

CLIFFS NATURAL RESOURCES INC.
Form 8-K
March 25, 2011

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported):

March 23, 2011

Cliffs Natural Resources Inc.

(Exact name of registrant as specified in its charter)

Ohio

1-8944

34-1464672

(State or other jurisdiction
of incorporation)

(Commission
File Number)

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

200 Public Square, Suite 3300, Cleveland,
Ohio

44114-2315

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

216-694-5700

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 8.01 Other Events.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted. Section 1503(b)(1) of the Dodd Frank Act requires the disclosure on a Current Report on Form 8-K of the receipt of an imminent danger order issued under section 107(a) (an "Order") of the Federal Mine Safety and Health Act of 1977.

On March 23, 2011, Cliffs Logan County Coal, LLC (the "Company"), a wholly-owned subsidiary of Cliffs Natural Resources Inc., received an Order from the federal Mine Safety and Health Administration stating, among other things, that employees at the Company's Chilton-Dingess mine were observed cutting timbers in a raised scoop bucket that was not blocked against motion. The employees deenergized the scoop, which immediately terminated the Order.

The conditions cited in the Order referred to above did not result in an accident or injury and had no material adverse impact on the Company's operations at the Chilton-Dingess mine.

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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 hereunto duly authorized.

March 25, 2011

Cliffs Natural Resources Inc.

By: /s/ Gina K. Gunning

Name: Gina K. Gunning

Title: General Counsel, Corporate Affairs and Secretary

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(272,801)

Loss before income taxes

(919,910)

(7,684,346)

Provision for income taxes

-

-

Net loss

\$(919,910)

\$(7,684,346)

Loss per common share:

Basic and Diluted

\$(0.02)

\$(0.19)

Weighted average number of common shares outstanding:

Basic and Diluted

59,623,105

43,122,514

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

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

	Common stock shares	Common Pref. stock amount	Pref. stock shares	Pref. Stock Amt.	Additional paid-in capital	Accumulated deficit	Total
Balance, December 31, 2015	33,166,344	\$33,168	134,000	\$134	\$78,252,411	\$(74,903,439)	\$3,382,274
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)
Balance, December 31, 2016	55,096,503	\$55,100	-	-	\$89,675,488	\$(82,587,785)	\$7,142,803
Issuance of common stock for services	507,897	508	-	-	579,246	-	579,754

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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)
Balance, December 31, 2017	63,340,034	\$63,344	-	-	\$99,403,654	\$(83,507,693)	\$15,959,305

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

TORCHLIGHT ENERGY RESOURCES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW

	YEAR	YEAR
	ENDED	ENDED
	December 31, 2017	December 31, 2016
Cash Flows From Operating Activities		
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)
Net cash provided by (used) in operating activities	465,592	(4,826,089)
Cash Flows From Investing Activities		
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
Net cash provided by (used) in investing activities	(9,458,648)	(167,871)
Cash Flows From Financing Activities		
Proceeds from short term advance	-	150,000

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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)
Net cash provided by financing activities	8,275,275	5,736,859
Net increase (decrease) in cash	(717,781)	742,899
Cash - beginning of period	1,769,499	1,026,600
Cash - end of period	\$1,051,720	\$1,769,499

Supplemental disclosure of cash flow information: (Non Cash Items)

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:

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

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:

Year Ending December 31, Rent

2018	\$96,660
To 2019 Expiration	88,605
Total	\$185,265

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
	7,887,546	1,635,407	3,624,248	320,000	-	13,467,201

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
	-	-	6,297,163	317,768	800,000	7,414,931

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	Year ended
	December 31, 2017	December 31, 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	\$-	\$-

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, 2017 December 31, 2016

Deferred tax assets:

Net operating loss carryforward	\$11,116,332	\$16,269,090
Accruals	9,450	15,300
Reserves	4,501,899	7,156,559
Deferred tax liabilities:		
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	\$-	\$-

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	\$9,274

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	\$-	\$-
Totals	\$15,262,324	\$5,321,333

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.

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December 31, 2017

December 31, 2017

Reserves

Future Net Revenue (M\$)

Present Value Discounted

Category	Oil (Bbls)	Gas (Mcf)	Total (BOE)	Total	at 10%
Proved Producing	2,300	43,800	9,600	\$132	\$96
Proved Nonproducing	0	0	0	\$-	\$-
Total Proved	2,300	43,800	9,600	\$132	\$96

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

Probable Undeveloped 0 0 0 \$- \$-

December 31, 2016

December 31, 2016

Reserves

Future Net Revenue (M\$)

Present Value Discounted

Category	Oil (Bbls)	Gas (Mcf)	Total (BOE)	Total	at 10%
Proved Producing	1,400	23,300	5,284	\$31	\$29
Proved Nonproducing	46,800	467,600	124,733	\$776	\$301
Total Proved	48,200	490,900	130,017	\$807	\$330

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

Probable Undeveloped 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 (Bbls)	Natural Gas (Mcf)	BOE
TOTAL PROVED RESERVES:			
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	2,300	43,800	9,600
PROVED DEVELOPED RESERVES			
Proved developed producing	2,300	43,800	9,600
Proved nonproducing	-	-	-
Total	2,300	43,800	9,600

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	132,370	806,560
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	\$123,268	\$340,916

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	\$123,268	\$340,916

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

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.

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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. 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

Name and Principal Position	Year	Salary	Bonus	Stock	Option	Non-Equity	Change in	All Other	Total
		(\$)	(\$)	Awards	Awards	Incentive	Pension	Compensation	(\$)
				(\$)	(\$)	Plan	Value	(\$)	
				(A)	(A)	Compensation	and		
				(1)	(1)	Nonqualified	Deferred		
						Compensation	(\$)		
John A. Brda	2017	\$375,000	-	-	\$-	-	-	-	\$375,000
CEO/Secretary/Director	2016	\$375,000	-	-	\$712,500	-	-	-	\$1,087,500
Roger Wurtele	2017	\$225,000	-	-	\$-	-	-	-	\$225,000
CFO	2016	\$225,000	-	-	\$356,250	-	-	-	\$581,250

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

On June 11, 2015, we granted new stock option awards to our executive officers, as follows: 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 (1) 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:

Option Awards						
Name	Number of Securities Underlying Unexercised Options (#)		Number of Securities Underlying Unexercised Options (#)		Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	
	Exercisable	Unexercisable	Exercisable	Unexercisable	Unearned Options	
					Price (\$)	
					Expiration Date	
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

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 (1) 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		Option Awards	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
	Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)(A)	(\$)	(\$)	(\$)	
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

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 President, CEO, Secretary and Director	5,513,322 (1)	8.28
Gregory McCabe Director (Chairman of the Board)	13,648,390 (2)	21.51
Roger N. Wurtele Chief Financial Officer	1,810,000 (3)	2.78
E. Scott Kimbrough Director	258,884 (4)	*
R. David Newton Director	258,884 (5)	*
Alexandre Zyngier Director	100,000	*
Michael J. Graves 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.

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.

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 (3) 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

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) (7) 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.

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 (8) 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	\$262,554	\$122,733

(1) Audit Fees: This category represents the aggregate fees billed for professional services rendered by the principal independent accountant for the audit of our annual financial statements and review of financial statements included in our Form 10-K and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for the fiscal years.

(2) Audit Related Fees: This category consists of the aggregate fees billed for assurance and related services by our independent consultant that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "Audit Fees."

(3) Tax Fees: This category consists of the aggregate fees billed for professional services rendered by the principal independent consultant for tax compliance, tax advice, and tax planning.

PART IV

ITEM 15. EXHIBITS

Exhibit No.	Description
<u>2.1</u>	<u>Share Exchange Agreement dated November 23, 2010. (Incorporated by reference from Form 8-K filed with the SEC on November 24, 2010.) *</u>
<u>3.1</u>	<u>Articles of Incorporation. (Incorporated by reference from Form S-1 filed with the SEC on May 2, 2008.) *</u>
<u>3.2</u>	<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>
<u>3.3</u>	<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>
<u>3.4</u>	<u>Amended and Restated Bylaws (Incorporated by reference from Form 8-K filed with the SEC on October 26, 2016.) *</u>
<u>10.1</u>	<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>
<u>10.2</u>	<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>
<u>10.3</u>	<u>Employment Agreement (with John A. Brda) (Incorporated by reference from Form 8-K filed with the SEC on June 16, 2015.) *</u>
<u>10.4</u>	<u>Employment Agreement (with Roger Wurtele) (Incorporated by reference from Form 8-K filed with the SEC on June 16, 2015.) *</u>
<u>10.5</u>	<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>
<u>10.6</u>	<u>Farmout Agreement between Hudspeth Oil Corporation, Founders Oil & Gas, LLC and certain other parties (Incorporated by reference from Form 8-K filed with the SEC on September 29, 2015) *</u>
<u>10.7</u>	<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>
<u>10.8</u>	<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>
<u>10.10</u>	<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>

- 10.11 Resignation and Settlement Agreement with Willard G. McAndrew (Incorporated by reference from Form 10-Q filed with the SEC on November 10, 2016) *
- 10.12 Agreement and Plan of Reorganization and Plan of Merger with Line Drive Energy, LLC (Incorporated by reference from Form 10-K filed with the SEC on March 31, 2017) *
- 10.13 Purchase and Sale Agreement with Wolfbone Investments, LLC (Incorporated by reference from Form 10-K filed with the SEC on March 31, 2017) *
- 10.14 12% 2020 Senior Unsecured Promissory Note (form of) (Incorporated by reference from Form 10-Q filed with the SEC on May 12, 2017) *
- 10.15 Agreement and Plan of Reorganization and Plan of Merger with McCabe Petroleum Corporation and Warwink Properties, LLC

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:

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

