

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

FORM 10-Q

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarter Ended June 30, 2020

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.

Commission file number: 001-36247

TORCHLIGHT ENERGY RESOURCES, INC.

(Name of registrant in its charter)

Nevada

(State or Other Jurisdiction of Incorporation or Organization)

74-3237581

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

**5700 West Plano Pkwy, Suite 3600
Plano, Texas 75093**

(Address of Principal Executive Offices)

(214) 432-8002

(Registrant's Telephone Number, Including Area Code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.001 par value	TRCH	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. Large accelerated filer Accelerated Filer Non-accelerated filer Smaller reporting company Emerging growth company

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

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

As of August 6, 2020, there were 98,278,127 shares of the registrant's common stock outstanding (the only class of voting common stock).

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, among other things, statements regarding plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other than statements of historical facts. Forward-looking statements may appear throughout this report, including without limitation, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements generally can be identified by words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “will be,” “will continue,” “will likely result,” and similar expressions. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this report and in our Annual Report on Form 10-K for the year ended December 31, 2019 and in particular, the risks discussed in our Form 10-K under the caption “Risk Factors” in Item 1A therein, and those discussed in other documents we file with the Securities and Exchange Commission (“SEC”). Important factors that in our view could cause material adverse effects on our financial condition and results of operations include, but are not limited to, risks associated with our ability to extend or restructure existing debt, to obtain additional capital in the future to repay outstanding debt and fund planned expansion, the demand for oil and natural gas which demand could be materially affected by the economic impacts of COVID-19 and possible increases in supply from Russia and OPEC, general economic factors, competition in the industry, our ability to regain and maintain compliance with the minimum bid price requirement of the Nasdaq Stock Market and other factors that may cause actual results to be materially different from those described herein as anticipated, believed, estimated or expected. We undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

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

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash	\$ 281,576	\$ 89,730
Accounts receivable	227,020	199,462
Production revenue receivable	36,613	100,546
Subscription receivable	-	250,000
Prepayments - development costs	750,000	-
Prepaid expenses	202,451	96,006
Total current assets	<u>1,497,660</u>	<u>735,744</u>
Oil and gas properties, net	32,743,529	40,182,043
Office equipment, net	5,386	6,348
TOTAL ASSETS	<u>\$ 34,246,575</u>	<u>\$ 40,924,135</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 674,650	\$ 1,444,002
12% 2021 Secured promissory notes, net of \$195,206 and \$-0- of discount and financing costs, respectively	12,369,091	-
12% 2020 Unsecured promissory notes, net of \$-0- and \$127,170 of discount and financing costs, respectively	-	8,437,127
8% 2021 Convertible promissory notes payable, net of \$916,968 of discount and BCF	1,043,032	-
10% 2020 Convertible promissory notes payable	540,000	540,000
14% 2020 Convertible promissory notes payable	-	2,000,000
PPP note payable	77,477	-
Accrued payroll	1,086,176	996,176
Related party payables	45,000	45,000
Due to working interest owners	54,320	54,320
Accrued interest payable	356,863	445,861
Total current liabilities	<u>16,246,609</u>	<u>13,962,486</u>
12% 2021 Unsecured promissory notes, net of \$-0- and \$59,297 of discount and financing costs, respectively	-	3,940,703
8% 2021 Convertible promissory notes payable, net of \$1,186,029 of discount and BCF	-	773,971
14% 2021 Convertible promissory notes payable, net of \$32,106 of financing costs	1,967,894	-
Convertible notes payable and accrued interest	-	7,157,260
Asset retirement obligations	23,603	23,319
Total liabilities	<u>18,193,106</u>	<u>25,812,739</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.001, 10,000,000 shares authorized; -0- issued and outstanding at June 30, 2020 and December 31, 2019	-	-
Common stock, par value \$0.001; 150,000,000 shares authorized; 94,468,304 issued and outstanding at June 30, 2020; 76,222,042 issued and outstanding at December 31, 2019	94,471	76,225
Additional paid-in capital	122,060,814	114,143,872
Accumulated deficit	(106,146,816)	(99,153,701)
Total stockholders' equity	<u>16,008,469</u>	<u>15,066,396</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 34,246,575</u>	<u>\$ 40,924,135</u>

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

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

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Oil and gas sales	\$ 45,477	\$ 237,075	\$ 130,097	\$ 547,912
Cost of revenues	(80,162)	(113,698)	(148,020)	(241,320)
Gross profit	(34,685)	123,377	(17,923)	306,592
Operating expenses:				
General and administrative	606,811	665,160	1,654,435	1,707,918
Depreciation, depletion and amortization	277,793	142,269	725,198	327,695
Loss on extinguishment of debt	-	-	1,829,651	-
Impairment loss	2,108,301	-	2,108,301	474,357
Total operating expenses	2,992,905	807,429	6,317,585	2,509,970
Other income (expense)				
Interest expense and accretion of note discounts	(271,662)	(206,582)	(657,607)	(365,182)
Interest income	-	-	-	52
Total (expense), net	(271,662)	(206,582)	(657,607)	(365,130)
Loss before income taxes	(3,299,252)	(890,634)	(6,993,115)	(2,568,508)
Provision for income taxes	-	-	-	-
Net loss	\$ (3,299,252)	\$ (890,634)	\$ (6,993,115)	\$ (2,568,508)
Loss per common share:				
Basic and Diluted	\$ (0.04)	\$ (0.01)	\$ (0.08)	\$ (0.04)
Weighted average number of common shares outstanding:				
Basic and Diluted	84,860,937	72,313,297	82,682,465	71,546,728

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

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

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Cash Flows From Operating Activities		
Net loss	\$ (6,993,115)	\$ (2,568,508)
Adjustments to reconcile net loss to net cash from operations:		
Stock based compensation	310,150	658,250
Stock issued for interest payments on notes payable	-	379,275
Amortization of debt issuance costs	162,550	143,292
Accretion of note discounts	82,605	114,583
Amortization of beneficial conversion on convertible notes	269,061	-
Accrued interest payable in stock	60,801	254,377
Depreciation, depletion and amortization	725,198	327,695
Loss on extinguishment of debt	1,829,651	-
Impairment loss	2,108,301	474,357
Change in:		
Accounts receivable	(27,558)	(14,242)
Production revenue receivable	63,933	188,478
Prepayments - development costs	-	144,641
Prepaid expenses	(106,445)	(76,158)
Accounts payable and accrued expenses	213,131	157,707
Accrued interest payable	337,897	92,646
Net cash from operating activities	<u>(963,840)</u>	<u>276,393</u>
Cash Flows From Investing Activities		
Investment in oil and gas properties	(4,949,222)	(4,552,930)
Purchase of property, plant, and equipment	-	(6,564)
Net cash from investing activities	<u>(4,949,222)</u>	<u>(4,559,494)</u>
Cash Flows From Financing Activities		
Issuance of common stock, net of offering costs	6,027,431	1,674,080
Proceeds from stock subscription receivable	250,000	-
Proceeds from notes payable	77,477	2,000,000
Payment for extension of debt maturity	(250,000)	-
Proceeds from exercise of warrants into common stock	-	184,843
Net cash from financing activities	<u>6,104,908</u>	<u>3,858,923</u>
Net increase (decrease) in cash	191,846	(424,178)
Cash - beginning of period	<u>89,730</u>	<u>840,163</u>
Cash - end of period	<u>\$ 281,576</u>	<u>\$ 415,985</u>
Supplemental disclosure of cash flow information:		
Increase (Decrease) in accounts payable for property development costs	\$ 714,983	\$ (111,798)
Supplemental disclosure of non-cash investing and financing activities:		
Debt converted by transfer of working interest	\$ 7,330,849	\$ -
Common stock issued for prepayment of development costs	\$ 750,000	\$ -
Common stock issued for payment in kind on notes payable	\$ 314,107	\$ 314,108
Common stock issued for note extension	\$ 16,000	\$ -
Common stock issued in payment of accounts payable	\$ 135,000	\$ -
Common stock issued for lease interests	\$ -	\$ 125,000
Subscription receivable for sale of common stock	\$ -	\$ 156,000
Cash paid for interest	\$ 896,415	\$ 751,792
Cash paid for state franchise tax	\$ -	\$ -

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

TORCHLIGHT ENERGY RESOURCES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

	Common stock shares	Common stock amount	Additional paid-in capital	Accumulated deficit	Total
Balance, December 31, 2019	<u>76,222,042</u>	<u>\$ 76,225</u>	<u>\$ 114,143,872</u>	<u>\$ (99,153,701)</u>	<u>\$ 15,066,396</u>
Issuance of common stock for services	125,000	125	86,125	-	86,250
Issuance of common stock to a vendor for delay in payment	40,000	40	25,960	-	26,000
Issuance of common stock for cash, less underwriting/offering costs	3,885,715	3,886	2,353,232	-	2,357,118
Warrants issued in conversion of notes payable	-	-	382,500	-	382,500
Warrants issued for services	-	-	98,900	-	98,900
Stock options issued for services	-	-	19,500	-	19,500
Net loss	-	-	-	(3,693,863)	(3,693,863)
Balance, March 31, 2020	<u>80,272,757</u>	<u>\$ 80,276</u>	<u>\$ 117,110,089</u>	<u>\$ (102,847,564)</u>	<u>\$ 14,342,801</u>
Issuance of common stock for services	142,857	143	59,857	-	60,000
Issuance of common stock for cash, less underwriting/offering costs	11,344,737	11,345	2,767,856	-	2,779,201
Warrants issued in connection with common stock offerings	-	-	891,112	-	891,112
Issuance of common stock for promissory note extension	40,000	40	15,960	-	16,000
Common stock issued in payment of accounts payable	357,143	357	134,643	-	135,000
Issuance of common stock for payment in kind on notes payable	680,376	680	313,427	-	314,107
Issuance of common stock for prepayment of development costs	1,630,434	1,630	748,370	-	750,000
Stock options issued for services	-	-	19,500	-	19,500
Net loss	-	-	-	(3,299,252)	(3,299,252)
Balance, June 30, 2020	<u>94,468,304</u>	<u>\$ 94,471</u>	<u>\$ 122,060,814</u>	<u>\$ (106,146,816)</u>	<u>\$ 16,008,469</u>
Balance, December 31, 2018	<u>70,112,376</u>	<u>\$ 70,116</u>	<u>\$ 107,266,965</u>	<u>\$ (89,314,305)</u>	<u>\$ 18,022,776</u>
Issuance of common stock for services	92,593	92	99,908	-	100,000
Issuance of common stock for cash	1,592,600	1,593	1,272,487	-	1,274,080
Issuance of common stock for interest	13,546	13	14,615	-	14,628
Issuance of common stock for warrant exercise	100,000	100	76,900	-	77,000
Warrants issued for services	-	-	186,000	-	186,000
Stock options issued for services	-	-	111,250	-	111,250
Net loss	-	-	-	(1,677,874)	(1,677,874)
Balance, March 31, 2019	<u>71,911,115</u>	<u>\$ 71,914</u>	<u>\$ 109,028,125</u>	<u>\$ (90,992,179)</u>	<u>\$ 18,107,860</u>
Issuance of common stock for services	100,000	100	148,900	-	149,000
Issuance of common stock for cash	695,000	695	555,305	-	556,000
Issuance of common stock for oil and gas lease extension	100,000	100	124,900	-	125,000
Issuance of common stock for interest	46,796	48	50,492	-	50,540
Issuance of common stock for Note PIK	202,316	202	313,906	-	314,108
Issuance of common stock for option/warrant exercise	68,690	68	107,775	-	107,843
Warrants issued for services	-	-	87,000	-	87,000
Stock options issued for services	-	-	25,000	-	25,000
Net loss	-	-	-	(890,634)	(890,634)
Balance, June 30, 2019	<u>73,123,917</u>	<u>\$ 73,127</u>	<u>\$ 110,441,403</u>	<u>\$ (91,882,813)</u>	<u>\$ 18,631,717</u>

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

TORCHLIGHT ENERGY RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF BUSINESS

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

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, Hudspeth Oil Corporation, Torchlight Hazel LLC, and Warwink Properties LLC.

2. GOING CONCERN

At June 30, 2020, the Company had not yet achieved profitable operations. We had a net loss of \$6,993,115 for the six months ended June 30, 2020 and had accumulated losses of \$106,146,816 since our inception. We expect to incur further losses in the development of our business. The Company had a working capital deficit as of June 30, 2020 of \$14,748,949. 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, institutional, or public 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.

These interim financial statements are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain disclosures have been condensed or omitted from these financial statements. Accordingly, they do not include all the information and notes required by accounting principles generally accepted in the United States of America (“GAAP”) for complete consolidated financial statements, and should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2019.

In the opinion of management, the accompanying unaudited financial condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary to fairly present the financial position as of, and the results of operations for, all periods presented. In preparing the accompanying financial statements, management has made certain estimates and assumptions that affect reported amounts in the condensed financial statements and disclosures of contingencies. Actual results may differ from those estimates. The results for interim periods are not necessarily indicative of annual results. Certain reclassifications have been made to the prior period’s consolidated financial statements and related footnotes to conform them to the current period presentation.

TORCHLIGHT ENERGY RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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 June 30, 2020 and December 31, 2019, no valuation allowance was considered necessary.

Oil and gas properties – The Company uses the full cost method of accounting for exploration and development activities as defined by the Securities and Exchange Commission (“SEC”). Under this method of accounting, the costs of unsuccessful, as well as successful, exploration and development activities are capitalized as properties and equipment. This includes any internal costs that are directly related to property acquisition, exploration and development activities but does not include any costs related to production, general corporate overhead or similar activities.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Capitalized interest – The Company capitalizes interest on unevaluated properties during the periods in which they are excluded from costs being depleted or amortized. During the six months ended June 30, 2020 and 2019, the Company capitalized \$1,182,445 and \$1,362,244, 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 realizable 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 Company recorded an impairment expense of \$2,108,301 and \$474,357 for the six months ended June 30, 2020 and 2019, respectively, to recognize the adjustment required by the ceiling test.

The ceiling test calculation uses a commodity price assumption which is based on the unweighted arithmetic average of the price on the first day of each month for each month within the prior 12 month period and excludes future cash outflows related to estimated abandonment costs.

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

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

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

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

Authoritative guidance for uncertainty in income taxes requires that the Company recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an examination. Management has reviewed the Company’s tax positions and determined there were no uncertain tax positions requiring recognition in the consolidated financial statements. 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.

TORCHLIGHT ENERGY RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Estimated interest and penalties related to potential underpayment on any unrecognized tax benefits are classified as a component of tax expense in the statements 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.

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.

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

Revenue recognition

The Company’s revenue is typically generated from contracts to sell natural gas, crude oil or NGLs produced from interests in oil and gas properties owned by the Company. Contracts for the sale of natural gas and crude oil are evidenced by (1) base contracts for the sale and purchase of natural gas or crude oil, which document the general terms and conditions for the sale, and (2) transaction confirmations, which document the terms of each specific sale. The transaction confirmations specify a delivery point which represents the point at which control of the product is transferred to the customer. These contracts frequently meet the definition of a derivative under ASC 815, and are accounted for as derivatives unless the Company elects to treat them as normal sales as permitted under that guidance. The Company elects to treat contracts to sell oil and gas production as normal sales, which are then accounted for as contracts with customers. The Company has determined that these contracts represent multiple performance obligations which are satisfied when control of the commodity transfers to the customer, typically through the delivery of the specified commodity to a designated delivery point.

Revenues from oil and gas sales are detailed as follows:

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Revenues				
Oil sales	\$ 44,997	\$ 223,038	\$ 127,110	\$ 525,183
Gas sales	480	14,037	2,987	22,729
Total	<u>\$ 45,477</u>	<u>\$ 237,075</u>	<u>\$ 130,097</u>	<u>\$ 547,912</u>

Revenue is measured based on consideration specified in the contract with the customer, and excludes any amounts collected on behalf of third parties. The Company recognizes revenue in the amount that reflects the consideration it expects to be entitled to in exchange for transferring control of those goods to the customer. Amounts allocated in the Company’s price contracts are based on the standalone selling price of those products in the context of long-term contracts. Payment is generally received one or two months after the sale has occurred.

TORCHLIGHT ENERGY RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Gain or loss on derivative instruments is outside the scope of ASC 606 and is not considered revenue from contracts with customers subject to ASC 606. The Company may in the future use financial or physical contracts accounted for as derivatives as economic hedges to manage price risk associated with normal sales, or in limited cases may use them for contracts the Company intends to physically settle but do not meet all of the criteria to be treated as normal sales.

Producer Gas Imbalances. The Company applies the sales method of accounting for natural gas revenue. Under this method, revenues are recognized based on the actual volume of natural gas sold to purchasers.

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 11,025,186 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. The Company accrued no liability as of June 30, 2020 and December 31, 2019.

Recent adopted accounting pronouncements – 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 was effective for the Company in the first quarter of 2019. The Company adopted the change which did not have a material impact on its consolidated financial statements.

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

Subsequent events – The Company evaluated subsequent events through August 10, 2020, 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 June 30, 2020 and December 31, 2019:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Evaluated costs subject to amortization	\$ 16,076,076	\$ 13,243,541
Unevaluated costs	32,229,226	39,667,740
Total capitalized costs	48,305,302	52,911,281
Less accumulated depreciation, depletion and amortization	(15,561,773)	(12,729,238)
Total oil and gas properties	<u>\$ 32,743,529</u>	<u>\$ 40,182,043</u>

Unevaluated costs as of June 30, 2020 include cumulative costs on developing projects including the Orogrande, Hazel, and Winkler projects in West Texas.

The Company periodically adjusts for the separation of evaluated versus unevaluated costs within its full cost pool to recognize the value impairment related to the expiration of, or changes in market value, of unevaluated leases. The impact of reclassifications as they become necessary is to increase the basis for calculation of future period's depletion, depreciation and amortization which effectively recognizes the impairment on the consolidated statement of operations over future periods. Reclassified costs also become evaluated costs for purposes of ceiling tests and which may cause recognition of increased impairment expense in future periods. The cumulative unevaluated costs which have been reclassified within our full cost pool totals \$5,881,635 as of June 30, 2020.

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.

Current Projects

We are an energy company engaged in the acquisition, exploration, exploitation and/or development of oil and natural gas properties in the United States. We are primarily focused on the acquisition of early stage projects, the development and delineation of these projects, and then the monetization of those assets once these activities are completed.

Since 2010, our primary focus has been the development of interests in oil and gas projects we hold in the Permian Basin in West Texas. We also hold minor interests in certain other oil and gas projects in Central Oklahoma that we are in the process of divesting.

As of June 30, 2020, we had interests in four oil and gas projects: the Orogrande Project in Hudspeth County, Texas, the Hazel Project in Sterling, Tom Green, and Irion Counties, Texas, the Winkler Project in Winkler County, Texas and the wells in Central Oklahoma.

Orogrande Project, West Texas

On August 7, 2014, we entered into a Purchase Agreement with Hudspeth Oil Corporation (“Hudspeth”), McCabe Petroleum Corporation (“MPC”), and Gregory McCabe, our Chairman. Mr. McCabe was the sole owner of both Hudspeth and MPC. Under the terms and conditions of the Purchase Agreement, we purchased 100% of the capital stock of Hudspeth which held certain oil and gas assets, including a 100% working interest in approximately 172,000 predominately contiguous acres in the Orogrande Basin in West Texas. Mr. McCabe has, at his option, a 10% working interest back-in after payout and a reversionary interest if drilling obligations are not met, all under the terms and conditions of a participation and development agreement among Hudspeth, MPC and Mr. McCabe. Mr. McCabe also holds a 4.5% overriding royalty interest in the Orogrande acreage, which he obtained prior to, and was not a part of the August 2014 transaction. As of June 30, 2020, leases covering approximately 134,000 acres remain in effect.

We believe all drilling obligations through June 30, 2020 have been met.

On September 23, 2015, Hudspeth entered into a Farmout Agreement with Pandora Energy, LP (“Pandora”), Founders Oil & Gas, LLC (“Founders”), and for the limited purposes set forth therein, MPC and Mr. McCabe, for the entire Orogrande Project in Hudspeth County, Texas. The Farmout Agreement provided that Hudspeth and Pandora (collectively referred to as “Farmor”) would assign to Founders an undivided 50% of the leasehold interest and a 37.5% net revenue interest in the oil and gas leases and mineral interests in the Orogrande Project, which interests, except for any interests retained by Founders, would be reassigned to Farmor by Founders if Founders did not spend a minimum of \$45.0 million on actual drilling operations on the Orogrande Project by September 23, 2017. Under a joint operating agreement also entered into on September 23, 2015, Founders was designated as operator of the leases.

Effective March 27, 2017 the property became subject to a DDU Agreement which allows for all 192 existing leases covering approximately 134,000 net acres leased from University Lands to be combined into one drilling and development unit for development purposes. The term of the DDU Agreement expires on December 31, 2023, and the time to drill on the drilling and development unit continues through December 2023. The DDU Agreement also grants the right to extend the DDU Agreement through December 2028 if compliance with the DDU Agreement is met and the extension fee associated with the additional time is paid.

Our drilling obligations include four wells in year 2020 and five wells per year in years 2021, 2022 and 2023. We have received a waiver of the requirement to develop four wells in 2020. The drilling obligations are minimum yearly requirements and may be exceeded if acceleration is desired.

During 2017, we assumed operational control from Founders Oil and Gas Operating LLC on the Orogrande Project. We were joined by Wolfbone Investments, LLC, (“Wolfbone”), a company owned by Mr. McCabe. We, along with Hudspeth, Wolfbone and, for the limited purposes set forth therein, Pandora, entered into an Assignment of Farmout Agreement with Founders, (the “Assignment of Farmout Agreement”), pursuant to which we and Wolfbone will share the remaining commitments under the Farmout Agreement. All original provisions of our carried interest were to remain in place including reimbursement to us on each wellbore. Founders was to remain a 9.5% working interest owner in the Orogrande Project for the \$9.5 million it had spent as of the date of the Assignment of Farmout Agreement, and such interests were to be carried until \$40.5 million is spent by Wolfbone and us, with each contributing 50% of such capital spend, under the existing agreement.

TORCHLIGHT ENERGY RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

4. OIL & GAS PROPERTIES - continued

Our working interest in the Orogrande Project thereby increased by 20.25% to a total of 67.75% and Wolfbone then owned 20.25%.

On July 25, 2018, we and Hudspeth entered into a Settlement & Purchase Agreement (the "Settlement Agreement") with Founders (and Founders Oil & Gas Operating, LLC), Wolfbone and MPC, which agreement provides for Founders assigning all of its working interest in the oil and gas leases of the Orogrande Project to Hudspeth and Wolfbone equally. Future well capital spending obligations remained the same 50% contribution from Hudspeth and 50% from Wolfbone until such time as the \$40.5 million to be spent on the project. The Company estimates that there is still approximately \$9.0 million remaining to be spent on the project until such time as the capital expenditures revert back to the percentages of the working interest owners.

After the assignment by Founders, Hudspeth's working interest increased to 72.5%.

The Company has drilled eight test wells in the Orogrande in order to stay in compliance with University Lands D&D Unit Agreement, as well as, to test for potential shallow pay zones and deeper pay zones that may be present on structural plays. Development of the wells continued into the six months ended June 30, 2020 to further capture and document the scientific base in support of demonstrating the production potential of the property. The Company is currently marketing the project for an outright sale or farm in partner. This marketing process has been long and arduous as the overall market is quite soft. Due to the size and scope of the project, we are dealing with very large companies that have multitudes of people reviewing our material, which in itself is extensive. During the marketing process, the Company and Wolfbone will endeavor to complete the University Maverick A24 #1 as a potential producer in the Atoka formation. Should a farm out partner or sale not occur, the Company and Wolfbone will continue to drill additional wells in the play in order to fulfill the obligations under the DDU Agreement

Rich Masterson, our consulting geologist, is credited with originating the Orogrande Project in Hudspeth County in the Orogrande Basin. With Mr. Masterson's assistance and based on all the science we have gathered to date, we have identified multiple unconventional and conventional target pay zones with depths between 3,000' and 8,000' with primary pay, described as the Penn formation, located at depths of 5,300 to 5,900'. Based on our geologic analysis to date, this basin has stacked pay with zones including the Wolfcamp, Penn, Barnett, Woodford, Atoka and more. These potential zones are prospective for oil and gas with a GOR of 1100 expected based on our gathered scientific information and analysis from independent third parties.

On March 9, 2020, holders of notes payable by the Company entered into a Conversion Agreement under which the noteholders elected to convert principal of \$6,000,000 and approximately \$1,331,000 of accrued interest on the notes, in accordance with their terms, into an aggregate 6% working interest (of all such holders) in the Orogrande Project.

The Orogrande Project ownership as of June 30, 2020 is detailed as follows:

	Revenue Interest	Working Interest
University Lands - Mineral Owner	20.000%	n/a
ORRI - Magdalena Royalties, LLC, an entity controlled by Gregory McCabe, Chairman	4.500%	n/a
ORRI - Unrelated Party	0.500%	n/a
Hudspeth Oil Corporation, a subsidiary of Torchlight Energy Resources Inc.	49.875%	66.500%
Wolfbone Investments LLC, an entity controlled controlled by Gregory McCabe, Chairman	18.750%	25.000%
Conversion by Note Holders in March, 2020	4.500%	6.000%
Unrelated Party	1.875%	2.500%
	<u>100.000%</u>	<u>100.000%</u>

4. OIL & GAS PROPERTIES - *continued*

Hazel Project in the Midland Basin in West Texas

Effective April 4, 2016, TEI acquired from MPC a 66.66% working interest in approximately 12,000 acres in the Midland Basin. A back-in after payout of a 25% working interest was retained by MPC and another unrelated working interest owner.

In October 2016, the holders of all of our then-outstanding shares of Series C Preferred Stock (which were issued in July 2016) elected to convert into a total 33.33% working interest in our Hazel Project, reducing our ownership from 66.66% to a 33.33% working interest.

The Company has drilled six test wells on the Hazel Project to capture and document the scientific base in support of demonstrating the production potential of the property.

Acquisition of Additional Interests in Hazel Project

On January 30, 2017, we entered into and closed an Agreement and Plan of Reorganization and a Plan of Merger with an entity which was wholly-owned by Mr. McCabe, which resulted in the acquisition of approximately 40.66% working interest in the 12,000 gross acres, 9,600 net acres, in the Hazel Project.

Also on January 30, 2017, TEI entered into and closed a Purchase and Sale Agreement with Wolfbone. 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.

Upon the closing of the transactions, our working interest in the Hazel Project increased by 40.66% to a total ownership of 74%.

Effective June 1, 2017, we acquired an additional 6% working interest from unrelated working interest owners increasing our working interest in the Hazel project to 80%, and an overall net revenue interest of 74-75%.

Mr. Masterson, who assisted with development in our Orogrande project, is also credited with originating the Hazel Project in the Midland Basin.

We were required to drill one well every six months to hold the entire 12,000 acre block for eighteen months until to November 22, 2018, and thereafter two wells every six months. During 2019 and the six months ended June 30, 2020 modifications were completed to mineral owner leases as described below.

Lease Modifications

In May 2019 we entered into agreements with two of the three mineral owners on the northern section of the leases to keep the entire acreage block as one lease with a one year extension. We issued each of them 50,000 shares of our common stock as consideration for this extension. As of June 30, 2020 we have structured the extension agreement retroactively with the third mineral owner for cash consideration. Due to this extension, our obligation for 2019 reduced to one obligation well. We finished that obligation well targeting a shallow zone that showed oil potential. For the remainder of 2020 the Company must drill one well in June and two wells by the December 31, 2020. Development of the June well was initiated during June, 2020.

In April 2018, we announced that we have commenced a process that could result in the monetization of the Hazel Project. We believe the development activity at the Hazel Project, coupled with nearby activities of other oil and gas operators, suggests that this project has achieved a level of value worth monetizing. We anticipate that the liquidity that would be provided from selling the Hazel Project could be redeployed into the Orogrande Project. While this process is underway, we will take all necessary steps to maintain the leasehold as required. As of this filing, we continue to maintain the leases in good standing and continue to market the acreage in an effort to focus on the Orogrande Project.

The marketing process is ongoing for the Hazel project. We continue to encounter, as does the entire industry, a soft market for acquisitions and divestitures transactions. We will continue to look to sell the property or joint venture the property via farm in or a drillco transaction.

TORCHLIGHT ENERGY RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

4. OIL & GAS PROPERTIES - continued

Winkler Project, Winkler County, Texas

On December 1, 2017, an Agreement and Plan of Reorganization was entered into with MPC and Warwink Properties, LLC (“Warwink Properties”) to acquire certain assets, including a 10.71875% working interest in approximately 640 acres in Winkler County, Texas. Also on December 1, 2017, MPC closed its transaction with MECO IV, LLC (“MECO”), for the purchase and sale of certain assets. Warwink Properties received a carry from MECO (through the tanks) of up to \$1,179,076 in the next well drilled on the Winkler County leases.

Also on December 1, 2017, the transactions contemplated by the Purchase Agreement that TEI entered into with MPC closed. Under the Purchase Agreement TEI acquired beneficial ownership of certain of MPC’s assets, including acreage and wellbores located in Ward County, Texas (the “Ward County Assets”).

Addition to the Winkler Project

As of May 7, 2018 our Winkler project in the Delaware Basin had begun the drilling phase of the first Winkler Project well, the UL 21 War-Wink 47 #2H. Additional acreage was leased by our operating partner under the Area of Mutual Interest Agreement (AMI) and we exercised its right to participate for its 12.5% in the additional 1,080 gross acres. Our carried interest in the first well was applied to this new well and allowed MECO to drill and produce potential revenues sooner than originally planned. The primary leasehold is a 320-acre block and allows for 5,000-foot lateral wells to be drilled. The first well was completed and began production in October, 2018 and is producing currently.

The operator has informed us that there will be no planned additional wells in the acreage in 2020. All acreage is presently held by production.

In December 2018, the Company began to take measures on its own to market the Winkler Project in an effort to focus on the Orogrande. This process is ongoing.

Hunton Play, Central Oklahoma

Presently, we are producing from one well in the Viking Area of Mutual Interest and one well in Prairie Grove.

Assessment for Assets Held for Sale Classification

With respect to marketing oil and natural gas properties, the Company has evaluated the properties being marketed to determine whether any should be reclassified as held-for-sale at June 30, 2020. The held-for-sale criteria include: management commits to a plan to sell; the asset is available for immediate sale; an active program to locate a buyer exists; the sale of the asset is probable and expected to be completed within one year; the asset is being actively marketed for sale; and it is unlikely that significant changes to the plan will be made. If each of these criteria is met, the property would be reclassified as held-for-sale on the Company’s consolidated balance sheets and measured at the lower of their carrying amount or estimated fair value less costs to sell. Fair values are estimated using accepted valuation techniques, such as a discounted cash flow model, valuations performed by third parties, earnings multiples, or indicative bids, when available. Management considers historical experience and all available information at the time the estimates are made; however, the fair value that is ultimately realized upon the sale of the assets to be divested may differ from the estimated fair values reflected in the consolidated financial statements. If each of these criteria is met, DD&A expense would not be recorded on assets to be divested once they are classified as held for sale. Based on management’s assessment, certain criteria have not been met and no assets are classified as held for sale as of June 30, 2020.

5. RELATED PARTY PAYABLES

As of June 30, 2020 and December 31, 2019, related party payables of \$5,000, and accrued payroll was \$1,086,176 and \$996,176, respectively, consisting of accrued and unpaid compensation due to our executive officers.

6. COMMITMENTS AND CONTINGENCIES

Leases

The Company is a subtenant on a month to month basis for the occupancy of its office premises.

TORCHLIGHT ENERGY RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

6. COMMITMENTS AND CONTINGENCIES - continued

Legal Matters

On January 31, 2020, Torchlight Energy Resources, Inc. and its wholly owned subsidiaries Torchlight Energy, Inc. and Torchlight Energy Operating, LLC were served with a lawsuit brought by Goldstone Holding Company, LLC (*Goldstone Holding Company, LLC v. Torchlight Energy, Inc., et al.*, in the 160th Judicial District Court of Dallas County, Texas). On February 24, 2020, Torchlight Energy Resources, Inc., Torchlight Energy, Inc., and Torchlight Energy Operating, LLC timely filed their answer, affirmative defenses, and requests for disclosure. The suit, which seeks monetary relief over \$1 million, makes unspecified allegations of misrepresentations involving a November 2015 participation agreement and a 2016 amendment to the participation agreement. The Company has denied the allegations and has asserted several affirmative defenses including but not limited to, that the suit is barred by the applicable statute of limitations, that the claims have been released, and that the claims are barred because of contractual disclaimers between sophisticated parties.

On April 30, 2020, our wholly owned subsidiary, Hudspeth Oil Corporation, filed suit against Datalog LWT, Inc. d/b/a Cordax Evaluation Technologies. The suit seeks the recovery of approximately \$1.4 million in costs incurred as a result of a tool failure during drilling activities on the University Founders A25 #2 well that is located in the Orogrande Field. Working interest owner Wolfbone Investments, LLC, a company owned by our Chairman Gregory McCabe, is a co-plaintiff in that action. After the suit was filed, Cordax filed a mineral lien in the amount of \$104,500.01 against the Orogrande Field and has sued the operator and counterclaimed against Hudspeth for breach of contract, seeking the same amount as the lien. We are contesting the lien in good faith. The suit, *Hudspeth Oil Corporation and Wolfbone Investments, LLC v. Datalog LWT, Inc. d/b/a Cordax Evaluation Technologies*, was filed in the 189th Judicial District Court of Harris County, Texas.

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 June 30, 2020 and December 31, 2019, 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.

7. STOCKHOLDERS' EQUITY

Common Stock

On January 10, 2020, the Company sold 600,000 shares of common stock for cash at \$0.60 per share for total proceeds of \$360,000 in a private placement.

On January 16, 2020, the Company announced the closing of its underwritten public offering of 3,285,715 shares of its common stock at a public offering price of \$0.70 per share, for total proceeds of \$1,997,118 after deducting underwriting discounts and other offering expenses payable by the Company.

In May 2020, the Company issued 680,376 shares of common stock in satisfaction of the payment in kind valued at \$14,107 due on April 10, 2020 under the terms of the promissory notes held by the Straz Foundation and the Straz Trust.

In May 2020, we issued 1,630,434 restricted shares of common stock to an investor for the purchase price of \$750,000. The investor, Maverick Oil & Gas Corporation, is the operator for our Orogrande Project. Our subsidiary Hudspeth Oil Corporation owed the investor in excess of \$750,000 on unpaid balances and cost overruns on work performed on the Orogrande Project, which amount is due and payable now. The investor agreed to a future credit of \$750,000 in the balance of accounts receivable owed to it by Hudspeth Oil as consideration for the purchase of the common stock. Under the terms of the sale, we provided registration rights to the investor.

On May 20, 2020, the Company announced the closing of its underwritten public offering of 3,450,000 shares of its common stock at a public offering price of \$0.34 per share, for total proceeds of \$886,622 after deducting underwriting discounts and other offering expenses payable by the Company. In connection with the offering the Company issued 172,500 warrants valued at \$36,225 using the Black Scholes method.

TORCHLIGHT ENERGY RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

7. STOCKHOLDERS' EQUITY - *continued*

On June 16, 2020, the Company announced the closing of its registered direct offering of 7,894,737 shares of its common stock at a public offering price of \$0.38 per share, for total proceeds of \$2,783,691 after deducting underwriting discounts and other offering expenses payable by the Company. In connection with the offering the Company issued 3,157,895 warrants. The warrants were exercised on July 9, 2020 under the cashless provisions in the agreement resulting in the Company issuing 3,157,895 shares of common stock for which no cash was received. Of the total consideration received from the offering, \$854,887 was allocated to the warrants using the pro rata percentage of the number of warrants to the total shares ultimately issued under the offering terms.

During the six months ended June 30, 2020, the Company issued 267,857 shares of common stock with a fair value of \$46,250 as compensation for services.

During the six months ended June 30, 2020, the Company issued 40,000 shares of common stock to a vendor with a fair value of \$6,000 for delay in payment on outstanding account payable.

During the six months ended June 30, 2020, the Company issued 40,000 shares of common stock to note holders as compensation for extension of the maturity date of the notes. The fair value of the shares was \$16,000.

During the six months ended June 30, 2020, the Company issued 257,143 shares of common stock to a vendor with a fair value of \$90,000 in payment of an outstanding account payable.

During the six months ended June 30, 2020, the Company issued 100,000 shares of common stock to the former CEO of the Company with a fair value of \$5,000 in payment of an accrued liability from prior years.

Warrants and Options

During the six months ended June 30, 2020, the Company issued 215,000 warrants with total fair value of \$8,900 as compensation for services and recorded expense of \$39,000 related to options issued in prior periods.

During the six months ended June 30, 2020, the Company issued 750,000 warrants valued at \$82,500 in connection with the conversion of convertible notes payable into working interest in the Company's Orogrande Project.

During the six months ended June 30, 2020, the Company issued 600,000 warrants in connection with the sale of 600,000 shares of common stock valued at \$360,000 in a private placement.

During the six months ended June 30, 2020, the Company issued 172,500 warrants valued at \$36,225 in connection with the offering of common stock on May 20, 2020 as referred to above.

In connection with the registered direct offering closed June 16, 2020, as referred above, the Company issued 3,157,895 warrants. The warrants were exercised on July 9, 2020 under the cashless provisions in the agreement resulting in the Company issuing 3,157,895 shares of common stock for which no cash was received. Of the total consideration received from the offering of \$854,887 was allocated to the warrants using the pro rata percentage of the number of warrants to the total shares ultimately issued under the offering terms.

TORCHLIGHT ENERGY RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

7. STOCKHOLDERS' EQUITY - continued

A summary of warrants outstanding as of June 30, 2020 by exercise price and year of expiration is presented below:

Exercise Price	Expiration Date in					Total
	2020	2021	2022	2023	2024	
\$ -	-	-	-	-	-	3,157,895
\$ 0.425	-	-	-	-	-	172,500
\$ 0.70	-	-	-	-	-	965,000
\$ 0.80	-	-	-	-	-	2,266,667
\$ 1.03	-	120,000	-	-	-	120,000
\$ 1.14	-	-	-	600,000	-	600,000
\$ 1.21	-	-	-	120,000	-	120,000
\$ 1.35	-	-	365,455	-	-	365,455
\$ 1.63	-	-	-	-	100,000	100,000
\$ 1.64	-	200,000	-	-	-	200,000
\$ 2.00	-	200,000	-	-	-	200,000
\$ 2.23	339,901	-	-	-	-	339,901
	<u>339,901</u>	<u>520,000</u>	<u>365,455</u>	<u>720,000</u>	<u>100,000</u>	<u>6,562,062</u>
						<u>8,607,418</u>

On June 11, 2020, 4,500,000 stock options previously granted to officers of the Company in 2015 expired. Reference subsequent events in Note 11 regarding the issuance of stock options at July 15, 2020, the date of the renewal of Employment Agreements which had also expired in June, 2020.

A summary of stock options outstanding as of June 30, 2020 by exercise price and year of expiration is presented below:

Exercise Price	Expiration Date in				Total
	2021	2022	2023	2024	
\$ 0.85	-	-	-	600,000	600,000
\$ 0.97	259,742	-	-	-	259,742
\$ 1.10	-	800,000	-	-	800,000
\$ 1.19	-	-	700,000	-	700,000
\$ 1.57	-	-	-	-	-
\$ 1.63	-	58,026	-	-	58,026
	<u>259,742</u>	<u>858,026</u>	<u>700,000</u>	<u>600,000</u>	<u>2,417,768</u>

At June 30, 2020, the Company had reserved 11,025,186 common shares for future exercise of warrants and options.

TORCHLIGHT ENERGY RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 and options issued were as follows:

<u>2020</u>	
Risk-free interest rate	.38% - 1.21%
Expected volatility of common stock	102% - 205%
Dividend yield	0.00%
Discount due to lack of marketability	20%
Expected life of option/warrant	Five Years

<u>2019</u>	
Risk-free interest rate	2.40% - 2.46%
Expected volatility of common stock	105% - 107%
Dividend yield	0.00%
Discount due to lack of marketability	20%
Expected life of option/warrant	Five Years

8. INCOME TAXES

The Company recorded no income tax provision at June 30, 2020 and December 31, 2019 because of losses incurred.

The Company estimates its annual effective income tax rate in recording its quarterly provision for income taxes in the various jurisdictions in which it operates. Statutory tax rate changes and other significant or unusual items are recognized as discrete items in the quarter in which they occur. The Company recorded no income tax expense for the six months ended June 30, 2020 because the Company expects to incur a tax loss in the current year. Similarly, no income tax expense was recognized for the six months ended June 30, 2019.

The Company had a net deferred tax asset related to federal net operating loss carryforwards of \$70,899,608 and \$66,984,025 at June 30, 2020 and December 31, 2019, respectively. The federal net operating loss carryforward will begin to expire in 2033. 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.

9. PROMISSORY NOTES

Promissory Notes Issued in 2017

On April 10, 2017, we sold two 12% unsecured promissory notes with a total of \$8,000,000 in principal amount to David A. Straz, Jr. Foundation (the "Straz Foundation") and the David A. Straz, Jr. Irrevocable Trust DTD 11/11/1986 (the "Straz Trust") in a private transaction. 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. We used 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. 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.

TORCHLIGHT ENERGY RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

9. PROMISSORY NOTES - *continued*

The effective interest rate is 16.15%.

On April 24, 2017, we used \$2,509,500 of the proceeds from this financing 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 and \$64,297 was rolled into the new debt financing.

On February 20, 2020, the Company extended the maturity on \$4 million of the 12% unsecured promissory notes previously due in April, 2020. The maturity date of the subject promissory note has been extended for one year, from April 10, 2020 to April 10, 2021.

As part of the terms of this extension agreement, the Company paid the noteholder a fee of \$80,000 on February 20, 2020. The promissory note was originally issued in April 2017, and provides for monthly payments of interest only at the rate of 12% per annum, with a balloon payment of the outstanding principal due and payable at maturity.

Promissory Notes Issued in 2018

On February 6, 2018, we sold to the Straz Trust in a private transaction a 12% unsecured promissory note with a principal amount of \$5,500,000. Interest only was 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 used 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.

The effective interest rate is 15.88%.

Extension of Promissory Notes

On April 24, 2020, the Company entered into a Note Amendment Agreement with each of the Straz Foundation, as a lender, the Straz Trust, as a lender and collateral agent, and The Northern Trust Company and Christopher M. Straz, as co-trustees of the Straz Trust. Under the Note Amendment Agreement, the parties agreed to amend and restate the two promissory notes issued to the Straz Trust on April 10, 2017 and February 6, 2018 that have total principal outstanding of \$8,500,000, along with the promissory note issued to the Straz Foundation on April 10, 2017 which had an outstanding principal amount of \$4,000,000. Under the Note Amendment Agreement, the maturity dates of the two promissory notes held by the Straz Trust and the Note held by the Foundation were extended to April 10, 2021. We had previously extended the maturity date of the promissory note held by the Straz Foundation to April 10, 2021.

Under the Note Amendment Agreements, we and our subsidiaries provided a first priority lien on certain collateral in favor of the collateral agent for the benefit of the lenders. The collateral includes all assets and property held by Hudspeth Oil Corporation and Torchlight Hazel, LLC, which includes without limitation our working interest in certain oil and gas leases in Hudspeth County, Texas, known as the "Orogrande Project" and our working interest in certain oil and gas leases in the Midland Basin in West Texas, known as the "Hazel Project." Further, these subsidiaries, along with Torchlight Energy, Inc., provided guaranty with respect to payment of the three promissory notes. The Note Amendment Agreements also provide that (a) upon any disposition of less than 100% of Borrower's right, title and interest in and to the Orogrande Project or the Hazel Project, we must prepay an amount equal to 75% of the proceeds thereof (up to the outstanding amount due under the notes), unless such disposition results in us owning less than a 45% working interest (on an 8/8ths basis) in the Orogrande Project or the Hazel Project, in which case the prepayment amount is to be equal to 100% of such proceeds (up to the outstanding amount due under the notes); and (b) upon any disposition of 100% of our right, title and interest in and to the Orogrande Project or the Hazel Project, we must prepay an amount equal to 100% of the proceeds thereof (up to the outstanding amount due under the notes).

Additionally, the promissory notes, as amended, now provide conversion rights whereby the lenders will have the right, at each such lender's option, to convert any portion of principal and interest into shares of common stock of Torchlight Energy Resources, Inc. at a conversion price of \$1.50 per share.

TORCHLIGHT ENERGY RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

9. PROMISSORY NOTES - *continued*

The Note Amendment Agreements (as further amended) provided that no later than May 25, 2020, we were obligated to pay: (a) to the lenders all past due interest that has accrued on the existing promissory notes, and (b) to the Straz Trust a fee of \$170,000, which payments were made. Further, the agreements have certain negative covenants regarding related party transactions, dividends, stock repurchases, grants of liens on other assets, and payment of accrued executive compensation. There are also typical affirmative covenants regarding legal compliance and payment of taxes. The agreements also provide certain notice and disclosure requirements, including notice of material events, such as defaults under other obligations and litigation. The \$170,000 extension fee was paid on May 22 and the interest payments were made on June 17, 2020 within the terms of a forbearance agreement which provided an extension of the due date of the interest payments.

All other terms and conditions of the three original promissory notes remain substantially unchanged, including without limitation, monthly payments of interest only at the rate of 12% per annum, with a balloon payment of the outstanding principal due and payable at maturity, and annual payments of common stock at the rate of 2.5% of the principal amount outstanding, based on a volume-weighted average price.

In May 2020 and April 2019, respectively, the holders of the notes described above received 680,376 and 202,316 shares of common stock as a payment in kind representing the annual payments of common stock due at the rate of 2.5% of principal amount outstanding as of April 10 based on a volume-weighted average price calculation.

The 12% promissory note transactions through June 30, 2020 are summarized as follows:

12% 2020 Unsecured promissory note balance - December 31, 2019	\$ 12,377,830
Accretion of discount and amortization of debt issuance costs	241,261
Debt extension fee paid	(250,000)
12% 2021 Secured promissory note balance - June 30, 2020	<u>\$ 12,369,091</u>

The 12% unsecured notes payable at December 31, 2019 included \$64,297 due to a holder unrelated to the Straz entities. As of June 30, 2020 the amount payable to that holder remains unsecured. The note was due on April 10, 2020. The holder agreed to convert the note and accrued interest into common stock. On July 14, 2020 198,926 shares were issued valued at \$65,646.

Convertible Notes Issued in October, 2018

On October 17, 2018, we sold to certain investors in a private transaction 16% Series C Unsecured Convertible Promissory Notes with a total principal amount of \$,000,000. Interest and principal were due and payable on the notes in one balloon payment at maturity on April 17, 2020. The notes were convertible, at the election of the holders, into an aggregate 6% working interest in certain oil and gas leases in Hudspeth County, Texas, known as our "Orogrande Project." After an analysis of the transaction and a review of applicable accounting pronouncements, management concluded that the notes issued on October 17, 2018 which contain a conversion right for holders to convert into a working interest in the Orogrande Project of the Company, meet a specific scope exception to the provisions requiring derivative accounting.

The notes allow us to redeem them early only upon the event of a fundamental transaction, such as a merger or sale of substantially all our assets. The notes provide that the noteholders may accelerate and declare any and all of the obligations under the notes to be immediately due and payable in the event of default, such as nonpayment, failure to perform required conversions, failure to perform any covenant or agreement under the notes, an insolvency event, or certain defaults or judgments. As part of the sale of the of the notes, the noteholders required that McCabe Petroleum Corporation, a Texas corporation owned by our Chairman Gregory McCabe ("MPC"), provide them a put option whereby they have the right to have MPC purchase from them any unpaid principal amount due on the notes. Additionally, if there is a fundamental transaction, Mr. McCabe will be required to pay a fee to each noteholder that elects not to convert or require MPC to purchase the principal amount under the note, which fee will be equal to such noteholder's pro-rata share of a total fee amount of \$1,500,000.

TORCHLIGHT ENERGY RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

9. PROMISSORY NOTES - *continued*

We received total proceeds of \$6,000,000 from the sale of the notes, of which \$3,000,000 was used to pay back the promissory note issued to MPC on December 1, 2017, which note was due on December 31, 2020. We used the remaining proceeds for working capital and general corporate purposes, which includes, without limitation, drilling and lease acquisition capital.

Prior to entering into the above transactions, our Board of Directors formed a special committee composed of independent directors to analyze and authorize the transactions on behalf of Torchlight Energy Resources, Inc. and determine whether the transactions are fair to the company. In this role, the special committee engaged an independent financial consulting firm which rendered a fairness opinion deeming that the transactions were fair to the company, from a financial point of view, and contained terms no less favorable to the company than those that could be obtained in arm's length transactions.

On March 9, 2020, each of the noteholders entered into a Conversion Agreement with us and our subsidiary Hudspeth Oil Corporation ("Hudspeth"), under which the noteholders elected to convert the notes, in accordance with their terms, into an aggregate 6% working interest (of all such holders) in certain oil and gas leases in Hudspeth County, Texas, known as our "Orogrande Project." Principal of \$6,000,000 and approximately \$1,331,000 of accrued interest were converted at March 9, 2020.

The Conversion Agreements also provided additional consideration to the noteholders including a limited carry, a top-off obligation of us and Hudspeth, and warrants to purchase a total of 750,000 restricted shares of our common stock, which warrants will have a term of five years and an exercise price of \$0.70 per share. The limited carry provides that for the remainder of the 2020 calendar year, Hudspeth will pay all costs and expenses attributable to the assigned working interests, except where prohibited by law or regulation. The top-off obligation provides that, subject to the terms and conditions of the Conversion Agreements, if (a) we sell our entire working interest in the Orogrande Project, (b) as part of such sale, the holder's entire working interests are sold, and (c) the gross proceeds received by all the holders in such transaction are equal to less than \$9,000,000; then we must pay the holders an amount equal to \$9,000,000, (i) less gross proceeds the holders received in the transaction, (ii) less the amount of the carry the holders received under the Conversion Agreements, and (iii) less any gross proceeds the holders received in any farmouts occurring prior to the transaction.

The transaction was treated as an extinguishment of debt. The fair value of the working interest transferred in the conversion of the debt was \$8,778,000 and the value of warrants issued to the holders was \$382,500. The Company recognized a loss on extinguishment of debt in the amount of \$1,829,651 during the six months ended June 30, 2020.

Convertible Notes Issued in First Quarter 2019

On February 11, 2019 the Company raised a total of \$2,000,000 from investors through the sale of two 14% Series D Unsecured Convertible Promissory Notes. Principal was payable in a lump sum at maturity on May 11, 2020 with payments of interest payable monthly at the rate of 14% per annum. Holders of the notes have the right to convert principal and interest at any time into common stock at a conversion price of \$1.08 per share. The Company has the right to redeem the notes at any time, provided that the redemption amount must include all interest that would have been earned through maturity. The Company evaluated the notes for beneficial conversion features and derivative accounting criteria and concluded that derivative accounting treatment is not applicable.

On April 21, 2020, Torchlight Energy Resources, Inc. entered into agreements to amend the two 14% Series D Unsecured Convertible Promissory Notes that were originally issued on February 11, 2019. Under the amendment agreements, (a) the maturity dates were extended from May 11, 2020 to November 11, 2021, (b) the conversion price under which the noteholders may convert into our common stock was changed from \$1.08 to \$0.43, and (c) the noteholders were provided the right, at each noteholder's election, to convert their notes into either (i) a working interest in the Orogrande Project at the rate of one acre per \$1,100 of principal and unpaid interest converted, or (ii) a working interest in the Hazel Project at the rate of one acre per \$1,300 of principal and unpaid interest converted; provided, that the noteholders' right to convert into either such working interest is subject to approval of the collateral agent of the Note Amendment Agreement with the Straz parties.

Under the note amendments, the noteholders agreed to forebear demand or collection on all interest payments due and payable under the Note, including any past due interest payments, for 20 days after the execution of the Note Amendment Agreement. Further, we agreed to (a) issue each holder 20,000 restricted shares of common stock immediately and (b) pay each holder a fee of \$10,000, at the same time as the payment of past due interest is paid. The past due interest and fee was paid.

These two promissory notes will continue to provide for monthly payments of interest only at the rate of 14% per annum, with a balloon payment of the outstanding principal due and payable at maturity. Since the extension of the notes was completed before the date of filing this report, the debt is presented on the balance sheet as noncurrent debt.

TORCHLIGHT ENERGY RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

9. PROMISSORY NOTES - *continued*

Convertible Notes Issued in Third Quarter 2019

In July 2019, the Company issued 8% Unsecured Convertible Promissory notes in the amount of \$2,010,000 together with warrants to purchase our common stock. Principal and 8% interest are due at maturity on May 21, 2021. The principal and accrued interest on the notes are convertible into shares of common stock at \$1.10 per common share at any time after the original issue date. Along with the notes, the three year warrants equal to 20% of the number of shares of common stock issuable upon the conversion of the notes were issued to note holders. The warrants are exercisable at \$1.35 per share.

Warrants issued along with the notes meet the requirements of the scope exemptions in ASC 815-10-15-74 and are thus classified as equity upon issuance. The Company determined the fair value of the warrants using the Black Scholes pricing formula and is recognized as a discount on the carrying amount of the notes and is credited to additional paid in capital. The fair value of the warrants at the issuance date was determined to be \$240,455.

A beneficial conversion feature (“BCF”) of a convertible note is normally characterized as the convertible portion feature that provides a rate of conversion that is below market value or “in the money” when issued. The BCF related to the issuance of the notes was recorded at the issuance date. The BCF was measured using the intrinsic value method and is shown as a discount to the carrying amount of the convertible note and is credited to additional paid in capital. The intrinsic value of the BCF at the issuance date of the notes was determined to be \$1,145,546.

The allocated fair values of the BCF and the warrants was recorded as a debt discount from the face amount of the notes and such discount is being accreted over the expected term of the notes and is charged to interest expense. The Company recognized interest expense of \$269,061 from the amortization of debt discount from notes for the six months ended June 30, 2020.

The Company evaluated the July 2019 notes for derivative accounting criteria and concluded that derivative accounting treatment was not applicable.

Convertible Notes Issued in Fourth Quarter 2019

Effective October 31, 2019, the Company issued 10% Unsecured Convertible Promissory notes in the amount of \$540,000. Principal and interest are due at maturity on December 3, 2020. The principal and accrued interest on the notes are convertible into shares of common stock at \$0.75 per common share at any time after the original issue date. The notes are convertible, at the election of the holders, into an aggregate 0.367% working interest in our Orogrande Project.

The Company evaluated the October 2019 notes for BCF and derivative accounting criteria and concluded that there was no BCF or derivative accounting treatment applicable.

Paycheck Protection Program Loan

In response to the COVID-19 pandemic, the U.S. Small Business Administration (the “SBA”) made available low-interest rate loans to qualified small businesses, including under its Paycheck Protection Program (the “PPP”). On April 10, 2020, in order to supplement its cash balance, the Company submitted an application for a loan (“SBA loan”) in the amount of \$77,477. On May 1, 2020, Company’s SBA loan application was approved and the Company received the loan proceeds. The SBA loan has an interest rate of 0.98% and matures in April 2022.

Section 1106 of the CARES Act provides for forgiveness of up to the full principal amount of qualifying loans guaranteed under the PPP. The PPP and loan forgiveness are intended to provide economic relief to small businesses, such as the Company, that are adversely impacted under the COVID-19 Emergency Declaration issued by President Trump on March 13, 2020. The Company will apply for loan forgiveness when the SBA site for that purpose is available.

10. ASSET RETIREMENT OBLIGATIONS

The following is a reconciliation of the asset retirement obligations liability through June 30, 2020:

Asset retirement obligations – December 31, 2019	\$	23,319
Accretion expense		142
Estimated liabilities recorded		-
Asset retirement obligations – March 31, 2020	\$	23,461
Accretion expense		142
Estimated liabilities recorded		-
Asset retirement obligations – June 30, 2020	\$	<u>23,603</u>

11. SUBSEQUENT EVENTS

At-the-Market Equity Offering Program

On July 20, 2020, Torchlight Energy Resources, Inc. (the “Company”) entered into a Sales Agreement (the “Sales Agreement”) with Roth Capital Partners, LLC (the “Agent”) to conduct an “at-the-market” equity offering program pursuant to which the Company may issue and sell, from time to time at its sole discretion, shares of its common stock, par value \$0.001 per share, having an aggregate offering price of up to \$7,000,000 (the “Shares”), through or to the Agent, as the Company’s sales agent. Subject to the terms and conditions of the Sales Agreement, the Agent will use its commercially reasonable efforts to sell the Shares from time to time, based upon the Company’s instructions. The Company has no obligation to sell any of the Shares, and may, at any time, suspend the sale of the Shares under the Sales Agreement upon proper notice to the other party. The Sales Agreement will terminate upon the issuance and sale of all of the Shares through or to the Agent, unless earlier terminated in accordance with its terms.

The Company has provided the Agent with customary indemnification rights, and the Agent will be entitled to an aggregate fixed commission of 3.0% of the gross proceeds from Shares sold through the Agent under the Sales Agreement. Sales of the Shares under the Sales Agreement will be made in transactions that are deemed to be “at-the-market offerings” as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made by means of ordinary brokers’ transactions, including on The Nasdaq Capital Market, at market prices or as otherwise agreed to with the Agent. The Shares have been registered under the Securities Act of 1933, as amended, pursuant to the Registration Statement on Form S-3 (No. 333 220181) filed by the Company with the Securities and Exchange Commission (the “SEC”) on August 25, 2017, and declared effective on September 28, 2017 (the “Registration Statement”). A base prospectus relating to certain securities of the Company, including the Shares, was included with the Registration Statement. On July 20, 2020, the Company filed a prospectus supplement with the SEC relating to the offering of the Shares pursuant to the Sales Agreement.

Since July 20, 2020 and through August 6, 2020, the Company sold a total of 453,002 shares of common stock under at-the-market equity offering program for aggregate gross proceeds of approximately \$155,081.

Executive Employment Agreements and Stock Options

On July 15, 2020, we entered into new one-year employment agreements with John Brda, our President and Chief Executive Officer, and Roger Wurtele, our Chief Financial Officer. Their previous employment agreements expired in June 2020. Under the new agreements, Messrs. Brda and Wurtele will continue to receive their same annual salaries of \$375,000 and \$225,000, with 36% and 20% of the salaries, respectively, continuing to accrue unpaid until such time as the Board of Directors believes there is adequate cash for such payment, or as otherwise contemplated in the employment agreement. Each individual will be eligible for a bonus at the Compensation Committee’s discretion. Each agreement provides that if there is a “change of control” in the company (as defined in the agreement), the employee will be paid in one lump sum any amounts owed to the employee under the agreement that are accrued and unpaid plus his salary that would be earned through the end of the term of the agreement. Each employment agreement has a covenant not to compete and provides for expense reimbursement, four weeks of vacation and certain other benefits.

11. SUBSEQUENT EVENTS - *continued*

Additionally, as part of their employment compensation, the Compensation Committee granted Mr. Brda an option to purchase a total of up to 2,250,000 shares of common stock, including up to 375,000 shares at an exercise price of \$0.50 per share and up to 1,875,000 shares at an exercise price of \$1.00 per share, and granted Mr. Wurtele an option to purchase a total of up to 750,000 shares of common stock, including up to 375,000 shares at an exercise price of \$0.50 per share and up to 375,000 shares at an exercise price of \$1.00 per share. The options were granted under our Amended and Restated 2015 Stock Option Plan. The options of both executives will vest upon either (a) the closing of a change of control occurring prior to July 15, 2021, or (b) the company entering into a letter of intent with a third party prior to July 15, 2021 that contemplates a change of control, and the change of control transaction closes with that third party (or an affiliate(s) of that third party) at a date not later than July 15, 2022; subject, however, to acceleration and earlier vesting of all of the options in the event of (i) the termination of employment by the employee for “good reason” under his employment agreement or (ii) a determination of the Compensation Committee, at its discretion. In the event of the death or disability of the employee prior to vesting or if the company terminates the employee’s employment for reasons other than for “cause” under the employment agreement prior to vesting, the option will still vest upon the occurrence of the events described under clauses (a) or (b) above. The options, to the extent such options have not been exercised, will terminate and become null and void on July 15, 2025, if and only if the options vest as described above, or on July 15, 2021, if the options do not vest as described above, subject to the occurrence of the events contemplated under clause (b) above whereby the options would not terminate until July 15, 2022.

Other Equity Transactions

In July 2020, as referenced in Notes 7 and 9 above, 198,926 shares of common stock were issued in connection with the conversion of a note payable and 157,895 warrants were exercised on a cashless basis.

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

Overview

We are an energy company engaged in the acquisition, exploration, exploitation and/or development of oil and natural gas properties in the United States. We are primarily focused on the acquisition of early stage projects, the development and delineation of these projects, and then the monetization of those assets once these activities are completed.

Since 2010, our primary focus has been the development of interests in oil and gas projects we hold in the Permian Basin in West Texas, including the Orogrande Project in Hudspeth County, Texas, the Hazel Project in the Midland Basin and the project in Winkler County, Texas in the Delaware Basin. We also hold interests in certain other oil and gas projects that we are in the process of divesting, including the Hunton wells project as part of a partnership with Husky Ventures, Inc., or Husky, in Central Oklahoma.

We employ a private equity model within a public platform, with the goal to (i) enter into a play at favorable valuations, (ii) "prove up" and delineate the play through committed capital and exhaustive geologic and engineering review, and (iii) monetize our position through an exit to public and private independents that can continue full-scale development. Rich Masterson, our consulting geologist, has originated several of our current plays, as discussed below, based on his tenure as a geologist since 1974. He is credited with originating the Wolfbone shale play in the Southern Delaware Basin of West Texas and has prepared prospects totaling over 150,000 acres that have been leased, drilled and are currently being developed by Devon Energy Corp., Occidental Petroleum Corporation, Noble Energy, and Samson Oil & Gas Ltd., among others.

In April 2018, we announced that we have commenced a process that could result in the monetization of the Hazel Project. Pursuant to our corporate strategy, in our opinion the development activity at the Hazel Project, coupled with nearby activities of other oil and gas operators, is indicative of this project having achieved a level of value that suggests monetization. We believe that the liquidity that would be provided from selling the Hazel Project could be redeployed into the Orogrande Project.

We are also currently marketing the Orogrande Project for an outright sale or farm in partner and are taking measures on our own to market the Winkler Project. These efforts are continuing.

We operate our business through five wholly-owned subsidiaries, Torchlight Energy, Inc., a Nevada corporation, Torchlight Energy Operating, LLC, a Texas limited liability company, Hudspeth Oil Corporation, a Texas corporation, Torchlight Hazel, LLC, a Texas limited liability company, and Warwink Properties, LLC, a Texas limited liability company. We currently have four full-time employees and we employ consultants for various tasks as needed.

Our principal executive offices are located at 5700 W. Plano Parkway, Suite 3600, Plano, Texas 75093. The telephone number of our principal executive offices is (214) 432-8002.

The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited financial statements included herewith and our audited financial statements for the year ended December 31, 2019. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment by our management.

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

Historical Results for the six months ended June 30, 2020 and 2019:

Revenues and Cost of Revenues

For the six months ended June 30, 2020, we had production revenue of \$130,097 compared to \$547,912 for the six months ended June 30, 2019. Refer to the table of production and revenue included below for quarterly changes in revenue. Our cost of revenue, consisting of lease operating expenses and production taxes, was \$148,020 and \$241,320 for the six months ended June 30, 2020 and 2019, respectively.

Property	Quarter	Oil Production {BBLs}	Gas Production {MCF}	Oil Revenue	Gas Revenue	Total Revenue
Oklahoma	Q1 - 2020	181	468	\$ 583	\$ 1,000	\$ 1,583
Hazel (TX)	Q1 - 2020	0	0	\$ -	\$ -	\$ -
MECO (TX)	Q1 - 2020	1,863	1,559	\$ 81,530	\$ 1,507	\$ 83,037
Total Q1-2020		2,044	2,027	\$ 82,113	\$ 2,507	\$ 84,620
Oklahoma	Q2 - 2020	28	448	\$ 774	\$ 156	\$ 930
Hazel (TX)	Q2 - 2020	0	0	\$ -	\$ -	\$ -
MECO (TX)	Q2 - 2020	1,389	747	\$ 44,223	\$ 324	\$ 44,547
Total Q2-2020		1,417	1,195	\$ 44,997	\$ 480	\$ 45,477
2020 Year To Date		3,461	3,222	\$ 127,110	\$ 2,987	\$ 130,097
Oklahoma	Q1 - 2019	56	1,072	\$ 2,567	\$ 2,333	\$ 4,900
Hazel (TX)	Q1 - 2019	2,864	0	\$ 131,901	\$ -	\$ 131,901
MECO (TX)	Q1 - 2019	3,525	2,565	\$ 167,677	\$ 6,359	\$ 174,036
Total Q1-2019		6,445	3,637	\$ 302,145	\$ 8,692	\$ 310,837
Oklahoma	Q2 - 2019	43	1,770	\$ 2,477	\$ 2,450	\$ 4,927
Hazel (TX)	Q2 - 2019	1,123	0	\$ 64,302	\$ -	\$ 64,302
Meco (TX)	Q2 - 2019	2,585	2,623	\$ 156,259	\$ 11,587	\$ 167,846
Total Q2-2019		3,751	4,393	\$ 223,038	\$ 14,037	\$ 237,075
Oklahoma	Q3 - 2019	0	0	\$ -	\$ -	\$ -
Hazel (TX)	Q3 - 2019	0	0	\$ -	\$ -	\$ -
Meco (TX)	Q3 - 2019	1,320	4,522	\$ 71,064	\$ 78	\$ 71,142
Total Q3-2019		1,320	4,522	\$ 71,064	\$ 78	\$ 71,142
Oklahoma	Q4 - 2019	166	3,766	\$ 8,873	\$ 1,895	\$ 10,768
Hazel (TX)	Q4 - 2019	0	0	\$ -	\$ -	\$ -
Meco (TX)	Q4 - 2019	2,102	5,890	\$ 110,894	\$ 5,547	\$ 116,441
Total Q4-2019		2,268	9,656	\$ 119,767	\$ 7,442	\$ 127,209
2019 Year To Date		13,784	22,208	\$ 716,014	\$ 30,249	\$ 746,263

During the six months ended June 30, 2020, oil production decreased due to down time associated with equipment repair and typical decline in production from the MECO property.

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

We recorded depreciation, depletion, and amortization expense of \$725,198 for the six months ended June 30, 2020 compared to \$327,695 for the six months ended June 30, 2019.

General and Administrative Expenses

Our general and administrative expenses for the six months ended June 30, 2020 and 2019 were \$1,654,435 and \$1,707,918, respectively, a decrease of \$53,483. Our general and administrative expenses consisted of consulting and compensation expense, substantially all of which was non-cash or deferred, accounting and administrative costs, professional consulting fees, and other general corporate expenses. The change in general and administrative expenses for the six months ended June 30, 2020 compared to 2019 is detailed as follows:

Increase(decrease) in non cash stock and warrant compensation	\$	(362,730)
Increase(decrease) in consulting expense		60,439
Increase(decrease) in professional fees		(9,109)
Increase(decrease) in investor relations		138,856
Increase(decrease) in travel expense		(5,889)
Increase(decrease) in salaries and compensation		24,704
Increase(decrease) in legal fees		36,323
Increase(decrease) in insurance		57,849
Increase(decrease) in rent		(9,704)
Increase(decrease) in accounting and audit fees		36,626
Increase(decrease) in general corporate expenses		(20,848)
Total Decrease in General and Administrative Expenses	\$	(53,483)

Historical Results for the three months ended June 30, 2020 and 2019:**Revenues and Cost of Revenues**

For the three months ended June 30, 2020, we had production revenue of \$45,477 compared to \$237,075 for the three months ended June 30, 2019. Refer to the table of production and revenue presented above for quarterly changes in revenue. Our cost of revenue, consisting of lease operating expenses and production taxes, was \$80,162 and \$113,698 for the three months ended June 30, 2020 and 2019, respectively.

We recorded depreciation, depletion, and amortization expense of \$277,793 for the three months ended June 30, 2020 compared to \$142,269 for the three months ended June 30, 2019.

General and Administrative Expenses

Our general and administrative expenses for the three months ended June 30, 2020 and 2019 were \$606,811 and \$665,160 respectively, a decrease of \$58,349. Our general and administrative expenses consisted of consulting and compensation expense, substantially all of which was non-cash or deferred, accounting and administrative costs, professional consulting fees, and other general corporate expenses. The change in general and administrative expenses for the three months ended June 30, 2020 compared to 2019 is detailed as follows:

Increase(decrease) in non cash stock and warrant compensation	\$	(181,500)
Increase(decrease) in consulting expense		7,000
Increase(decrease) in professional fees		(8,109)
Increase(decrease) in investor relations		48,162
Increase(decrease) in travel expense		(12,738)
Increase(decrease) in salaries and compensation		16,219
Increase(decrease) in legal fees		32,774
Increase(decrease) in insurance		46,118
Increase(decrease) in rent		(3,775)
Increase(decrease) in accounting and audit fees		(6,746)
Increase(decrease) in general corporate expenses		4,246
Total Decrease in General and Administrative Expenses	\$	(58,349)

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

Liquidity and Capital Resources

At June 30, 2020, we had working capital deficit of \$14,748,949 and total assets of \$34,246,575. Stockholders' equity was \$16,008,469. The negative working capital is principally due to accumulated accounts payable balances at June 30, 2020 and notes payable which have become payable within one year.

Cash flows from operating activities for the six months ended June 30, 2020 was \$(963,840) compared to \$276,393 for the six months ended June 30, 2019, a decrease of \$1,240,233. Cash flows from operating activities for the six months ended June 30, 2020 can be primarily attributed to net loss from operations of \$6,993,115, stock based compensation of \$310,150, a loss on extinguishment of debt \$1,829,651, a \$2,108,301 impairment loss, and other noncash expense adjustments. Cash flows from operating activities for the six months ended June 30, 2019 can be primarily attributed to net loss from operations of \$2,568,508 and \$658,250, in stock compensation expense, an impairment expense of \$474,357 and changes in other noncash expense adjustments. Reference the Consolidated Statements of Cash Flows for additional detail of the components that comprise the net use of cash in operations. We expect to continue to use cash flow in operating activities until such time as we achieve sufficient commercial oil and gas production to cover all of our cash costs.

Cash flows from investing activities for the six months ended June 30, 2020 was \$(4,949,222) compared to \$(4,559,494) for the six months ended June 30, 2019. Cash flows from investing activities principally consists of investment in oil and gas properties in Texas.

Cash flows from financing activities for the six months ended June 30, 2020 was \$6,104,908 as compared to \$3,858,923 for the six months ended June 30, 2019. Cash flows from financing activities consists of proceeds from issuance of our common stock, proceeds from a subscription receivable, and additional borrowings under notes payable. We expect to continue to have cash flow provided by financing activities as we seek new rounds of financing and continue to develop our oil and gas investments.

We will require additional debt or equity financing to meet our plans and needs. We face obstacles in continuing to attract new financing due to industry conditions and our history and current record of net losses. Despite our efforts, we can provide no assurance that we will be able to obtain the financing required to meet our stated objectives or even to continue as a going concern.

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

Commitments and Contingencies-

Operating Leases

Effective June 1, 2019 the Company entered into an agreement with a company that had been subleasing a portion of its office space to become the primary obligor on the lease and to assume full responsibility for lease payments after lease expiration on November 30, 2019. The Company has continued after November 30, 2019 as a subtenant on a month-to-month basis.

Environmental matters

We are subject to contingencies as a result of environmental laws and regulations. Present and future environmental laws and regulations applicable to our operations could require substantial capital expenditures or could adversely affect our operations in other ways that cannot be predicted at this time. As of June 30, 2020 and December 31, 2019, no amounts have been recorded because no specific liability has been identified that is reasonably probable of requiring us to fund any future material amounts.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of June 30, 2020. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports we submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms and that such information was accumulated and communicated to our Chief Executive Officer and Chief Financial Officer, in a manner that allowed for timely decisions regarding disclosure.

Changes in Internal Control over Financial Reporting

There were no changes during the quarter ended June 30, 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On January 31, 2020, Torchlight Energy Resources, Inc. and its wholly owned subsidiaries Torchlight Energy, Inc. and Torchlight Energy Operating, LLC were served with a lawsuit brought by Goldstone Holding Company, LLC (*Goldstone Holding Company, LLC v. Torchlight Energy, Inc., et al.*, in the 160th Judicial District Court of Dallas County, Texas). On February 24, 2020, Torchlight Energy Resources, Inc., Torchlight Energy, Inc., and Torchlight Energy Operating, LLC timely filed their answer, affirmative defenses, and requests for disclosure. The suit, which seeks monetary relief over \$1 million, makes unspecified allegations of misrepresentations involving a November 2015 participation agreement and a 2016 amendment to the participation agreement. We have denied the allegations and have asserted several affirmative defenses including but not limited to, that the suit is barred by the applicable statute of limitations, that the claims have been released, and that the claims are barred because of contractual disclaimers between sophisticated parties.

On April 30, 2020, our wholly owned subsidiary, Hudspeth Oil Corporation, filed suit against Datalog LWT, Inc. d/b/a Cordax Evaluation Technologies. The suit seeks the recovery of approximately \$1.4 million in costs incurred as a result of a tool failure during drilling activities on the University Founders A25 #2 well that is located in the Orogrande Field. Working interest owner Wolfbone Investments, LLC, a company owned by our Chairman Gregory McCabe, is a co-plaintiff in that action. After suit was filed, Cordax filed a mineral lien in the amount of \$104,500.01 against the Orogrande Field and has sued the operator and counterclaimed against Hudspeth for breach of contract, seeking the same amount as the lien. We are contesting the lien in good faith. The suit, *Hudspeth Oil Corporation and Wolfbone Investments, LLC v. Datalog LWT, Inc. d/b/a Cordax Evaluation Technologies*, was filed in the 189th Judicial District Court of Harris County, Texas.

ITEM 1A. RISK FACTORS

There were no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, except for such risks and uncertainties associated with the COVID-19 pandemic, as disclosed below. The risks described in the Annual Report on Form 10-K and in this Form 10-Q are not the only risks we face. Additional risks and uncertainties not currently known to us, or that we deem to be immaterial, also may have a material adverse impact on our business, financial condition or results of operations.

An occurrence of an uncontrollable event such as the COVID-19 pandemic is likely to negatively affect, and has to date negatively affected, our operations.

The occurrence of an uncontrollable event such as the COVID-19 pandemic is likely to, and has already, negatively affected our operations. A pandemic typically results in social distancing, travel bans and quarantine, and the effects of, and response to, the COVID-19 pandemic has limited access to our facilities, properties, management, support staff and professional advisors. These, in turn, have not only negatively impacted our operations and financial condition, but our overall ability to react timely to mitigate the impact of this event. Further, the COVID-19 pandemic has resulted in declines in the demand for, and the price of, oil and gas, and it is unclear how long this decline will last. The full effect on our business and operation is currently unknown. In the event that the effects of COVID-19 continue in the future and/or the economy continues to deteriorate, we may be forced to curtail our operations and may be unable to pay our debt obligations as they come due.

ITEM 1A. RISK FACTORS - continued

The coronavirus/COVID-19 pandemic has had a negative effect on oil and gas prices, and depending on the severity and longevity of the pandemic, it may result in a major economic recession which will continue to depress oil and gas prices and cause our business and results of operations to suffer.

The inability and/or unwillingness of individuals to congregate in large groups, travel and/or visit retail businesses or travel outside of their homes will, and has to date, had a negative effect on the demand for, and the current prices of, oil and gas. Additionally, the demand for oil and gas is based partially on global economic conditions. If the COVID-19 pandemic results in a global economic recession, there will be a continued negative effect on the demand for oil and gas and this will have a negative effect on our operating results. All of the above may be exacerbated in the future as the COVID-19 outbreak and the governmental responses thereto continue. Concerns about global economic growth have had a significant adverse impact on global financial markets and commodity prices. If the economic climate in the United States or abroad continues to deteriorate, demand for petroleum products could further diminish, which will impact the price at which we can sell our oil and gas, impact the value of our working interests and other oil and gas assets, affect the ability of our vendors, suppliers and customers to continue operations, affect our operations and ultimately adversely impact our results of operations, liquidity and financial condition.

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

In April 2020, we issued a total of 40,000 restricted shares of common stock to certain noteholders in connection with the extension of their promissory notes.

In May 2020, we issued a total of 680,376 restricted shares of common stock in satisfaction of the payment in kind due on April 10, 2020 to the holders of notes payable.

In May 2020, we issued a total of 172,500 warrants to purchase our common stock at a purchase price of \$0.425 per share to the representative of the underwriters of the underwritten public offering that closed on May 20, 2020, as partial consideration to such representative. The warrants are exercisable during the four and one-half year period commencing six months from May 18, 2020.

In June 2020, we issued 100,000 restricted shares of common stock to a former executive officer for payment of previously accrued and unpaid compensation.

In June 2020, we issued 257,143 restricted shares of common stock to a consultant as consideration for services.

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

ITEM 6. 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 10-K filed with the SEC on March 18, 2019.) *</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>Certificate of Amendment to Articles of Incorporation dated August 18, 2017 (Incorporated by reference from Form 10-Q filed with the SEC on August 9, 2018.) *</u>
<u>3.5</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>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>10.2</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>10.3</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>
<u>10.4</u>	<u>Agreement and Plan of Reorganization and Plan of Merger with Line Drive Energy, LLC (Incorporated by reference from Form 10-K filed with the SEC on March 31, 2017) *</u>
<u>10.5</u>	<u>Purchase and Sale Agreement with Wolfbone Investments, LLC (Incorporated by reference from Form 10-K filed with the SEC on March 31, 2017) *</u>
<u>10.6</u>	<u>Agreement and Plan of Reorganization and Plan of Merger with McCabe Petroleum Corporation and Warwink Properties, LLC (Incorporated by reference from Form 10-K filed with the SEC on March 16, 2018) *</u>
<u>10.7</u>	<u>Purchase Agreement with Torchlight Energy, Inc. and McCabe Petroleum Corporation (Incorporated by reference from Form 10-K filed with the SEC on March 16, 2018) *</u>
<u>10.8</u>	<u>Promissory Note for \$3,250,000 by Torchlight Energy, Inc. to McCabe Petroleum Corporation (Incorporated by reference from Form 10-K filed with the SEC on March 16, 2018) *</u>
<u>10.9</u>	<u>Assignment of Farmout Agreement between Hudspeth Oil Corporation, Founders Oil & Gas, LLC and Wolfbone Investments, LLC (Incorporated by reference from Form 10-K filed with the SEC on March 16, 2018) *</u>
<u>10.10</u>	<u>Underwriting Agreement, dated April 19, 2018, between Torchlight Energy Resources, Inc. and Roth Capital Partners, LLC (Incorporated by reference from Form 8-K filed with the SEC on April 19, 2018) *</u>
<u>10.11</u>	<u>Purchase & Settlement Agreement, dated July 24, 2018, between Torchlight Energy Resources, Inc., Hudspeth Oil Corporation, Founders Oil & Gas, LLC, Founders Oil & Gas Operating, LLC, Wolfbone Investments, LLC and McCabe Petroleum Corporation (Incorporated by reference from Form 10-Q filed with the SEC on August 9, 2018) *</u>

- [10.12](#) [16% Series C Unsecured Convertible Promissory Note \(form of\) dated October 17, 2018 \(Incorporated by reference from Form 8-K filed with the SEC on October 18, 2018\)*](#)
- [10.13](#) [Underwriting Agreement, dated January 14, 2020, between Torchlight Energy Resources, Inc. and Aegis Capital Corp. \(Incorporated by reference from Form 8-K filed with the SEC on January 14, 2020\) *](#)
- [10.14](#) [Conversion Agreement \(form of\) dated March 9, 2020 between Torchlight Energy Resources, Inc., Hudspeth Oil Corporation and the previous holders of 16% Series C Unsecured Convertible Promissory Notes \(Incorporated by reference from Form 10-K filed with the SEC on March 16, 2020\) *](#)
- [10.15](#) [Underwriting Agreement, dated May 18, 2020, between Torchlight Energy Resources, Inc. and ThinkEquity, a division of Fordham Financial Management, Inc. \(Incorporated by reference from Form 8-K filed with the SEC on May 18, 2020\) *](#)
- [10.16](#) [Foundation Note Amendment Agreement dated April 24, 2020 with the David A. Straz, Jr Foundation \(Incorporated by reference from Form 10-Q filed with the SEC on June 5, 2020\)](#)
- [10.17](#) [Amendment to Foundation Note Amendment Agreement dated May 12, 2020 with David A. Straz, Jr. Foundation \(Incorporated by reference from Form 10-Q filed with the SEC on June 5, 2020\)](#)
- [10.18](#) [Trust Note Amendment Agreement dated April 24, 2020 with The David A. Straz, Jr. Irrevocable Trust DTD 11/11/1986 \(Incorporated by reference from Form 10-Q filed with the SEC on June 5, 2020\)](#)
- [10.19](#) [Amendment to Trust Note Amendment Agreement dated May 12, 2020 with the David A. Straz Jr. Irrevocable Trust DTD 11/11/1986 \(Incorporated by reference from Form 10-Q filed with the SEC on June 5, 2020\)](#)
- [10.20](#) [Amended and Restated Note dated April 24, 2020 in the amount of \\$4,000,000 with The David A. Straz, Jr. Irrevocable Trust DTD 11/11/1986 \(Incorporated by reference from Form 10-Q filed with the SEC on June 5, 2020\)](#)
- [10.21](#) [Amended and Restated Note dated April 24, 2020 in the amount of \\$4,500,000 with THE David A. Straz, Jr. Irrevocable Trust DTD 11/11/1986 \(Incorporated by reference from Form 10-Q filed with the SEC on June 5, 2020\)](#)
- [10.22](#) [Amended and Restated Note dated April 24, 2020 in the amount of \\$4,000,000 with David A. Straz, Jr. Foundation \(Incorporated by reference from Form 10-Q filed with the SEC on June 5, 2020\)](#)
- [10.23](#) [Form of Securities Purchase Agreement, dated June 12, 2020, between Torchlight Energy Resources, Inc. and the investor \(Incorporated by reference from Form 8-K filed with the SEC on June 12, 2020\) *](#)
- [10.24](#) [Employment Agreement with John A. Brda dated July 15, 2020 \(Incorporated by reference from Form 8-K filed with the SEC on July 16, 2020\) *](#)
- [10.25](#) [Employment Agreement with Roger Wurtele dated July 15, 2020 \(Incorporated by reference from Form 8-K filed with the SEC on July 16, 2020\) *](#)
- [10.26](#) [Stock Option Agreement with John A. Brda dated July 15, 2020 \(Incorporated by reference from Form 8-K filed with the SEC on July 16, 2020\) *](#)
- [10.27](#) [Stock Option Agreement with Roger Wurtele dated July 15, 2020 \(Incorporated by reference from Form 8-K filed with the SEC on July 16, 2020\) *](#)
- [10.28](#) [Sales Agreement, dated July 20, 2020, between Torchlight Energy Resources, Inc. and Roth Capital Partners, LLC \(Incorporated by reference from Form 8-K filed with the SEC on July 20, 2020\) *](#)
- [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.](#)

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

* **Incorporated by reference from our previous filings with the SEC**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Torchlight Energy Resources, Inc.

Date: August 10, 2020

/s/ John A. Brda

By: John A. Brda
Chief Executive Officer

Date: August 10, 2020

/s/ Roger Wurtele

By: Roger Wurtele
Chief Financial Officer and Principal Accounting Officer

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

I, John A. Brda, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Torchlight Energy Resources, Inc. for the period ended June 30, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over the financial reporting; and
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John A. Brda

John A. Brda
Chief Executive Officer
(Principal Executive Officer)
Date: August 10, 2020

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

I, Roger Wurtele, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Torchlight Energy Resources, Inc. for the period ended June 30, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over the financial reporting; and
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Roger Wurtele

Roger Wurtele,
Chief Financial Officer
(Principal Financial Officer)
Date: August 10, 2020

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

I, John A. Brda, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the quarterly report on Form 10-Q of Torchlight Energy Resources, Inc. for the period ended June 30, 2020, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such quarterly report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Torchlight Energy Resources, Inc.

/s/ John A. Brda

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

Date: August 10, 2020

I, Roger Wurtele, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the quarterly report on Form 10-Q of Torchlight Energy Resources, Inc. for the period ended June 30, 2020, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such quarterly report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Torchlight Energy Resources, Inc.

/s/ Roger Wurtele

Roger Wurtele,
Chief Financial Officer (Principal Financial Officer)

Date: August 10, 2020

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