

TORCHLIGHT ENERGY RESOURCES INC
Form 10-Q
May 15, 2015

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

FORM 10-Q

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarter Ended March 31, 2015.

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: 001-36247

TORCHLIGHT ENERGY RESOURCES, INC.

(Name of registrant in its charter)

Nevada
(State or Other Jurisdiction of Incorporation or
Organization)

74-3237581
(I.R.S. Employer Identification No.)

5700 West Plano Pkwy, Suite 3600
Plano, Texas 75093

(Address of Principal Executive Offices)

(214) 432-8002

(Issuer'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)

NASDAQ

(Name of each exchange on which registered)

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

None

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

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 x No o

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="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

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

As of May 15, 2015, there were 23,478,441 shares of the registrant’s common stock outstanding (the only class of voting common stock).

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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, Item 2 “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. 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 report and in our Annual Report on Form 10-K for the year ended December 31, 2014, and in particular, the risks discussed in our Form 10-K under the caption “Risk Factors” in Item 1A therein, 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,” “we,” “Torchlight,” “our,” and similar terms include Torchlight Energy Resources, Inc. and its subsidiaries, unless the context indicates otherwise.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TORCHLIGHT ENERGY RESOURCES, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash	\$ 12,088	\$ 179,787
Accounts receivable	138,959	223,371
Production revenue receivable	370,951	210,435
Note receivable	515,908	515,748
Prepayments - development costs	13,145	20,602
Prepaid expenses	0	29,634
Total current assets	1,051,051	1,179,577
Investment in oil and gas properties, net	35,551,045	34,498,681
Office Equipment	51,872	55,150
Debt issuance costs, net	16,679	353,733
Other Assets	63,092	63,223
TOTAL ASSETS	\$ 36,733,739	\$ 36,150,364
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,947,110	\$ 4,018,306
Accrued liabilities	251,500	240,000
Related party payables	90,000	90,000
Convertible promissory notes, (Series A and Series B), net of discount of \$563,631 at March 31, 2015 and \$700,178 at December 31, 2014	12,123,467	7,417,420
Notes payable within one year	863,099	829,719
Due to working interest owners	72,796	73,439
Interest payable	535,730	383,741
Total current liabilities	19,883,702	13,052,625
Convertible promissory notes, (Series B), net of discount of \$625,457 at December 31, 2014	-	3,944,043
Asset retirement obligation	37,058	35,951
Commitments and contingencies	-	-
Stockholders' equity:		

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Preferred stock, par value \$.001, 10,000,000 shares authorized,

no shares issued or outstanding	-	-
Common stock, par value \$0.001 per share; 75,000,000 shares authorized;	23,478	23,235
23,478,441 issued and outstanding at March 31, 2015		
23,235,441 issued and outstanding at December 31, 2014		
Additional paid-in capital	43,014,009	43,108,752
Warrants outstanding	7,640,320	7,636,320
Accumulated deficit	(33,864,828)	(31,650,561)
Total stockholders' equity	16,812,979	19,117,745
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 36,733,739	\$ 36,150,364

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

TORCHLIGHT ENERGY RESOURCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	THREE MONTHS ENDED March 31, 2015	THREE MONTHS ENDED March 31, 2014
Revenue		
Oil and gas sales	\$ 534,562	\$ 642,970
SWD and royalties	56,696	39,165
Cost of revenue	(230,897)	(179,051)
Gross income	360,361	503,084
Operating expenses:		
General and administrative expense	688,711	5,821,068
Depreciation, depletion and amortization	494,475	334,331
Total operating expenses	1,183,186	6,155,399
Other income (expense)		
Interest income	-	50
Interest and accretion expense	(1,391,442)	(1,909,487)
Total other income (expense)	(1,391,442)	(1,909,437)
Net loss before taxes	(2,214,267)	(7,561,752)
Provision for income taxes	-	-
Net (loss)	\$ (2,214,267)	\$ (7,561,752)
Loss per share:		
Basic and Diluted	\$ (0.12)	\$ (0.48)
Weighted average shares outstanding:		
Basic and Diluted	18,378,669	15,741,749

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

TORCHLIGHT ENERGY RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOW (Unaudited)

	THREE MONTHS ENDED March 31, 2015	THREE MONTHS ENDED March 31, 2014
Cash Flows From Operating Activities		
Net (loss)	\$ (2,214,267)	\$ (7,561,752)
Adjustments to reconcile net loss to net cash from operations:		
Stock based compensation	(97,000)	4,393,375
Accretion of convertible note discounts	1,099,058	1,605,025
Income - Cancellation of Debt	-	-
Impairment expense	-	-
Depreciation, depletion and amortization	494,475	334,331
Change in:		
Accounts receivable	(16,646)	(199,937)
Note receivable	(160)	(129,820)
Production revenue receivable	(160,516)	-
Prepayment of development costs	7,457	-
Prepaid expenses	29,634	(44,679)
Other assets	131	298
Accounts payable and accrued liabilities	1,946,804	1,318,957
Due to working interest owners	(643)	(136,181)
Asset retirement obligation	1,107	534
Interest payable	151,989	(24,168)
Capitalized interest	(205,341)	-
Net cash provided by (used) in operating activities	1,036,082	(444,017)
Cash Flows From Investing Activities		
Investment in oil and gas properties	(1,507,162)	(5,247,243)
Acquisition of office equipment	-	(15,849)
Proceeds from Sale of Leases	270,000	-
Net cash used in investing activities	(1,237,162)	(5,263,092)
Cash Flows From Financing Activities		
Proceeds from sale of common stock	-	5,570,291
Proceeds from warrant exercise	-	180,000
Proceeds from promissory notes	33,381	18,493
Repayment of promissory notes	-	-
Net cash provided by financing activities	33,381	5,768,784
Net increase (decrease) in cash	(167,699)	61,675
Cash - beginning of period	179,787	1,811,713
Cash - end of period	\$ 12,088	\$ 1,873,388
Supplemental disclosure of cash flow information:		
Non cash transactions:		
Common stock issued for services	\$ (94,500)	\$ 7,375
Warrants issued for services	\$ 4,000	\$ 4,464,765

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Reduction in accounts receivable for WI acquisition	\$ 101,058	\$ -
Capitalized interest cost	\$ 205,341	\$ -
Common stock issued in connection with promissory notes	\$ -	\$ 981,825
Common stock issued in warrant exercises	\$ -	\$ 180,000
Asset retirement obligation	\$ 1,107	\$ -
Cash paid for interest	\$ 323,248	\$ 309,498

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF BUSINESS

Torchlight Energy Resources, Inc. 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. In addition to TEI, we also operate our business through our wholly-owned subsidiaries Torchlight Energy Operating, LLC, a Texas limited liability company and Hudspeth Oil Corporation, a Texas corporation.

On December 10, 2010, we effected a 4-for-1 forward split of our shares of common stock outstanding. All owners of record at the close of business on December 10, 2010 (record date) received three additional shares for every one share they owned. All share amounts reflected throughout this report take into account the 4-for-1 forward split.

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

The Company is engaged in the acquisition, exploration, development and production of oil and gas properties within the United States. The Company’s success will depend in large part on its ability to obtain and develop profitable oil and gas interests.

2. GOING CONCERN

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year.

At March 31, 2015, the Company had not yet achieved profitable operations. We had a net loss of approximately \$15.8 million for the year ended December 31, 2014 and had accumulated losses of \$33,864,828 since our inception to March 31, 2015, and expects to incur further losses in the development of our business. Working Capital as of March 31, 2015 was negative \$18,832,651 including the March 31, 2015 maturity of our Series A Secured Convertible Notes and Series B Unsecured Convertible Notes. 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. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

On March 31, 2015, the maturity date for our issued and outstanding 12% Series A Secured Convertible Promissory Notes (“Series A Notes”) occurred, and we did not make any payment to these note holders of the principal and interest due thereunder. This is an event of default under the terms and conditions of the Series A Notes, and the Agent for the Series A Note holders may exercise on behalf of such holders all rights and remedies available under the terms and conditions of the Series A Notes or applicable laws.

Additionally, our default in payment of the Series A Notes triggered a cross-default provision in our 12% Series B Convertible Unsecured Promissory Notes (“Series B Notes”), and any holder of a Series B Note may declare any and all of the obligations under such note due and payable and/or exercise any other rights and remedies available to such holder under the terms and conditions of the Series B Notes.

The outstanding balance of the Series B Notes has been classified as a current liability in the accompanying financial statements to reflect the rights of the Series B Note holders to remedies due to the default, although no such action is being taken by the Series B Note Holders as of the date of this filing. The Company is actively pursuing alternatives to cure the default status of the Notes.

Planned Divestiture of Hunton Project

On April 8, 2015, management announced that they are seeking to divest certain of our Hunton assets located in Logan and Kingfisher Counties, Oklahoma. The Company is actively marketing these assets to potential buyers. These assets include lease rights and current production, which are being marketed separately. There has been discussions with interested parties and management expects to have a buyer identified shortly. The proceeds from a sale of all or a portion of the assets will be used to satisfy obligations to our Series A Note holders.

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 subsidiary, Torchlight Energy, Inc. 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 – The Company’s cash is placed with a highly rated financial institution, and the Company periodically reviews the credit worthiness of the financial institutions with which it does business. At times the Company’s cash balances are in excess of amounts guaranteed by the Federal Deposit Insurance Corporation.

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

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

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

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

Accounts receivable – Accounts receivable consist of uncollateralized oil and natural gas revenues due under normal trade terms, as well as amounts due from working interest owners of oil and gas properties for their share of expenses paid on their behalf by the Company. Management reviews receivables periodically and reduces the carrying amount by a valuation allowance that reflects management’s best estimate of the amount that may not be collectible. As of March 31, 2015 and December 31, 2014 no valuation allowance was considered necessary.

Investment in 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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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 periods ended March 31, 2015 and December 31, 2014 and 2013, the Company capitalized \$205,341 and \$371,116, 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 un weighted 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 Company did not recognize impairment on its oil and gas properties during the periods ended March 31, 2015 and December 31, 2014. Due to the volatility of commodity prices, should oil and natural gas prices decline in the future, it is possible that a write-down could occur. Proved reserves are estimated quantities of crude oil, natural gas, and natural gas liquids, which geological and engineering data demonstrate with reasonable certainty to be recoverable from known reservoirs under existing economic and operating conditions. The independent engineering estimates include only those amounts considered to be proved reserves and do not include additional amounts which may result from new discoveries in the future, or from application of secondary and tertiary recovery processes where facilities are not in place or for which transportation and/or marketing contracts are not in place. Estimated reserves to be developed through secondary or tertiary recovery processes are classified as unevaluated properties.

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.

Gains and losses on the sale of oil and gas properties are not generally reflected in income. 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.

Asset retirement obligations – Accounting principles require that the fair value of a liability for an asset’s retirement obligation (“ARO”) be recorded in the period in which it is incurred if a reasonable estimate of fair value can be made, and that the corresponding cost be 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 cost incurred is recorded as a reduction to 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.

Asset retirement obligation activity is disclosed in Note 10.

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.

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.

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 Company has not included potentially dilutive securities in the calculation of loss per share for any periods presented as the effects 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 –

On August 27, 2014, the FASB issued ASU 2014-15, which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of the Company's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The ASU applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted.

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

In April 2014, the FASB issued ASU 2014-08, which includes amendments that change the requirements for reporting discontinued operations and require additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations - that is, a major effect on the organization's operations and financial results should be presented as discontinued operations. Additionally, the ASU requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The new standard is effective in the first quarter of 2015 for public organizations with calendar year ends. Early adoption would be permitted for any annual or interim period for which an entity's financial statements have not yet been made available for issuance. The adoption of this guidance is not expected to have an impact on the Company's consolidated financial statements.

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 May 15, 2015, the date of issuance of the financial statements. Subsequent events are disclosed in Note 11.

4. RELATED PARTY PAYABLES

As of March 31, 2015, related party payables consisted of accrued and unpaid compensation to two of our executive officers totaling \$90,000. The related party payables at December 31, 2012 included \$660,000 of accrued compensation due to our executive officers and directors. The officers forgave the \$660,000 of related party debt during third quarter, 2013.

A Director and a principal shareholder have advanced funds to the Company as short term loans totaling \$863,099 as of March 31, 2015.

5. COMMITMENTS AND CONTINGENCIES

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 March 31, 2015, no amounts had been recorded because no specific liability has been identified that is reasonably probable of requiring the Company to fund any future material amounts.

6. STOCKHOLDERS' EQUITY

The Company has authorized 10,000,000 shares of preferred stock with par value of \$.001. As of March 31, 2015 there were no issued and outstanding shares of preferred stock.

6. STOCKHOLDERS' EQUITY - continued

During the three months ended March 31, 2015 the Company issued 243,000 shares of common stock as compensation for services, with total value of \$93,500.

During the three months ended March 31, 2015, the Company vested 20,000 warrants as compensation for services, with a total value of \$4,000.

A summary of stock options and warrants outstanding as of March 31, 2015 by exercise price and year of expiration is presented below:

Exercise Price	Expiration Date in						Total
	2015	2016	2017	2018	2019		
\$ 1.00	-	-	150,000	-	-	150,000	
\$ 1.75	705,000	1,135,714	-	-	-	1,840,714	
\$ 2.00	-	1,035,271	126,000	1,696,380	-	2,857,651	
\$ 2.09	-	-	-	2,800,000	-	2,800,000	
\$ 2.50	-	100,000	-	-	-	100,000	
\$ 2.82	-	-	-	38,174	-	38,174	
\$ 3.00	-	100,000	-	-	-	100,000	
\$ 4.50	-	-	-	-	700,000	700,000	
\$ 5.00	-	8,391	115,000	-	-	123,391	
\$ 6.00	-	-	-	577,501	330,341	907,842	
\$ 7.00	-	-	-	-	700,000	700,000	
	705,000	2,379,376	391,000	5,112,055	1,730,341	10,317,772	

At March 31, 2015 the Company had reserved 10,317,772 shares for future exercise of warrants.

Warrants issued in relation to the promissory notes issued (see note 9) were valued using the Black Scholes Option Pricing Model. The assumptions used in calculating the fair value of the warrants issued are as follows:

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

7. CAPITALIZED COSTS

The following table presents the capitalized costs of the Company as of March 31, 2015 and December 31, 2014:

	3/31/2015	12/31/2014
Evaluated costs subject to amortization	\$ 27,451,860	\$ 24,276,483
Unevaluated costs	12,520,599	14,152,415
Total capitalized costs	39,972,459	38,428,898
Less accumulated depreciation, depletion and amortization	(4,421,414)	(3,930,217)
Net capitalized costs	\$ 35,551,045	\$ 34,498,681

Unevaluated costs as of December 31, 2014 consisted of \$710,139 associated with the Company's interest in the Coulter #1 well. The Coulter is a non-core, non-producing asset which we will attempt to monetize by sale of the lease. We presently have approximately 940 acres.

8. 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. The Company has placed a 100% valuation allowance against the net deferred tax asset because future realization of these assets is not assured.

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

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

The Company had a net deferred tax asset related to federal net operating loss carry forwards at December 31, 2014 of \$8,190,580 available to offset future taxable income. The federal net operating loss carry forward will begin to expire in 2030. Realization of the deferred tax asset is dependent, in part, on generating sufficient taxable income prior to expiration of the loss carry forwards. The Company has placed a 100% valuation allowance against the net deferred tax asset because future realization of these assets is not assured.

9. PROMISSORY NOTES

On December 18, 2012, the Company exchanged \$412,500 of outstanding convertible promissory notes for new 12% Series A Secured Convertible Promissory Notes ("Series A Notes") described below. The Series A Notes were issued as part of a larger offering with senior liens on the Company's oil and gas properties. In order to induce the holders of the previously outstanding convertible promissory notes to exchange such promissory notes and to relinquish their priority liens on the Company's oil and gas properties in favor of all 12% Convertible Promissory Note Holders, the Company agreed to grant the note holders a total of 235,714 four year warrants to purchase common stock at \$1.75 per share, valued at \$240,428, and 235,714 four year warrants to purchase common stock at \$2.00 per share, valued at \$233,357. The total of these warrants, \$473,785, is reflected as debt issuance costs on the balance sheet as of December 31, 2012, as these costs relate to the larger offering of 12% Convertible Promissory Notes.

On December 18, 2012, the Company issued \$690,000 of Series A Notes to new investors. Together with the conversion described above, there was \$1,102,500 of principal amount outstanding as of December 31, 2012. The Series A Notes are due and payable on March 31, 2015 and provide for conversion into common stock at a price of \$1.75 per share and include the issuance of 8,000 warrants for each \$70,000 of principal amount purchase. The warrants carry a five year term and have an exercise price of \$2.00 per share. They were valued at \$137,340, which is reflected as a discount on the Series A Notes, to be amortized over the life of the debt under the effective interest method. Since the conversion price on the Series A Notes was below the market price of the Company's common stock on the date of issuance, this constitutes a beneficial conversion feature. The amount is calculated as the difference between the market price of the common stock on the date of closing and the effective conversion price as adjusted by the discount for the warrants issued. The amount of the beneficial conversion feature was \$390,600, and is also reflected as a discount on the Series A Notes. The fair value of the Convertible Promissory Notes is determined utilizing Level 2 measurements in the fair value hierarchy.

During the year ended December 31, 2013, the Company issued an additional \$10,895,773 in principal value of Series A Notes. Such notes carry the same terms as described above. In connection therewith, the Company also issued a total of 1,308,082 five-year warrants to purchase common stock at an exercise price of \$2.00 per share. The value of the warrant shares was \$1,917,158 and the amount recorded for the beneficial conversion feature was \$5,770,654. These amounts were recorded as a discount on the Series A Notes. In addition, the Company engaged a placement agent to source investors for the majority of these additional notes. This placement agent was paid a fee of 10% of the principal amount of the notes plus a non-accountable expense reimbursement of up to 2% of the principal raised by the agent. The placement agent also received 552,057 warrants to purchase common shares at \$2.00 per share for a period of three years, valued at \$614,163. All the amounts paid to the placement agent have been included in debt issuance costs and will be amortized into interest expense over the life of the Series A Notes.

The Series A Notes have a first priority lien on all of the assets of the Company.

The Series "A" Convertible Notes total outstanding principal balance of \$8,117,598 plus interest, was due in full at their maturity date of March 31, 2015. As of the date of this filing, the interest due as of December 31, 2014 has been paid, however, the principal due at March 31, 2015 and interest accrued through March 31, 2015 are unpaid resulting in the Company being in default.

During the quarter ended June 30, 2014, the Company issued \$3,197,500 in principal value of 12% Series B Convertible Unsecured Promissory Notes. The Series B Notes are due and payable on June 30, 2017 and provide for conversion into common stock at a price of \$4.50 per share and included the issuance of one warrant for each \$22.50 of principal amount purchased. The Company issued a total of 142,111 of these five-year warrants to purchase common stock at an exercise price of \$6.00 per share. The value of the warrant shares was \$405,016 and the amount recorded for the beneficial conversion feature was \$195,466. These amounts were recorded as a discount on the

Series B Notes.

During the quarter ended September 30, 2014, the Company issued an additional \$1,372,000 in principal value of Series B Convertible Unsecured Promissory Notes. The Series B Notes are due and payable on June 30, 2017 and provide for conversion into common stock at a price of \$4.50 per share and included the issuance of one warrant for each \$22.50 of principal amount purchased. The Company issued a total of 60,974 of these five-year warrants to purchase common stock at an exercise price of \$6.00 per share. The value of the warrant shares was \$157,388 and the amount recorded for the beneficial conversion feature was \$-0-. These amounts were recorded as a discount on the Series B Notes.

Our default in payment of the Series A Notes triggered a cross-default provision in our 12% Series B Convertible Unsecured Promissory Notes (“Series B Notes”), and any holder of a Series B Note may declare any and all of the obligations under such note due and payable and/or exercise any other rights and remedies available to such holder under the terms and conditions of the Series B Notes.

As of the date of this filing, the Company has not made the interest payment due to Series B Note holders on March 31, 2015. The outstanding balance of the Series B Notes has been classified as a current liability in the accompanying financial statements to reflect the rights of the Series B Note holders to remedies due to the default, although no such action is being taken by the Series B Note Holders as of the date of this filing. The Company is actively pursuing alternatives to cure the default status of the Notes.

The Company is obligated on short term notes payable to third parties totaling \$863,099 as of March 31, 2015. The total balance due includes a \$103,419 note due on April 30, 2015 and \$759,680 in two notes which were due in December, 2014. The terms of the notes that were due in December are in process of being extended at the date of this filing.

10. ASSET RETIREMENT OBLIGATIONS

The following is a reconciliation of the asset retirement obligation liability through March 31, 2015:

Asset retirement obligation – December 31, 2012	\$12,614
Estimated liabilities recorded	10,407
Accretion Expense	1,361
Asset retirement obligation – December 31, 2013	\$24,382
Estimated liabilities recorded	7,789
Accretion Expense	3,780
Asset retirement obligation – December 31, 2014	\$35,951
Estimated liabilities recorded	-
Accretion Expense	1,107
Asset retirement obligation – March 31, 2015	37,058

11. SUBSEQUENT EVENTS

Promissory Notes

On March 31, 2015, the maturity date for our issued and outstanding 12% Series A Secured Convertible Promissory Notes (“Series A Notes”) occurred, and we did not make any payment to these note holders of the principal and interest due thereunder. This is an event of default under the terms and conditions of the Series A Notes, and the Agent for the Series A Note holders may exercise on behalf of such holders all rights and remedies available under the terms and conditions of the Series A Notes or applicable laws. All obligations under the Series A Notes will bear interest at a default rate of 18% per annum until such time that they are paid in full. The total principal amount outstanding on the Series A Notes is \$8,117,598, exclusive of interest. We are having ongoing discussions with the Agent regarding various possible solutions for the payment of this obligation.

Additionally, our default in payment of the Series A Notes triggered a cross-default provision in our 12% Series B Convertible Unsecured Promissory Notes (“Series B Notes”), and any holder of a Series B Note may declare any an all of the obligations under such note due and payable and/or exercise any other rights and remedies available to such holder under the terms and conditions of the Series B Notes. All obligations under the Series B Notes will bear interest at a default rate of 16% per annum. We have not made the interest payment due to Series B Note holders on March 31, 2015. The total principal amount outstanding on the Series B Notes is \$4,569,500, exclusive of interest.

Planned Divestiture of Hunton Project

On April 8, 2015, we announced that we are seeking to divest certain of our Hunton assets located in Logan and Kingfisher Counties, Oklahoma. We are actively marketing these assets to potential buyers. These assets include lease rights and current production, which are being marketed separately. We have been in discussions with interested parties and expect to have a buyer identified shortly. The proceeds from a sale of all or a portion of the assets will be used to satisfy obligations to our Series A Note holders.

Stock Private Placement

On May 11, 2015, we completed the sale to five investors in a private offering of an aggregate 4,300,000 shares of our restricted common stock. We received an aggregate consideration of \$1,075,000 for the securities. We did not pay any placement fees in connection with the sale of these securities. We did not grant any registration rights to the purchasers in this offering.

Loan from Major Shareholder

On April 1, 2015, a major shareholder lent us \$150,000 pursuant to a 12% promissory note due September 30, 2015, convertible at \$0.25 per share. In addition, the major shareholder received 150,000 warrants, with a term of three years at an exercise price of \$0.50 per share.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Basis of Presentation of Financial Information

On November 23, 2010, the Share Exchange Agreement (the "Exchange Agreement" or "Transaction") between Pole Perfect Studios, Inc. ("PPS") and Torchlight Energy, Inc. ("TEI") was entered into and closed, through which the former shareholders of TEI became shareholders of PPS. At closing, PPS abandoned its previous business. Consequently, as a result of the Transaction, the business of TEI became our sole business. In addition to TEI, we also operate our business through Torchlight Energy Operating, LLC, a Texas limited liability company and wholly-owned subsidiary.

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.

The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited financial statements included herewith and our audited financial statements included with our Form 10-K for the year ended December 31, 2014. 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.

We had no active operations prior to the inception of TEI on June 25, 2010 and had limited revenues prior to the year ended December 31, 2012.

Current Projects

As of March 31, 2015 the Company had interests in six oil and gas projects and one commercial Salt Water Disposal facility: the Marcelina Creek Field Development in Wilson County, Texas, the Coulter Field in Waller County, Texas, the Smokey Hills Prospect in McPherson County, Kansas, the Ring Energy Joint Venture in Southwest Kansas and the Hunton play in partnership with Husky Ventures in Central Oklahoma and the Orogrande Project in Hudspeth County, Texas.

Marcelina Creek Field Development.

On July 6, 2010, TEI entered into a participation agreement with Bayshore Operating Corporation, LLC ("Bayshore"), which is currently the holder of an oil, gas, and mineral lease covering approximately 1,045 acres in Wilson County, Texas, known as the Marcelina Creek Field Development. The Participation Agreement provides for the drilling of four wells. Three of the obligation wells have been drilled. The first three wells include a horizontal re-entry well known as the Johnson-1-H, a vertical well known as the Johnson #4, and a lateral well known as the Johnson #2-H. These three wells are presently producing a total of approximately 70 BOPD. The remaining well is to be a vertical development well at a location to be determined within the existing lease. Drilling is anticipated for midyear 2015.

The Marcelina Creek Field Development is located over the Austin Chalk, Buda, and Eagle Ford Formations, which formations are well known and established producers in central Texas. Their production is controlled by vertical fracturing of the rock with high productivity in wells which encounter the greatest amount of fractures. With the

advent of horizontal drilling technology, numerous opportunities exist in areas and fields that were only drilled vertically.

Coulter Field

In January 2012, we entered into a farm-in agreement, titled the “Coulter Limited Partnership Agreement” (the “Coulter Agreement”), with La Sal Energy, LLC (“La Sal”). La Sal owns a 100% working interest and a 75% net revenue interest in approximately 940 acres of oil, gas, and mineral leases in Waller County, Texas, on which the well known as “John Coulter #1-R” is located. This well is adjacent to the Katy Field, located on its northwestern updip edge, which produces primarily from the Wilcox Sparks formation.

Pursuant to the Coulter Agreement, we acquired a 34% working interest and a 25.5% net revenue interest from La Sal’s interest in the John Coulter #1-R for the purchase price of \$350,000, which was to be applied to 100% of the costs of a fracture stimulation treatment on the well. Under the agreement, we had options to purchase additional working interests up to a total of 45%. We exercised the first option and purchased an additional 6% for \$50,000, bringing our working interest to 40% and our net revenue interest to 30%. Our option to purchase an additional 5% working interest can be exercised by the payment of \$50,000 within 30 days of first commercial production from the well. If commercial production is established, the net revenue split will be 80% to us and 20% to La Sal until net revenue totals \$437,500, after which the net revenue will be split according to the interests in the well. Expenses above the initial \$350,000 will be split according to the working interests in the well. Our total investment in the project, including fracture stimulation, subsequent testing, purchase of additional interests and capitalized interest, amounted to \$710,139 as of March 31, 2015.

The Coulter is a non-core, non-producing asset which we will attempt to monetize by sale of the lease. We presently have approximately 940 acres.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Smokey Hills Prospect, McPherson County, Kansas

In April 2013, we entered into an agreement to acquire certain assets of Xtreme Oil & Gas, Inc. of Plano, Texas ("Xtreme"). Included in that agreement were the Smokey Hills Prospect in McPherson County, Kansas, the Cimarron Area Hunton Project in Logan County, Oklahoma, and an interest in a salt water disposal facility in Seminole, Oklahoma. Total consideration for all the properties was \$1.6 million.

The Smokey Hills acquisition included approximately 16,000 gross acres and a well, the Hoffman 1-H within the greater Lindsborg Field area. Our working interest is nearly 18%. Wells had been drilled vertically in the 1960's to present at depths of less than 4,000 feet looking for production from Mississippian carbonated fractured reservoirs. The Hoffman well was drilled laterally 4,200 feet and fracking had not been completed at the time of our acquisition of the project. Core analysis and logs indicated good porosity at 14 to 22%. Following our acquisition, the well was hydraulically fractured, but the results were disappointing.

During 2014 a ten well program to evaluate the Prospect was conducted. Based on the economic outcome of the first five wells and the further geological analysis of the acreage, the drilling program was discontinued during the fourth quarter, 2014 and the two producing wells were shut in.

The Smokey Hill prospect is also non-core, and we will attempt to sell the remaining leases as well as the well bores. We presently have approximately 960 acres under lease and four well bores.

The Ring Energy Joint Venture, Southwest Kansas

In October 2013, we entered into a Joint Venture agreement with Ring Energy. The agreement called for us to provide for \$6.2 million in drilling capital to, in effect, match Ring Energy's expenditures for leasing. In exchange for this commitment, we would receive a 50% interest in each well bore drilled and the acreage unit it held, until we had spent \$6.2 million. At such time, we would then receive a 50% Working Interest in the entire lease block consisting of 17,000 +/- acres. We were to provide \$3.1 million in advance of the program commencing, which would cover approximately 5 wells to be drilled and completed. Once the initial five wells are completed, we and Ring would evaluate the program and the drilling activity and determine if another five wells are to be drilled. Should we continue with the program, we would then deposit another \$3.1 million with Ring for drilling and completion of the next five wells.

We have made the initial \$3.1 million deposit and the first five well drilling program is completed. Drilling operations commenced in March, 2014. Seven wells have been drilled – three are producing, one can be converted to a salt water disposal well, one was not completed, and two were plugged and abandoned. Based upon results from drilling, the participants elected to suspend further drilling and obtain seismic data to guide continuing development. The seismic data is being analyzed at the date of this filing. As of March 31, 2015, the Company had invested approximately \$5,150,000 in the Ring Joint Venture. The Company believes this project is still considered to be in the testing phase.

Hunton Play, Central Oklahoma

The Xtreme transaction also included the acquisition of three Hunton wells, the Hancock, Robinson and Lenhart. The Hancock and Robinson are producing wells but have small working interests of 1% and .25 of 1%, respectively.

The Lenhart well is a 62% working interest and was being prepared for a fracture stimulation when it was previously damaged, prior to our acquisition, by the service contractor. The well bore at the Hunton level has an irretrievable pipe in the hole and cannot be used to produce from the Hunton. Although Xtreme won the litigation against the contractor, he failed to pay for the replacement of the well bore, and Xtreme was responsible for costs primarily to Baker-Hughes for work done on the well. We took responsibility for those charges and negotiated a settlement of approximately \$600,000.

Subsequent to the above, we have identified a shallow sandstone that could potentially be productive. As previously planned, we tested this formation, and although there were hydrocarbons present, they are not in sufficient quantities to be economic. The Lenhart property was sold for \$25,000 and buyer's assumption of plugging liability in 2015.

During the second quarter of 2013, Torchlight entered into an agreement with Husky Ventures to participate in the drilling of wells to the Hunton Formation in central Oklahoma. We continued to expand this relationship with Husky Ventures on a monthly basis as we expand our lease acreage in the contracted Areas of Mutual Interest (AMI's).

When Torchlight executed the agreement Husky had already drilled and completed 18 successful wells in the Hunton. We estimated that Husky had spent, or caused to be spent, \$125 million in what we considered a Research and Development project. The results of Husky's initial program lead them to develop certain drilling and completions techniques of which we could participate in and take advantage of.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

The terms in our agreement with Husky are that we pay our proportionate costs of leases and operating expenses based on our working interest. For leasing and drilling costs (the AFE), we carry Husky for 15% based on our working interest participation. This is to compensate Husky for the initial program mentioned above and, additionally, the project coordination of the geological, leasing, legal and title opinions, survey and permitting, all drilling, frac design, completion and equipping, day to day operations, and accounting and filing all required monthly and annual reporting to all governmental agencies.

Torchlight believes this is an equitable agreement in that we have the benefit of the initial programs results while participating with a proven operator in areas that continue to provide us with outstanding results in a safe investment environment.

Specifically, we were able to negotiate a 15% working interest in approximately 3,700 acres in the Cimarron Area of Logan County in May, 2013. Leasing continued monthly which resulted in the total acreage in which the Company has an interest increasing to approximately 5,020 as of March 31, 2015 (Net undeveloped acres = 343). Our net cumulative investment through March 31, 2015 in undeveloped acres in the Cimarron AMI was \$685,848.

The first well in the Cimarron AMI, the Boeckman #1-H well, was spud and was subsequently completed and fracture stimulated in July, 2013. We acquired a working interest in the Boeckman #1-H well and subsequently sold part of our ownership in the Boeckman well for \$990,000. We agreed to a preferential payout to the purchaser equal to 50% of his acquired interest. The agreement was amended in the first quarter of 2014 to include our agreement to advance funds under a note receivable from the purchaser to be repaid from the purchaser's revenue preference subsequent to October, 2014. Revenue payable to the investor based on revenue to March 31, 2015 has been accrued in the accompanying financial statements.

In the third quarter of 2013, we acquired from a third party for stock, a 15.3% working interest in 5011+/- acres in the Chisholm Trail AMI with Husky Ventures Inc. as the operator. Leasing also continued monthly in this AMI increasing the total acreage in which the Company has an interest to approximately 15,300 as of March 31, 2015 (Net undeveloped acres = 2,165). Our net cumulative investment through March 31, 2015 in undeveloped acres in the Chisholm Trail AMI was \$4,187,339.

In the fourth quarter of 2013 we entered into our third Area of Mutual Interest (AMI) with Husky Ventures, the Viking Prospect. This AMI covers four townships in size. We acquired a 25% interest in 3,945 acres in the Viking. We subsequently acquired an additional 5% in May, 2014. Leasing is continuing monthly so that we had an interest in approximately 7,735 total acres in which the Company has an interest as of March 31, 2015. (Net undeveloped acres = 2,266) Husky drilled the first two wells in the AMI in second quarter, 2014. Our net cumulative investment through March 31, 2015 in undeveloped acres in the Viking AMI was \$1,286,645.

In January of 2014, we again elected to continue to expand in the Hunton Play with Husky Ventures. We contracted for a 25% Working Interest in approximately 5,000 acres in the R4 AMI consisting of eight townships in South Central Oklahoma. We subsequently acquired an additional 5% in May, 2014. Leasing is continuing monthly so that the Company had an interest in approximately 11,900 total acres as of March 31, 2015 (Net undeveloped acres = 3,586). Our cumulative investment through March 31, 2015 in the R4 AMI was \$2,834,514.

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.

In July of 2014, we elected to further expand in the Hunton Play with Husky Ventures. We contracted for a 25% Working Interest in the T4 AMI. There is an active ongoing leasing program in this AMI so that the total acres in which the Company has an interest at March 31, 2015 totals approximately 2,325 acres (Net undeveloped acres = 581). Our cumulative investment through March 31, 2015 in the T4 AMI was \$949,530.

As of March 31, 2015, we are actively producing from twenty three wells including eleven in the Chisholm Trail, ten in Cimarron, one in Viking, and one in Prairie Grove. One well is completing in the Viking at March 31, 2015.

During February, 2015, the Company entered into an agreement with Husky Ventures Inc. to restructure the amounts due under Husky's Joint Interest Billing ("JIB") to the Company. During the fourth quarter, 2014, Husky presented a series of cash calls to the Company for participation in drilling projects in Oklahoma. The Company did not fund the prepayments requested. However, as drilling began, Husky carried the Company's share of development expenses on the JIB account. It was determined in the first quarter, 2015 that the Company would be unable to fund the requested prepayments and an agreement was reached to reverse the development cost charges on the JIB in exchange for Torchlight relinquishing any claims that it might have had for an interest in the fourteen wells covered by the agreement. The adjustments to account for the reversal were made effective December 31, 2014. No development cost, revenue, or operating expenses with respect to those wells was recorded in the records of the Company as of December 31, 2014 since the Company did not pay for any participation in those wells.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

On April 8, 2015, we announced that we are seeking to divest certain of our Hunton assets located in Logan and Kingfisher Counties, Oklahoma. We are actively marketing these assets to potential buyers. These assets include lease rights and current production, which are being marketed separately. We have been in discussions with interested parties and expect to have a buyer identified shortly. The proceeds from a sale of all or a portion of the assets will be used to satisfy obligations to our Series A Note holders.

Salt Water Disposal Facility

As part of the Xtreme transaction we also acquired a 22.5% net royalty on a salt water disposal facility in Seminole, Oklahoma. No value was placed on the facility due to operational uncertainty. The facility which was newly commissioned in January 2013 is a state of the art disposal facility which can handle 20,000 barrels of produced and injected fluids per day. Oil and gas wells produce large quantities of saltwater that must be trucked and disposed of at a cost to the producer. In addition to the royalty, we have a 24.65% Working Interest which was acquired from some investors that have turned over their working interest in lieu of paying their outstanding JIB Account Receivable due to Torchlight, plus the right to an additional working interest of 37.5% when the original investors in the facility receive a payout of their investment. This SWD facility is considered non-core and is being offered for sale.

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 is the sole owner of both Hudspeth and MPC. Under the terms and conditions of the Purchase Agreement, at closing, we purchased 100% of the capital stock of Hudspeth which holds certain oil and gas assets, including a 100% working interest in 172,000 mostly contiguous acres in the Orogrande Basin in West Texas. This acreage is in the primary term under five-year leases that carry additional five-year extension provisions. As consideration, at closing we issued 868,750 shares of our common stock to Mr. McCabe and paid a total of \$100,000 in geologic origination fees to third parties. Additionally, Mr. McCabe will have an optional 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. Closing of the transactions contemplated by the Purchase Agreement occurred on September 23, 2014.

Of the 172,000 acres, 40,154 were scheduled for renewal in December, 2014. As of March 31, 2015 the Company had not renewed the leases. The Company is in discussions regarding renewal at the date of this filing.

Prior to March 31, 2015, the Company had the obligation to begin drilling its first well in order to hold the acreage block. The well was permitted and spudded and drilling began by March 31 and development is in progress at the date of this filing.

Historical Results for the quarters ended March 31, 2015 and 2014:

Revenues and Cost of Revenues

For the quarter ended March 31, 2015, we had production revenue of \$534,562 compared to \$642,970 for the quarter ended March 31, 2014. Refer to the table of production and revenue history below. Our cost of revenue, consisting of lease operating expenses and production taxes, was \$230,897, and \$179,051 for the quarters ended March 31, 2015 and 2014, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Property	Quarter	Oil Production {BBLs}	Gas Production {MCF}	Oil Revenue	Gas Revenue	Total Revenue
Marcelina	Q1 - 2014	3,888	-	\$ 360,074	\$ -	\$ 360,074
Oklahoma	Q1 - 2014	2,326	7,366	\$ 233,686	\$ 49,210	\$ 282,896
Total Q1-2014		6,214	7,366	\$ 593,760	\$ 49,210	\$ 642,970
Marcelina	Q2 - 2014	4,546	-	\$ 368,937	\$ -	368,937
Oklahoma	Q2 - 2014	9,660	33,584	\$ 899,709	\$ 189,073	1,088,782
Kansas	Q2 - 2014	2,059	-	\$ 172,316	\$ -	172,316
Total Q2-2014		16,265	33,584	\$ 1,440,962	\$ 189,073	\$ 1,630,035
Marcelina	Q3 - 2014	3,189	-	\$ 289,230	\$ -	\$ 289,230
Oklahoma	Q3 - 2014	13,900	35,951	\$ 1,346,858	\$ 185,830	\$ 1,532,688
Kansas	Q3 - 2014	1,257	-	\$ 119,797	\$ -	\$ 119,797
Total Q3-2014		18,346	35,951	\$ 1,755,885	\$ 185,830	\$ 1,941,715
Marcelina	Q4 - 2014	2,768	-	\$ 118,132	\$ -	\$ 118,132
Oklahoma	Q4 - 2014	12,578	93,193	\$ 663,053	\$ 429,960	\$ 1,093,013
Kansas	Q4 - 2014	744	-	\$ 29,690	\$ -	\$ 29,690
Total Q3-2014		16,090	93,193	810,875	429,960	1,240,835
Year Ended 12/31/14		56,915	170,094	\$ 4,601,482	\$ 854,073	\$ 5,455,555
Marcelina	Q1 - 2015	2,425	-	\$ 98,787	\$ -	\$ 98,787
Oklahoma	Q1 - 2015	5,931	37,226	\$ 277,574	\$ 117,521	\$ 395,095
Kansas	Q1 - 2015	979	-	\$ 40,680	\$ -	\$ 40,680
Total Q1-2015		9,335	37,226	417,041	117,521	534,562

We recorded depreciation, depletion, and amortization expense of \$494,475 for the quarter ended March 31, 2015.

General and Administrative Expenses

Our general and administrative expenses for the quarters ended March 31, 2015 and 2014 were \$688,711 and \$5,821,068, respectively, a decrease of \$5,132,357. 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 change in general and administrative expenses for the quarters ended March 31, 2015 compared to 2014 is detailed as follows:

Increase(decrease) in non cash stock and warrant compensation	\$(4,490,375)
Increase(decrease) in capital funding expense	\$(111,128)
Increase(decrease) in consulting expense	\$ 168,802
	\$(324,626)

Increase(decrease) in investor relations expense	
Increase(decrease) in travel expense	\$(96,244)
Increase(decrease) in salaries and compensation	\$(259,350)
Increase(decrease) in general corporate expenses	\$(19,346)
Total Decrease in General and Administrative Expenses	\$(5,132,267)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Liquidity and Capital Resources

At March 31, 2015, we had working capital of (\$18,832,651), current assets of \$1,051,051 consisting of cash, accounts receivable, notes receivable, and prepaid expenses and total assets of \$36,733,739 consisting of current assets, investments in oil and gas properties, and other assets. As of March 31, 2015, we had current liabilities of \$19,883,702, consisting of, accounts payable (principally for development costs), payables to related parties, notes payable, and accrued interest. The remaining balance of \$8,117,598 Series A convertible notes payable (which matured on March 31, 2015) plus \$4,569,500 Series B convertible notes payable less Series B debt discount of \$563,631, are classified as current liabilities which accounts for \$12,123,467 of negative working capital at March 31, 2015. Stockholders' equity was \$16,812,979.

Cash flow provided by (used) in operating activities for the quarter ended March 31, 2015 was \$1,036,082 compared to \$(444,017) for the quarter ended March 31, 2014, an increase of \$1,480,099. Cash flow provided by operating activities for the quarter ended March 31, 2015 can be primarily attributed to net losses from operations of \$2,214,267 which consists primarily of \$688,711 in general and administrative expenses, depreciation, depletion and amortization of \$494,475, accretion of convertible note discounts of \$1,099,058. Cash flow used in operating activities for the quarter ended March 31, 2014 can be primarily attributed to net losses from operations of \$7,561,752, which consists primarily of \$5,821,068 in general and administrative expenses (\$4,393,375 of which are non-cash stock based compensation), depreciation, depletion, and amortization of \$334,331, and accretion of convertible note discounts \$1,605,025. We expect to continue to use cash flow in operating activities until such time as we achieve sufficient commercial oil and gas production to cover all of our cash costs.

Cash flow used in investing activities for the quarter ended March 31, 2015 was \$1,237,162 compared to \$5,263,092 for the quarter ended March 31, 2014. Cash flow used in investing activities consists primarily of oil and gas investments in Oklahoma and Kansas properties during the quarter ended March 31, 2015.

Cash flow provided by financing activities for the quarter ended March 31, 2015 was \$33,381 as compared to \$5,768,784 for the quarter ended March 31, 2014. Cash flow provided by financing activities consists primarily of proceeds from common stock issues and warrant exercises. We expect to continue to have cash flow provided by financing activities as we seek new rounds of financing and continue to develop our oil and gas investments.

Our current assets are insufficient to meet our current obligations or to satisfy our cash needs over the next twelve months and as such we will require additional debt or equity financing to meet our plans and needs. We face obstacles in continuing to attract new financing due to our history and current record of net losses and working capital deficits. All outstanding principal of our 12% Series A Secured Convertible Notes payable totaling \$8,117,598 plus interest were due in full at their March 31, 2015 maturity. The Company is lacking the liquidity at the date of this filing to repay the Series A notes in full and is, therefore, in default. Our default in payment of the Series A Notes triggered a cross-default provision in our 12% Series B Convertible Unsecured Promissory Notes ("Series B Notes"), and any holder of a Series B Note may declare any and all of the obligations under such note due and payable and/or exercise any other rights and remedies available to such holder under the terms and conditions of the Series B Notes. The outstanding balance of the Series B Notes has been classified as a current liability in the accompanying financial statements to reflect the rights of the Series B Note holders to remedies due to the default, although no such action is being taken by the Series B Note Holders as of the date of this filing. Management is actively pursuing and is in negotiations to take steps needed to cure the default as of the date of this filing. 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 in the foreseeable future.

Commitments and Contingencies

We are subject to contingencies as a result of environmental laws and regulations. Present and future environmental laws and regulations applicable to our operations could require substantial capital expenditures or could adversely affect our operations in other ways that cannot be predicted at this time. As of March 31, 2015 and March 31, 2014, no amounts have been recorded because no specific liability has been identified that is reasonably probable of requiring us to fund any future material amounts.

As of March 31, 2015 the Company had interests in six oil and gas projects and one commercial Salt Water Disposal facility: the Marcelina Creek Field Development in Wilson County, Texas, the Coulter Field in Waller County, Texas, the Smokey Hills Prospect in McPherson County, Kansas, the Ring Energy Joint Venture in Southwest Kansas and the Hunton play in partnership with Husky Ventures in Central Oklahoma and the Orogrande Project in Hudspeth County, Texas. See the description under “Current Projects” above under “Overview” for more information and disclosure regarding commitments and contingencies relating to these projects.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of March 31, 2015. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports we submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms and that such information was accumulated and communicated to our principal executive officer and principal financial officer, in a manner that allowed for timely decisions regarding disclosure.

Changes in Internal Control over Financial Reporting

Our principal executive officer and principal financial officer have indicated that, upon evaluation, there were no changes in our internal control over financial reporting or other factors during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On February 16, 2012, we filed a lawsuit against Hockley Energy, Inc. and Frank O. Snorheim in the District Court of Harris County, Texas in connection with farmout agreements we entered into with Hockley Energy in November 2011.

The Company sued Hockley Energy and Snorheim for breach of contract, fraudulent inducement, promissory estoppel pertaining to failure to perform two farmout agreements entered into on November 4, 2011, the first relating to the Marcelina Creek prospect and the second relating to the East Stockdale prospect. Under the Marcelina Farmout, Hockley Energy had an obligation to fund \$2,231,250.00 no later than November 18, 2011. They didn't perform as promised. On February 23, 2015, the Company obtained a summary judgment against Hockley Energy in the amount of \$16,400,000 in damages and \$21,877.77 in attorney fees. That judgment was severed on March 25, 2015, and will be available for execution on April 25, 2015. It is doubtful, however, that any substantial portion of the judgment is recoverable from Hockley Energy. The remaining claims against Snorheim have been set for trial the two-week period following June 22, 2015. Snorheim does own assets that are likely executable, albeit not in an amount approaching the judgment, should there be recovery against him individually. There are no counterclaims pending. Management is open to settlement discussions. Because there are no counterclaims, the possibility of an adverse outcome is remote.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In March, 2015 the Company granted a third party a right to acquire 631,250 shares of its common stock at \$.35 per share in connection with the granting of an extension to the Company for certain drilling obligations. The securities were issued 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 issuance of securities did not involve a "public offering" based upon the following factors: (i) the issuance of securities was an isolated private transaction; (ii) a limited number of

securities was issued to a single purchaser; (iii) there were no public solicitations; (iv) the purchaser represented that it was an accredited investor; (v) the investment intent of the purchaser; and (vi) the restriction on transferability of the securities issued.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

As previously reported on Form 8-K, the maturity date for our issued and outstanding 12% Series A Secured Convertible Promissory Notes (“Series A Notes”) occurred on March 31, 2015, and we did not make any payment to these note holders of the principal and interest due thereunder. This was an event of default under the terms and conditions of the Series A Notes, and the Agent for the Series A Note holders may exercise on behalf of such holders all rights and remedies available under the terms and conditions of the Series A Notes or applicable laws. All obligations under the Series A Notes will bear interest at a default rate of 18% per annum until such time that they are paid in full. The total principal amount outstanding on the Series A Notes is \$8,117,598, exclusive of interest.

Additionally, our default in payment of the Series A Notes triggered a cross-default provision in our 12% Series B Convertible Unsecured Promissory Notes (“Series B Notes”), and any holder of a Series B Note may declare any and all of the obligations under such note due and payable and/or exercise any other rights and remedies available to such holder under the terms and conditions of the Series B Notes. All obligations under the Series B Notes bear interest at a default rate of 16% per annum. We have not made the interest payment due to Series B Note holders on March 31, 2015. The total principal amount outstanding on the Series B Notes is \$4,569,500, exclusive of interest.

The outstanding balance of the Series B Notes has been classified as a current liability in the accompanying financial statements to reflect the rights of the Series B Note holders to remedies due to the default, although no such action is being taken by the Series B Note Holders as of the date of this filing. The Company is actively pursuing alternatives to cure the default status of the Notes.

ITEM 6. EXHIBITS

Exhibit No.	Description
2.1	Share Exchange Agreement dated November 23, 2010. (Incorporated by reference from Form 8-K filed with the SEC on November 24, 2010.) *
3.1	Articles of Incorporation. (Incorporated by reference from Form S-1 filed with the SEC on May 2, 2008.) *
<u>3.2</u>	<u>Certificate of Amendment to Articles of Incorporation dated December 10, 2014.</u>
3.3	Amended and Restated Bylaws (Incorporated by reference from Form 8-K filed with the SEC on January 12, 2011.) *
10.1	Agreement to Participate in Oil and Gas Development Joint Venture between Bayshore Operating Corporation, LLC and Torchlight Energy, Inc. (Incorporated by reference from Form 8-K filed with the SEC on November 24, 2010) *
10.2	Purchase and Sale Agreement between Torchlight Energy, Inc. and Xtreme Oil and Gas, Inc. effective April 1, 2013. (Incorporated by reference from Form 10-Q filed with the SEC on May 15, 2013.) *
10.3	Employment Agreement with John A. Brda (Incorporated by reference from Form 8-K filed with the SEC on October 15, 2013.) *
10.4	Amendment to Employment Agreement with John A. Brda (Incorporated by reference from Form 10-K filed with the SEC on June 30, 2014.) *
10.5	Employment Agreement with Roger Wurtele (Incorporated by reference from Form 8-K filed with the SEC on October 15, 2013.) *
10.6	Amendment to Employment Agreement with Roger Wurtele (Incorporated by reference from Form 10-K filed with the SEC on June 30, 2014.) *
10.7	Employment Agreement with Willard McAndrew III (Incorporated by reference from Form 8-K filed with the SEC on October 15, 2013.) *
10.8	Amendment to Employment Agreement with Willard McAndrew III (Incorporated by reference from Form 8-K filed with the SEC on October 15, 2013.) *
10.9	Second Amendment to Employment Agreement with Willard McAndrew III (Incorporated by reference from Form 10-K filed with the SEC on June 30, 2014.) *
10.10	Development Agreement between Ring Energy, Inc. and Torchlight Energy Resources, Inc. (Incorporated by reference from Form 8-K filed with the SEC on October 22, 2013.) *
10.11	Coulter Limited Partnership Agreement dated January 10, 2012 (Incorporated by reference from Form 10-Q filed with the SEC on August 14, 2014.) *
10.12	

	Promissory Note with Boeckman Well LLC dated May 1, 2013 and amendments thereto (Incorporated by reference from Form 10-Q filed with the SEC on August 14, 2014.) *
10.13	12% Series A Secured Convertible Promissory Note (form of) (Incorporated by reference from Form 10-Q filed with the SEC on August 14, 2014.) *
10.14	Securities Purchase Agreement (form of), January 2014 (Incorporated by reference from Form 10-Q filed with the SEC on August 14, 2014.) *
10.15	Registration Rights Agreement (form of), January 2014 (Incorporated by reference from Form 10-Q filed with the SEC on August 14, 2014.) *
10.16	Purchase Agreement with Hudspeth Oil Corporation, McCabe Petroleum Corporation and Greg McCabe dated August 7, 2014 (Incorporated by reference from Form 10-Q/A filed with the SEC on October 21, 2014) *
10.17	Purchase and Sale Agreement between Torchlight Energy, Inc. and Zenith Petroleum Corporation (Incorporated by reference from Form 8-K filed with the SEC on June 10, 2014) *
10.18	Securities Purchase Agreement with Castleton Commodities Opportunities Master Fund, L.P. (Incorporated by reference from Form 8-K filed with the SEC on August 20, 2014) *

ITEM 6. EXHIBITS - continued

31.1	<u>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.</u>
31.2	<u>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.</u>
32.1	<u>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.</u>
101.INS	XBRL Instance Document (Incorporated by reference from Form 10-Q filed with the SEC on August 14, 2014.) *
101.SCH	XBRL Taxonomy Extension Schema (Incorporated by reference from Form 10-Q filed with the SEC on August 14, 2014.) *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (Incorporated by reference from Form 10-Q filed with the SEC on August 14, 2014.) *
101.DEF	XBRL Taxonomy Extension Definitions Linkbase (Incorporated by reference from Form 10-Q filed with the SEC on August 14, 2014.) *
101.LAB	XBRL Taxonomy Extension Label Linkbase (Incorporated by reference from Form 10-Q filed with the SEC on August 14, 2014.) *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (Incorporated by reference from Form 10-Q filed with the SEC on August 14, 2014.) *

* Incorporated by reference from our previous filings with the SEC

SIGNATURES

Pursuant to the requirements 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.

Date: May 14, 2015

/s/ John A. Brda
By: John A. Brda
Chief Executive Officer

Date: May 14, 2015

/s/ Roger Wurtele
By: Roger Wurtele
Chief Financial Officer and Principal
Accounting Officer