Warwink Project in Winkler County, Texas, and Hunton wells in Central Oklahoma, .

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

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Under SEC rules and guidance, an issuer that no longer qualifies as a smaller reporting company at the determination date may continue to use the scaled disclosures permitted for a smaller reporting company through its annual report on Form 10-K and begin providing non-scaled larger company disclosure in the first Form 10-Q of the next fiscal year. Although we are filing as an accelerated filer, we are allowed to continue reporting as a smaller reporting company in this Form 10-K. As such, we are not required to provide information under this Item.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

#### **Opinions on the Financial Statements and Internal Control over Financial Reporting**

We have audited the accompanying consolidated balance sheets of Torchlight Energy Resources, Inc. (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2017, and the related notes (collectively referred to as the financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred recurring losses from its operations and has a net 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.

#### **Basis for Opinion**

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Item 9A, "Management's Annual Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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.

/s/ Briggs & Veselka Co.

We have served as the Company's auditor since 2016.

Houston, Texas

March 16, 2018



**TORCHLIGHT ENERGY RESOURCES, INC.**  
**CONSOLIDATED BALANCE SHEETS**

|   | December 31,<br>2017 | December 31,<br>2016 |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| Current assets:   |                      |                      |
| Cash  | \$ 1,051,720         | \$ 1,769,499         |
| Accounts receivable   | 596,141              | 603,446              |
| Production revenue receivable   | 142,932              | 7,325                |
| Prepayments - development costs   | 1,335,652            | 583,347              |
| Prepaid expenses  | 39,506               | 26,829               |
| Total current assets  | <u>3,165,951</u>     | <u>2,990,446</u>     |
| Oil and gas properties, net   | 25,579,279           | 9,392,288            |
| Office equipment, net   | 15,716               | 29,848               |
| Other assets  | 6,362                | 18,362               |
| TOTAL ASSETS  | <u>\$ 28,767,308</u> | <u>\$ 12,430,944</u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                      |                      |
| Current liabilities:  |                      |                      |
| Accounts payable  | \$ 762,502           | \$ 422,684           |
| Funds received pending settlement   | 520,400              | 520,400              |
| Accrued payroll   | 695,176              | 565,176              |
| Related party payables  | 45,000               | 237,044              |
| Convertible promissory notes (Series B) net of discount of \$94,083 at December 31, 2016          | -                    | 3,475,417            |
| Due to working interest owners  | 54,320               | 54,320               |
| Accrued interest payable  | 202,050              | 6,049                |
| Total current liabilities   | <u>2,279,448</u>     | <u>5,281,090</u>     |
| Unsecured promissory notes, net of discount and financing costs of \$795,017 at December 31, 2017 | 7,269,281            | -                    |
| Note payable  | 3,250,000            | -                    |
| Asset retirement obligation   | 9,274                | 7,051                |
| Total liabilities   | <u>12,808,003</u>    | <u>5,288,141</u>     |
| Commitments and contingencies   |                      |                      |
| Stockholders' equity:   |                      |                      |
| Preferred stock, par value \$0.001, 10,000,000 shares authorized;                                 |                      |                      |
| -0- issued and outstanding at December 31, 2017 and 2016  | -                    | -                    |
| Common stock, par value \$0.001 per share; 150,000,000 shares authorized;                         | 63,344               | 55,100               |
| 63,340,034 issued and outstanding at December 31, 2017  |                      |                      |
| 55,096,503 issued and outstanding at December 31, 2016  |                      |                      |
| Additional paid-in capital  | 99,403,654           | 89,675,488           |
| Accumulated deficit   | (83,507,693)         | (82,587,785)         |
| Total stockholders' equity  | <u>15,959,305</u>    | <u>7,142,803</u>     |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY  | <u>\$ 28,767,308</u> | <u>\$ 12,430,944</u> |

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

**TORCHLIGHT ENERGY RESOURCES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

|  | YEAR<br>ENDED<br>December 31,<br>2017 | YEAR<br>ENDED<br>December 31,<br>2016 |
|--|---------------------------------------|---------------------------------------|
| <b>Revenue</b>   |                                       |                                       |
| Oil and gas sales  | \$ 570,499                            | \$ 354,390                            |
| <b>Cost of revenue</b>                                       | <u>(173,187)</u>                      | <u>(328,438)</u>                      |
| <b>Gross profit</b>  | <u>397,312</u>                        | <u>25,952</u>                         |
| <b>Operating expenses:</b>                                   |                                       |                                       |
| General and administrative expense                           | (3,652,970)                           | (6,447,706)                           |
| Depreciation, depletion and amortization                     | (100,156)                             | (636,426)                             |
| Impairment expense   | -                                     | (70,080)                              |
| Loss on sale of properties                                   | -                                     | (283,285)                             |
| Total operating expenses                                     | <u>(3,753,126)</u>                    | <u>(7,437,497)</u>                    |
| <b>Other income (expense)</b>                                |                                       |                                       |
| Consulting income  | 2,781,500                             | -                                     |
| Interest income  | 454                                   | 36                                    |
| Interest and accretion expense                               | (346,050)                             | (272,837)                             |
| Total other income (expense)                                 | <u>2,435,904</u>                      | <u>(272,801)</u>                      |
| <b>Loss before income taxes</b>                              | (919,910)                             | (7,684,346)                           |
| Provision for income taxes                                   | -                                     | -                                     |
| <b>Net loss</b>  | <u>\$ (919,910)</u>                   | <u>\$ (7,684,346)</u>                 |
| <b>Loss per common share:</b>                                |                                       |                                       |
| <b>Basic and Diluted</b>                                     | <u>\$ (0.02)</u>                      | <u>\$ (0.19)</u>                      |
| <b>Weighted average number of common shares outstanding:</b> |                                       |                                       |
| <b>Basic and Diluted</b>                                     | <u>59,623,105</u>                     | <u>43,122,514</u>                     |

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

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

|  | Common<br>stock<br>shares | Common<br>stock<br>amount | Pref.<br>stock<br>shares | Pref.<br>Stock<br>Amt. | Additional<br>paid-in<br>capital | Accumulated<br>deficit         | Total              |
|--|---------------------------|---------------------------|--------------------------|------------------------|----------------------------------|--------------------------------|--------------------|
| <b>Balance, December 31, 2015</b>                      | <u>33,166,344</u>         | <u>\$ 33,168</u>          | <u>134,000</u>           | <u>\$ 134</u>          | <u>\$8,252,411</u>               | <u><del>\$74,903,439</del></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 note interest             | -                         | -                         | -                        | -                      | -                                | -                              | -                  |
| 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 issued for services                           | -                         | -                         | -                        | -                      | 2,205,231                        | -                              | 2,205,231          |
| Lease interest issued 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)        |
| <b>Balance, December 31, 2016</b>                      | <u>55,096,503</u>         | <u>\$ 55,100</u>          | <u>-</u>                 | <u>-</u>               | <u>\$9,675,488</u>               | <u><del>\$82,587,785</del></u> | <u>\$7,142,803</u> |
| Issuance of common stock for services                  | 507,897                   | 508                       | -                        | -                      | 579,246                          | -                              | 579,754            |
| Issuance of common stock for lease interests           | 6,420,395                 | 6,421                     | -                        | -                      | 6,805,941                        | -                              | 6,812,362          |
| Issuance of common stock in warrant exercise           | 307,349                   | 307                       | -                        | -                      | 242,993                          | -                              | 243,300            |
| Issuance of common stock-conversion of promissory note | 1,007,890                 | 1,008                     | -                        | -                      | 1,006,882                        | -                              | 1,007,890          |
| Warrants issued for services                           | -                         | -                         | -                        | -                      | 161,560                          | -                              | 161,560            |
| Stock options issued for services                      | -                         | -                         | -                        | -                      | 931,544                          | -                              | 931,544            |
| Net loss   | -                         | -                         | -                        | -                      | -                                | (919,910)                      | (919,910)          |
| <b>Balance, December 31, 2017</b>                      | <u>63,340,034</u>         | <u>\$ 63,344</u>          | <u>-</u>                 | <u>-</u>               | <u>\$9,403,654</u>               | <u><del>\$83,507,693</del></u> | <u>\$5,959,305</u> |

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

**TORCHLIGHT ENERGY RESOURCES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**

|   | YEAR<br>ENDED<br>December 31,<br>2017 | YEAR<br>ENDED<br>December 31,<br>2016 |
|---|---------------------------------------|---------------------------------------|
| <b>Cash Flows From Operating Activities</b>                               |                                       |                                       |
| Net loss  | \$ (919,910)                          | \$ (7,684,346)                        |
| Adjustments to reconcile net loss to net cash from operations:            |                                       |                                       |
| Stock based compensation  | 1,151,061                             | 2,956,044                             |
| Accretion of note discounts   | 291,386                               | 186,532                               |
| Loss on sale of assets  | -                                     | 283,285                               |
| Impairment expense  | -                                     | 70,080                                |
| Depreciation, depletion and amortization                                  | 100,156                               | 636,426                               |
| Change in:  |                                       |                                       |
| Accounts receivable   | 7,305                                 | 138,207                               |
| Note receivable   | -                                     | 613                                   |
| Production revenue receivable   | (135,607)                             | 191,992                               |
| Prepayment of development costs   | (752,305)                             | (1,583,347)                           |
| Prepaid expenses  | (12,676)                              | 11,946                                |
| Other assets  | 12,000                                | 59,240                                |
| Accounts payable and accrued liabilities                                  | 519,818                               | (396,456)                             |
| Due to working interest owners  | -                                     | (49,044)                              |
| Funds received pending settlement   | -                                     | 520,400                               |
| Interest payable  | 204,364                               | (167,661)                             |
| <b>Net cash provided by (used) in operating activities</b>                | <b>465,592</b>                        | <b>(4,826,089)</b>                    |
| <b>Cash Flows From Investing Activities</b>                               |                                       |                                       |
| Investment in oil and gas properties                                      | (9,460,830)                           | (2,293,497)                           |
| Acquisition of office equipment   | 2,182                                 | (1,863)                               |
| Proceeds from sale of leases  | -                                     | 2,127,489                             |
| <b>Net cash provided by (used) in investing activities</b>                | <b>(9,458,648)</b>                    | <b>(167,871)</b>                      |
| <b>Cash Flows From Financing Activities</b>                               |                                       |                                       |
| Proceeds from short term advance  | -                                     | 150,000                               |
| Repayment of short term advance   | -                                     | (150,000)                             |
| Proceeds from sale of common stock  | -                                     | 3,000,000                             |
| Proceeds from sale of preferred stock                                     | -                                     | 1,000,000                             |
| Preferred dividends paid in cash  | -                                     | (320,724)                             |
| Proceeds from warrant exercise  | 243,300                               | 1,999,310                             |
| Proceeds from promissory notes  | 10,541,475                            | 708,014                               |
| Repayment of convertible notes  | (2,509,500)                           | -                                     |
| Repayment of promissory notes   | -                                     | (649,741)                             |
| <b>Net cash provided by financing activities</b>                          | <b>8,275,275</b>                      | <b>5,736,859</b>                      |
| <b>Net increase (decrease) in cash</b>                                    | <b>(717,781)</b>                      | <b>742,899</b>                        |
| <b>Cash - beginning of period</b>   | <b>1,769,499</b>                      | <b>1,026,600</b>                      |
| <b>Cash - end of period</b>   | <b>\$ 1,051,720</b>                   | <b>\$ 1,769,499</b>                   |
| <b>Supplemental disclosure of cash flow information: (Non Cash Items)</b> |                                       |                                       |
| Common stock issued for financing costs                                   | \$ 279,754                            | \$ -                                  |
| Common stock issued for mineral interests                                 | \$ 6,812,362                          | \$ 1,975,046                          |
| Common stock issued in conversion of promissory notes                     | \$ 1,007,890                          | \$ -                                  |
| Accounts payable increase-Investment in oil and gas properties            | \$ 375,000                            | \$ -                                  |
| Warrants issued for mineral interests                                     | \$ -                                  | \$ 1,290,761                          |
| Cash paid for interest  | \$ 813,652                            | \$ 603,157                            |

*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, Torchlight Hazel LLC, and Winkler Properties LLC.

### 2. GOING CONCERN

At December 31, 2017, the Company had not yet achieved profitable operations. We had a net loss of \$919,910 for the year ended December 31, 2017 and had accumulated losses of \$83,507,693 since our inception. We expect to incur further losses in the development of our business. The Company had working capital as of December 31, 2017 of \$886,503. 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, Hudspeth Oil Corporation, Torchlight Hazel LLC, and Warwink Properties LLC. 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.

**Fair value of financial instruments** – Financial instruments consist of cash, receivables, payables and promissory notes, if any. The estimated fair values of cash, receivables, and payables approximate the carrying amount due to the relatively short maturity of these instruments. The carrying amounts of any promissory notes approximate their fair value giving affect for the term of the note and the effective interest rates.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

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.

**Cash and cash equivalents** - Cash and cash equivalents include certain investments in highly liquid instruments with original maturities of three months or less.

**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, 2017 and December 31, 2016, no valuation allowance was considered necessary.

As of December 31, 2017 and 2016 accounts receivable included \$419,839 the Company computed as being due from Husky Ventures with respect to the sale of Chisholm Trail properties in 2015 and in dispute as part of the Husky legal action in process at those dates. Additionally, a payment of \$520,400 made by Husky Ventures which is also disputed by the Company is included in current liabilities captioned "Funds received pending settlement".

**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 the years ended December 31, 2017 and 2016, the Company capitalized \$1,010,868 and \$215,938, respectively, of interest on unevaluated 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.

**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.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 3. SIGNIFICANT ACCOUNTING POLICIES - *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.

**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. Company tax returns remain subject to Federal and State tax examinations. 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.

The Company accounts for stock option awards using the calculated value method. The expected term was derived using the simplified method provided in Securities and Exchange Commission release Staff Accounting Bulletin No. 110, which averages an awards weighted average vesting period and contractual term for “plain vanilla” share options.

The Company accounts for any forfeitures of options when they occur. Previously recognized compensation cost for an award is reversed in the period that the award is forfeited.

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.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

**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 20,882,132 shares issuable upon the exercise of outstanding warrants and options because their effect would be anti-dilutive.

**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** – 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 adopted this standard on January 1, 2018 and has elected the modified retrospective method of adoption. The new standard is not expected to have a material impact on the financial statements but will require expanded disclosure of revenues.

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 15, 2018, the date of issuance of these financial statements. Subsequent events are disclosed in Note 11.

### 4. OIL & GAS PROPERTIES

The following table presents the capitalized costs for oil & gas properties of the Company as of December 31, 2017 and 2016:

|   | <u>2017</u>          | <u>2016</u>         |
|---|----------------------|---------------------|
| Evaluated costs subject to amortization                   | \$ 5,022,129         | \$ 1,470,939        |
| Unevaluated costs   | <u>26,100,749</u>    | <u>13,376,742</u>   |
| Total capitalized costs                                   | 31,122,878           | 14,847,681          |
| Less accumulated depreciation, depletion and amortization | <u>(5,543,599)</u>   | <u>(5,455,393)</u>  |
| Total oil and gas properties                              | <u>\$ 25,579,279</u> | <u>\$ 9,392,288</u> |

The Company identified impairment of \$2,300,626 in 2017 related to its unevaluated properties. Although we had no recognized impairment expense in 2017, the Company has adjusted the separation of evaluated versus unevaluated costs within its full cost pool to recognize the value impairment related to the expiration of unevaluated leases in 2017 in the amount of \$2,300,626. The impact of this change will be to increase the basis for calculation of future period's depletion, depreciation and amortization to include \$2,300,626 of cost which will effectively recognize the impairment on the Consolidated Statement of Income over future periods. The \$2,300,626 has also become an evaluated cost for purposes of future period's Ceiling Tests and which may further recognize the impairment expense recognized in future periods.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. OIL & GAS PROPERTIES - *continued*

Due to the volatility of commodity prices, should oil and natural gas prices decline in the future, it is possible that a further 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.

#### Acquisition of Additional Interests in 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. Subsequent to the closing the name of Line Drive Energy, LLC was changed to Torchlight Hazel, LLC.

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, our Chairman. 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.

Since Mr. McCabe held the controlling interest in both Line Drive and Wolfbone Investments, LLC, the transactions were combined for accounting purposes. The working interest in the Hazel Project was the only asset held by Line Drive. The warrant cancellation was treated in the aggregate as an exercise of the warrants with the transfer of the working interests as the consideration. The Company recorded the transactions as an increase in its investment in the Hazel project working interests of \$3,644,431 which is equal to the exercise price of the warrants plus the cash paid to Wolfbone.

Upon the closing of the transactions, the Company’s working interest in the Hazel project increased by 40.66% to a total ownership of 74%.

Effective June 1, 2017, the Company acquired an additional 6% working interest from unrelated working interest owners in exchange for 268,656 shares of common stock valued at \$373,430, increasing its working interest in the Hazel project to 80%.

#### Winkler Project, Winkler County, Texas

On December 1, 2017, the Agreement and Plan of Reorganization that we and our newly formed wholly-owned subsidiary, Torchlight Wolfbone Properties, Inc., a Texas corporation (“TWP”), entered into with McCabe Petroleum Corporation, a Texas corporation (“MPC”), and Warwink Properties, LLC, a Texas limited liability company (“Warwink Properties”) closed. Under the agreement, which was entered into on November 14, 2017, TWP merged with and into Warwink Properties and the separate existence of TWP ceased, with Warwink Properties becoming the surviving organization and our wholly-owned subsidiary. Warwink Properties was wholly owned by MPC which is wholly owned by Gregory McCabe, our Chairman. Warwink Properties owns certain assets, including a 10.71875% working interest in 640 acres in Winkler County, Texas. At closing of the merger transaction, our shares of common stock of TWP converted into a membership interest of Warwink Properties, the membership interest in Warwink Properties held by MPC ceased to exist, and we issued MPC 2,500,000 restricted shares of common stock as consideration. Also on December 1, 2017, MPC closed its transaction with MECO IV, LLC (“MECO”) for the purchase and sale of certain assets as contemplated by the Purchase and Sale Agreement dated November 9, 2017 (the “MECO PSA”), to which we are not a party. Under the MECO PSA, Warwink Properties received a carry from MECO (through the tanks) of up to \$1,475,000 in the next well drilled on the Winkler County leases. A Certificate of Merger for the merger transaction was filed with the Secretary of State of Texas on December 5, 2017.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. OIL & GAS PROPERTIES - *continued*

Also on December 1, 2017, the transactions contemplated by the Purchase Agreement that our wholly-owned subsidiary, Torchlight Energy, Inc., a Nevada corporation ("TEI"), entered into with MPC closed. Under the Purchase Agreement, which was entered into on November 14, 2017, TEI acquired beneficial ownership of certain of MPC's assets, including acreage and wellbores located in Ward County, Texas (the "Ward County Assets"). As consideration under the Purchase Agreement, at closing TEI issued to MPC an unsecured promissory note in the principal amount of \$3,250,000, payable in monthly installments of interest only beginning on January 1, 2018, at the rate of 5% per annum, with the entire principal amount together with all accrued interest due and payable on December 31, 2020. In connection with TEI's acquisition of beneficial ownership in the Ward County Assets, MPC sold those same assets, on behalf of TEI, to MECO at closing of the MECO PSA, and accordingly, TEI received \$3,250,000 in cash for its beneficial interest in the Ward County Assets. Additionally, at closing of the MECO PSA, MPC paid TEI a performance fee of \$2,781,500 in cash as compensation for TEI's marketing and selling the Winkler County assets of MPC and the Ward County Assets as a package to MECO.

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 were presented on the Consolidated 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, 2017, related party payables consisted of accrued and unpaid compensation to one of our executive officers totaling \$45,000.

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 \$84,197 and \$81,595 for the year ended December 31, 2017 and 2016, respectively.

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

| <b>Year Ending<br/>December 31,</b> | <b>Rent</b>       |
|-------------------------------------|-------------------|
| 2018                                | \$ 96,660         |
| To 2019 Expiration                  | 88,605            |
| <b>Total</b>                        | <b>\$ 185,265</b> |

#### *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, 2017 and 2016, 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*

Torchlight Energy Resources, Inc. and its subsidiary Torchlight Energy, Inc. 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, we allege, among other things, that the defendants acted improperly in connection with multiple transactions, and that the defendants misrepresented and omitted material information to us 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 6. COMMITMENTS AND CONTINGENCIES - *continued*

On April 13, 2017, Husky Ventures, Inc. filed in the above lawsuit a counterclaim against Torchlight Energy Resources, Inc. and its subsidiary Torchlight Energy, Inc., and a third-party petition against John Brda, the Chief Executive Officer of Torchlight Energy Resources, Inc., and Willard McAndrew III, a former officer of Torchlight Energy Resources, Inc. (“Husky Counterclaim”). The Husky Counterclaim asserts breach of contract against Torchlight Energy Resources, Inc. and its subsidiary Torchlight Energy, Inc. and asserts a claim for tortious interference with Husky’s contractual relationship with Torchlight and a claim for conspiracy to tortiously interfere with unspecified Husky business and contractual relationships against Torchlight Energy Resources, Inc. and its subsidiary Torchlight Energy, Inc., John Brda and Willard McAndrew III. We believe the Husky Counterclaim is without merit and intend to vigorously defend against it.

On May 22, 2017, the Court granted Gastar Exploration, Inc., J. Russell Porter, Michael A. Gerlich, and Jerry R. Schuyler’s (“Gastar Defendants”) motion for summary judgment dismissing all of Torchlight’s claims against the Gastar Defendants with prejudice. The only claim remaining related to the Gastar Defendants is a counterclaim against Torchlight by Gastar Exploration, Inc. for Torchlight’s alleged breach of a release that Gastar Exploration, Inc. claims occurred because Torchlight filed this lawsuit against the Gastar Defendants. Torchlight alleges in its lawsuit that this release is unenforceable against all the Defendants including but not limited to Gastar Defendants. On January 12, 2018, the Court heard but has not yet ruled on cross-motions for summary judgment by Gastar and Torchlight to resolve Gastar’s remaining claims against Torchlight. The case is currently set for trial on May 30, 2018.

### 7. STOCKHOLDERS’ EQUITY

#### *Common Stock*

During the years ended December 31, 2017 and 2016, the Company issued -0- and 3,750,000 shares of common stock, respectively, for cash of \$-0- and \$3,000,000.

During the years ended December 31, 2017 and 2016, the Company issued 507,897 and 768,832 shares of common stock with total fair values of \$579,754 and \$670,074, respectively, as compensation for services.

During the years ended December 31, 2017 and 2016, the Company issued 6,420,395 and 2,824,881 shares of common stock for lease interests with total fair values of \$6,812,362 and \$1,975,046, respectively.

During the year ended December 31, 2017 and 2016, the Company issued -0- and 10,257,439 shares of common stock, respectively, in conversions of preferred stock valued at \$-0- and \$13,399,992.

During the year ended December 31, 2017 the Company issued 1,007,890 shares of common stock, in conversions of notes payable valued \$1,007,890.

During the year ended December 31, 2017 and 2016, the Company issued 307,349 and 3,888,745 shares of common stock, respectively, resulting from warrant exercises for consideration totaling \$243,300 and \$2,543,749.

#### *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, 2016 the Company paid dividends on preferred stock in cash of \$320,724. In addition, during the year 2016, 440,262 shares of common stock were issued for dividends on preferred stock.

There was no outstanding Preferred Stock as of December 31, 2017.

#### *Warrants and Options*

During the years ended December 31, 2017 and 2016, the Company issued/vested 1,808,026 and 6,437,267 warrants and options with total fair values of \$1,093,104 and \$2,205,231, respectively, as compensation for services.

During the years ended December 31, 2017, and 2016, the Company issued -0- and 137,500 warrants, respectively, in connection with financing transactions, with total values of \$-0- and \$80,750.

During the years ended December 31, 2017 and 2016, the Company issued -0- and 3,412,525 warrants and 6,420,395 and 2,824,881 shares of common stock, respectively, in connection with the acquisition of lease interests, respectively, with total value of \$6,812,362 and \$3,265,807.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 7. STOCKHOLDERS' EQUITY - *continued*

A summary of warrants outstanding as of December 31, 2017 by exercise price and year of expiration is presented below:

| Exercise Price | Expiration Date in |                  |                  |                | Total             |
|----------------|--------------------|------------------|------------------|----------------|-------------------|
|                | 2018               | 2019             | 2020             | 2021           |                   |
| \$ 0.50        | 400,000            | -                | -                | -              | 400,000           |
| \$ 0.70        | -                  | -                | 420,000          | -              | 420,000           |
| \$ 0.77        | -                  | 100,000          | -                | -              | 100,000           |
| \$ 1.00        | -                  | 25,116           | -                | -              | 25,116            |
| \$ 1.03        | -                  | -                | -                | 120,000        | 120,000           |
| \$ 1.08        | -                  | 37,500           | -                | -              | 37,500            |
| \$ 1.40        | -                  | -                | 1,121,736        | -              | 1,121,736         |
| \$ 1.64        | -                  | -                | -                | 200,000        | 200,000           |
| \$ 1.73        | 100,000            | -                | -                | -              | 100,000           |
| \$ 1.80        | -                  | -                | 1,250,000        | -              | 1,250,000         |
| \$ 2.00        | 1,906,249          | -                | -                | -              | 1,906,249         |
| \$ 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           |
| \$ 6.00        | 523,123            | 22,580           | -                | -              | 545,703           |
| \$ 7.00        | -                  | 700,000          | -                | -              | 700,000           |
|                | <u>7,887,546</u>   | <u>1,635,407</u> | <u>3,624,248</u> | <u>320,000</u> | <u>13,467,201</u> |

A summary of stock options outstanding as of December 31, 2017 by exercise price and year of expiration is presented below:

| Exercise Price | Expiration Date in |          |                  |                |                | Total            |
|----------------|--------------------|----------|------------------|----------------|----------------|------------------|
|                | 2018               | 2019     | 2020             | 2021           | 2022           |                  |
| \$ 0.97        | -                  | -        | -                | 259,742        | -              | 259,742          |
| \$ 1.10        | -                  | -        | -                | -              | 800,000        | 800,000          |
| \$ 1.57        | -                  | -        | 5,997,163        | -              | -              | 5,997,163        |
| \$ 1.63        | -                  | -        | -                | 58,026         | -              | 58,026           |
| \$ 1.79        | -                  | -        | 300,000          | -              | -              | 300,000          |
|                | <u>-</u>           | <u>-</u> | <u>6,297,163</u> | <u>317,768</u> | <u>800,000</u> | <u>7,414,931</u> |

At December 31, 2017, the Company had reserved 20,882,132 common shares for future exercise of warrants and options.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 7. STOCKHOLDERS' EQUITY - *continued*

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

#### 2017

|                                       |                      |
|---------------------------------------|----------------------|
| Risk-free interest rate               | 1.47% - 2.06%        |
| Expected volatility of common stock   | 106% - 122%          |
| Dividend yield                        | 0.00%                |
| Discount due to lack of marketability | 20%                  |
| Expected life of option/warrant       | 2.75 years - 5 years |

#### 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 |

### 8. INCOME TAXES

The Company recorded no income tax provision for 2017 and 2016 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 statutory federal income tax rates and actual income tax provision for the years ended December 31, 2017 and 2016:

|  | Year ended<br>December 31,<br>2017 | Year ended<br>December 31,<br>2016 |
|--|------------------------------------|------------------------------------|
| Federal income tax benefit at statutory rate | \$ (312,769)                       | \$ (2,869,293)                     |
| Permanent Differences                        | 1,640                              | 3,000                              |
| Other  | 719,197                            | 4,096,946                          |
| Change in valuation allowance                | (9,186,334)                        | (1,230,653)                        |
| Change in federal tax rate                   | 8,778,266                          | -                                  |
| Provision for income taxes                   | <u>\$ -</u>                        | <u>\$ -</u>                        |

The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and liabilities at December 31, 2017 and December 31, 2016 are as follows:

|  | December 31,<br>2017 | December 31,<br>2016 |
|--|----------------------|----------------------|
| <b>Deferred tax assets:</b>                                    |                      |                      |
| Net operating loss carryforward                                | \$ 11,116,332        | \$ 16,269,090        |
| Accruals   | 9,450                | 15,300               |
| Reserves   | 4,501,899            | 7,156,559            |
| <b>Deferred tax liabilities:</b>                               |                      |                      |
| Intangible drilling and other costs for oil and gas properties | (1,447,405)          | (74,340)             |
| Net deferred tax assets and liabilities                        | 14,180,276           | 23,366,609           |
| Less valuation allowance                                       | (14,180,276)         | (23,366,609)         |
| Total deferred tax assets and liabilities                      | <u>\$ -</u>          | <u>\$ -</u>          |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 8. INCOME TAXES - *continued*

The Company had a net deferred tax asset related to federal net operating loss carryforwards of \$52,934,915 and \$51,028,330 at December 31, 2017 and December 31, 2016, respectively. The federal net operating loss carryforward will begin to expire in 2032. 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 100% valuation allowance against the net deferred tax asset because future realization of these assets is not assured.

On December 22, 2017, the U.S. government enacted comprehensive legislation titled the Tax Cuts and Jobs Act. Generally, effective for years 2018 and beyond, it makes broad and complex changes to the Internal Revenue Code, including, but not limited to, reducing the federal corporate income tax rate from 35% to 21%. As of December 31, 2017 we have made a reasonable estimate of the effects on our deferred tax assets and liabilities of the change in the corporate tax rate to be effective in 2018. The estimated amount is included our computation of net deferred tax assets and liabilities and the related valuation allowance.

### 9. PROMISSORY NOTES

The total outstanding balance of the 12% Series B Convertible Unsecured Promissory Notes at December 31, 2016 was \$3,569,500. On April 24, 2017 we used \$2,509,500 of the proceeds from the financing described below to redeem and repay a portion of the outstanding 12% Series B Convertible Unsecured Promissory Notes. Separately, \$1,000,000 of the principal amount of the Series B Notes plus accrued interest was converted into 1,007,890 shares of common stock valued at \$1,007,890 and \$60,000 was rolled into the new debt financing.

On April 10, 2017, we sold to investors in a private transaction two 12% unsecured promissory notes with a total of \$8,000,000 in principal amount. Interest only is due and payable on the notes each month at the rate of 12% per annum, with a balloon payment of the outstanding principal due and payable at maturity on April 10, 2020. The holders of the notes will also receive annual payments of common stock at the rate of 2.5% of principal amount outstanding, based on a volume-weighted average price. Both notes were sold at an original issue discount of 94.25% and accordingly, we received total proceeds of \$7,540,000 from the investors. Debt issuance costs were paid by issuance of 204,574 shares of common stock valued at \$279,754. We are using the proceeds for working capital and general corporate purposes, which includes, without limitation, drilling capital, lease acquisition capital and repayment of prior debt.

These 12% promissory notes allow for early redemption, provided that if we redeem before April 10, 2018, we must pay the holders all unpaid interest and common stock payments on the portion of the notes redeemed that would have been earned through April 10, 2018. The notes also contain certain covenants under which we have agreed that, except for financing arrangements with established commercial banking or financial institutions and other debts and liabilities incurred in the normal course of business, we will not issue any other notes or debt offerings which have a maturity date prior to the payment in full of the 12% notes, unless consented to by the holders.

The effective interest rate is 16.15%.

In connection with the transaction effective December 5, 2017 for the acquisition of the Warwink properties, the Company borrowed \$3.25 million from its Chairman, Greg McCabe on a three-year interest only promissory note bearing interest at 5% per annum.

### 10. ASSET RETIREMENT OBLIGATIONS

The following is a reconciliation of the asset retirement obligation liability for the period December 31, 2015 through December 31, 2017:

|   |    |              |
|---|----|--------------|
| 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 | \$ | 7,051        |
| Estimated liabilities recorded                  |    | 2,007        |
| Accretion expense                               |    | 216          |
| Asset retirement obligation – December 31, 2017 | \$ | <u>9,274</u> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 11. SUBSEQUENT EVENTS

On February 6, 2018, we sold to an investor in a private transaction a 12% unsecured promissory note with a principal amount of \$4,500,000. Interest only is due and payable on the note each month at the rate of 12% per annum, with a balloon payment of the outstanding principal due and payable at maturity on April 10, 2020. The holder of the note will also receive annual payments of common stock at the rate of 2.5% of principal amount outstanding, based on a volume-weighted average price. We sold the note at an original issue discount of 96.27% and accordingly, we received total proceeds of \$4,332,150 from the investor. We intend to use the proceeds for working capital and general corporate purposes, which includes, without limitation, drilling capital, lease acquisition capital and repayment of prior debt.

This 12% promissory note allows for early redemption, provided that if we redeem before February 6, 2019, we must pay the holder all unpaid interest and common stock payments on the portion of the note redeemed that would have been earned through February 6, 2019. The note also contains certain covenants under which we have agreed that, except for financing arrangements with established commercial banking or financial institutions and other debts and liabilities incurred in the normal course of business, we will not issue any other notes or debt offerings which have a maturity date prior to the payment in full of the 12% note, unless consented to by the holder.



**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, 2017 and 2016 is detailed as follows:

|                            | 2017                 | 2016                |
|----------------------------|----------------------|---------------------|
| Property acquisition costs | \$ 7,227,362         | \$ 3,265,807        |
| Development costs          | \$ 8,034,962         | \$ 2,055,526        |
| Exploratory costs          | \$ -                 | \$ -                |
| <b>Totals</b>              | <b>\$ 15,262,324</b> | <b>\$ 5,321,333</b> |

Property acquisition cost relates to the Company’s acquisition of additional working interests in the Hazel Project in west Texas and the acquisition of the Warwink Project, also in west Texas. The development costs include work in the Orogrande and Hazel projects in west Texas. No development costs were incurred for Oklahoma properties in 2017.

Property acquisition costs presented above exclude interest capitalized into the full cost pool of \$1,010,868 in 2017 and \$215,938 in 2016.

**Oil and Natural Gas Reserves**

*Reserve Estimates*

*SEC Case.* The following tables sets forth, as of December 31, 2017, 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, 2017. For purposes of determining prices, we used the average of prices received for each month within the 12-month period ended December 31, 2017, adjusted for quality and location differences, which was \$48.53 per barrel of oil and \$2.58 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, 2017<br>Reserves |               |              | December 31, 2017<br>Future Net Revenue (M\$) |                                 |
|---------------------|-------------------------------|---------------|--------------|---|---------------------------------|
|                     | Oil (Bbls)                    | Gas (Mcf)     | Total (BOE)  | Total   | Present Value Discounted at 10% |
| Proved Producing    | 2,300                         | 43,800        | 9,600        | \$ 132  | \$ 96                           |
| Proved Nonproducing | 0                             | 0             | 0            | \$ -  | \$ -                            |
| <b>Total Proved</b> | <b>2,300</b>                  | <b>43,800</b> | <b>9,600</b> | <b>\$ 132</b>                                 | <b>\$ 96</b>                    |

Standardized Measure of Future Net Cash Flows Related to Proved Oil and Gas Properties \$ 123

Probable Undeveloped 0 0 0 \$ - \$ -

| Category            | December 31, 2016<br>Reserves |                |                | December 31, 2016<br>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                          |
| <b>Total Proved</b> | <b>48,200</b>                 | <b>490,900</b> | <b>130,017</b> | <b>\$ 807</b>                                 | <b>\$ 330</b>                   |

Standardized Measure of Future Net Cash Flows Related to Proved Oil and Gas Properties \$ 341

Probable Undeveloped 0 0 0 \$ - \$ -

The upward revisions of previous estimates from 2016 to 2017 of proved producing reserves of 900 Bbls and 20,500 MCF results primarily from 2017 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 2016 to 2017.

Reserve values as of December 31, 2017 are related to a single producing well in Oklahoma – the Judy well in the Prairie Grove AMI.

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

Standardized Measure of Oil & Gas Quantities - Volume Rollforward  
Year Ended December 31, 2017

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

|   | Crude Oil<br>(Bbls) | Natural Gas<br>(Mcf) | BOE          |
|---|---------------------|----------------------|--------------|
| <b>TOTAL PROVED RESERVES:</b>               |                     |                      |              |
| Beginning of period                         | 48,200              | 490,900              | 130,017      |
| Revisions of previous estimates             | (35,509)            | (437,841)            | (108,483)    |
| Extensions, discoveries and other additions | -                   | -                    | -            |
| Divestiture of reserves                     | -                   | -                    | -            |
| Acquisition of reserves                     | -                   | -                    | -            |
| Production                                  | (10,391)            | (9,259)              | (11,934)     |
| End of period                               | <u>2,300</u>        | <u>43,800</u>        | <u>9,600</u> |
| <b>PROVED DEVELOPED RESERVES</b>            |                     |                      |              |
| Proved developed producing                  | 2,300               | 43,800               | 9,600        |
| Proved nonproducing                         | -                   | -                    | -            |
| Total                                       | <u>2,300</u>        | <u>43,800</u>        | <u>9,600</u> |

Standardized Measure of Oil & Gas Quantities  
Year Ended December 31, 2017 & 2016

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

|   | 2017              | 2016              |
|---|-------------------|-------------------|
| Future cash inflows   | \$ 240,370        | \$ 3,156,970      |
| Future production costs   | (108,000)         | (1,000,410)       |
| Future development costs  | -                 | (1,350,000)       |
| Future income tax expense   | -                 | -                 |
| Future net cash flows   | <u>132,370</u>    | <u>806,560</u>    |
| 10% annual discount for estimated timing of cash flows                              | (9,102)           | (465,644)         |
| Standardized measure of discounted future net cash flows related to proved reserves | <u>\$ 123,268</u> | <u>\$ 340,916</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 :

|  | 2017              | 2016              |
|--|-------------------|-------------------|
| Balance, beginning of period   | \$ 340,916        | \$ 5,935,188      |
| Net change in sales and transfer prices and in production (lifting) costs related to future production | 207,241           | (482,569)         |
| Changes in estimated future development costs  | 116,934           | (791,630)         |
| Net change due to revisions in quantity estimates  | (129,565)         | 482,272           |
| Accretion of discount  | 28,604            | 80,393            |
| Other  | (43,372)          | 172,169           |
| Net change due to extensions and discoveries   | -                 | -                 |
| Net change due to sales of minerals in place   | -                 | (191,470)         |
| Sales and transfers of oil and gas produced during the period  | (397,490)         | (29,749)          |
| Previously estimated development costs incurred during the period                                      | -                 | 58,575            |
| Net change in income taxes   | -                 | (4,892,263)       |
| Balance, end of period   | <u>\$ 123,268</u> | <u>\$ 340,916</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.

#### **Results of Operations for Oil and Gas Producing Activities For the Year Ended December 31, 2017**

|  | <u>Total</u>      | <u>Texas</u>      | <u>Oklahoma</u>    |
|--|-------------------|-------------------|--------------------|
| Oil and Gas revenue  | <u>\$ 570,499</u> | <u>\$ 521,820</u> | <u>\$ 48,679</u>   |
| Production costs   | 173,187           | 155,897           | 17,290             |
| Depreciation, depletion, and amortization  | 100,156           | 0                 | 100,156            |
| Exploration expenses   | -                 | -                 | -                  |
|  | <u>273,343</u>    | <u>155,897</u>    | <u>117,446</u>     |
| Income tax expense   | <u>-</u>          | <u>-</u>          | <u>-</u>           |
| Results of Operations (excluding corporate overhead, impairment expense, and interest costs) | <u>\$ 297,156</u> | <u>\$ 365,923</u> | <u>\$ (68,767)</u> |

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

Not Applicable.

#### **ITEM 9A. CONTROLS AND PROCEDURES**

##### **Management's Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness 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, 2017. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2017, our disclosure controls and procedures were effective, in that they ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

## **ITEM 9A. CONTROLS AND PROCEDURES - *continued***

### **Management's Annual Report on Internal Control Over Financial Reporting**

Management acknowledges its responsibility for establishing and maintaining adequate internal control over financial reporting in accordance with Rule 13a-15(f) promulgated under the Exchange Act. The company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Management has also evaluated the effectiveness of its internal control over financial reporting in accordance with generally accepted accounting principles within the guidelines of the Committee of Sponsoring Organizations of the Treadway Commission framework (2013). Based on the results of this evaluation, management has determined that the Company's internal control over financial reporting was effective as of December 31, 2017. The independent registered public accounting firm of Briggs & Veselka Co, as auditors of the Company's financial statements included in the Annual Report, has issued an attestation report on the Company's internal control over financial reporting.

### **Changes in Internal Controls**

There were no changes in our Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) during the quarter ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **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       | 53  | Chief Executive Officer, Secretary and Director |
| Roger N. Wurtele   | 71  | Chief Financial Officer                         |
| Greg McCabe, Sr.   | 56  | Director  |
| Alexandre Zyngier  | 48  | Director  |
| R. David Newton    | 63  | Director  |
| E. Scott Kimbrough | 67  | Director  |
| Michael Graves     | 50  | 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 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.

**Michael J. Graves** - Mr. Graves has served on the Board of Directors since August 17, 2017. He is a Certified Public Accountant, and since 2005 he has been a managing shareholder of Fitch & Graves in Sioux City, Iowa, which provides accounting and tax, financial planning, consulting and investment services. Since 2008, he has also been a registered representative with Western Equity Group where he has worked in investment sales. He is also presently a shareholder in several businesses involved in residential construction and property rentals. Previously, he worked at Bill Markve & Associates, Gateway 2000 and Deloitte & Touche. He graduated Summa Cum Laude from the University of South Dakota with a B.S. in Accounting.

With Mr. Graves' extensive background in accounting and investment businesses, we believe his understanding of financial statements, business valuations, and general business performance are a valuable asset to the Board.

### **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, 2017, 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, 2017, with the exception of (i) three Form 4's (including a Form 4/A) filed late by Gregory McCabe, and (ii) a Form 4 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](http://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, Michael Graves, 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 2017 and 2016 concerning cash and non-cash compensation paid or accrued to or on behalf of certain executive officers.

### Summary Executive Compensation Table

| <b>Name and Principal Position</b> | <b>Year</b> | <b>Salary (\$)</b> | <b>Bonus (\$)</b> | <b>Stock Awards (\$)</b> | <b>Option Awards (\$)<br/>(A)<br/>(1)</b> | <b>Non-Equity Incentive Plan Compensation (\$)</b> | <b>Change in Pension Value and Nonqualified Deferred Compensation (\$)</b> | <b>All Other Compensation (\$)</b> | <b>Total (\$)</b> |
|------------------------------------|-------------|--------------------|-------------------|--------------------------|---|--|--|------------------------------------|-------------------|
| John A. Brda                       | 2017        | \$75,000           | -                 | -                        | \$ -                                      | -  | -  | -                                  | \$75,000          |
| CEO/Secretary/Director             | 2016        | \$75,000           | -                 | -                        | \$12,500                                  | -  | -  | -                                  | \$,087,500        |
| Roger Wurtele                      | 2017        | \$25,000           | -                 | -                        | \$ -                                      | -  | -  | -                                  | \$25,000          |
| CFO                                | 2016        | \$25,000           | -                 | -                        | \$56,250                                  | -  | -  | -                                  | \$81,250          |

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

(1) On June 11, 2015, we granted new stock option awards to our executive officers, as follows: 3,000,000 stock options to John Brda, President and Chief Executive Officer and 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.

### **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.

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 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 and Wurtele were \$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 was 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.



**ITEM 11. EXECUTIVE COMPENSATION - continued**

**Outstanding Equity Awards at Fiscal Year End**

The following table details all outstanding equity awards held by our named executive officers at December 31, 2017:

| Name          | Option Awards   | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date |
|---------------|---|---|---|---|----------------------------|------------------------|
|               | Number of Securities Underlying Unexercised Options (#) |   |   |   |                            |                        |
| John A. Brda  |   | 245,000   | -   | -   | \$ 2.00                    | 9/4/2018               |
|               |   | 3,000,000 (1)   | -   | -   | \$ 1.57                    | 6/11/2020              |
| Roger Wurtele |   | 300,000 (2) (3)   | -   | -   | \$ 2.09                    | 10/10/2018             |
|               |   | 1,500,000 (1)   | -   | -   | \$ 1.57                    | 6/11/2020              |

(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. 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.

(3)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, 2017 was as follows:

| Name               | Fees Earned Paid in Cash (\$) | Stock Awards (\$) | Option Awards (\$)(A) | Non-Equity Incentive Plan Compensation (\$) | Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|--------------------|-------------------------------|-------------------|-----------------------|---|--|-----------------------------|------------|
| Alexandre Zyngier  | -                             | \$112,500 (1)     | \$110,000 (2)         | -   | -  | -                           | \$185,000  |
| R. David Newton    | -                             | -                 | \$110,000 (2)         | -   | -  | -                           | \$110,000  |
| E. Scott Kimbrough | -                             | -                 | \$110,000 (2)         | -   | -  | -                           | \$110,000  |
| Michael Graves     | -                             | -                 | \$110,000 (2)         | -   | -  | -                           | \$110,000  |

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

## **ITEM 11. EXECUTIVE COMPENSATION - *continued***

- (1) 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. Additionally on April 26, 2017, 28,626 shares were issued for the \$37,500 payment due 1/11/17 and 23,885 shares were issued for the payment due 4/11/17. On 7/11/17, 25,000 shares were issued for the final payment. As of the date of this report, none of these shares have vested.
- (2) On August 17, 2017, this director was granted 200,000 stock options under the 2015 Stock Option Plan as director compensation. 100,000 of the stock options vested immediately, and the remaining 100,000 stock options will vest on August 17, 2018.

### **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 15, 2018, 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 63,378,033 shares of common stock outstanding at March 15, 2018 (which amount excludes the 262,001 restricted shares of common stock issued to our director Alexandre Zyngier). 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 15, 2018 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 15, 2018. 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   |            |
|---|----------------|------------|
|   | Shares         | % of Class |
| John A. Brda<br>President, CEO, Secretary and Director      | 5,513,322 (1)  | 8.28       |
| Gregory McCabe<br>Director (Chairman of the Board)          | 13,648,390 (2) | 21.51      |
| Roger N. Wurtele<br>Chief Financial Officer                 | 1,810,000 (3)  | 2.78       |
| E. Scott Kimbrough<br>Director                              | 258,884 (4)    | *          |
| R. David Newton<br>Director                                 | 258,884 (5)    | *          |
| Alexandre Zyngier<br>Director                               | 100,000        | *          |
| Michael J. Graves<br>Director                               | 125,000 (6)    | *          |
| All directors and executive officers as a group (7 persons) | 21,814,480     | 32.10      |
| Robert Kenneth Dulin (7)                                    | 4,351,381 (7)  | 6.68       |
| Willard G. McAndrew III (8)                                 | 3,993,046 (8)  | 5.94       |

- (1) Includes 2,268,322 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 3,245,000 shares of common stock, held individually by Mr. Brda.
- (2) Includes (a) 10,264,335 shares of common stock held individually by Mr. McCabe; (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; and (c) 2,500,000 shares of common stock beneficially owned by McCabe Petroleum Corporation ("MPC"). 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. Mr. McCabe may be deemed to hold beneficial ownership of securities held by MPC as a result of his ownership of 100% of the outstanding shares of capital stock of MPC.
- (3) Includes 10,000 shares of common stock and stock options that are exercisable into 1,500,000 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 258,884 shares of common stock held individually by Mr. Kimbrough.
- (5) Includes stock options that are exercisable into 258,884 shares of common stock held individually by Mr. Newton.
- (6) Includes stock options that are exercisable into 100,000 shares of common stock held individually by Mr. Graves.

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

- (7) 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. Mr. Dulin’s address is 8449 Greenwood Drive, Niwot, Colorado, 80503. The information herein is based in part on information provided to us by Mr. Dulin, and accordingly, we are unable to verify the accuracy this information.
- (8) 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. Mr. McAndrew’s address is 6608 Indian Trail, Plano TX 75024. The information herein is based in part on information provided to us by Mr. McAndrew, and accordingly, we are unable to verify the accuracy this information.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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.

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.

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

On November 15, 2017, we and our wholly-owned subsidiary, Hudspeth Oil Corporation, a Texas corporation (“HOC”), entered into an Assignment of Farmout Agreement with Founders Oil & Gas, LLC (“Founders”) and Wolfbone Investments, LLC (“Wolfbone”), along with Pandora Energy, LP as a party to the agreement for limited purposes. Wolfbone is owned by our Chairman, Gregory McCabe. Under the agreement, Founders will assign to HOC and Wolfbone all its right, title and interest in the remaining leases under the original Farmout Agreement that Founders entered into with us on September 23, 2015; provided, however, that Founders will retain an undivided 9.5% of 8/8ths working interest and 9.5% of 75% of 8/8ths net revenue interest to the remaining leases, which retained interest will be carried by HOC and Wolfbone through the next \$40,500,000 in total costs. Accordingly, HOC and Wolfbone will each gain a 20.25% working interest in the remaining leases, bringing HOC’s total working interest to 67.75%. On behalf of HOC and Wolfbone, Founders (through its operating affiliate) will take such action necessary to spud the University Founders A 25 Well on or before December 1, 2017. After spudding of the well, Founders’ operating affiliate will remain operator of that well under the direction of us and Gregory McCabe.

On December 1, 2017, the transactions contemplated by the Agreement and Plan of Reorganization that we and our newly formed wholly-owned subsidiary, Torchlight Wolfbone Properties, Inc., a Texas corporation (“TWP”), entered into with McCabe Petroleum Corporation, a Texas corporation (“MPC”), and Warwink Properties, LLC, a Texas limited liability company (“Warwink Properties”) closed. Under the agreement, which was entered into on November 14, 2017, TWP merged with and into Warwink Properties and the separate existence of TWP ceased, with Warwink Properties becoming the surviving organization and our wholly-owned subsidiary. Warwink Properties was wholly owned by MPC which is wholly owned by Gregory McCabe, our Chairman. Warwink Properties owns certain assets, including a 10.71875% working interest in 640 acres in Winkler County, Texas. At closing of the merger transaction, our shares of common stock of TWP converted into a membership interest of Warwink Properties, the membership interest in Warwink Properties held by MPC ceased to exist, and we issued MPC 2,500,000 restricted shares of common stock as consideration. Also on December 1, 2017, MPC closed its transaction with MECO IV, LLC (“MECO”) for the purchase and sale of certain assets as contemplated by the Purchase and Sale Agreement dated November 9, 2017 (the “MECO PSA”), to which we are not a party. Under the MECO PSA, Warwink Properties received a carry from MECO (through the tanks) of up to \$1,475,000 in the next well drilled on the Winkler County leases. A Certificate of Merger for the merger transaction was filed with the Secretary of State of Texas on December 5, 2017.

Also on December 1, 2017, the transactions contemplated by the Purchase Agreement that our wholly-owned subsidiary, Torchlight Energy, Inc., a Nevada corporation (“TEI”), entered into with MPC closed. Under the Purchase Agreement, which was entered into on November 14, 2017, TEI acquired beneficial ownership of certain of MPC’s assets, including acreage and wellbores located in Ward County, Texas (the “Ward County Assets”). As consideration under the Purchase Agreement, at closing TEI issued to MPC an unsecured promissory note in the principal amount of \$3,250,000, payable in monthly installments of interest only beginning on January 1, 2018, at the rate of 5% per annum, with the entire principal amount together with all accrued interest due and payable on December 31, 2020. In connection with TEI’s acquisition of beneficial ownership in the Ward County Assets, MPC sold those same assets, on behalf of TEI, to MECO at closing of the MECO PSA, and accordingly, TEI received \$3,250,000 in cash for its beneficial interest in the Ward County Assets. Additionally, at closing of the MECO PSA, MPC paid TEI a performance fee of \$2,781,500 in cash as compensation for TEI’s marketing and selling the Winkler County assets of MPC and the Ward County Assets as a package to MECO.

#### **Director Independence**

We currently have four independent directors on our Board, Alexandre Zyngier, E. Scott Kimbrough, Michael Graves, 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 these Directors 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, 2017 and 2016 and Briggs & Veselka Co. who were engaged in 2017 for our year end December 31, 2017 audit.

|                       | 2017              | 2016              |
|-----------------------|-------------------|-------------------|
| Audit Fees(1)         | \$ 196,666        | \$ 73,968         |
| Audit Related Fees(2) | -                 | 26,280            |
| Tax Fees(3)           | 65,888            | 22,035            |
| All Other Fees        | -                 | 450               |
| Total Fees            | <u>\$ 262,554</u> | <u>\$ 122,733</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

| <b>Exhibit No.</b>           | <b>Description</b>  |
|------------------------------|---|
| <a href="#"><u>2.1</u></a>   | <a href="#"><u>Share Exchange Agreement dated November 23, 2010. (Incorporated by reference from Form 8-K filed with the SEC on November 24, 2010.) *</u></a>   |
| <a href="#"><u>3.1</u></a>   | <a href="#"><u>Articles of Incorporation. (Incorporated by reference from Form S-1 filed with the SEC on May 2, 2008.) *</u></a>  |
| <a href="#"><u>3.2</u></a>   | <a href="#"><u>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.) *</u></a>  |
| <a href="#"><u>3.3</u></a>   | <a href="#"><u>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.) *</u></a>  |
| <a href="#"><u>3.4</u></a>   | <a href="#"><u>Amended and Restated Bylaws (Incorporated by reference from Form 8-K filed with the SEC on October 26, 2016.) *</u></a>  |
| <a href="#"><u>10.1</u></a>  | <a href="#"><u>12% Series B Unsecured Convertible Promissory Note (form of) (Incorporated by reference from Form 10-Q filed with the SEC on August 14, 2015.) *</u></a>   |
| <a href="#"><u>10.2</u></a>  | <a href="#"><u>Securities Purchase Agreement (for Series A Convertible Preferred Stock) (Incorporated by reference from Form 10-Q filed with the SEC on August 14, 2015.) *</u></a>   |
| <a href="#"><u>10.3</u></a>  | <a href="#"><u>Employment Agreement (with John A. Brda) (Incorporated by reference from Form 8-K filed with the SEC on June 16, 2015.) *</u></a>  |
| <a href="#"><u>10.4</u></a>  | <a href="#"><u>Employment Agreement (with Roger Wurtele) (Incorporated by reference from Form 8-K filed with the SEC on June 16, 2015.) *</u></a>   |
| <a href="#"><u>10.5</u></a>  | <a href="#"><u>Loan documentation and warrants with Eunis L. Shockey (Incorporated by reference from Form 10-Q filed with the SEC on August 14, 2015.) *</u></a>  |
| <a href="#"><u>10.6</u></a>  | <a href="#"><u>Farmout Agreement between Hudspeth Oil Corporation, Founders Oil &amp; Gas, LLC and certain other parties (Incorporated by reference from Form 8-K filed with the SEC on September 29, 2015) *</u></a>               |
| <a href="#"><u>10.7</u></a>  | <a href="#"><u>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) *</u></a> |
| <a href="#"><u>10.8</u></a>  | <a href="#"><u>Purchase and Sale Agreement with Husky Ventures, Inc. (Incorporated by reference from Form 8-K filed with the SEC on November 12, 2015) *</u></a>  |
| <a href="#"><u>10.10</u></a> | <a href="#"><u>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) *</u></a>                                   |
| <a href="#"><u>10.11</u></a> | <a href="#"><u>Resignation and Settlement Agreement with Willard G. McAndrew (Incorporated by reference from Form 10-Q filed with the SEC on November 10, 2016) *</u></a>   |
| <a href="#"><u>10.12</u></a> | <a href="#"><u>Agreement and Plan of Reorganization and Plan of Merger with Line Drive Energy, LLC (Incorporated by reference from Form 10-K filed with the SEC on March 31, 2017) *</u></a>  |
| <a href="#"><u>10.13</u></a> | <a href="#"><u>Purchase and Sale Agreement with Wolfbone Investments, LLC (Incorporated by reference from Form 10-K filed with the SEC on March 31, 2017) *</u></a>   |
| <a href="#"><u>10.14</u></a> | <a href="#"><u>12% 2020 Senior Unsecured Promissory Note (form of) (Incorporated by reference from Form 10-Q filed with the SEC on May 12, 2017) *</u></a>  |
| <a href="#"><u>10.15</u></a> | <a href="#"><u>Agreement and Plan of Reorganization and Plan of Merger with McCabe Petroleum Corporation and Warwink Properties, LLC</u></a>  |

**ITEM 15. EXHIBITS - continued**

- [10.16 Purchase Agreement with Torchlight Energy, Inc. and McCabe Petroleum Corporation](#)
- [10.17 Promissory Note for \\$3,250,000 by Torchlight Energy, Inc. to McCabe Petroleum Corporation](#)
- [10.18 Assignment of Farmout Agreement between Hudspeth Oil Corporation, Founders Oil & Gas, LLC and Wolfbone Investments, LLC](#)
- [10.19 12% 2020 Senior Unsecured Promissory Note for \\$4,500,000 with David A. Straz, Jr Revocable Trust of 1986](#)
- [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 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 16, 2018

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><br>John A. Brda             | Director, Chief Executive Officer, President and Secretary | March 16, 2018 |
| <u>/s/ Gregory McCabe</u><br>Gregory McCabe         | Director (Chairman of the Board)                           | March 16, 2018 |
| <u>/s/ Roger N. Wurtele</u><br>Roger N. Wurtele     | Chief Financial Officer and Principal Accounting Officer   | March 16, 2018 |
| <u>/s/ E. Scott Kimbrough</u><br>E. Scott Kimbrough | Director   | March 16, 2018 |
| <u>/s/ R. David Newton</u><br>R. David Newton       | Director   | March 16, 2018 |
| <u>/s/ Alexandre Zyngier</u><br>Alexandre Zyngier   | Director   | March 16, 2018 |
| <u>/s/ Michael J. Graves</u><br>Michael J. Graves   | Director   | March 16, 2018 |

**AGREEMENT AND  
PLAN OF REORGANIZATION**

This Agreement and Plan of Reorganization (the “**Agreement**”) is made and entered into effective this 14<sup>th</sup> day of November, 2017 (the “**Effective Date**”), by and among Warwink Properties, LLC, a Texas limited liability company (the “**Company**”), McCabe Petroleum Corporation, a Texas corporation (the “**Seller**”), Torchlight Energy Resources, Inc., a Nevada corporation (the “**Purchaser**”), and Torchlight Wolfbone Properties, Inc., 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 Board of Directors of Seller, on its own behalf and in its capacity 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 and Article VIII 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 the 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, all of the outstanding shares of the capital stock of Merger Sub immediately prior to the Effective Time shall be automatically converted into and become the sole 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 2,500,000 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 Seller, as 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. 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 it 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) All action on the part of the Seller 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 Seller. The Seller 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 Seller, enforceable against it 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 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 it (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](http://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 its 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) statutory liens not yet delinquent, and (ii) 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, 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.

Section 7.4 Sale to MECO and Carry Well. Seller fully closing its contemplated transaction (the "Transaction") with MECO IV, LLC ("MECO") for the purchase and sale of a partial interest in two oil and gas leases, dated May 23, 1995, Recorded in Volume 429, Page 176 and Volume 429, Page 181, Winkler County, Texas, covering the east-halves of Section 38 and 21, Block 21, University Lands Survey, Winkler County, Texas (the "Winkler County Leases") (such Transaction described in that certain Purchase and Sale Agreement among MECO, Seller, and additional parties dated November 9, 2017 (the "PSA")); and the closing of the Transaction results in the receipt by Seller and Company of a 21.4375% (10.71875% each) carried (through the tanks) working interest in the first well drilled on the Winkler County Leases as contemplated by the PSA.

**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 Company Resolutions. The Company and the Seller shall each provide to Purchaser a corporate resolution of its Managers and Board of Directors, respectively, 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 8.2 No Assumption of Liabilities. The Purchaser will not assume any liabilities of the Company as of the Closing Date.

Section 8.3 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.

Section 8.4 Sale to MECO and Carry Well. Seller fully closing the Transaction with MECO; and the closing of the Transaction results in the receipt by Seller and Company of a 21.4375% (10.71875% each) carried (through the tanks) working interest in the first well drilled on the Winkler County Leases as contemplated by the PSA.

**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<br>or the Company: | Greg McCabe<br>500 W. Texas, Suite 890<br>Midland, Texas 79701 |
|---|--|

with a copy to: Michael J. Dawson  
Dawson Parrish, PC  
309 W. 7<sup>th</sup> 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

Jared G. LeBlanc  
LeBlanc Law PC  
1111 North Loop West, Suite 705  
Houston, Texas 77008

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**

WARWINK PROPERTIES, LLC, a Texas limited liability company

By: McCabe Petroleum Corporations, its Manager

By: /s/ Greg McCabe, Sr.  
Greg McCabe, Sr., President

**SELLER**

MCCABE PETROLEUM CORPORATION, a Texas corporation

By: /s/ Greg McCabe, Sr.  
Greg McCabe, Sr., President

**PARENT**

TORCHLIGHT ENERGY RESOURCES, INC., a Nevada corporation

By: /s/ John Brda  
John Brda, CEO

**MERGER SUB**

TORCHLIGHT WOLFBONE PROPERTIES, INC. a Texas corporation

By: /s/ John Brda  
John Brda, President

**EXHIBIT A  
TO THE AGREEMENT AND PLAN OF REORGANIZATION**

**PLAN OF MERGER**

This **PLAN OF MERGER** (the "Plan of Merger") is made as of the 14<sup>th</sup> day of November, 2017 by and among **TORCHLIGHT ENERGY RESOURCES, INC.**, a Nevada corporation ("Purchaser"), **TORCHLIGHT WOLFBONE PROPERTIES, INC.**, a Texas corporation ("Merger Sub"), and **WARWINK PROPERTIES, 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 November 14, 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 Organization") and will continue to be governed by the laws of the State of Texas, and the separate 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 and Article VIII 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 an 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 of members thereof, all of the outstanding shares of the capital stock of Merger Sub immediately prior to the Effective Time shall be automatically converted into and become the sole 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 2,500,000 restricted shares of common stock, par value \$0.001 per share, of Purchaser ("Purchaser Common Stock"). The issuance of the Purchaser Common Stock will not be registered.

(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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

**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  
John Brda, CEO

TORCHLIGHT WOLFBONE PROPERTIES, INC., a Texas corporation

By: /s/ John Brda  
John Brda, President

WARWINK PROPERTIES, LLC, a Texas limited liability company

By: McCabe Petroleum Corporations, its Manager

By: /s/ Greg McCabe, Sr.  
Greg McCabe, Sr., President

**Schedules**

Schedule 4.3 -- Assets

[DESCRIBE]

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**PURCHASE AGREEMENT**

This Purchase Agreement (this "Agreement"), is made and entered into this 14th day of November, 2017, by and between **MCCABE PETROLEUM CORPORATION**, a Texas corporation, with mailing address at 500 W. Texas Ave., Ste. 890, Midland, Texas 79701 ("MPC") and **TORCHLIGHT ENERGY, INC.**, a Nevada corporation, with mailing address at 5700 W. Plano Pkwy, Ste. 3600, Plano, TX 75093 ("TEI"). MPC and TEI are sometimes hereinafter referred to as the "Parties".

**WHEREAS**, MPC is the owner of certain oil and gas leases in Ward County (the "Ward County Leases") and Winkler County (the "Winkler County Leases") (collectively the "Leases"), which are more particularly described in Exhibit A, which is attached hereto and incorporated herein for all purposes;

**WHEREAS**, MPC and TEI believe that if the Ward County Leases and Winkler County Leases were packaged together and sold, the Leases would receive a higher value for both together as compared to each being sold separately;

**WHEREAS**, in anticipation of the transactions contemplated by the MECO PSA (as defined below), MPC and TEI desire that MPC sell beneficial ownership interest in the Ward County Leases to TEI in exchange for \$3.25MM in the form of a promissory note (as further provided in this Agreement below);

**WHEREAS**, MPC entered into a Purchase and Sale Agreement dated November 9, 2017 (the "MECO PSA") with MECO IV, LLC ("MECO") whereby MPC, on behalf of TEI and itself, will sell the Leases to MECO at a closing anticipated to occur on or before November 29, 2017;

**WHEREAS**, MPC and TEI desire that MPC pay TEI a performance fee in consideration for its successful efforts in obtaining an offer from MECO on behalf of MPC and TEI and assisting in the negotiation of the MECO PSA;

**WHEREAS**, the Parties have entered into this Agreement to memorialize the terms of their agreement.

**NOW, THEREFORE**, in consideration of the foregoing and the respective covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby covenant and agree as follows:

1. **Closing**. The closing of the transactions contemplated by this Agreement (the "Closing") will take place at the MPC's offices or at such other place as agreed upon among the Parties as practicable following fulfillment or waiver of the conditions specified in Section 4 and Section 5 of this Agreement (the "Closing Date").

2. **MPC Sale to TEI of Ward County Leases.**

- a. **Sale.** Subject to the terms and conditions of this Agreement, on or before the Closing Date, MPC agrees to sell, assign and convey to TEI all of its beneficial right, title and interest, in the Ward County Leases, any wells located on the lands covered by the Ward County Leases, and all other rights associated or incident to MPC's ownership of the Ward County Leases (the "Ward Assets").
- b. **Purchase Price.** At Closing, TEI agrees to pay MPC Three Million Two Hundred and Fifty Thousand Dollars (the "Purchase Price") for the Ward Assets in the form of a promissory note as described below.
- c. **Promissory Note.** At Closing, TEI shall issue to MPC a promissory note for the Purchase Price memorialized by a loan agreement and note in substantial form as to the agreements contained in Exhibit B; containing the following material terms:
  1. The principal amount of the loan shall be Three Million Two Hundred and Fifty Thousand Dollars;
  2. Beginning January 1, 2018, TEI shall pay to MPC monthly installments of the accrued interest of the principal amount;
  3. Interest shall accrue on the principal amount at a rate of 5% per annum; and
  4. On December 31, 2020, the entire principal balance, together with all accrued interest, fees or otherwise, shall be due and payable;
- d. **Beneficial Ownership.** Unless agreed to otherwise by the Parties in writing, the ownership that TEI shall receive from 2(a) above shall be beneficial ownership only. MPC shall retain record title ownership and shall act as TEI's agent in selling the Ward Assets as defined herein.
- e. **Assignment.** At or before Closing, MPC and TEI shall enter into an assignment, bill of sale and conveyance, of the beneficial ownership in the Ward Assets (the "Ward Assignment") in substantial form as contained in the form contained in Exhibit C, which is attached hereto and incorporated herein for all purposes. The Parties agree that the Ward Assignment shall not be filed in the Ward County public records unless mutually agreed to in writing.

f. Power of Attorney.

- i. Grant of Power of Attorney. At or before Closing, TEI hereby grants MPC the right to sell TEI's beneficial ownership of the Ward Assets to MECO, strictly pursuant to the MECO PSA, doing any and all actions it might do if personally present including, but not limited to the execution, modification and delivery of contracts, deeds, bill of sale, closing statements, notices, certificates and all other documents; the acceptance of the closing funds and the deposit of those funds in TEI's account as identified, which MPC shall deem necessary, appropriate or expedient for the purpose of closing the sale of the Ward Assets as described herein.
- ii. Effective Date and Termination. This power of attorney shall become effective on the Closing Date and shall expire on: (a) November 29, 2017; (b) revocation by TEI; or (c) resignation of MPC, whichever event occurs first.
- iii. Third Party Reliance. Every instrument executed by MPC in relation to the Ward Assets shall be conclusive evidence in favor of every person claiming any right, title or interest under MPC in the Ward Assets, that at the time of delivery of any such instrument, this Agreement (and any amendments) was in full force and effect; that any such instrument was executed in accordance with the terms and conditions of this Agreement, and that MPC was duly authorized and empowered to execute and deliver such instrument.
- iv. Recording of Agreement. This Agreement shall not be placed on record in the county in which the Leases is situated.
- v. Sales Proceeds. MPC shall pay or direct any sales proceeds from the sale of the Ward Assets to TEI. MPC shall not be liable for any sales proceeds until and unless received.

3. Performance Fee. At Closing, the Parties agree to the following terms:

- a. Performance Fee: As compensation for marketing and selling the Winkler County Leases as a package and receiving the consideration contemplated by the MECO PSA, MPC agrees to pay or cause to be paid to TEI a performance fee of Two Million Seven Hundred Eighty-One Thousand Five Hundred Dollars (\$2,781,500) (the "Performance Fee").
- b. MPC shall pay TEI the Performance Fee upon MPC receiving the total amount contemplated by the MECO PSA.

- c. MPC shall not be liable for paying the Performance Fee unless and until MPC receives such sales proceeds from MECO.
  - d. TEI agrees that in the event that the purchase price for the MECO transaction is reduced pursuant to the MECO PSA, then the Performance Fee shall be proportionately reduced by the same amount.
4. **Conditions to Closing of MPC.** Each obligation of MPC to be performed on the Closing Date shall be subject to the satisfaction of each of the conditions stated in this Section 4, except to the extent that such satisfaction is waived by MPC in writing:
- a. TEI shall provide a corporate resolution of its 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.
  - b. 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 TEI.
  - c. The closing of the contemplated transactions (the “Transactions”) with MECO in the MECO PSA;
  - d. The closing of the transactions contemplated by the Agreement and Plan of Reorganization dated of even date herewith by and among Warwink Properties, LLC, a Texas limited liability, MPC, TEI, and Torchlight Wolfbone Properties, Inc., a Texas corporation.
5. **Conditions to Closing of TEI.** Each obligation of TEI to be performed on the Closing Date will be subject to the satisfaction of each of the conditions stated in this Section 5, except to the extent that such satisfaction is waived by TEI in writing.
- a. MPC shall provide a corporate resolution of its Board of Directors, 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.
  - b. 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 MPC.

- c. The closing of the contemplated Transactions with MECO in the MECO PSA;
- d. The closing of the transactions contemplated by the Agreement and Plan of Reorganization dated of even date herewith by and among Warwink Properties, LLC, a Texas limited liability, MPC, TEI, and Torchlight Wolfbone Properties, Inc., a Texas corporation.

6. **Miscellaneous.**

- a. **No Partnership or Joint Venture.** Nothing in this agreement is intended to create and nothing herein or therein shall ever be construed as creating a partnership, joint venture, mining partnership, association or other relationship whereby any party hereto shall ever be held liable for the acts or debts of another. The duties, obligations and liabilities of each of the parties hereto set forth in this agreement shall be several and not joint so that any party shall be liable only for its proportionate share of the duties, obligations and liabilities under the terms of this Agreement.
- b. **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.
- c. **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:

|           |                         |
|-----------|-------------------------|
| If to MPC | Greg McCabe             |
|           | 500 W. Texas, Suite 890 |
|           | Midland, Texas 79701    |

with a copy to: Michael J. Dawson  
Dawson Parrish, PC  
309 W. 7<sup>th</sup> St, Ste. 915  
Fort Worth, Texas 76102

If to TEI Torchlight Energy, 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

Jared G. LeBlanc  
LeBlanc Law PC  
1111 North Loop West, Suite 705  
Houston, Texas 77008

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.

Any party may change its address by sending written notice to all Parties to this Agreement.

- d. 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.
- e. Assignments. This agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. This agreement may not be assigned by any party hereto except with the prior written consent of the other party and any such assignment not consented to shall be void and of no force or effect. All assignments, conveyances or any other agreement by any party to this Agreement or their respective successors and permitted assigns transferring any right under this Agreement either express or implied must be made in writing expressly making such transfer of rights conditional and subject to this Agreement.
- f. 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 district courts located in Midland County, Texas.

- g. 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.
- h. 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.
- i. Further Assurances. Each party covenants that at any time, and from time to time, whether before or 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.
- j. 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.
- k. Parties Bound. All the rights and obligations arising under this Agreement will be binding on the parties’ respective successors, heirs, and assigns.

[SIGNATURES APPEAR ON THE FOLLOWING PAGE.]

IN WITNESS WHEREOF, the undersigned have executed this Purchase Agreement to become effective as of the date of execution.

**MCCABE PETROLEUM CORPORATION**

By: /s/ Greg McCabe, Sr.  
Greg McCabe, Sr., President

**TORCHLIGHT ENERGY, INC.**

By: /s/ John Brda  
John Brda, President



ACKNOWLEDGEMENTS

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_

Before me personally appeared John Brda, President of Torchlight Energy, Inc., to me well known and known to me to be the person described in and who executed the foregoing instrument, and acknowledged to and before me that he executed said instrument for the purposes therein expressed.

WITNESS my hand and official seal in the State and County aforesaid, this day of \_\_\_\_\_, 2017.

(SEAL)

\_\_\_\_\_  
Notary Public  
State of \_\_\_\_\_  
My Commission Expires: \_\_\_\_\_

EXHIBIT A  
LEASES AND LANDS

WARD:

WINKLER:

EXHIBIT B  
NOTE AND LOAN AGREEMENT

EXHIBIT C  
ASSIGNMENT, BILL OF SALE AND CONVEYANCE OF  
BENEFICIAL OWNERSHIP

PROMISSORY NOTE

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS, AND MAY NOT BE OFFERED OR SOLD UNLESS IT HAS BEEN REGISTERED UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR UNLESS AN EXEMPTION FROM REGISTRATION IS AVAILABLE AND THEN ONLY IN COMPLIANCE WITH THE RESTRICTIONS ON TRANSFER SET FORTH HEREIN.

\$3,250,000.00

December 1, 2017

Torchlight Energy, Inc., a Nevada corporation (together with its successors and permitted assigns, "Maker"), for value received, HEREBY PROMISES TO PAY to the order of McCabe Petroleum Corporation, a Texas corporation (together with their successors and assigns, the "Holder"), at the Holder's address set forth in Section 6 hereof or as otherwise directed by Holder, the principal sum of THREE MILLION TWO HUNDRED FIFTY THOUSAND AND NO/100 UNITED STATES DOLLARS (\$3,250,000.00), together with an annual interest rate of five-percent (5.00%), in strict accordance with these terms and provisions in lawful currency of the United States of America.

Interest on this Promissory Note ("Note") is due and payable in 36 monthly, interest-only installments of \$13,541.66 beginning on January 1, 2018, and continuing thereafter the fifteenth day of each following month. All unpaid principal will be due and payable in full three years after the initial payment ("Maturity Date").

All payments of the indebtedness evidenced by this Note will be applied in the following order of priority: (a) to the payment or reimbursement of any expenses, costs, or obligations (other than the outstanding principal balance of and interest under this Note) for which Maker is obligated or to which Holder is entitled under this Note, (b) to any accrued but unpaid interest then due and payable, and (c) to the principal amount then due and payable.

1. Voluntary Prepayment of Note. Maker may, from time to time and at any time without premium or penalty, prepay all or any part of the principal amount of this Note, together with all accrued and unpaid interest thereon through the date of prepayment and all accrued and unpaid fees and expenses then payable hereunder. In the event of such partial prepayment, the Holder shall record the date and amount of any such prepayments on the reverse side of this Note, and interest shall cease to accrue on such prepaid principal amounts.

2. Events of Default. The occurrence of any of the following events constitutes an event of default hereunder (each, an "Event of Default"):

(i) Maker defaults in the payment of any portion of the principal of, interest on, or other amounts owing under, this Note when due and payable as provided herein; or

(ii) Maker, pursuant to or within the meaning of Title 11 of the United States Code or any similar Federal or state law for the relief of debtors (each, a “Bankruptcy Law”), (A) commences a voluntary case in bankruptcy or any other action or proceeding for any other similar relief under any Bankruptcy Law, (B) consents by answer or otherwise to the commencement against him of an involuntary case of bankruptcy, (C) seeks or consents to the appointment of a receiver, trustee, assignee, liquidator, custodian or similar official (collectively, a “Custodian”) of him or for all or substantially all of his assets, or (D) makes a general assignment for the benefit of his creditors; or

(iii) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that (A) is for relief against Maker in an involuntary case of bankruptcy against Maker, (B) appoints a Custodian of Maker for all or substantially all of Maker’s assets, or (C) orders the liquidation of Maker’s assets, and the order or decree remains undismissed or unstayed and in effect for 60 days, or any dismissal, stay, rescission or termination thereof ceases to remain in effect;

(iv) any representation or warranty made by Maker in this Note shall be, or shall prove to have been, false or misleading in any material respect when so made; or

(v) this Note shall cease, for any reason, to be in full force and effect; any provision of this Note shall for any reason cease to be valid and binding on or enforceable against Maker; the validity or enforceability of this Note is contested by Maker or any other person or entity; or Maker denies he has any further liability or obligation under this Note.

(a) Upon the occurrence and during the continuance of any Event of Default, if not cured within ten business days following notice to Maker of such Event of Default, the Holder shall have the right, without notice, demand, presentment, notice of nonpayment or nonperformance, protest, notice of protest, notice of intent to accelerate, notice of acceleration or any other notice or action of any kind, ALL OF WHICH MAKER HEREBY EXPRESSLY WAIVES AND RELINQUISHES, (i) by notice to Maker, to declare the entire principal amount then outstanding on this Note, and all accrued and unpaid interest thereon and all other accrued and unpaid amounts under this Note, immediately due and payable, whereupon all such principal, interest and other amounts shall become immediately due and payable, and the Holder may proceed to enforce the payment of such principal, interest and other amounts, or part thereof, in such manner as the Holder may elect and (ii) to exercise all rights and remedies available to it at law or in equity; provided, however, upon the occurrence of any Event of Default defined in Sections 2(a)(iii), upon the expiration of the sixty (60) day period mentioned therein, the unpaid principal amount of this Note, and all accrued and unpaid interest thereon and all other accrued and unpaid amounts hereunder, shall automatically become due and payable without further act of the Holder. Provided, however, that in the Event of Default, Holder’s right to enforce the obligations under this Note are fully subordinate to all debt Maker has with any bank, whether secured or unsecured.

3. No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Holder, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder or thereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law, in equity or otherwise.

4. Representations and Warranties. Maker hereby represents and warrants to the Holder that (a) Maker has the requisite power, authority and legal capacity to enter into and perform his obligations under this Note; (b) this Note has been duly executed and delivered to the Holder by Maker; and (c) this Note is the legal, valid and binding obligation of Maker, enforceable against him in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforceability of creditors' rights generally and by general principles of equity.

5. Right of Set-off. If an Event of Default shall have occurred and be continuing, the Holder is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the Holder to or for the credit or the account of Maker against any and all of the obligations of Maker now or hereafter existing under this Note, although such obligations may be unmatured. The Holder agrees promptly to notify Maker after any such set-off and application, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of the Holder under this Section 8 are in addition to other rights and remedies (including, without limitation, other rights of set-off) which the Holder may have.

6. Notices. All notices, requests and other communications required or permitted under this Note shall be in writing and shall be personally delivered or sent by a recognized overnight delivery service, certified mail, postage prepaid, return receipt requested, or by facsimile or other electronic delivery to Maker or the Holder, as the case may be, at its address set forth below:

If to Holder:

Greg McCabe  
McCabe Petroleum Company, Inc.  
500 W Texas Ave Ste. 890  
Midland, Texas 79702

If to Maker:

John Brda  
Torchlight Energy, Inc.  
5700 W. Plano Pkwy., Ste. 3600  
Plano, Texas 75093

7. Relationship of the Parties. Notwithstanding any business or personal relationship between Maker and the Holder, that may exist or have existed, the relationship between Maker and the Holder under and with respect to this Note is solely that of debtor and creditor, the Holder has no fiduciary or other special relationship with Maker by virtue of this Note, Maker and the Holder are not partners or joint venturers, and no term or condition of any of this Note shall be construed so as to deem the relationship between Maker and the Holder to be other than that of debtor and creditor.

8. Modification and Waiver of this Note. None of the provisions of this Note may be waived, amended, supplemented or otherwise modified except in a writing signed by Maker and the Holder.

9. Successors and Assigns; Transfer. This Note shall be binding upon the successors and assigns of Maker and Holder, and shall inure to the benefit of their successors, assigns, heirs and beneficiaries; provided, however, that neither Maker or Holder may assign, delegate or otherwise transfer any of its rights or obligations under this Note without the prior written consent of the other, which will not be unreasonably withheld. No transfer, assignment, or pledge of this Note shall be valid unless made in compliance with any applicable state and Federal securities laws restrictions and effected on the register. Any transfer, assignment, or pledge of this Note in violation of this paragraph is void *ab initio*.

10. Severability. Any provision of this Note which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or thereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11. Governing Law. This Note shall be governed by, and for all purposes construed in accordance with, the laws of the State of Texas, without regard to conflicts of law principles thereof.

12. Jurisdiction, Etc. THIS NOTE SHALL BE DEEMED TO BE A CONTRACT UNDER THE LAWS OF THE STATE OF TEXAS. Maker and Holder hereby irrevocably and unconditionally submit to the exclusive jurisdiction of the United States District Court for the Southern District of Texas and of any Texas State court sitting in Harris County, Texas, and any appellate court from any thereof, for purposes of any action or proceeding arising out of or relating to this Note, or for recognition or enforcement of any judgment, and Maker and Holder hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such court. Maker and Holder agree that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Note shall affect any right that the Holder may otherwise have to bring any action or proceeding relating to this Note in the courts of any jurisdiction to collect on a judgment for this Note.

IN WITNESS WHEREOF, Maker has caused this instrument to be duly executed and delivered to the Holder as of the Issuance Date.

**MAKER:**

TORCHLIGHT ENERGY, INC.

By: /s/ John Brda

\_\_\_\_\_  
John Brda

Chief Executive Officer



**ASSIGNMENT OF FARMOUT AGREEMENT**

THIS Assignment of Farmout Agreement (“Assignment”) is entered into on November 15, 2017, but to be effective as of October 1, 2017 (“Effective Date”) by and among Founders Oil & Gas, LLC (“Founders”) and Hudspeth Oil Corporation (“Hudspeth”), Torchlight Energy Resources (“Torchlight”) and Wolfbone Investments, LLC (“Wolfbone”) (Hudspeth, Torchlight and Wolfbone, collectively “Partners”) and Pandora Energy, LP (“Pandora”) ( Pandora is a Party to this Assignment only as to Section 1.2). The companies named above and their respective successors and assigns (if any), may sometimes individually be referred to as “Party” and collectively as the “Parties.”

**RECITALS**

WHEREAS, Hudspeth, Pandora and Founders have previously entered into Farmout Agreement dated September 23, 2015 (“Original Farmout Agreement”), a copy of which is attached hereto as Exhibit “A” and made a part hereof. The capitalized terms contained in the Original Farmout Agreement shall have the same meaning in this Assignment unless they are otherwise defined in this Assignment.

WHEREAS, in the Original Farmout Agreement, Hudspeth, Pandora and Founders agreed, among other things, that in consideration for Founders paying specified amounts and drilling a number of wells, Hudspeth and Pandora would assign to Founders an undivided 50% working interests and a 37.5% net revenue interests in the Oil and Gas Leases on the terms and conditions set forth therein;

WHEREAS, Founders has met its obligations through the Effective Date under the Original Farmout Agreement and in doing so has spent approximately \$9,588,000;

WHEREAS, Founders desires to assign certain of its rights and its remaining obligations under the Original Farmout Agreement to Partners and Partners desires to acquire such rights and assume such obligations; and

WHEREAS, some of the Oil and Gas leases, generally known as the General Land Offices leases described in the Farmout Agreement have terminated and the remaining Oil and Gas leases generally known as the University Lands leases described on Exhibit B, attached hereto and made a part hereof, and only such University Land Board Leases shall be subject to this Assignment (“Remaining Leases”) and in this Assignment the expression “Farmout Lands” shall refer only to the lands and Hydrocarbons covered by the Remaining Leases.

NOW, THEREFORE, for and in consideration of the sum of Ten Dollars and 00/100 (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, together with the mutual covenants, conditions and obligations contained herein, the Parties agree as follows:

## I. ASSIGNMENT, ASSUMPTION and RELEASE

### 1.1 Assignment

- A. Founders does hereby grant, assign and transfer unto Partners all of its right, title and interest, except as provided in paragraph B, below in and to the Original Farmout Agreement and the Remaining Leases subject to the terms and provisions of III, below (“Assigned Interest”).
- B. Founders shall retain an undivided 9.5% of 8/8ths working interest and a 9.5% of 75% of 8/8ths net revenue interest (collectively, “Retained Interest”) in and to the Remaining Leases. The Retained Interest shall be “carried” by Partners as follows:
  - 1. Partners shall pay (a) all Carry Costs on all wells drilled on the Remaining Leases and (b) all other costs and expenses, including land costs such as bonuses, delay rentals and brokerage, relating to or arising out of the Remaining Leases until such time as Partners has paid \$40,500,000 in total costs (“Founders’ Carry”).
  - 2. Partners shall provide to Founders on a regular basis its plans relating to its future compliance with Drilling and Development Agreement No. 2837 between the General Land Office of the State of Texas and Founders Oil & Gas Operating, LLC (“Development Agreement”) If at any time prior to the satisfaction of Founders’ Carry, Partners elects (a) not to continue meeting the continuous drilling schedule under the Development Agreement or (b) not to otherwise comply with the Development Agreement or (c) not to comply with the terms of all of the Remaining Leases, Partners shall notify Founders in writing at least 90 days before such well must be commenced or action or inaction taken to avoid otherwise failing to comply with the Development Agreement or failing to comply with such Remaining Leases and, at the request of Founders, Partners shall immediately reassign to Founders the Assigned Interest and use good faith efforts to have Founders Oil & Gas Operating, LLC appointed as operator under the Operating Agreement, or in the case of (c) at the request of Founders, Partners shall immediately reassign to Founders the Assigned Interest in such Remaining Leases. If, however, Founders elects not to proceed with its obligations under the Development Agreement, then Founders shall give at least 60 days written notice in advance of any deadline to Partners, so that Partners may endeavor to find another farmee. In such case, Founders will assign the Remaining Leases to Partners, or to their farmee; provided that, Founders shall retain its interest in any wells drilled prior to such assignment and the sections upon which they are located.
  - 3. After Partners has satisfied the Founders’ Carry on the Remaining Leases, Founders will be responsible for its entire proportional share of expenses related to its Retained Interest, and the Parties will operate under the terms of the Operating Agreement and the Remaining Leases.

**1.2 Assumption, Substitution and Vesting**

- A. Partners do hereby assume and agree to pay, perform and to be responsible for all obligations of Founders under the Original Farmout Agreement.
- B. Hudspeth and Pandora do hereby agree to the complete substitution of Partners for Founders as the “Farmee” party to the Original Farmout Agreement and do hereby release and discharge Founders from all of its obligations and responsibilities under the Original Farmout Agreement. Hudspeth and Pandora agree that their execution of this Assignment shall constitute their prior written consent for purposes of Section 9.5 of the Original Farmout Agreement.
- C. Hudspeth and Pandora confirm that as of the Effective Date, Founders has fully and properly complied with all of its obligations under the Original Farmout Agreement accruing as of such date.
- D. Hudspeth and Pandora do hereby agree that Founders is fully vested with the Retained Interest and the Retained Interest is no longer subject to the Original Farmout Agreement.
- E. Partners, Hudspeth and Pandora agree that they will not terminate, allow to lapse or amend the Original Farmout Agreement without the prior written consent of Founders.
- F. Hudspeth and Pandora agree if they are reassigned the Assigned Interest by virtue of Early Termination under Section 3.2 of the Original Farmout Agreement or are reassigned the Assigned Interest by virtue of failure of performance under Section 3.5(B) of the Original Farmout Agreement or otherwise reassigned the Assigned Interest, the Founders’ Carry will continue to burden and encumber the Assigned Interest after such reassignment and will continue until satisfaction and all owners of the Assigned Interest subsequent to such reassignment shall pay and be responsible for the Founders’ Carry as if such Assigned Interest had been assigned as provided in Section 3.2. For the elimination of any doubt, nothing in this Section shall enlarge Founders’ Carry beyond the Retained Interest.
- G. The Original Farmout Agreement shall in all respects remain in full force and effect and this Assignment shall not constitute an amendment thereto except to the extent otherwise provided in this Assignment.

**1.3 Allocation of Revenues and Expenses**

- A. All revenues, proceeds, income, costs and expenses paid prior to the Effective Date relating to the Assigned Interest shall be allocated to Founders and all revenues, proceeds, income, costs and expenses paid on or after the Effective Date relating to the Assigned Interest shall be allocated to Partners.

- B. To the extent Founders has spent as of the date hereof an amount greater than \$9,500,000 relating to activities and commitments under the Original Farmout Agreement, Partners will reimburse Founders for such greater amount up to \$100,000 within 30 days of the signing of this Assignment.

## II. TITLE AND ENCUMBRANCES

**2.1 Founders Makes No Warranty of Title.** Founders does not represent or warrant title to the Farmout Lands, but represents that:

- A. except for the Encumbrances, it has not granted any Mineral Interests (or the right to earn any Mineral Interests) in the Farmout Lands, whereby a third party may acquire any portion of Founders' Mineral Interests in the Farmout Lands;
- B. it is not aware of any act or omission whereby Founders is (or would be) in default under the terms of the Remaining Leases and it has not received, or otherwise become aware of, any notice of default for the Farmout Lands that has not been remedied;
- C. the Farmout Lands are as of the date hereof free and clear of all liens, charges, encumbrances, demands and adverse claims or other burdens created by, through or under Founders, other than the Encumbrances; and
- D. as of the date hereof, none of the Mineral Interests of Founders in the Farmout Lands is subject to any preferential, preemptive or first purchase rights created by through or under Founders that become operative by virtue of this Assignment or the transactions to be effected by it.

**2.2 Maintaining Title - Carrying Phase.**

- A. During the period that Partners has the obligation to carry Founders under Section 1.1 B (the "Carry Period"),
  - (1) Partners will not grant any Mineral Interests in the Farmout Lands and will not do or cause to be done any act or omission whereby the Farmout Lands become encumbered, terminated or forfeited except with the prior written consent of Founders, not to be unreasonably withheld or delayed; and
  - (2) Partners will not enter into any joint operating agreement or other material agreement affecting the Farmout Lands without the prior written consent of Founders, not to be unreasonably withheld or delayed;

- B. If, prior to the end of the Carry Period, the payment of an extension, renewal, bonus, security, penalty or compensatory royalty is required to maintain in good standing any portion of the Farmout Lands, which obligation accrues after the date of this Assignment, Partners may elect to either pay such amount or fail to pay such amount, but if it elects to pay such amount it shall pay the entire amount and such amount shall count against the Founders' Carry. Notwithstanding the foregoing, nothing herein shall require Partners to obtain extensions or renewals of the Remaining Leases.

### III. ASSIGNMENT TO PARTNERS

- 3.1 **Assignment of Farmout Lands.** Concurrently with the signing of this Assignment, Founders shall execute, acknowledge and deliver to Partners the assignment attached hereto as Schedule "C". Such assignment shall convey to Partners title to Assigned Interest in the Remaining Leases except the Retained Interest and the Parties shall take such other actions as are necessary to effect the transfer to Partners of such interest with all applicable Governmental Entities. In the event the Assigned Interests include state, federal or Indian leases, such assignment may assign operating rights (in lieu of record title) as may be necessary or desirable under applicable regulations.
- 3.2 **Limitation on Assignment.** Partners shall not assign the Assigned Interest or any portion thereof without the prior written consent of Founders, which consent may or may not be given at Founders' sole discretion, and in any permitted assignment of the Assigned Interest, the assignee shall specifically assume the obligations of Partners to Founders under this Assignment and the parties shall expressly provide that the obligations of Partners to Founders under this Assignment are covenants that touch and run with the land. Any assignment not receiving the consent of Founders shall be void.
- 3.3 **Subject to Participation Agreement Provisions.** Partners will bear its proportionate share of the McCabe Back-In granted by Article III of the Participation Agreement and will make all assignments provided for in the same.

### IV. INFORMATION TO PARTNERS

- 4.1 **Founders and Partners to Supply Information.** As long as Founders Oil & Gas Operating, LLC is the operator under the Operating Agreements, Founders shall supply to Partners a full set of all geologic, seismic and engineering data related to the Remaining Leases. As long as Partners or any of them is the operator under the Operating Agreements, Partners shall supply to Founders a full set of all geologic, seismic and engineering data related to the Remaining Leases.

## V. OPERATIONS

### 5.1 Founders A 25 Well

- A. **University Founders A 25 Well**. On behalf of Partners, Founders will cause Founders Oil & Gas Operating, LLC (“Operating Company”) to take such actions in accordance with the applicable Operating Agreement as are reasonably necessary to spud the University Founders A 25 Well (the “Well”) on or before December 1, 2017 including preparation of roads and location and consummation of the drilling contract. Operating Company shall cash call Partners in accordance with paragraph S of Article XVI of the Operating Agreement for all of the estimated costs and expenses relating to the drilling and subsequent operations on such well. Notwithstanding the terms of such paragraph S, Partners shall pay such call within 14 days of receipt.
- B. **Direction and Indemnity** In conducting operation on the Well after spudding such well, as long as Operating Company is Operator, Founders will cause Operating Company to follow the unanimous direction of Torchlight, McCabe Petroleum Corporation and Greg McCabe in the drilling and subsequent operations on the Well. At the request of Partners, Founders will cause Operating Company to resign as Operator and Founders will vote its Retained Interest to elect such new Operator as directed by Partners. Additionally, at the request of Partners, Operating Company will resign from the Operating Committee, Founders will maintain its two seats and Partners may name a replacement for Operating Company. Partners hereby agree to release, indemnify and hold harmless Operating Company and Founders and their directors, officer, employees representatives, agents, contractors and subcontractors (collectively, “Founders Indemnitees”) from and against any and all claims, obligations, damages, liabilities, losses and causes of action (including costs of litigation and attorneys’ fees), fines and penalties (collectively, “Claims”) arising out or related to the drilling of and subsequent operations on the Well **EVEN IF SUCH CLAIMS ARE CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE (WHETHER SOLE, GROSS, JOINT, OR CONCURRENT, BUT EXCLUDING WILLFUL MISCONDUCT), STRICT LIABILITY OR OTHER LEGAL FAULT OF THE FOUNDER INDEMNITEES.**

- 5.2 **University Lands**. The Development Agreement shall remain in place and Partners shall be responsible and pay any transfer fees or consents costs arising out such agreement and the various transactions contemplated in this Assignment.

## VI. GOVERNING LAW / DISPUTE RESOLUTION

- 6.1 **Governing Law.** This Assignment and the relationship of the Parties hereto shall be interpreted and construed in accordance with the laws of the State of Texas.
- 6.2 **Dispute Resolution.** If any dispute, controversy or claim arises under or in connection with this Assignment (a "Dispute"), the applicable provisions in the Joint Operating Agreement shall govern the resolution of the Dispute.
- 6.3 **Confidentiality Regarding Disputes.** All negotiations, mediation and arbitration relating to a Dispute are confidential and neither their existence nor their content may be disclosed by the Parties, their employees, officers, directors, counsel, consultants and expert witnesses.

## VII. GENERAL / MISCELLANEOUS

- 7.1 **Further Assurances.** From time to time, as and when reasonably requested by a Party, the other Party shall execute and deliver, or cause to be executed and delivered, all such documents and instruments and shall take, or cause to be taken, all such further and other actions to implement or give effect to this Assignment.
- 7.2 **Waiver.** No waiver by a Party hereto of any breach of any of the covenants, provisos, conditions, restrictions or stipulations herein contained shall take effect or be binding upon that Party unless the same be expressed in writing under the authority of that Party and any waiver so given shall extend only to the particular breach so waived and shall not limit or affect any rights with respect to any other or future breach.
- 7.3 **Entire Agreement.** This Assignment supersedes any and all other agreements, documents, writings and verbal understandings between the Parties relating to the subject matter hereof, other than the Original Farmout Agreement and the Operating Agreements, and any amendments thereto and expresses the entire agreement of the Parties with respect to the subject matter hereof.
- 7.4 **Amendment.** No amendment or variation of the provisions of this Assignment shall be binding upon any Party unless it is in writing executed by the Parties.
- 7.5 **Severability.** If any provision of this Assignment is deemed or determined to be void, voidable or unenforceable, in whole or in part, it shall be deemed not to affect or impair the validity of any other provision of this Assignment and such void, voidable or unenforceable provision shall be severable from this Assignment.
- 7.6 **No Partnership.** Nothing contained in this Assignment shall be construed as creating a partnership or similar association.

- 7.7 **Waiver of Consequential Damages.** EACH PARTY HEREBY EXPRESSLY DISCLAIMS, WAIVES AND RELEASES THE OTHER PARTY FROM SPECIAL, EXEMPLARY, PUNITIVE, CONSEQUENTIAL, INCIDENTAL, AND INDIRECT DAMAGES (INCLUDING LOSS OF, DAMAGE TO OR DELAY IN PROFIT, REVENUE OR PRODUCTION) RELATING TO, ASSOCIATED WITH, OR ARISING OUT OF THIS ASSIGNMENT AND THE TRANSACTIONS CONTEMPLATED THEREBY. NO LAW, THEORY, OR PUBLIC POLICY SHALL BE GIVEN EFFECT WHICH WOULD UNDERMINE, DIMINISH, OR REDUCE THE EFFECTIVENESS OF THE FOREGOING WAIVER, IT BEING THE EXPRESS INTENT, UNDERSTANDING, AND AGREEMENT OF THE PARTIES THAT SUCH DAMAGE WAIVER IS TO BE GIVEN THE FULLEST EFFECT, NOTWITHSTANDING THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), GROSS NEGLIGENCE, WILLFUL MISCONDUCT, STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY PARTY.
- 7.8 **Execution of Memorandum.** The Parties agree to execute a Memorandum of Assignment to be filed against the Farmout Lands to evidence the Parties respective rights and obligations under this Assignment.
- 7.9 **Covenants.** The Parties agree that the covenants in this Agreement touch, relate to and pertain to the Farmout Lands and therefore constitute covenants that run with the land.

[SIGNATURE PAGE FOLLOWS]



IN WITNESS WHEREOF the Parties hereto have executed this Assignment effective as of the Effective Date.

Founders Oil & Gas, LLC

By: /s/ Brian M. Sirgo  
Brian M. Sirgo, President

Hudspeth Oil Corporation

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

Torchlight Energy Resources

By: /s/ John A. Brda  
Name: John A. Brda  
Title: CEO

Wolfbone Investments, LLC

By: /s/ Greg McCabe  
Greg McCabe, President

Pandora Energy, LP

By: /s/ R. Kenneth Dulin  
Name: R. Kenneth Dulin  
Title: General Partner

NEITHER THIS 12% 2020-A SENIOR UNSECURED PROMISSORY NOTE (THE “NOTE”) NOR THE SECURITIES ISSUABLE IN CONNECTION WITH THIS NOTE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (“ACT”), OR THE SECURITIES LAWS OF ANY STATE. NEITHER THIS NOTE NOR THE SECURITIES ISSUABLE IN CONNECTION WITH THIS NOTE MAY BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHOUT REGISTRATION UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR DELIVERY TO TORCHLIGHT ENERGY RESOURCES, INC. OF AN OPINION OF LEGAL COUNSEL SATISFACTORY TO TORCHLIGHT ENERGY RESOURCES, INC. THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE ACT OR ANY APPLICABLE STATE SECURITIES LAWS.

12% 2020-A SENIOR UNSECURED PROMISSORY NOTE  
OF  
TORCHLIGHT ENERGY RESOURCES, INC.

NOTE NO. 2020-A-1

February 6, 2018

FOR VALUE RECEIVED, TORCHLIGHT ENERGY RESOURCES, INC., a Nevada corporation with its principal office located at 5700 Plano Parkway, Ste. 3600, Plano, Texas 75093 (the “**Company**” or “**Debtor**”), unconditionally promises to pay to David A. Straz, Jr Revocable Trust of 1986 whose address is XXXXXXXXXXXXXXXXXXXXXXXX, or the registered assignee, upon presentation of this 12% 2020-A Senior Unsecured Promissory Note (the “**Note**”) by the registered holder hereof (the “**Registered Holder**” or “**Holder**”) at the office of the Company, the principal amount of \$4,500,000 (“**Principal Amount**”), together with the accrued and unpaid interest thereon and other sums as hereinafter provided, subject to the terms and conditions as set forth below. The effective date of execution and issuance of this Note is February 6, 2018 (“**Original Issue Date**”).

1. [OMITTED]

2 . **Schedule for Payment of Principal and Interest.** The Principal Amount outstanding hereunder shall be paid in one lump sum payment of \$4,500,000, along with any accrued and unpaid interest, on or before April 10, 2020 (the “**Maturity Date**”), and the interest on the Principal Amount outstanding hereunder shall be payable at the rate of 12% per annum and shall be due and payable monthly, in arrears, with the initial interest payment due March 1, 2018, and continuing thereafter on the 1<sup>st</sup> day of each successive month during the term of this Note. Accrual of interest on the outstanding Principal Amount, payable in cash, shall commence on the date of receipt of funds by the Company and shall continue until payment in full of the outstanding Principal Amount has been made hereunder. The interest so payable will be paid to the person whose name is registered on the records of the Company regarding registration and transfers of this Note (the “**Note Register**”).

3. **Payment.** Payment of any sums due to the Holder under the terms of this Note shall be made in United States Dollars by check or wire transfer at the option of the Company. Payment shall be made at the address last appearing on the Note Register of the Company as designated in writing by the Holder hereof from time to time. If any payment hereunder would otherwise become due and payable on a day on which commercial banks in Dallas, Texas, are permitted or required to be closed, such payment shall become due and payable on the next succeeding day on which commercial banks in Dallas, Texas, are not permitted or required to be closed (“**Business Day**”) and, with respect to payments of Principal Amount, interest thereon shall be payable at the then applicable rate during such extension, if any. The forwarding of such funds shall constitute a payment of outstanding principal and interest hereunder and shall satisfy and discharge the liability for principal and interest on this Note to the extent of the sum represented by such payment. Except as provided in Section 4 hereof, this Note may not be prepaid without the prior written consent of the Holder.

4. **Company’s Option to Redeem Note.** On or after the Original Issue Date, up to 100%, in whole or in part, of the outstanding Principal Amount of the Note, plus any accrued and unpaid interest, will be subject to redemption at the option of the Company. If the Company elects to redeem before the first anniversary of the Original Issue Date, however, the Company shall pay the Holder all unpaid interest and Stock Payments (as defined in Section 5) on the portion of the Principal Amount redeemed that would have been earned from the Redemption Payment Date (as defined below) through the first anniversary of the Original Issue Date. The Stock Payment triggered by a redemption prior to the first anniversary of the Original Issue Date shall be based upon the Volume-Weighted Average Price (as defined in Section 5) for the 30 consecutive trading days immediately preceding the Redemption Payment Date. There will be no redemption penalty for any redemptions occurring after the first anniversary of the Original Issue Date. Any amount of the Note subject to redemption, as set forth herein (the “**Redemption Amount**”), may be redeemed by the Company at any time and from time to time, upon not less than 10 nor more than 30 days notice to the Holder. The Company shall deliver to the Holder a written Notice of Redemption (the “**Notice of Redemption**”) specifying the date for the redemption (the “**Redemption Payment Date**”), which date shall be at least 10 but not more than 30 days after the date of the Notice of Redemption (the “**Redemption Period**”). On the Redemption Payment Date, the Redemption Amount must be paid in good funds to the Holder. After the Redemption Payment Date, interest will cease to accrue on the portion of the Note called for redemption.

5. **2.5% Annual Stock Payment.** The Registered Holder of the Note shall be entitled to receive payments of common stock based on the Principal Amount outstanding on the Note (the “**Stock Payments**”). The Stock Payments shall be calculated and payable (i) as of April 10<sup>th</sup> of each year that the Note remains outstanding, and (ii) as of a Redemption Payment Date, if applicable, in each case (a “**Stock Payment Date**”). The number of shares of common stock that a Registered Holder receives is determined by multiplying the Principal Amount that is subject to a Stock Payment by 0.00006849315,<sup>1</sup> multiplying that result by the number of days since the later of the Original Issue Date or the previous Stock Payment Date (if any) that such Principal Amount was subject to, and dividing that result by the Volume-Weighted Average Price (as defined below) on the present Stock Payment Date.

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<sup>1</sup> 0.025 ÷ 365 = 0.00006849315

As used herein, the “**Volume-Weighted Average Price** ” means the volume weighted average sale price of the Company’s common stock on NASDAQ as reported by NASDAQ for the 30 consecutive Trading Day (as defined below) period immediately preceding the Stock Payment Date, or, if NASDAQ is not the principal trading market for the Company’s common stock, the 30-day volume weighted average sale price of the Company’s common stock on the principal securities exchange or trading market where the Company’s common stock is listed or traded as reported by Bloomberg L.P. or an equivalent, reliable reporting service. If the Volume-Weighted Average Price cannot be calculated for the Company’s common stock on such date in the manner provided above or if the Company’s common stock is not publicly-traded, the Volume-Weighted Average Price shall be the fair market value as mutually determined by the Company and the Registered Holder. “**Trading Day**” means any day on which the Company’s common stock is traded for any period on NASDAQ, or on the principal securities exchange or other securities market on which the Company’s common stock is then being traded.

6. **Representations and Warranties of the Company.** The Company represents and warrants to the Holder that:

(a) **Organization.** The Company is validly existing and in good standing under the laws of the state of Nevada and has the requisite power to own, lease and operate its properties and to carry on its business as now being conducted. The Company is duly qualified to do business and is in good standing in each jurisdiction in which the character or location of the properties owned or leased by the Company or the nature of the business conducted by the Company makes such qualification necessary or advisable, except where the failure to do so would not have a material adverse effect on the Company.

(b) **Power and Authority.** The Company has the requisite power to execute, deliver and perform this Note, and to consummate the transactions contemplated hereby. The execution and delivery of this Note by the Company and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company. This Note has been duly executed and delivered by the Company and constitutes a legal, valid and binding obligation of the Company and is enforceable against the Company in accordance with its terms except (i) that such enforcement may be subject to bankruptcy, insolvency, moratorium or similar laws affecting creditors' rights and (ii) that the remedy of specific performance and injunctive and other forms of equitable relief are subject to certain equitable defenses and to the discretion of the court before which any proceedings therefor may be brought.

(c) **Approvals.** No authorization, approval or consent of any court, governmental body, regulatory agency, self-regulatory organization, or stock exchange or market is required to be obtained by the Company for the issuance and sale of this Note and common stock as contemplated by this Note, except such authorizations, approvals and consents that have been obtained.

(d) **SEC Documents, Financial Statements.** The Common Stock of the Company is registered pursuant to Section 12(b) of the Securities Exchange Act of 1934 (“Exchange Act”), and the Company, to the best of its knowledge, has filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of Section 13(a) or 15(d) (all of the foregoing including filings incorporated by reference therein being referenced to herein as the “SEC Documents”).

(e) As of their respective dates, to the best of the Company's knowledge the SEC Documents complied in all material respects with the requirements of the Act or the Exchange Act as the case may be and the rules and regulations of the SEC promulgated thereunder and other federal, state and local laws, rules and regulations applicable to such SEC Documents, and none of the SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(f) Absence of Certain Changes. Since the filing of the Company's Form 8-K on December 6, 2017, there has been no material adverse change and no material adverse development in the business, properties, operations, financial condition, or results of operations of the Company.

( g ) Liens. The company has no liens, security interests, mortgages, deeds of trust that are filed of record encumbering any of its assets.

7. **Events of Defaults and Remedies.** The following are deemed to be an event of default ("Event of Default") hereunder: (i) the failure by the Company to pay any installment of interest on this Note as and when due and payable and the continuance of any such failure for 10 days; (ii) the failure by the Company to pay all or any part of the principal on this Note when and as the same become due and payable as set forth above, at maturity, by acceleration or otherwise; (iii) the failure by the Company to observe or perform any covenant or agreement contained in this Note, or the Subscription Agreement and the continuance of such failure for a period of 30 days after the written notice is given to the Company; (iv) the assignment by the Company for the benefit of creditors, or an application by the Company to any tribunal for the appointment of a trustee or receiver of a substantial part of the assets of the Company, or the commencement of any proceedings relating to the Company under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debts, dissolution or other liquidation law of any jurisdiction; or the filing of such application, or the commencement of any such proceedings against the Company and an indication of consent by the Company to such proceedings, or the appointment of such trustee or receiver, or an adjudication of the Company bankrupt or insolvent, or approval of the petition in any such proceedings, and such order remains in effect for 60 days; (v) the declaration of an event of default or default, occurring after the Original Issue Date, under any other contract, agreement, debt or obligation of the Company with a monetary amount in excess of \$1,000,000; or (vi) the entry of a judgment against the Company, which is not otherwise appealable, or for which all appeals have been exhausted and for which the Company has not posted a bond to satisfy the amount of the judgment in excess of \$2,500,000.

8. **The Holder's Rights and Remedies upon the Occurrence of an Event of Default.**

(a) [OMITTED].

(b) If any Event of Default occurs and is not otherwise cured, and the Holder provides written notice to the Company, that the full unpaid principal amount of this Note, together with interest owing in respect thereof, is immediately due and payable, time being of the essence, and said principal sum shall bear interest from the date of the Event of Default at the rate per annum 4% in excess of the applicable rate of interest provided in Section 2. Failure to exercise this option shall not constitute a waiver of the right to exercise the same in the event of a subsequent Event of Default. If the then outstanding principal amount of this Note, together with interest owing in respect thereof, shall have been paid in accordance herewith, this Note shall promptly be surrendered to or as directed by the Company.

9 . Application of Moneys. All moneys received by the Holder pursuant to any right given or action taken under the provisions of this Note shall applied as follows:

- (i) FIRST, to the payment of all interest then due on the Note; and
- (ii) SECOND, to the payment of all principal then due on the Note.

1 0 . Limitation on Merger, Sale or Consolidation. The Company may not, directly or indirectly, consolidate with or merge into another person or sell, lease, convey or transfer all or substantially all of its assets (computed on a consolidated basis), whether in a single transaction or a series of related transactions, to another person or group of affiliated persons, unless either (i) in the case of a merger or consolidation, the Company is the surviving entity or (ii) the resulting, surviving or transferee entity expressly assumes by supplemental agreement all of the obligations of the Company in connection with the Note. Upon any consolidation or merger or any transfer of all or substantially all of the assets of the Company in accordance with the foregoing, the successor entity formed by such consolidation or into which the Company is merged or to which such transfer is made, shall succeed to, and be substituted for, and may exercise every right and power of the Company under the Note with the same effect as if such successor entity had been named therein as the Company, and the Company will be released from its obligations under the Note, except as to any obligations that arise from or as a result of such transaction.

1 1 . Listing of Registered Holder of Note. This Note will be registered as to principal amount in the Holder's name on the books of the Company at its principal office in Plano, Texas (the "**Note Register**"), after which no transfer hereof shall be valid unless made on the Company's books at the office of the Company, by the Holder hereof, in person, or by attorney duly authorized in writing, and similarly noted hereon.

1 2 . Registered Holder Not Deemed a Stockholder. No Holder, as such, of this Note shall be entitled to vote or receive dividends or be deemed the holder of shares of the Company for any purpose, nor shall anything contained in this Note be construed to confer upon the Holder hereof, as such, any of the rights of a stockholder of the Company or any right to vote, give or withhold consent to any corporate action (whether any reorganization, issue of stock, reclassification of stock, consolidation, merger, conveyance or otherwise), receive notice of meetings, receive dividends or subscription rights, or otherwise.

1 3 . Waiver of Demand, Presentment, Etc. The Company hereby expressly waives demand and presentment for payment, notice of nonpayment, protest, notice of protest, notice of dishonor, notice of acceleration or intent to accelerate, bringing of suit and diligence in taking any action to collect amounts called for hereunder and shall be directly and primarily liable for the payment of all sums owing and to be owing hereunder, regardless of and without any notice, diligence, act or omission as or with respect to the collection of any amount called for hereunder.

14. **Attorney's Fees.** The Company agrees to pay all costs and expenses, including without limitation reasonable attorney's fees, which may be incurred by the Holder in collecting any amount due under this Note.

15. **Enforceability.** In case any provision of this Note is held by a court of competent jurisdiction to be excessive in scope or otherwise invalid or unenforceable, such provision shall be adjusted rather than voided, if possible, so that it is enforceable to the maximum extent possible, and the validity and enforceability of the remaining provisions of this Note will not in any way be affected or impaired thereby.

16. **Intent to Comply with Usury Laws.** In no event will the interest to be paid on this Note exceed the maximum rate provided by law. It is the intent of the parties to comply fully with the usury laws of the State of Texas; accordingly, it is agreed that notwithstanding any provisions to the contrary in this Note, in no event shall such Note require the payment or permit the collection of interest (which term, for purposes hereof, shall include any amount which, under Texas law, is deemed to be interest, whether or not such amount is characterized by the parties as interest) in excess of the maximum amount permitted by the laws of the State of Texas. If any excess of interest is unintentionally contracted for, charged or received under this Note, or in the event the maturity of the indebtedness evidenced by the Note is accelerated in whole or in part, or in the event that all or part of the Principal Amount or interest of this Note shall be prepaid, so that the amount of interest contracted for, charged or received under this Note, on the amount of the Principal Amount actually outstanding from time to time under this Note shall exceed the maximum amount of interest permitted by the applicable usury laws, then in any such event (i) the provisions of this paragraph shall govern and control, (ii) neither the Company nor any other person or entity now or hereafter liable for the payment thereof, shall be obligated to pay the amount of such interest to the extent that it is in excess of the maximum amount of interest permitted by such applicable usury laws, (iii) any such excess which may have been collected shall be either applied as a credit against the then unpaid principal amount thereof or refunded to the Company at the Holder's option, and (iv) the effective rate of interest shall be automatically reduced to the maximum lawful rate of interest allowed under the applicable usury laws as now or hereafter construed by the courts having jurisdiction thereof. It is further agreed that without limitation of the foregoing, all calculations of the rate of interest contracted for, charged or received under the Note which are made for the purpose of determining whether such rate exceeds the maximum lawful rate of interest, shall be made, to the extent permitted by applicable laws, by amortizing, prorating, allocating and spreading in equal parts during the period of the full stated term of the Note evidenced thereby, all interest at any time contracted for, charged or received from the Company or otherwise by the Holder in connection with this Note.

17. **Governing Law; Consent to Jurisdiction.** This Note shall be governed by and construed in accordance with the laws of the State of Texas without regard to the conflict of laws provisions thereof. In any action between or among any of the parties, whether arising out of this Note or otherwise, each of the parties irrevocably consents to the exclusive jurisdiction and venue of the federal and/or state courts located in Dallas County, Texas.

18. **Amendment and Waiver.** Any waiver or amendment hereto shall be in writing signed by the Holder. No failure on the part of the Holder to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by the Holder of any right hereunder preclude any other or further exercise thereof or the exercise of any other rights. The remedies herein provided are cumulative and not exclusive of any other remedies provided by law.



19. **Restrictions Against Transfer or Assignment**. Neither this Note nor the shares issuable in connection with this Note may be sold, transferred, assigned, pledged, hypothecated or otherwise disposed of by the Registered Holder hereof, in whole or in part, unless and until either (i) the Note or the shares issuable in connection with the Note have been duly and effectively registered for resale under the Securities Act of 1933, as amended, and under any then applicable state securities laws; or (ii) the Registered Holder delivers to the Company a written opinion acceptable to the Company's counsel that an exemption from such registration requirements is then available with respect to any such proposed sale or disposition. Any transfer of this Note otherwise permissible hereunder shall be made only at the principle office of the Company upon surrender of this Note for cancellation and upon the payment of any transfer tax or other government charge connected therewith, and upon any such transfer a new Note will be issued to the transferee in exchange therefor.

20. **Entire Agreement; Headings**. This Note and Subscription Agreement constitute the entire agreement between the Holder and the Company pertaining to the subject matter hereof and supersedes all prior and contemporaneous agreements, representations and understandings, written or oral, of such parties. The headings are for reference purposes only and shall not be used in construing or interpreting this Note.

21. **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 recognized overnight delivery service, postage pre-paid, or sent by email addressed as follows, or to such other address as such party may notify to the other parties in writing:

(a) If to the Company, to it at the following address:

5700 Plano Parkway, Ste. 3600  
Plano, Texas 75093  
Attn: John Brda, President  
Email: john@torchlightenergy.com

(b) If to Registered Holder, then to the address listed on the front of this Note, unless changed, by notice in writing as provided for herein.

A notice or communication will be effective (i) if delivered in person or by overnight courier, on the Business Day it is delivered, (ii) if sent by registered or certified mail, the earlier of the date of actual receipt by the party to whom such notice is required to be given or three (3) days after deposit in the United States mail and (iii) if sent by email, on the date sent. If any notice or other communication is sent by email, the party providing such notice shall, no later than the next business day after such emailed notice is sent, send a written notice by registered or certified mail (return receipt requested) or recognized overnight delivery service, postage pre-paid.

22. **Use of Proceeds.** The Company intends to use the net proceeds from the funds received hereunder for working capital and general corporate purposes, which includes, without limitation, drilling capital, lease acquisition capital and repayment of prior debt.

23. **Covenants of the Company.**

( a ) **Limitation on Liens/Obligations.** So long as the Note is outstanding, neither the Company or any of its subsidiaries will create, assume, or guarantee any debt, liability or obligation which is secured by any mortgage, pledge, lien, security interest or other encumbrance on any assets, capital stock or equity interest of the Company or its subsidiaries unless:

(i) such financing arrangements are with an established commercial banking or financial institution, negotiated on an arm's length basis with commercially reasonable terms in light of market conditions, the proceeds of which are used primarily to finance the acquisition, exploration, drilling or improvements of the Company or its subsidiaries oil and gas properties or for other customary general corporate purposes. Only first priority mortgages, encumbrances, deeds of trust, security interests or liens shall be permitted. Second or subordinate security interests, liens, encumbrances, deeds of trusts or mortgages are not permitted to be incurred by the Company, unless consented to by the Holder.

(ii) Debts and liabilities incurred in the normal course of business, including those relating to financing the acquisition, the construction, development, exploration or improvement of the Company's oil and gas properties and fixed or capital assets including capital lease obligations, operating leases and obligations in connection with drilling and development agreements or other similar arrangements negotiated on terms no less favorable as if negotiated on an arm's length basis.

( b ) **Limitations on Disposition of Stock or Equity Interest of Subsidiaries.** So long as the Note is outstanding and subject to provisions regarding mergers, consolidations and sales of assets in Section 10, no subsidiary will sell or otherwise dispose of any shares of capital stock, equity interest or other assets, unless such transaction is for at least fair value as determined by a majority of the Company's disinterested directors in such transaction acting in good faith or to otherwise comply with an order of a court or regulatory authority or pursuant to any contractual obligation entered into by the Company in the ordinary course of business in connection with drilling, exploration and development of the Company's oil and gas properties.

( c ) **Issuance of Disqualified Stock or Equity Interests.** Neither the Company nor any subsidiary shall issue any preferred stock or any other comparable equity interest which are mandatorily redeemable at a date prior to the maturity date of the Note, without the consent or approval of the Holder, which consent or approval will not be unreasonably withheld.

( d ) **Limitations on Restricted Payments.** Neither the Company nor any of its subsidiaries shall distribute any cash or other assets to any holders of common stock in the form of dividends and other distributions (including repurchase of equity) prior to the payment in full of the Note, without the consent of the Holder, which consent will not be unreasonably withheld.

( e ) Transactions with Affiliates. Neither the Company nor any subsidiary will enter into any transaction with an affiliate which is defined to mean any person, corporation or business entity that has a direct or indirect ownership interest of at least 10% of the equity interest of such affiliated party unless:

- (i) such transaction is no less favorable than those that could be obtained in arm's length transaction; and
- (ii) the transaction is approved by a majority of the disinterested of the Company's board of directors.

( f ) No other Note or Debt Offering. Except for an obligation permitted under Section 23(a) above, so long as the Note is outstanding, the Company will not issue any other notes or debt offerings which have a maturity date prior to the payment in full of the Note, unless consented to by the Holder, which consent will not be unreasonably withheld.

2 4 . Survival. The representations, warranties, obligations and covenants of the Company shall survive execution of this Note.

[Remainder of page intentionally left blank. Signature page follows.]

**IN WITNESS WHEREOF**, Torchlight Energy Resources, Inc. has caused this Note to be duly executed in its corporate name by the manual signature of its President/CEO.

**TORCHLIGHT ENERGY RESOURCES, INC.**

By: /s/ John Brda

\_\_\_\_\_  
John Brda, President/CEO

**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                 |
| Warwink Properties LLC           | Texas                 |

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**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), on Form S-8 (File No. 333-210812) and on Form S-3 (File No. 333-220181) of Torchlight Energy Resources, Inc. of our report dated March 16, 2018 relating to the financial statements and the effectiveness of internal control over financial reporting, which appear in this Form 10-K for the year ended December 31, 2017.

/s/ Briggs & Veselka Co.

Houston, Texas  
March 16, 2018

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**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, 2017 (the "Annual Report"). We hereby further consent to the inclusion in the Annual Report of estimated oil and gas reserves as of December 31, 2017, contained in our report dated January 30, 2018, 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), on Form S-8 (File No. 333-210812) and on Form S-3 (File No. 333-220181).

PETECH ENTERPRISES, INC.

By: /s/ Amiel David, PE

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Amiel David, PE #50970

Houston, Texas  
March 13, 2018

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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, 2017;
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 16, 2018

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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, 2017;
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 16, 2018

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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, 2017, 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 16, 2018

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, 2017, 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 16, 2018

*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.*

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**APPRAISAL REPORT**  
**ON CERTAIN PROPERTIES**  
**owned by**  
**TORCHLIGHT ENERGY RESOURCES, INC.**  
**As of**  
**December 31, 2017**

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January 30, 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 Oklahoma as of December 31, 2017. This evaluation was completed by January 30, 2018.

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 and logs. The evaluation was based on information provided by the company. Data such as lease operating costs, ownership interests and projections for future activities were relied on to be true. Updated production information was obtained from a third party, independent source. 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

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reach 4,000 feet for a total well length of 12,000-14,000 feet. Well spacing is 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 98 MB and close to 1.9 Bcf, an increase over the 2016 year end values. The reserves increase is a result improved products prices and lower operating costs. The Loki 1-24 has produced 1,741 barrels of oil and is currently intermediately and considered to be uneconomical.

**PRODUCTS PRICE** The twelve months unweighted average prices of first day of the month for oil (WTI) and for the Henry Hub gas used in calculating the 2017 average price resulting in \$2.98/MMBtu and \$51.34/B. Price differentials of \$-0.40 for gas and \$-2.81/B were used to reflect actual prices received.

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 actual Oklahoma tax paid, 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, 2017

|                                 | PROVED DEVELOPED<br>PRODUCING |          | PROVED<br>UNDEVELOPED |           |
|---------------------------------|-------------------------------|----------|-----------------------|-----------|
|                                 | OIL, MB                       | GAS MMCF | OIL, MB               | GAS, MMCF |
| <b>GROSS ULTIMATE RESERVES</b>  | 99.8                          | 1512.1   | 0.0                   | 0.0       |
| <b>GROSS REMAINING RESERVES</b> | 29.5                          | 561.7    | 0.0                   | 0.0       |
| <b>NET REMAINING RESERVES</b>   | 2.3                           | 43.8     | 0.0                   | 0.0       |

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, 2017

|                                   | PROVED    |             |
|-----------------------------------|-----------|-------------|
|                                   | DEVELOPED | UNDEVELOPED |
|                                   | PRODUCING |             |
| FUTURE GROSS INCOME, M\$          | 240.4     | 0.0         |
| PRODUCTION AND ADVALOREM TAX, M\$ | 0.5       | 0.0         |
| OPERATING EXPENSES, M\$           | 107.5     | 0.0         |
| CAPITAL COST, M\$                 | 0.0       | 0.0         |
| FUTURE NET REVENUE, M\$           | 132.4     | 0.0         |
| PRESENT VALUE, DISC AT 10%, M\$   | 96.0      | 0.0         |

| CHANGE                      | PROVED              |           |             |           |
|-----------------------------|---------------------|-----------|-------------|-----------|
|                             | DEVELOPED PRODUCING |           | UNDEVELOPED |           |
|                             | OIL, MB             | GAS, MMCF | OIL, MB     | GAS, MMCF |
| REMAINING RESERVES, 12/2016 | 1.4                 | 23.3      | 46.8        | 467.6     |
| 2017 PRODUCTION             | 0.4                 | 13.5      | 0.0         | 0.0       |
| RESERVES REVISION           | 1.3                 | 34.0      | -46.8       | -467.6    |
| REMAINING RESRVES 12/2017   | 2.3                 | 43.8      | 0.0         | 0.0       |

This report is followed by detailed cash flow for each well, followed by a one line summary and production plots and forecast. Qualifications of the evaluator is also attached.

Submitted,




Amiel David, P.E. #50970

For PeTech Enterprises, Inc. Registration # F-15360

**TORCHLIGHT ENERGY, INC**  
**Reserve and Economic Projection**  
 As of 1/1/2018  
 Custom Selection

| Year  | Wells | Estimated 8/8 Ths Production |             |             | Net Production |             |             | Oil<br>-\$/bbl- | NGL<br>-\$/gal- | Gas<br>-\$/Mcf- |
|-------|-------|------------------------------|-------------|-------------|----------------|-------------|-------------|-----------------|-----------------|-----------------|
|       |       | Oil<br>Mbbbl                 | NGL<br>Mgal | Gas<br>MMcf | Oil<br>Mbbbl   | NGL<br>Mgal | Gas<br>MMcf |                 |                 |                 |
| 2018  | 1     | 4.47                         | 0.00        | 88.53       | 0.35           | 0.00        | 6.91        | 48.53           | 0.00            | 2.94            |
| 2019  | 1     | 3.68                         | 0.00        | 71.52       | 0.29           | 0.00        | 5.58        | 48.53           | 0.00            | 2.94            |
| 2020  | 1     | 3.15                         | 0.00        | 60.53       | 0.25           | 0.00        | 4.72        | 48.53           | 0.00            | 2.94            |
| 2021  | 1     | 2.75                         | 0.00        | 52.44       | 0.21           | 0.00        | 4.09        | 48.53           | 0.00            | 2.94            |
| 2022  | 1     | 2.46                         | 0.00        | 46.51       | 0.19           | 0.00        | 3.63        | 48.53           | 0.00            | 2.94            |
| 2023  | 1     | 2.22                         | 0.00        | 41.87       | 0.17           | 0.00        | 3.27        | 48.53           | 0.00            | 2.94            |
| 2024  | 1     | 2.04                         | 0.00        | 38.25       | 0.16           | 0.00        | 2.98        | 48.53           | 0.00            | 2.94            |
| 2025  | 1     | 1.87                         | 0.00        | 35.07       | 0.15           | 0.00        | 2.74        | 48.53           | 0.00            | 2.94            |
| 2026  | 1     | 1.74                         | 0.00        | 32.50       | 0.14           | 0.00        | 2.54        | 48.53           | 0.00            | 2.94            |
| 2027  | 1     | 1.63                         | 0.00        | 30.32       | 0.13           | 0.00        | 2.36        | 48.53           | 0.00            | 2.94            |
| 2028  | 1     | 1.53                         | 0.00        | 28.50       | 0.12           | 0.00        | 2.22        | 48.53           | 0.00            | 2.94            |
| 2029  | 1     | 1.44                         | 0.00        | 26.78       | 0.11           | 0.00        | 2.09        | 48.53           | 0.00            | 2.94            |
| 2030  | 1     | 0.48                         | 0.00        | 8.90        | 0.04           | 0.00        | 0.69        | 48.53           | 0.00            | 2.94            |
| Sub-T |       | 29.47                        | 0.00        | 561.73      | 2.30           | 0.00        | 43.81       | 48.53           | 0.00            | 2.94            |
| After |       | 0.00                         | 0.00        | 0.00        | 0.00           | 0.00        | 0.00        | 0.00            | 0.00            | 0.00            |
| Total |       | 29.47                        | 0.00        | 561.73      | 2.30           | 0.00        | 43.81       | 48.53           | 0.00            | 2.94            |
| Cum.  |       | 70.31                        | 0.00        | 950.34      |                |             |             |                 |                 |                 |
| Ult.  |       | 99.78                        | 0.00        | 1,512.07    |                |             |             |                 |                 |                 |

| Year  | Company Future Gross Revenue |            |            |              |              | Prod & Adv Taxes |                | Revenue<br>after Sev & Adv |
|-------|------------------------------|------------|------------|--------------|--------------|------------------|----------------|----------------------------|
|       | Oil<br>M\$                   | NGL<br>M\$ | Gas<br>M\$ | Other<br>M\$ | Total<br>M\$ | Prod Tax<br>M\$  | Adv Tax<br>M\$ |                            |
| 2018  | 16.90                        | 0.00       | 20.30      | 0.00         | 37.20        | 0.07             | 0.00           | 37.13                      |
| 2019  | 13.92                        | 0.00       | 16.40      | 0.00         | 30.32        | 0.06             | 0.00           | 30.26                      |
| 2020  | 11.93                        | 0.00       | 13.88      | 0.00         | 25.81        | 0.05             | 0.00           | 25.76                      |
| 2021  | 10.42                        | 0.00       | 12.03      | 0.00         | 22.45        | 0.04             | 0.00           | 22.40                      |
| 2022  | 9.30                         | 0.00       | 10.66      | 0.00         | 19.96        | 0.04             | 0.00           | 19.92                      |
| 2023  | 8.41                         | 0.00       | 9.60       | 0.00         | 18.02        | 0.04             | 0.00           | 17.98                      |
| 2024  | 7.71                         | 0.00       | 8.77       | 0.00         | 16.48        | 0.03             | 0.00           | 16.45                      |
| 2025  | 7.10                         | 0.00       | 8.04       | 0.00         | 15.14        | 0.03             | 0.00           | 15.11                      |
| 2026  | 6.59                         | 0.00       | 7.45       | 0.00         | 14.05        | 0.03             | 0.00           | 14.02                      |
| 2027  | 6.16                         | 0.00       | 6.95       | 0.00         | 13.11        | 0.03             | 0.00           | 13.09                      |
| 2028  | 5.80                         | 0.00       | 6.54       | 0.00         | 12.34        | 0.02             | 0.00           | 12.32                      |
| 2029  | 5.46                         | 0.00       | 6.14       | 0.00         | 11.60        | 0.02             | 0.00           | 11.58                      |
| 2030  | 1.83                         | 0.00       | 2.04       | 0.00         | 3.87         | 0.01             | 0.00           | 3.86                       |
| Sub-T | 111.55                       | 0.00       | 128.82     | 0.00         | 240.37       | 0.48             | 0.00           | 239.88                     |
| After | 0.00                         | 0.00       | 0.00       | 0.00         | 0.00         | 0.00             | 0.00           | 0.00                       |
| Total | 111.55                       | 0.00       | 128.82     | 0.00         | 240.37       | 0.48             | 0.00           | 239.88                     |

| Year  | Deductions                |                           |                        |                       | Future Net Income Before Income Taxes |                   |                                   |                                      |
|-------|---------------------------|---------------------------|------------------------|-----------------------|---------------------------------------|-------------------|-----------------------------------|--------------------------------------|
|       | Lease<br>Net Costs<br>M\$ | Net<br>Investments<br>M\$ | Trans.<br>Costs<br>M\$ | Net<br>Profits<br>M\$ | Annual<br>M\$                         | Cumulative<br>M\$ | Discounted Ann<br>@ 10.00%<br>M\$ | Disc. Cum.<br>Annual @ 10.00%<br>M\$ |
| 2018  | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 28.42                                 | 28.42             | 27.17                             | 27.17                                |
| 2019  | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 21.55                                 | 49.97             | 18.72                             | 45.89                                |
| 2020  | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 17.04                                 | 67.01             | 13.46                             | 59.35                                |
| 2021  | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 13.69                                 | 80.70             | 9.82                              | 69.17                                |
| 2022  | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 11.21                                 | 91.92             | 7.31                              | 76.49                                |
| 2023  | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 9.27                                  | 101.18            | 5.50                              | 81.98                                |
| 2024  | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 7.74                                  | 108.92            | 4.17                              | 86.16                                |
| 2025  | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 6.40                                  | 115.32            | 3.13                              | 89.29                                |
| 2026  | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 5.31                                  | 120.63            | 2.36                              | 91.65                                |
| 2027  | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 4.38                                  | 125.01            | 1.77                              | 93.43                                |
| 2028  | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 3.60                                  | 128.61            | 1.33                              | 94.75                                |
| 2029  | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 2.87                                  | 131.48            | 0.96                              | 95.71                                |
| 2030  | 2.98                      | 0.00                      | 0.00                   | 0.00                  | 0.89                                  | 132.36            | 0.28                              | 95.99                                |
| Sub-T | 107.52                    | 0.00                      | 0.00                   | 0.00                  | 132.36                                | 132.36            | 95.99                             | 95.99                                |
| After | 0.00                      | 0.00                      | 0.00                   | 0.00                  | 0.00                                  | 0.00              | 0.00                              | 0.00                                 |
| Total | 107.52                    | 0.00                      | 0.00                   | 0.00                  | 132.36                                | 132.36            | 95.99                             | 95.99                                |

**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

**Present Worth Profile (M\$)**

PW 5.00% : 111.21  
 PW 8.00% : 101.52  
 PW 9.00% : 98.67  
 PW 12.00% : 91.08  
 PW 15.00% : 84.66  
 PW 20.00% : 75.95

**TORCHLIGHT ENERGY, INC**  
Reserve and Economic Projection  
As of 1/1/2018  
Custom Selection

Proved Rsv Class

| Year | Wells | Estimated 8/8 Ths Production |             |             | Net Production |             |             | Oil<br>- \$/bbl - | NGL<br>- \$/gal - | Gas<br>- \$/Mcf - |
|------|-------|------------------------------|-------------|-------------|----------------|-------------|-------------|-------------------|-------------------|-------------------|
|      |       | Oil<br>Mbbbl                 | NGL<br>Mgal | Gas<br>MMcf | Oil<br>Mbbbl   | NGL<br>Mgal | Gas<br>MMcf |                   |                   |                   |
| 2018 | 1     | 4.47                         | 0.00        | 88.53       | 0.35           | 0.00        | 6.91        | 48.53             | 0.00              | 2.94              |
| 2019 | 1     | 3.68                         | 0.00        | 71.52       | 0.29           | 0.00        | 5.58        | 48.53             | 0.00              | 2.94              |
| 2020 | 1     | 3.15                         | 0.00        | 60.53       | 0.25           | 0.00        | 4.72        | 48.53             | 0.00              | 2.94              |
| 2021 | 1     | 2.75                         | 0.00        | 52.44       | 0.21           | 0.00        | 4.09        | 48.53             | 0.00              | 2.94              |
| 2022 | 1     | 2.46                         | 0.00        | 46.51       | 0.19           | 0.00        | 3.63        | 48.53             | 0.00              | 2.94              |
| 2023 | 1     | 2.22                         | 0.00        | 41.87       | 0.17           | 0.00        | 3.27        | 48.53             | 0.00              | 2.94              |
| 2024 | 1     | 2.04                         | 0.00        | 38.25       | 0.16           | 0.00        | 2.98        | 48.53             | 0.00              | 2.94              |
| 2025 | 1     | 1.87                         | 0.00        | 35.07       | 0.15           | 0.00        | 2.74        | 48.53             | 0.00              | 2.94              |
| 2026 | 1     | 1.74                         | 0.00        | 32.50       | 0.14           | 0.00        | 2.54        | 48.53             | 0.00              | 2.94              |
| 2027 | 1     | 1.63                         | 0.00        | 30.32       | 0.13           | 0.00        | 2.36        | 48.53             | 0.00              | 2.94              |
| 2028 | 1     | 1.53                         | 0.00        | 28.50       | 0.12           | 0.00        | 2.22        | 48.53             | 0.00              | 2.94              |
| 2029 | 1     | 1.44                         | 0.00        | 26.78       | 0.11           | 0.00        | 2.09        | 48.53             | 0.00              | 2.94              |
| 2030 | 1     | 0.48                         | 0.00        | 8.90        | 0.04           | 0.00        | 0.69        | 48.53             | 0.00              | 2.94              |

|       |  |       |      |          |      |      |       |       |      |      |
|-------|--|-------|------|----------|------|------|-------|-------|------|------|
| Sub-T |  | 29.47 | 0.00 | 561.73   | 2.30 | 0.00 | 43.81 | 48.53 | 0.00 | 2.94 |
| After |  | 0.00  | 0.00 | 0.00     | 0.00 | 0.00 | 0.00  | 0.00  | 0.00 | 0.00 |
| Total |  | 29.47 | 0.00 | 561.73   | 2.30 | 0.00 | 43.81 | 48.53 | 0.00 | 2.94 |
| Cum   |  | 70.31 | 0.00 | 950.34   |      |      |       |       |      |      |
| Ult   |  | 99.78 | 0.00 | 1,512.07 |      |      |       |       |      |      |

| Year | Company Future Gross Revenue |            |            |              |              | Prod & Adv Taxes |                | Revenue<br>after Sev & Adv<br>M\$ |
|------|------------------------------|------------|------------|--------------|--------------|------------------|----------------|-----------------------------------|
|      | Oil<br>M\$                   | NGL<br>M\$ | Gas<br>M\$ | Other<br>M\$ | Total<br>M\$ | Prod Tax<br>M\$  | Adv Tax<br>M\$ |                                   |
| 2018 | 16.90                        | 0.00       | 20.30      | 0.00         | 37.20        | 0.07             | 0.00           | 37.13                             |
| 2019 | 13.92                        | 0.00       | 16.40      | 0.00         | 30.32        | 0.06             | 0.00           | 30.26                             |
| 2020 | 11.93                        | 0.00       | 13.88      | 0.00         | 25.81        | 0.05             | 0.00           | 25.76                             |
| 2021 | 10.42                        | 0.00       | 12.03      | 0.00         | 22.45        | 0.04             | 0.00           | 22.40                             |
| 2022 | 9.30                         | 0.00       | 10.66      | 0.00         | 19.96        | 0.04             | 0.00           | 19.92                             |
| 2023 | 8.41                         | 0.00       | 9.60       | 0.00         | 18.02        | 0.04             | 0.00           | 17.98                             |
| 2024 | 7.71                         | 0.00       | 8.77       | 0.00         | 16.49        | 0.03             | 0.00           | 16.45                             |
| 2025 | 7.10                         | 0.00       | 8.04       | 0.00         | 15.14        | 0.03             | 0.00           | 15.11                             |
| 2026 | 6.59                         | 0.00       | 7.45       | 0.00         | 14.05        | 0.03             | 0.00           | 14.02                             |
| 2027 | 6.16                         | 0.00       | 6.95       | 0.00         | 13.11        | 0.03             | 0.00           | 13.09                             |
| 2028 | 5.80                         | 0.00       | 6.54       | 0.00         | 12.34        | 0.02             | 0.00           | 12.32                             |
| 2029 | 5.46                         | 0.00       | 6.14       | 0.00         | 11.60        | 0.02             | 0.00           | 11.58                             |
| 2030 | 1.83                         | 0.00       | 2.04       | 0.00         | 3.87         | 0.01             | 0.00           | 3.86                              |

|       |  |        |      |        |      |        |      |      |        |
|-------|--|--------|------|--------|------|--------|------|------|--------|
| Sub-T |  | 111.55 | 0.00 | 128.82 | 0.00 | 240.37 | 0.48 | 0.00 | 239.88 |
| After |  | 0.00   | 0.00 | 0.00   | 0.00 | 0.00   | 0.00 | 0.00 | 0.00   |
| Total |  | 111.55 | 0.00 | 128.82 | 0.00 | 240.37 | 0.48 | 0.00 | 239.88 |

| Year | Deductions                |                           |                        |                       | Future Net Income Before Income Taxes |                   |                            |                               |
|------|---------------------------|---------------------------|------------------------|-----------------------|---------------------------------------|-------------------|----------------------------|-------------------------------|
|      | Lease<br>Net Costs<br>M\$ | Net<br>Investments<br>M\$ | Trans.<br>Costs<br>M\$ | Net<br>Profits<br>M\$ | Undiscounted                          |                   | Discounted Ann<br>@ 10.00% | Disc. Cum.<br>Annual @ 10.00% |
|      |                           |                           |                        |                       | Annual<br>M\$                         | Cumulative<br>M\$ | M\$                        | M\$                           |
| 2018 | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 28.42                                 | 28.42             | 27.17                      | 27.17                         |
| 2019 | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 21.55                                 | 49.97             | 18.72                      | 45.89                         |
| 2020 | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 17.04                                 | 67.01             | 13.46                      | 59.35                         |
| 2021 | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 13.69                                 | 80.70             | 9.82                       | 69.17                         |
| 2022 | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 11.21                                 | 91.92             | 7.31                       | 76.49                         |
| 2023 | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 9.27                                  | 101.18            | 5.50                       | 81.98                         |
| 2024 | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 7.74                                  | 108.92            | 4.17                       | 86.16                         |
| 2025 | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 6.40                                  | 115.32            | 3.13                       | 89.29                         |
| 2026 | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 5.31                                  | 120.63            | 2.36                       | 91.65                         |
| 2027 | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 4.38                                  | 125.01            | 1.77                       | 93.43                         |
| 2028 | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 3.60                                  | 128.61            | 1.33                       | 94.75                         |
| 2029 | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 2.87                                  | 131.48            | 0.96                       | 95.71                         |
| 2030 | 2.98                      | 0.00                      | 0.00                   | 0.00                  | 0.89                                  | 132.36            | 0.28                       | 95.99                         |

|       |  |        |      |      |      |        |        |       |       |
|-------|--|--------|------|------|------|--------|--------|-------|-------|
| Sub-T |  | 107.52 | 0.00 | 0.00 | 0.00 | 132.36 | 132.36 | 95.99 | 95.99 |
| After |  | 0.00   | 0.00 | 0.00 | 0.00 | 0.00   | 0.00   | 0.00  | 0.00  |
| Total |  | 107.52 | 0.00 | 0.00 | 0.00 | 132.36 | 132.36 | 95.99 | 95.99 |

**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

**Present Worth Profile (M\$)**

PW 5.00% : 111.21  
PW 8.00% : 101.52  
PW 9.00% : 98.67  
PW 12.00% : 91.08  
PW 15.00% : 84.66  
PW 20.00% : 75.95



**TORCHLIGHT ENERGY, INC**  
**Reserve and Economic Projection**  
**As of 1/1/2018**  
 Custom Selection

Proved Rsv Class  
 Producing Rsv Category

| Year  | Wells | Estimated S/S Ths Production |      |          | Net Production |      |       | Oil    | NGL    | Gas    |
|-------|-------|------------------------------|------|----------|----------------|------|-------|--------|--------|--------|
|       |       | Oil                          | NGL  | Gas      | Oil            | NGL  | Gas   |        |        |        |
|       |       | Mbbl                         | Mgal | MMcf     | Mbbl           | Mgal | MMcf  | \$/bbl | \$/gal | \$/Mcf |
| 2018  | 1     | 4.47                         | 0.00 | 88.53    | 0.35           | 0.00 | 6.91  | 48.53  | 0.00   | 2.94   |
| 2019  | 1     | 3.68                         | 0.00 | 71.52    | 0.29           | 0.00 | 5.58  | 48.53  | 0.00   | 2.94   |
| 2020  | 1     | 3.15                         | 0.00 | 60.53    | 0.25           | 0.00 | 4.72  | 48.53  | 0.00   | 2.94   |
| 2021  | 1     | 2.75                         | 0.00 | 52.44    | 0.21           | 0.00 | 4.09  | 48.53  | 0.00   | 2.94   |
| 2022  | 1     | 2.46                         | 0.00 | 46.51    | 0.19           | 0.00 | 3.63  | 48.53  | 0.00   | 2.94   |
| 2023  | 1     | 2.22                         | 0.00 | 41.87    | 0.17           | 0.00 | 3.27  | 48.53  | 0.00   | 2.94   |
| 2024  | 1     | 2.04                         | 0.00 | 38.25    | 0.16           | 0.00 | 2.98  | 48.53  | 0.00   | 2.94   |
| 2025  | 1     | 1.87                         | 0.00 | 35.07    | 0.15           | 0.00 | 2.74  | 48.53  | 0.00   | 2.94   |
| 2026  | 1     | 1.74                         | 0.00 | 32.50    | 0.14           | 0.00 | 2.54  | 48.53  | 0.00   | 2.94   |
| 2027  | 1     | 1.63                         | 0.00 | 30.32    | 0.13           | 0.00 | 2.36  | 48.53  | 0.00   | 2.94   |
| 2028  | 1     | 1.53                         | 0.00 | 28.50    | 0.12           | 0.00 | 2.22  | 48.53  | 0.00   | 2.94   |
| 2029  | 1     | 1.44                         | 0.00 | 26.78    | 0.11           | 0.00 | 2.09  | 48.53  | 0.00   | 2.94   |
| 2030  | 1     | 0.48                         | 0.00 | 8.90     | 0.04           | 0.00 | 0.69  | 48.53  | 0.00   | 2.94   |
| Sub-T |       | 29.47                        | 0.00 | 561.73   | 2.30           | 0.00 | 43.81 | 48.53  | 0.00   | 2.94   |
| After |       | 0.00                         | 0.00 | 0.00     | 0.00           | 0.00 | 0.00  | 0.00   | 0.00   | 0.00   |
| Total |       | 29.47                        | 0.00 | 561.73   | 2.30           | 0.00 | 43.81 | 48.53  | 0.00   | 2.94   |
| Cum.  |       | 70.31                        | 0.00 | 950.34   |                |      |       |        |        |        |
| Ult.  |       | 99.78                        | 0.00 | 1,512.07 |                |      |       |        |        |        |

| 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\$                     |
| 2018  | 16.90                        | 0.00 | 20.30  | 0.00  | 37.20  | 0.07             | 0.00    | 37.13                   |
| 2019  | 13.92                        | 0.00 | 16.40  | 0.00  | 30.32  | 0.06             | 0.00    | 30.26                   |
| 2020  | 11.93                        | 0.00 | 13.88  | 0.00  | 25.81  | 0.05             | 0.00    | 25.76                   |
| 2021  | 10.42                        | 0.00 | 12.03  | 0.00  | 22.45  | 0.04             | 0.00    | 22.40                   |
| 2022  | 9.30                         | 0.00 | 10.66  | 0.00  | 19.96  | 0.04             | 0.00    | 19.92                   |
| 2023  | 8.41                         | 0.00 | 9.60   | 0.00  | 18.02  | 0.04             | 0.00    | 17.98                   |
| 2024  | 7.71                         | 0.00 | 8.77   | 0.00  | 16.49  | 0.03             | 0.00    | 16.45                   |
| 2025  | 7.10                         | 0.00 | 8.04   | 0.00  | 15.14  | 0.03             | 0.00    | 15.11                   |
| 2026  | 6.59                         | 0.00 | 7.45   | 0.00  | 14.05  | 0.03             | 0.00    | 14.02                   |
| 2027  | 6.16                         | 0.00 | 6.95   | 0.00  | 13.11  | 0.03             | 0.00    | 13.09                   |
| 2028  | 5.80                         | 0.00 | 6.54   | 0.00  | 12.34  | 0.02             | 0.00    | 12.32                   |
| 2029  | 5.46                         | 0.00 | 6.14   | 0.00  | 11.60  | 0.02             | 0.00    | 11.58                   |
| 2030  | 1.83                         | 0.00 | 2.04   | 0.00  | 3.87   | 0.01             | 0.00    | 3.86                    |
| Sub-T | 111.55                       | 0.00 | 128.82 | 0.00  | 240.37 | 0.48             | 0.00    | 239.88                  |
| After | 0.00                         | 0.00 | 0.00   | 0.00  | 0.00   | 0.00             | 0.00    | 0.00                    |
| Total | 111.55                       | 0.00 | 128.82 | 0.00  | 240.37 | 0.48             | 0.00    | 239.88                  |

| 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\$             |
| 2018  | 8.71       | 0.00        | 0.00   | 0.00    | 28.42                                 | 28.42      | 27.17          | 27.17           |
| 2019  | 8.71       | 0.00        | 0.00   | 0.00    | 21.55                                 | 49.97      | 18.72          | 45.89           |
| 2020  | 8.71       | 0.00        | 0.00   | 0.00    | 17.04                                 | 67.01      | 13.46          | 59.35           |
| 2021  | 8.71       | 0.00        | 0.00   | 0.00    | 13.69                                 | 80.70      | 9.82           | 69.17           |
| 2022  | 8.71       | 0.00        | 0.00   | 0.00    | 11.21                                 | 91.92      | 7.31           | 76.49           |
| 2023  | 8.71       | 0.00        | 0.00   | 0.00    | 9.27                                  | 101.18     | 5.50           | 81.98           |
| 2024  | 8.71       | 0.00        | 0.00   | 0.00    | 7.74                                  | 108.92     | 4.17           | 86.16           |
| 2025  | 8.71       | 0.00        | 0.00   | 0.00    | 6.40                                  | 115.32     | 3.13           | 89.29           |
| 2026  | 8.71       | 0.00        | 0.00   | 0.00    | 5.31                                  | 120.63     | 2.36           | 91.65           |
| 2027  | 8.71       | 0.00        | 0.00   | 0.00    | 4.38                                  | 125.01     | 1.77           | 93.43           |
| 2028  | 8.71       | 0.00        | 0.00   | 0.00    | 3.60                                  | 128.61     | 1.33           | 94.75           |
| 2029  | 8.71       | 0.00        | 0.00   | 0.00    | 2.87                                  | 131.48     | 0.96           | 95.71           |
| 2030  | 2.98       | 0.00        | 0.00   | 0.00    | 0.89                                  | 132.36     | 0.28           | 95.99           |
| Sub-T | 107.52     | 0.00        | 0.00   | 0.00    | 132.36                                | 132.36     | 95.99          | 95.99           |
| After | 0.00       | 0.00        | 0.00   | 0.00    | 0.00                                  | 0.00       | 0.00           | 0.00            |
| Total | 107.52     | 0.00        | 0.00   | 0.00    | 132.36                                | 132.36     | 95.99          | 95.99           |

**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

**Present Worth Profile (M\$)**

PW 5.00% : 111.21  
 PW 8.00% : 101.52  
 PW 9.00% : 98.67  
 PW 12.00% : 91.08  
 PW 15.00% : 84.66  
 PW 20.00% : 75.95

| Year  | Wells | Estimated 8/8 Ths Production |             |             | Net Production |             |             | Oil   | NGL  | Gas  |
|-------|-------|------------------------------|-------------|-------------|----------------|-------------|-------------|-------|------|------|
|       |       | Oil<br>Mbbbl                 | NGL<br>Mgal | Gas<br>MMcf | Oil<br>Mbbbl   | NGL<br>Mgal | Gas<br>MMcf |       |      |      |
| 2018  | 1     | 4.47                         | 0.00        | 88.53       | 0.35           | 0.00        | 6.91        | 48.53 | 0.00 | 2.94 |
| 2019  | 1     | 3.68                         | 0.00        | 71.52       | 0.29           | 0.00        | 5.58        | 48.53 | 0.00 | 2.94 |
| 2020  | 1     | 3.15                         | 0.00        | 60.53       | 0.25           | 0.00        | 4.72        | 48.53 | 0.00 | 2.94 |
| 2021  | 1     | 2.75                         | 0.00        | 52.44       | 0.21           | 0.00        | 4.09        | 48.53 | 0.00 | 2.94 |
| 2022  | 1     | 2.46                         | 0.00        | 46.51       | 0.19           | 0.00        | 3.63        | 48.53 | 0.00 | 2.94 |
| 2023  | 1     | 2.22                         | 0.00        | 41.87       | 0.17           | 0.00        | 3.27        | 48.53 | 0.00 | 2.94 |
| 2024  | 1     | 2.04                         | 0.00        | 38.25       | 0.16           | 0.00        | 2.98        | 48.53 | 0.00 | 2.94 |
| 2025  | 1     | 1.87                         | 0.00        | 35.07       | 0.15           | 0.00        | 2.74        | 48.53 | 0.00 | 2.94 |
| 2026  | 1     | 1.74                         | 0.00        | 32.50       | 0.14           | 0.00        | 2.54        | 48.53 | 0.00 | 2.94 |
| 2027  | 1     | 1.63                         | 0.00        | 30.32       | 0.13           | 0.00        | 2.36        | 48.53 | 0.00 | 2.94 |
| 2028  | 1     | 1.53                         | 0.00        | 28.50       | 0.12           | 0.00        | 2.22        | 48.53 | 0.00 | 2.94 |
| 2029  | 1     | 1.44                         | 0.00        | 26.78       | 0.11           | 0.00        | 2.09        | 48.53 | 0.00 | 2.94 |
| 2030  | 1     | 0.48                         | 0.00        | 8.90        | 0.04           | 0.00        | 0.69        | 48.53 | 0.00 | 2.94 |
| Sub-T |       | 29.47                        | 0.00        | 561.73      | 2.30           | 0.00        | 43.81       | 48.53 | 0.00 | 2.94 |
| After |       | 0.00                         | 0.00        | 0.00        | 0.00           | 0.00        | 0.00        | 0.00  | 0.00 | 0.00 |
| Total |       | 29.47                        | 0.00        | 561.73      | 2.30           | 0.00        | 43.81       | 48.53 | 0.00 | 2.94 |
| Cum.  |       | 68.37                        | 0.00        | 950.34      |                |             |             |       |      |      |
| Ult   |       | 97.84                        | 0.00        | 1,512.07    |                |             |             |       |      |      |

| Year  | Wells | Company Future Gross Revenue |            |            | Other | Total  | Prod & Adv Taxes |                | Revenue<br>after Sev & Adv |
|-------|-------|------------------------------|------------|------------|-------|--------|------------------|----------------|----------------------------|
|       |       | Oil<br>M\$                   | NGL<br>M\$ | Gas<br>M\$ |       |        | Prod Tax<br>M\$  | Adv Tax<br>M\$ |                            |
| 2018  | 1     | 16.90                        | 0.00       | 20.30      | 0.00  | 37.20  | 0.07             | 0.00           | 37.13                      |
| 2019  | 1     | 13.92                        | 0.00       | 16.40      | 0.00  | 30.32  | 0.06             | 0.00           | 30.26                      |
| 2020  | 1     | 11.93                        | 0.00       | 13.88      | 0.00  | 25.81  | 0.05             | 0.00           | 25.76                      |
| 2021  | 1     | 10.42                        | 0.00       | 12.03      | 0.00  | 22.45  | 0.04             | 0.00           | 22.40                      |
| 2022  | 1     | 9.30                         | 0.00       | 10.66      | 0.00  | 19.96  | 0.04             | 0.00           | 19.92                      |
| 2023  | 1     | 8.41                         | 0.00       | 9.60       | 0.00  | 18.02  | 0.04             | 0.00           | 17.98                      |
| 2024  | 1     | 7.71                         | 0.00       | 8.77       | 0.00  | 16.49  | 0.03             | 0.00           | 16.45                      |
| 2025  | 1     | 7.10                         | 0.00       | 8.04       | 0.00  | 15.14  | 0.03             | 0.00           | 15.11                      |
| 2026  | 1     | 6.59                         | 0.00       | 7.45       | 0.00  | 14.05  | 0.03             | 0.00           | 14.02                      |
| 2027  | 1     | 6.16                         | 0.00       | 6.95       | 0.00  | 13.11  | 0.03             | 0.00           | 13.09                      |
| 2028  | 1     | 5.80                         | 0.00       | 6.54       | 0.00  | 12.34  | 0.02             | 0.00           | 12.32                      |
| 2029  | 1     | 5.46                         | 0.00       | 6.14       | 0.00  | 11.60  | 0.02             | 0.00           | 11.58                      |
| 2030  | 1     | 1.83                         | 0.00       | 2.04       | 0.00  | 3.87   | 0.01             | 0.00           | 3.86                       |
| Sub-T |       | 111.55                       | 0.00       | 128.82     | 0.00  | 240.37 | 0.48             | 0.00           | 239.88                     |
| After |       | 0.00                         | 0.00       | 0.00       | 0.00  | 0.00   | 0.00             | 0.00           | 0.00                       |
| Total |       | 111.55                       | 0.00       | 128.82     | 0.00  | 240.37 | 0.48             | 0.00           | 239.88                     |

| Year  | Wells | Deductions                |                           |                        |                       | Future Net Income Before Income Taxes |                   |                                   | Disc. Cum.<br>Annual @ 10.00% |
|-------|-------|---------------------------|---------------------------|------------------------|-----------------------|---------------------------------------|-------------------|-----------------------------------|-------------------------------|
|       |       | Lease<br>Net Costs<br>M\$ | Net<br>Investments<br>M\$ | Trans.<br>Costs<br>M\$ | Net<br>Profits<br>M\$ | Annual<br>M\$                         | Cumulative<br>M\$ | Discounted Ann<br>@ 10.00%<br>M\$ |                               |
| 2018  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 28.42                                 | 28.42             | 27.17                             | 27.17                         |
| 2019  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 21.55                                 | 49.97             | 18.72                             | 45.89                         |
| 2020  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 17.04                                 | 67.01             | 13.46                             | 59.35                         |
| 2021  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 13.69                                 | 80.70             | 9.82                              | 69.17                         |
| 2022  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 11.21                                 | 91.92             | 7.31                              | 76.49                         |
| 2023  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 9.27                                  | 101.18            | 5.50                              | 81.98                         |
| 2024  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 7.74                                  | 108.92            | 4.17                              | 86.16                         |
| 2025  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 6.40                                  | 115.32            | 3.13                              | 89.29                         |
| 2026  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 5.31                                  | 120.63            | 2.36                              | 91.65                         |
| 2027  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 4.38                                  | 125.01            | 1.77                              | 93.43                         |
| 2028  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 3.60                                  | 128.61            | 1.33                              | 94.75                         |
| 2029  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 2.87                                  | 131.48            | 0.96                              | 95.71                         |
| 2030  | 1     | 2.98                      | 0.00                      | 0.00                   | 0.00                  | 0.89                                  | 132.36            | 0.28                              | 95.99                         |
| Sub-T |       | 107.52                    | 0.00                      | 0.00                   | 0.00                  | 132.36                                | 132.36            | 95.99                             | 95.99                         |
| After |       | 0.00                      | 0.00                      | 0.00                   | 0.00                  | 0.00                                  | 0.00              | 0.00                              | 0.00                          |
| Total |       | 107.52                    | 0.00                      | 0.00                   | 0.00                  | 132.36                                | 132.36            | 95.99                             | 95.99                         |

| Year  | Wells | Company Future Gross Revenue |            |            | Other | Total  | Prod & Adv Taxes |                | Revenue<br>after Sev & Adv |
|-------|-------|------------------------------|------------|------------|-------|--------|------------------|----------------|----------------------------|
|       |       | Oil<br>M\$                   | NGL<br>M\$ | Gas<br>M\$ |       |        | Prod Tax<br>M\$  | Adv Tax<br>M\$ |                            |
| 2018  | 1     | 16.90                        | 0.00       | 20.30      | 0.00  | 37.20  | 0.07             | 0.00           | 37.13                      |
| 2019  | 1     | 13.92                        | 0.00       | 16.40      | 0.00  | 30.32  | 0.06             | 0.00           | 30.26                      |
| 2020  | 1     | 11.93                        | 0.00       | 13.88      | 0.00  | 25.81  | 0.05             | 0.00           | 25.76                      |
| 2021  | 1     | 10.42                        | 0.00       | 12.03      | 0.00  | 22.45  | 0.04             | 0.00           | 22.40                      |
| 2022  | 1     | 9.30                         | 0.00       | 10.66      | 0.00  | 19.96  | 0.04             | 0.00           | 19.92                      |
| 2023  | 1     | 8.41                         | 0.00       | 9.60       | 0.00  | 18.02  | 0.04             | 0.00           | 17.98                      |
| 2024  | 1     | 7.71                         | 0.00       | 8.77       | 0.00  | 16.49  | 0.03             | 0.00           | 16.45                      |
| 2025  | 1     | 7.10                         | 0.00       | 8.04       | 0.00  | 15.14  | 0.03             | 0.00           | 15.11                      |
| 2026  | 1     | 6.59                         | 0.00       | 7.45       | 0.00  | 14.05  | 0.03             | 0.00           | 14.02                      |
| 2027  | 1     | 6.16                         | 0.00       | 6.95       | 0.00  | 13.11  | 0.03             | 0.00           | 13.09                      |
| 2028  | 1     | 5.80                         | 0.00       | 6.54       | 0.00  | 12.34  | 0.02             | 0.00           | 12.32                      |
| 2029  | 1     | 5.46                         | 0.00       | 6.14       | 0.00  | 11.60  | 0.02             | 0.00           | 11.58                      |
| 2030  | 1     | 1.83                         | 0.00       | 2.04       | 0.00  | 3.87   | 0.01             | 0.00           | 3.86                       |
| Sub-T |       | 111.55                       | 0.00       | 128.82     | 0.00  | 240.37 | 0.48             | 0.00           | 239.88                     |
| After |       | 0.00                         | 0.00       | 0.00       | 0.00  | 0.00   | 0.00             | 0.00           | 0.00                       |
| Total |       | 111.55                       | 0.00       | 128.82     | 0.00  | 240.37 | 0.48             | 0.00           | 239.88                     |

| Year  | Wells | Deductions                |                           |                        |                       | Future Net Income Before Income Taxes |                   |                                   | Disc. Cum.<br>Annual @ 10.00% |
|-------|-------|---------------------------|---------------------------|------------------------|-----------------------|---------------------------------------|-------------------|-----------------------------------|-------------------------------|
|       |       | Lease<br>Net Costs<br>M\$ | Net<br>Investments<br>M\$ | Trans.<br>Costs<br>M\$ | Net<br>Profits<br>M\$ | Annual<br>M\$                         | Cumulative<br>M\$ | Discounted Ann<br>@ 10.00%<br>M\$ |                               |
| 2018  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 28.42                                 | 28.42             | 27.17                             | 27.17                         |
| 2019  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 21.55                                 | 49.97             | 18.72                             | 45.89                         |
| 2020  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 17.04                                 | 67.01             | 13.46                             | 59.35                         |
| 2021  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 13.69                                 | 80.70             | 9.82                              | 69.17                         |
| 2022  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 11.21                                 | 91.92             | 7.31                              | 76.49                         |
| 2023  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 9.27                                  | 101.18            | 5.50                              | 81.98                         |
| 2024  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 7.74                                  | 108.92            | 4.17                              | 86.16                         |
| 2025  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 6.40                                  | 115.32            | 3.13                              | 89.29                         |
| 2026  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 5.31                                  | 120.63            | 2.36                              | 91.65                         |
| 2027  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 4.38                                  | 125.01            | 1.77                              | 93.43                         |
| 2028  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 3.60                                  | 128.61            | 1.33                              | 94.75                         |
| 2029  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 2.87                                  | 131.48            | 0.96                              | 95.71                         |
| 2030  | 1     | 2.98                      | 0.00                      | 0.00                   | 0.00                  | 0.89                                  | 132.36            | 0.28                              | 95.99                         |
| Sub-T |       | 107.52                    | 0.00                      | 0.00                   | 0.00                  | 132.36                                | 132.36            | 95.99                             | 95.99                         |
| After |       | 0.00                      | 0.00                      | 0.00                   | 0.00                  | 0.00                                  | 0.00              | 0.00                              | 0.00                          |
| Total |       | 107.52                    | 0.00                      | 0.00                   | 0.00                  | 132.36                                | 132.36            | 95.99                             | 95.99                         |

| Year  | Wells | Deductions                |                           |                        |                       | Future Net Income Before Income Taxes |                   |                                   | Disc. Cum.<br>Annual @ 10.00% |
|-------|-------|---------------------------|---------------------------|------------------------|-----------------------|---------------------------------------|-------------------|-----------------------------------|-------------------------------|
|       |       | Lease<br>Net Costs<br>M\$ | Net<br>Investments<br>M\$ | Trans.<br>Costs<br>M\$ | Net<br>Profits<br>M\$ | Annual<br>M\$                         | Cumulative<br>M\$ | Discounted Ann<br>@ 10.00%<br>M\$ |                               |
| 2018  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 28.42                                 | 28.42             | 27.17                             | 27.17                         |
| 2019  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 21.55                                 | 49.97             | 18.72                             | 45.89                         |
| 2020  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 17.04                                 | 67.01             | 13.46                             | 59.35                         |
| 2021  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 13.69                                 | 80.70             | 9.82                              | 69.17                         |
| 2022  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 11.21                                 | 91.92             | 7.31                              | 76.49                         |
| 2023  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 9.27                                  | 101.18            | 5.50                              | 81.98                         |
| 2024  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 7.74                                  | 108.92            | 4.17                              | 86.16                         |
| 2025  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 6.40                                  | 115.32            | 3.13                              | 89.29                         |
| 2026  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 5.31                                  | 120.63            | 2.36                              | 91.65                         |
| 2027  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 4.38                                  | 125.01            | 1.77                              | 93.43                         |
| 2028  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 3.60                                  | 128.61            | 1.33                              | 94.75                         |
| 2029  | 1     | 8.71                      | 0.00                      | 0.00                   | 0.00                  | 2.87                                  | 131.48            | 0.96                              | 95.71                         |
| 2030  | 1     | 2.98                      | 0.00                      | 0.00                   | 0.00                  | 0.89                                  | 132.36            | 0.28                              | 95.99                         |
| Sub-T |       | 107.52                    | 0.00                      | 0.00                   | 0.00                  | 132.36                                | 132.36            | 95.99                             | 95.99                         |
| After |       | 0.00                      | 0.00                      | 0.00                   | 0.00                  | 0.00                                  | 0.00              | 0.00                              | 0.00                          |
| Total |       | 107.52                    | 0.00                      | 0.00                   | 0.00                  | 132.36                                | 132.36            | 95.99                             | 95.99                         |

| Eco. Indicators                 |       | Ownership Interests |            |            | Present Worth Profile (M\$) |        |
|---------------------------------|-------|---------------------|------------|------------|-----------------------------|--------|
| Return on Investment (disc) :   | 0.000 | Initial             | 1st Rev.   | 2nd Rev.   | PW 5.00% :                  | 111.21 |
| Return on Investment (undisc) : | 0.000 | W. I. :             | 0.10000000 | 0.00000000 | PW 8.00% :                  | 101.52 |
| Years to Payout :               | 0.00  | Net R. I. :         | 0.07800000 | 0.00000000 | PW 9.00% :                  | 98.67  |
| Internal Rate of Return (%) :   | 0.00  | Rev. Date :         |            |            | PW 12.00% :                 | 91.08  |
|                                 |       |                     |            |            | PW 15.00% :                 | 84.66  |
|                                 |       |                     |            |            | PW 20.00% :                 | 75.95  |

Date : 01/30/2018 12:25:00PM  
 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 1/1/2018  
 Custom Selection

Proved Producing

| Year  | Wells | Estimated 8/8 Ths Production |                  |                  | Net Production   |                  |                  | Oil                | NGL                | Gas                |
|-------|-------|------------------------------|------------------|------------------|------------------|------------------|------------------|--------------------|--------------------|--------------------|
|       |       | Oil                          | NGL              | Gas              | Oil              | NGL              | Gas              |                    |                    |                    |
| ----- | ----- | ----- Mtbl -----             | ----- Mgal ----- | ----- MMcf ----- | ----- Mtbl ----- | ----- Mgal ----- | ----- MMcf ----- | ----- \$/bbl ----- | ----- \$/gal ----- | ----- \$/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 |
| Cum.  | 1.94 | 0.00 | 0.00 |      |      |      |      |      |      |      |
| Ult.  | 1.94 | 0.00 | 0.00 |      |      |      |      |      |      |      |

| Year  | Company Future Gross Revenue |                 |                 |                 |                 | Prod & Adv Taxes |                 | Revenue         |                 |
|-------|------------------------------|-----------------|-----------------|-----------------|-----------------|------------------|-----------------|-----------------|-----------------|
|       | Oil                          | NGL             | Gas             | Other           | Total           | Prod Tax         | Adv Tax         | after Sev & Adv |                 |
| ----- | ----- M\$ -----              | ----- M\$ ----- | ----- M\$ ----- | ----- M\$ ----- | ----- M\$ ----- | ----- M\$ -----  | ----- M\$ ----- | ----- M\$ ----- | ----- M\$ ----- |
| 2018  | 0.00                         | 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 | 0.00 |
| After | 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 |

| Year  | Deductions      |                 |                 |                 | Future Net Income Before Income Taxes |                 |                 | Disc. Cum.      |                 |
|-------|-----------------|-----------------|-----------------|-----------------|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
|       | Lease           | Net             | Trans.          | Net             | Undiscounted                          | Cumulative      | Discounted Ann  | Annual @ 10.00% | Disc. Cum.      |
| ----- | Net Costs       | Investments     | Costs           | Profits         | Annual                                |                 | @ 10.00%        | Annual @ 10.00% |                 |
| ----- | ----- M\$ ----- | ----- M\$ ----- | ----- M\$ ----- | ----- M\$ ----- | ----- M\$ -----                       | ----- M\$ ----- | ----- M\$ ----- | ----- M\$ ----- | ----- M\$ ----- |
| 2018  | 0.00            | 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 | 0.00 |
| After | 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 |

| Eco. Indicators                 |       | Ownership Interests |                |                 | Present Worth Profile (M\$) |             |      |
|---------------------------------|-------|---------------------|----------------|-----------------|-----------------------------|-------------|------|
| Return on Investment (disc) :   | 0.000 |                     | <u>Initial</u> | <u>1st Rev.</u> | <u>2nd Rev.</u>             | PW 5.00% :  | 0.00 |
| Return on Investment (undisc) : | 0.000 | W. I. :             | 0.30000000     | 0.00000000      | 0.00000000                  | PW 8.00% :  | 0.00 |
| Years to Payout :               | 0.00  | Net R. I. :         | 0.23400000     | 0.00000000      | 0.00000000                  | PW 9.00% :  | 0.00 |
| Internal Rate of Return (%) :   | 0.00  | Rev. Date :         |                |                 |                             | PW 12.00% : | 0.00 |
|                                 |       |                     |                |                 |                             | PW 15.00% : | 0.00 |
|                                 |       |                     |                |                 |                             | PW 20.00% : | 0.00 |

### Economic One-Liners

As of Date: 1/1/2018

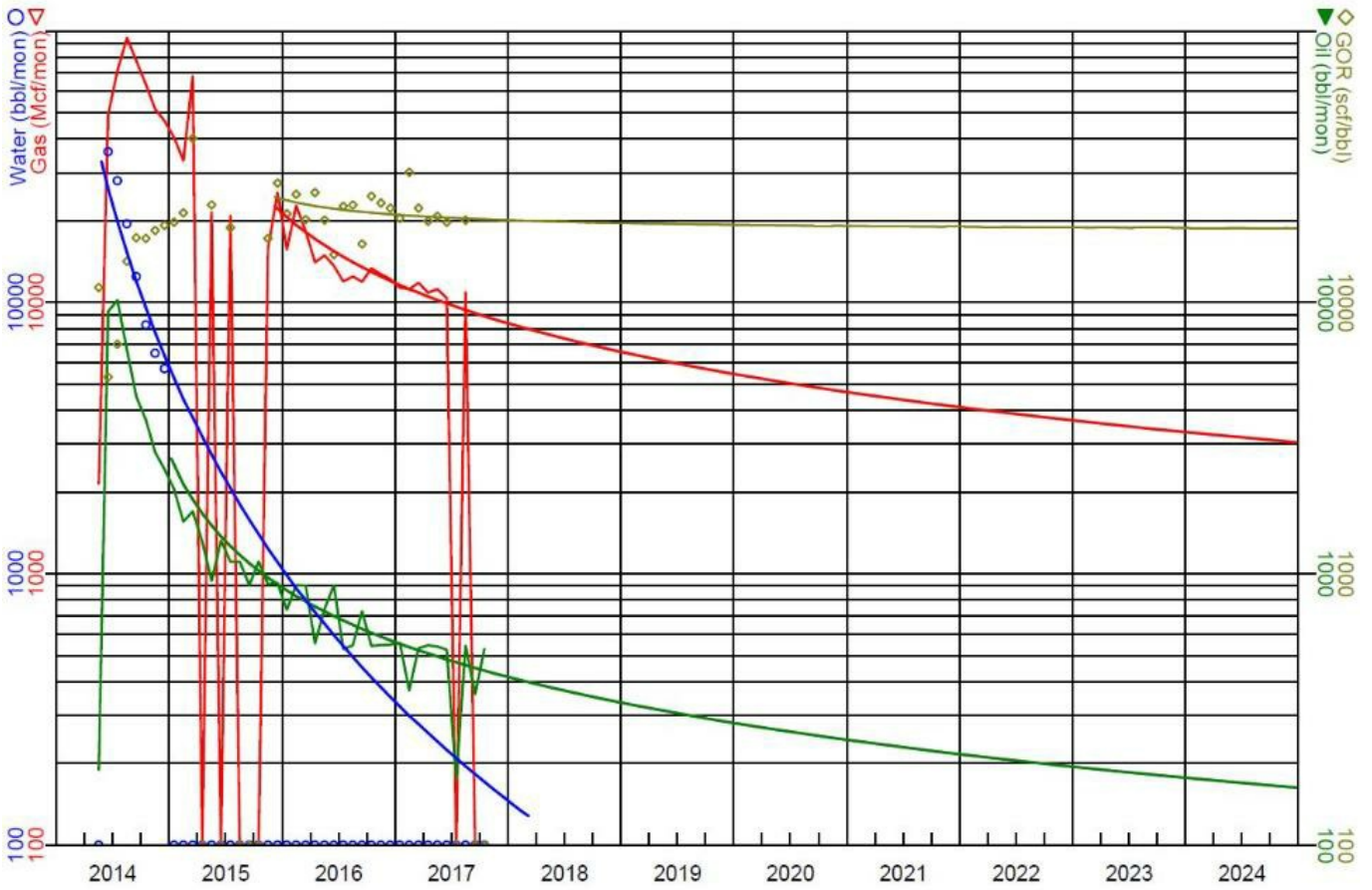
Project Name : TORCHLIGHT ENERGY, INC  
 Ownership Group : All Cases

| Lease Name<br><i>Risked / UnRisked</i>                 | Reserve Category | Net Reserves                   |               | Net Revenue                  |              |                | Expense<br>& Tax<br>(M\$) | Invest.<br>(M\$) | Cash Flow          |                   | Life<br>(years) |
|--|------------------|--------------------------------|---------------|------------------------------|--------------|----------------|---------------------------|------------------|--------------------|-------------------|-----------------|
|  |                  | Oil, Cond,<br>NGL *<br>(Mbbbl) | Gas<br>(MMcf) | Oil, Cond,<br>NGL *<br>(M\$) | Gas<br>(M\$) | Other<br>(M\$) |                           |                  | Non-Disc.<br>(M\$) | Disc. CF<br>(M\$) |                 |
| Grand Total  | Total            | 2.30                           | 43.81         | 111.55                       | 128.82       | 0.00           | 108.00                    | 0.00             | 132.36             | 95.99             | 12.34           |
| Proved Rsv Class                                       | Total            | 2.30                           | 43.81         | 111.55                       | 128.82       | 0.00           | 108.00                    | 0.00             | 132.36             | 95.99             | 12.34           |
| Proved Rsv Class<br>Producing Rsv Category             | Total            | 2.30                           | 43.81         | 111.55                       | 128.82       | 0.00           | 108.00                    | 0.00             | 132.36             | 95.99             | 12.34           |
| Proved Rsv Class<br>Producing Rsv Category<br>OK State |                  |                                |               |                              |              |                |                           |                  |                    |                   |                 |
| JUDY 1-15H - 1-15H                                     | P-DP             | 2.30                           | 43.81         | 111.55                       | 128.82       | 0.00           | 108.00                    | 0.00             | 132.36             | 95.99             | 12.34           |
| LOKI 1-24 - 1-24                                       | P-DP             | 0.00                           | 0.00          | 0.00                         | 0.00         | 0.00           | 0.00                      | 0.00             | 0.00               | 0.00              | 0.00            |

Case Name: JUDY 1-15H  
Field: SOONER TREND  
County, State: KINGFISHER (OK), OK

Oper: HUSKY VENTURES INC

Disc Value: 95.99 M\$



Case Name: LOKI 1-24  
Field: N/A  
County, State: JOHNSTON (OK), OK

Oper: HUSKY VENTURES INC

Disc Value: 0.00 M\$

