TORCHLIGHT ENERGY RESOURCES INC
Form 10-Q
August 15, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

X . Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarter Ended **June 30, 2011.**

. Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934 (No fee required)

For the transition period from _______ to _______.

Commission file number: **000-53473**

TORCHLIGHT ENERGY RESOURCES, INC.

(Name of registrant in its charter)

Nevada	**74-3237581**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

2007 Enterprise Avenue

League City, Texas 77573

(Address of Principal Executive Offices)

(281) 538-5938

(Issuer's Telephone Number, Including Area Code)

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

Common Stock ($0.001 Par Value)

(Title of Each Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X . No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. .

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes . No X .

As of August 11, 2011, there were 14,224,661 shares of the registrant s common stock outstanding (the only class of voting common stock).

DOCUMENTS INCORPORATED BY REFERENCE

None.

FORM 10-Q

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ITEM 1. FINANCIAL STATEMENTS

TORCHLIGHT ENERGY RESOURCES, INC.

(AN EXPLORATION STAGE COMPANY)

CONSOLIDATED BALANCE SHEETS

		JUNE 30, 2011 (Unaudited)		DECEMBER 31, 2010 (Audited)
ASSETS				
Current assets:				
Cash	$	218,368	$	278,191
Accounts receivable		17,274		-
Prepaid costs		18,589		1,000
Total current assets		254,231		279,191
Investment in oil and gas properties		2,822,420		1,114,958
Goodwill		447,084		447,084
TOTAL ASSETS	$	3,523,735	$	1,841,233
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable		131,846		291,950
Convertible promissory note, net of discount of $34,000 at December 31, 2010		262,500		184,750
Interest payable		216		-
Other current liability		157,500		-
Total current liabilities		552,062		476,700
Commitments and contingencies		-		-
Stockholders equity:				
Preferred stock, no par value, 5,000,000 shares authorized; no shares issued or outstanding		-		-
Common stock, par value $0.001 per share; 70,000,000 shares authorized; 14,134,661 issued and outstanding at June 30, 2011 13,381,134 issued and outstanding at March 31, 2011		4,646		3,213

12,701,420 issued and outstanding at December 31, 2010				
Additional paid-in capital		5,001,383		2,006,622
Accumulated deficit		(2,034,356)		(645,302)
Total stockholders' equity		2,971,673		1,364,533
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	3,523,735	$	1,841,233

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

TORCHLIGHT ENERGY RESOURCES, INC.

(AN EXPLORATION STAGE COMPANY)

CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDING JUNE 30, 2011 (Unaudited)	SIX MONTHS ENDING JUNE 30, 2011 (Unaudited)	JUNE 25, 2010 (Inception) TO JUNE 30, 2011 (Unaudited)
Revenue			
Oil and gas sales	$ 24,152	$ 24,152	$ 24,152
Cost of revenue	25,273	25,273	25,273
Gross loss	1,121	1,121	1,121
Operating expenses:			
General and administrative expenses	759,669	1,310,098	1,955,400
Total operating expenses	759,669	1,310,098	1,955,400
Other income (expense)			
Interest income	55	131	131
Interest expense	(40,552)	(77,966)	(77,966)
Total other income (expense)	(40,497)	(77,835)	(77,835)
Net loss before taxes	801,287	1,389,054	2,034,356
Provision for income taxes	-	-	-
Net loss	$ 801,287	$ 1,389,054	$ 2,034,356
Loss per share:			
Basic and Diluted	$ (0.058)	$ (0.104)	$ (0.149)
Weighted average shares outstanding:			
Basic and Diluted	13,853,366	13,391,655	13,253,413

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

TORCHLIGHT ENERGY RESOURCES, INC.

(AN EXPLORATION STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOW

		SIX MONTHS ENDING JUNE 30, 2011 (Unaudited)		JUNE 25, 2010 (Inception) TO JUNE 30, 2011 (Unaudited)
Cash Flows From Operating Activities				
Net loss	$	(1,389,054)	$	(2,034,356)
Adjustments to reconcile net loss to net cash from operating activities:				
Stock based compensation		1,005,973		1,318,973
Accretion of convertible note discount		65,250		65,250
Change in:				
Prepaid expenses		(17,589)		(18,589)
Accounts receivable		(17,274)		(17,274)
Accounts payable		(160,104)		131,846
Other payable		157,500		157,500
Interest payable		216		216
Net cash used in operating activities		(355,082)		(396,434)
Cash Flows From Investing Activities				
Investment in oil and gas properties - unevaluated		(1,707,462)		(2,822,420)
Cash Flows From Financing Activities				
Issuance of convertible note		262,500		512,500
Payment of convertible note		(250,000)		(250,000)
Shares issued to management		-		10,000
Shares issued for private placement		1,990,221		3,434,722
Cancellation of common shares		-		(270,000)
Net cash provided by financing activities		2,002,721		3,437,222
Net increase in cash		(59,823)		218,368
Cash - beginning of period		278,191		-
Cash - end of period	$	218,368	$	218,368
Supplemental disclosure of cash flow information:				
Non cash transactions:				
Recapitalization on reverse merger	$	-	$	447,084
Discount on warrants issued in conjunction with convertible note	$	-	$	65,250

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1.

NATURE OF BUSINESS

Torchlight Energy, Inc. (TEI) was formed in the state of Nevada on June 25, 2010. TEI s operations commenced with initial funding on July 8, 2010. TEI is an Exploration Stage energy company formed as a corporation to engage in the acquisition, exploration, exploitation and/or development of oil and natural gas properties in the United States.

On November 23, 2010 Torchlight Energy Resources, Inc. (we, us and the Company), formerly, Pole Perfect Studios Inc. (Pole Perfect) entered into a Share Exchange Agreement (the Exchange Agreement) with its major stockholders, TEI, and the persons owning 100% of the outstanding capital stock of TEI (the TEI Stockholders). At closing, the TEI Stockholders transferred 9,444,501 shares of TEI common stock, representing 100% of the common stock of TEI, to the Company in exchange for an aggregate of 2,361,125 shares (pre stock split) of newly issued common stock of the Company. Also at closing of the Exchange Agreement, the Pole Perfect shareholders transferred to the Company an aggregate of 3,600,000 shares of common stock of the Company for cancellation in exchange for an aggregate consideration of $270,000. This transaction was recorded as a reverse acquisition for accounting purposes where TEI is the accounting acquirer. The assets and liabilities of Pole Perfect were recorded at a fair value of $0. The Company recorded $447,084 of goodwill which represents the estimated fair value of the consideration exchanged. In addition, at closing (i) TEI became the Company s wholly-owned subsidiary, (ii) the Company abandoned all of its previous business plans within the health and fitness industries, including opening and operating dance studios, and (iii) the business of TEI became the Company s sole business. Descriptions of its business hereinafter refer to the business of TEI.

On December 10, 2010, the Company effected a 4-for-1 forward split of its shares of common stock outstanding. All owners of record at the close of business on December 10, 2010 (record date) received three additional shares for every one share they owned.

Effective February 8, 2011 the Company changed its name from Pole Perfect Studios, Inc. to Torchlight Energy Resources, Inc. In connection with the name change, the Company s ticker symbol changed from PPFT to TRCH.

In an Exploration Stage company, management devotes most of its activities to establishing a new business, including raising capital to acquire interests in oil and gas properties. Planned principle activities have not yet produced significant revenues, and the Company has incurred operating losses as is normal in exploration stage companies.

The Company desires to be engaged in the acquisition, exploration, development and producing of oil and gas properties. The Company is interested in programs that have a short window of payback, a high internal rate of return and proven and bookable reserves. The Company s success will depend in large part on its ability to obtain and develop oil and gas interests within the United States.

2.

GOING CONCERN

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

At June 30, 2011, the Company had not yet achieved profitable operations, has accumulated losses of $2,034,356 since its inception and expects to incur further losses in the development of its business, which casts substantial doubt about the Company s ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management s plan to address the Company s ability to continue as a going concern includes: (1) obtaining debt or equity funding from private placement or institutional sources; (2) obtain loans from financial institutions, where possible, or (3) participating in joint venture transactions with third parties. Although management believes that it will be able to obtain the necessary funding to allow the Company to remain a going concern through the methods discussed above, there can be no assurances that such methods will prove successful. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3.

SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Presentation The financial statements are presented on a consolidated basis and include all of the accounts of Torchlight Energy Resources Inc. and its wholly owned subsidiary Torchlight Energy, Inc. All significant intercompany balances and transactions have been eliminated.

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

Concentration of risks The Company s cash is placed with a highly rated financial institution and the Company conducts ongoing evaluations of the credit worthiness of the financial institutions with which it does business. At times during the six months ended June 30, 2011and the period from June 25, 2010 (inception) to December 31, 2010, cash balances were in excess of amounts guaranteed by the Federal Deposit Insurance Corporation (FDIC).

Fair value of financial instruments Financial instruments consist of cash, accounts payable and convertible promissory notes. The estimated fair values of cash and accounts payable approximate the carrying amount due to the relatively short maturity of these instruments. The carrying amounts of the convertible promissory notes approximates their fair value giving affect for a discount relative to the fair value of warrants issued in conjunction with the promissory note. See note 10.

Oil and gas properties The Company follows the full cost method of accounting for oil and gas property acquisition, exploration and development activities. Under this method, all costs associated with property acquisition, exploration

and development activities are capitalized into a cost center (the amortization base), whether or not the activities to which they apply are geophysical costs, direct overhead related to exploration and development activities and other employees directly involved in the exploration and development of oil and gas properties as well as other internal costs that can be specifically identified with acquisition, exploration, and development activities are also capitalized.

Unevaluated oil and gas properties Unevaluated oil and gas properties consist principally of the Company s acquisition costs in undeveloped leases. When leases are developed, expire or are abandoned, the related costs are transferred from unevaluated oil and gas properties to depletable oil and gas properties. Additionally, the Company reviews the carrying costs of unevaluated oil and gas properties for the purpose of determining probable future lease expirations and abandonments, and prospective discounted future economic benefit attributable to the leases. When necessary, the Company records an allowance for impairment based on the review with the corresponding charge being made to depletable oil and gas properties.

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 costs until the property has been evaluated. 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.

Depreciation, depletion and amortization The capitalized costs of oil and gas properties, plus estimated future development costs relating to proved reserves are amortized on a unit-of-production method over estimated total proved oil and gas reserves. 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 unevaluated oil and gas properties, which are excluded from these calculations. During the six months ended June 30, 2011and the period from June 25, 2010 (inception) to December 31, 2010, the Company held only unevaluated oil and gas properties; therefore, no depreciation, depletion or amortization has been recognized.

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, plus the cost of unproved oil and gas properties, exceeds the present value of estimated future net cash flows discounted at 10 percent, plus the cost of unproved oil and gas properties, the excess is charged to expense and reflected as additional accumulated DD&A. The ceiling test calculation uses a commodity price assumption which is based on the un-weighed arithmetic average of the price on the first day of each month for each month within the prior 12 month period and excludes future cash outflows related to estimated abandonment costs. The Company did not recognize impairment on its oil and gas properties during the six months ended June 30, 2011and the period from June 25, 2010 (inception) to December 31, 2010. Due to the volatility of commodity prices, should oil and natural gas prices decline in the future, it is possible that a write-down could occur.

Proved reserves are estimated quantities of crude oil, natural gas, and natural gas liquids, which geological and engineering data demonstrate with reasonable certainty to be recoverable from known reservoirs under existing economic and operating conditions. The independent engineering estimates include only those amounts considered to be proved reserves and do not include additional amounts which may result from new discoveries in the future, or from application of secondary and tertiary recovery processes where facilities are not in place or for which transportation and/or marketing contracts are not in place. Estimated reserves to be developed through secondary or tertiary recovery processes are classified as unevaluated properties. As of June 30, 2011 and December 31, 2010, the Company did not have any proved oil or gas reserves.

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 evaluation of the same reserves as well as cost estimates related to future development costs of proved oil and gas reserves could result in significant revisions due to changes in regulatory requirements, technological advances and other factors which are difficult to predict.

Gains and losses on the sale of oil and gas properties are generally reflected in income. Sales of less than 100% of the Company s interest in the oil and gas property are treated as a reduction of the capital cost of the field, with no gain or loss recognized, as long as doing so does not significantly affect the unit-of-production depletion rate. Costs of retired equipment, net of salvage value, are usually charged to accumulated depreciation. During the six months ended June 30, 2011and the period from June 25, 2010 (inception) to December 31, there were no gains or losses recognized from the sale of oil and gas properties.

Goodwill - Goodwill represents the excess of the purchase price over the fair value of the net identifiable tangible and intangible assets of acquired companies. Goodwill is not amortized; instead, it is tested for impairment annually or more frequently if indicators of impairment exist. Goodwill was $447,084 as of June 30, 2011and December 31, 2010 and was acquired on November 23, 2010 in connection with the Company s reverse acquisition (Note 1).

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

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

An ARO will be recorded when a reasonable estimate of fair value can be made. Currently work being done to control water flow and increase production is being performed.

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

Basic and Diluted Earnings (Loss) Per Share - Basic earnings (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share is computed in the same way as basic earnings (loss) per common share except that the denominator is increased to include the number of additional common shares that would be outstanding if all potential common shares had been issued and if the additional common shares were dilutive.

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

Recent accounting pronouncements The Securities Exchange Commission s rule, *Modernization of the Oil and Gas Reporting Requirements* is intended to provide investors with a more meaningful and comprehensive understanding of oil and gas reserves to help investors evaluate their investments in oil and gas companies. The amendments are also designed to modernize the oil and gas disclosure requirements to align them with current practices and changes in technology. Revised requirements in this guidance include, but are not limited to:

.

Oil and gas reserves must be reported using the average price over the prior 12-month period, determined as an un-weighted arithmetic average of the first-day-of-the-month price for each month within such period, rather than year-end prices;

.

Companies are allowed to report, on an optional basis, probable and possible reserve;

.

Non-traditional reserves, such as oil and gas extracted from coal and shales, are included in the definitions of oil and gas producing activities ;

.

Companies are permitted to use new technologies to determine proved reserves, as long as those technologies have been demonstrated empirically to lead to reliable conclusions with respect to reserve volumes;

.

Companies are required to disclose, in narrative form, additional details on their proved undeveloped reserves (PUDs), including the total quantity of PUDs at year end, any material changes to PUDs to developed oil and gas reserves and an explanation of the reasons why material concentrations of PUDs in individual fields or countries have remained undeveloped for five years or more after disclosure as PUDs;

.

Companies are required to report the qualifications and measures taken to assure the independence and objectivity of any business entity or employee primarily responsible for preparing or auditing the reserves estimates.

The Company adopted this guidance effective June 25, 2010 (inception). As of June 30, 2011 and December 31, 2010, the Company did not have any proved reserves.

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 all subsequent events through August 12, 2011, the date of issuance of the financial statements. Also see note 11.

4.

RELATED PARTY TRANSACTIONS

In exchange for management services provided to the Company, Opal Marketing & Consulting, Inc. (Opal) charges the Company a management fee of $240,000 per year. The Company s Chief Executive Officer is the President of Opal. The Company recognized payments due Opal of $120,000 for the six months ended June 30, 2011. The Company paid Opal $120,000 for the period from June 25, 2010 (inception) through December 31, 2010.

On December 1, 2010, the Company entered into a Business Consultant Agreement with a former Director and Chief Executive Officer. The agreement provides that in consideration for consulting services, the Company will pay $4,000 per month for the term of the agreement (three months) and issue 50,000 restricted shares of common stock. On December 17, 2010, the Company issued the 50,000 shares of common stock which were valued at $150,000 on that date. For the year ended December 31, 2010, the Company paid the former Director and CEO a total of $4,000 in cash under the agreement. For the quarter ended March 31, 2011 a total of $8,000 in cash was paid under the agreement. This agreement was cancelled in early 2011.

5.

COMMITMENTS AND CONTINGENCIES

The Company is subject to contingencies as a result of environmental laws and regulations. Present and future environmental laws and regulations applicable to the Company s operations could require substantial capital expenditures or could adversely affect its operations in other ways that cannot be predicted at this time. As of June 30, 2011 and December 31, 2010, no amounts had been recorded because no specific liability has been identified that is reasonably probable of requiring the Company to fund any future material amounts.

6.

OIL AND GAS PROPERTIES

In July 2010, the Company entered into an Agreement to participate in an Oil and Gas Development Joint Venture (the Participation Agreement) with Bayshore Operating Corporation, LLC (Bayshore). Bayshore is currently the holder of an oil, gas and mineral lease covering approximately 1,045 acres in Wilson County, Texas, known as the Marcelina Creek Field Development. The Participation Agreement provides for the drilling of four (4) wells. Upon execution of the agreement, the Company paid Bayshore an initial deposit of $50,000, which was credited by Bayshore to the initial $50,000 payment for the first well in exchange for a 50% working interest in the first well. The Company will pay 100% of the total drilling and completion costs.

In December 2010 the Company entered into an Addendum to the Participation Agreement (the Addendum) with Bayshore, which provided for the Company to pay Bayshore a penalty (in addition to other consideration) as consideration for Bayshore agreeing to certain time extensions under the Participation Agreement. The penalty included a payment of $50,000 of cash on or before January 6, 2011 and $25,000 in shares of the Company s common stock and $25,000 cash payable concurrent with the approval and delivery of the Authority For Expenditure (AFE) for the Johnson #2. Upon receipt of the aforementioned penalty described above, the Company was given until April 15, 2011 to approve the said AFE. At March 31, 2011 and December 31, 2010 the Company accrued a liability of $100,000 in relation to this Addendum.

On April 15, 2011, the Company exercised its option to continue with the development program in Marcelina Creek, by committing to the second well in the program. The Company paid to Bayshore a $50,000 move in fee and completion costs of $1.6 million.

For the third and fourth wells, the Company will pay Bayshore $50,000 at rig move-in and $150,000 when the well is completed or plugged and abandoned, whichever comes first. Further, the Company will pay 100% of the total drilling

costs and 75% of the completion costs for a 75% working interest with Bayshore to pay 25% of the completion costs.

7.

STOCKHOLDERS EQUITY

On November 22, 2010, the Company effected a reverse merger and recapitalization. See note 1. On December 3, 2010, the Company issued 100,000 shares (pre stock split) of common stock (par value $.001) as compensation for work performed by two separate individuals.

On December 10, 2010, the Company effected a 4-for-1 forward split of common stock outstanding. All owners of record at the close of business on December 10, 2010 received three additional shares for every one share they owned.

On December 17, 2010, the Company issued 50,000 shares (post stock split) of common stock to the former executive officer and director of Pole Perfect Studios, Inc. as compensation for services.

On January 6, 2011 and January 10, 2011, the Company issued 10,000 and 100,000 shares, respectively of common stock to two individuals as compensation for services. On March 23, 2011 the Company issued a total of 30,000 shares of common stock as compensation for services.

On April 20, 2011, the Company issued a total of 155,971 shares of common stock as compensation for services.

The Board of Directors has the authority to issue up to 5,000,000 shares of preferred stock in one or more series, to fix the number of shares constituting any such series, and to fix the rights and preferences of the shares constituting any series, without any further vote or action by the stockholders. There are no issued and outstanding shares of preferred stock; there are no agreements or understandings for the issuance of preferred stock, and the Board of Directors has no present intention to issue preferred stock.

During February and March 2011, through subscription agreements, the Company received $944,499 for the issuance of 269,857 Units. Each Unit consisted of two restricted shares of common stock and one three year warrant to purchase a share of restricted common stock at the price of $5.00 . At March 31, 2011 the shares from the potential exercise of the warrants were excluded from the calculation of earnings per share as the shares were anti-dilutive.

During April, May and June 2011, through subscription agreements, the Company received $1,045,722 for the issuance of 298,778 Units. Each Unit consisted of two restricted shares of common stock and one three year warrant to purchase a share of restricted common stock at the price of $5.00. At June 30, 2011 the shares from the potential exercise of the warrants were excluded from the calculation of earnings per share as the shares were anti-dilutive.

A summary of warrant activity for the period from June 25, 2010 (inception) to June 30, 2011 is presented below:

At December 31, 2010, the Company has reserved 225,000 shares for future exercise of warrants. At March 31, 2011 the Company has reserved an additional 269,857 shares for future exercise of warrants. And at June 30, 2011 the Company has reserved an additional 298,778 shares for future exercise of warrants.

The Company, as mentioned above is in the exploration stage and recognized a deficit of $645,302 and $1,389,054 during the period from June 25, 2010 (inception) to December 31, 2010 and January 1, 2011 through June 30, 2011 respectively. The Company s accumulated deficit at June 30, 2011 is $2,034,356.

8.

FAIR VALUE MEASUREMENTS

Assets and liabilities that require measurement to fair value on a recurring basis are categorized 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. At June 30, 2011 and December 31, 2010, there were no financial assets or liabilities measured on a recurring or a nonrecurring basis.

9.

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 carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that the related tax benefits will not be realized.

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

Estimated interest and penalties related to potential underpayment on any unrecognized tax benefits are classified as a component of tax expense in the statement of operation. The Company has not recorded any interest or penalties associated with unrecognized tax benefits during the six months ended June 30, 2011and the period from June 25, 2010 (inception) to December 31, 2010.

The following is a reconciliation between the federal income tax benefit computed at the statutory federal income tax rate of 34% and actual income tax provision for the six months ended June 30, 2011, three months ended March 31, 2011 and the period from June 25, 2010 (inception) to December 31, 2010:

The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and liabilities are as follows:

The Company had a net deferred tax asset related to federal net operating loss carryforwards of $3,052,355, $1,599,939 and $990,691 at June 30, 2011, March 31, 2011 and December 31, 2010, respectively. The federal net operating loss carryforward will begin to expire in 2030. Realization of the deferred tax asset is dependent, in part, on generating sufficient taxable income prior to expiration of the loss carryforwards. The Company has placed a 100% valuation allowance against the net deferred tax asset because future realization of these assets is not assured.

10.

CONVERTIBLE PROMISSORY NOTE

On December 28, 2010, the Company issued a 10% convertible promissory note and a warrant to purchase 225,000 shares of common stock to an accredited investor who paid $250,000 in aggregate consideration for the securities. The 10% Convertible Promissory Note bore interest at the rate of 10% per annum, had a principal amount of $250,000 and was convertible into shares of common stock in the event the Company undertakes a private offering of securities to one or more third parties. The note was convertible on the identical terms and conditions offered to such third parties. The warrant is exercisable into 225,000 shares of common stock as of December 28, 2010 at a price of $2.50 per share and expires on December 28, 2014. The note was collateralized by 750,000 shares of pledged securities of a related party. The convertible note was recorded net of discount that includes the relative fair value of the warrants amounting to $62,250. The discount is accreted over the life of the debt using the effective interest method. Accretion expense was $31,000 and $31,250 for the three months ended June 30, 2011 and March 31, 2011 respectively. The initial value of the warrants was calculated using the Black Scholes Option Pricing Model. The assumptions were as follows:

On June 28, 2011, the Company paid $262,500 to the holder of the Convertible Promissory Note dated December 28, 2010 representing full payment of principal and interest.

On June 24, 2011, the Company issued convertible promissory notes to accredited investors. The 10% convertible promissory notes bear interest at the rate of 10% per annum, are due and payable on December 31, 2011 and have a principal amount totaling $262,500. The notes are convertible into shares of common stock in the event the Company undertakes a private offering of securities to one or more third parties. The notes are convertible on the identical terms and conditions offered to such third parties.

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

The information set forth and discussed in this Management s Discussion and Analysis and Results of Operations is derived from the historical financial statements and the related notes thereto of the Company which are included in this Form 10-Q. The following information and discussion should be read in conjunction with such financial statements and notes. Additionally, this Management s Discussion and Analysis and Plan of Operations contains certain statements that are not strictly historical and are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve a high degree of risk and uncertainty. Actual results may differ materially from those projected in the forward-looking statements due to other risks and uncertainties that exist in the Company s operations, development efforts and business environment, and due to other risks and uncertainties relating to the Company s ability to obtain additional capital in the future to fund its planned expansion, the demand for oil and natural gas, and other general economic factors. All forward-looking statements included herein are based on information available to the Company as of the date hereof, and we assume no obligation to update any such forward-looking statement.

Basis of Presentation of Financial Information

On November 23, 2010, the Share Exchange Agreement (the Exchange Agreement or Transaction) between Torchlight Energy Resources, Inc. (the Company) (which at the time was named Pole Perfect Studios, Inc.) and Torchlight Energy, Inc. (TEI) was entered into and closed, through which the former shareholders of TEI became shareholders of the Company. At closing, the Company abandoned its previous business. Consequently, as a result of the Transaction, the business of TEI commenced. Because TEI became the successor business to the Company and because the operations and assets of TEI represent the Company s entire business and operations from the closing date of the Exchange Agreement, the Management s Discussion and Analysis and unaudited financial statements are based on the consolidated financial results of the Company and its wholly owned subsidiary TEI for the relevant periods.

Summary of Key Results

Overview

Our sole business is that of Torchlight Energy, Inc., an exploration stage company formed as a corporation in the state of Nevada on June 25, 2010. We are engaged in the acquisition, exploration, exploitation and/or development of oil and natural gas properties in the United States.

Results of Operations

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

We had no active operations prior to the inception of TEI on June 25, 2010. Due to this fact, comparisons to previous years are not necessarily indicative of actual operating results.

Recent Activity

On April 15, 2011, TEI exercised its option to continue with the development program in Marcelina Creek by committing to the second well in the program. We paid to Bayshore the $50,000 rig move in fee and paid drilling and completion costs of approximately $1.6 million. During the period, a rig was contracted and moved in to drill the # 4 Johnson well.

In April the company and Bayshore replaced the heater-treater and pumping unit on the #1 Johnson-BH, in an effort to increase the total fluid production. Production increased by 30 barrels per day and oil stabilized at approximately 10 barrels per day allowing us to sell enough oil each month to cover lease operating expenses. Additional work is being planned to further control the water flow and increase the oil production.

We entered into an agreement with Lirah Resources on June 1, 2011 to compile agency agreements with mineral owners in Wilson County (north and east of Marcelina Creek). It is our intent to seek an industry partner to farm-in to the acreage and give us greater exposure in the area. Currently our only commitment is for expenses of lease brokers to verify ownership records with the county. There is no drilling obligation.

Another area in the mid-Continent that is receiving industry attention is the Mississippian aged formations in Kansas and Oklahoma. We are investigating acquiring options in the trend and again will seek an industry partner for funding. We have identified several promising projects but to date no agreements have been made.

Historical Results for the Three Months Ended June 30, 2011, Six Months Ended June 30, 2011 and the Period from June 25, 2010 (Inception) to June 30, 2011.

Revenues and Cost of Revenues

The Company had revenue of $24,152, consisting entirely of initial oil and gas sales during the three months ended June 30, 2011. The Company had $25,273 of cost of revenue during the same period. The Company had no revenue or cost of revenue during the period from June 25, 2010 (Inception) to March 31, 2011.

General and Administrative Expenses

The Company s total operating expenses for the three months ended June 30, 2011, six months ended June 30, 2011 and the period from June 25, 2010 (Inception) to June 30, 2011 were $759,669, $1,310,098 and $1,955,400 respectively and consisted entirely of general and administrative expenses. The Company s general and administrative expenses consisted of accounting and administrative costs, professional fees and other general corporate expenses. The Company s general and administrative expenses increased by $209,240 from $550,429 during the three months ended March 31, 2011 to $759,669 during the three months ended June 30, 2011. This increase is primarily attributable to an increase in the amount of stock issued for services.

Liquidity and Capital Resources

The report of our auditors on our audited financial statements contains a going concern qualification as we have suffered losses since our inception. We have minimal assets and have achieved nominal operating revenues since our inception. We have depended on loans and sales of equity securities to conduct operations. As of June 30, 2011, the Company had total current assets of $254,231, consisting of $218,368 in cash, $17,274 in receivables and $18,589 in prepaid costs. As of December 31, 2010, the Company had total current assets of $279,191, consisting of $278,191 in cash and $1,000 in prepaid costs. As of June 30, 2011, the Company had $2,822,420 in investment in oil and gas properties and $447,084 in goodwill. For the year ended December 31, 2010, the Company had $1,114,958 in investment in oil and gas properties and $447,084 in goodwill.

During the six months ended June 30, 2011, the Company had $2,002,721 in net cash provided by financing activities. It was attributable to $1,990,221 of shares issued for private placement and $262,500 of an issuance of convertible notes, partially offset by full payment of a $250,000 convertible note.

Commitments and Contingencies

The Company is subject to contingencies as a result of environmental laws and regulations. Present and future environmental laws and regulations applicable to the Company s operations could require substantial capital expenditures or could adversely affect its operations in other ways that cannot be predicted at this time. As of December 31, 2010 and June 30, 2011, 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.

In July 2010, TEI entered into an Agreement to participate in an Oil and Gas Development Joint Venture (the Participation Agreement) with Bayshore Operating Corporation, LLC (Bayshore). Bayshore is currently the holder of an oil, gas and mineral lease covering approximately 1,045 acres in Wilson County, Texas, known as the Marcelina Creek Field Development. The Participation Agreement provides for the drilling of four (4) wells. Upon execution of the agreement, we paid Bayshore an initial deposit of $50,000, which amount was credited to the initial $50,000 payment due for the first well, in exchange for a 50% working interest in the first well. We are to pay 100% of total drilling and completion costs.

For the third and fourth wells, we are to pay Bayshore $50,000 at rig move-in and $150,000 when the well is completed or plugged and abandoned, whichever comes first. Further, we are to pay 100% of the total drilling costs and 75% of the completion costs for a 75% working interest with Bayshore to pay 25% of the completion costs.

On December 31, 2010 we executed an agreement with Bayshore for an extension of our drilling obligation deadline from January 6, 2011 to April 15, 2011. As a condition for the extension we paid to Bayshore $50,000 and issued it 10,000 shares of our common stock. As additional consideration, Bayshore is no longer obligated to pay its proportionate share of completion costs on the second vertical well.

On April 15, 2011, TEI exercised its option to continue with the development program in Marcelina Creek by committing to the second well in the program. We paid to Bayshore the $50,000 rig move in and paid drilling and completion costs of approximately $1.6 million. During the period, a rig was contracted and moved in to drill the # 4 Johnson well.

Going Concern

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

At June 30, 2011, the Company had not yet achieved profitable operations, has accumulated losses of $2,034,356 since its inception and expects to incur further losses in the development of its business, which casts substantial doubt about the Company s ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management s plan to address the Company s ability to continue as a going concern includes: (1) obtaining debt or equity funding from private placement or institutional sources; (2) obtain loans from financial institutions, where possible, or (3) participating in joint venture transactions with third parties. Although management believes that it will be able to obtain the necessary funding to allow the Company to remain a going concern through the methods discussed above, there can be no assurances that such methods will prove successful. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of June 30, 2011. Based on this evaluation, our principal executive officer and our principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective and adequately designed to ensure that the information required to be disclosed by us in the reports we submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms and that such

information was accumulated and communicated to our principal executive officer and principal financial officer, in a manner that allowed for timely decisions regarding disclosure.

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

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

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

From April 16, 2011 to June 30, 2011, we sold to certain investors (i) a total of 401,856 restricted shares of common stock and (ii) warrants to purchase a total of 200,928 shares of common stock. We received aggregate consideration of $703,248 from the investors for the securities. We have agreed to pay finders fees that include an aggregate of $13,000 and the issuance of an aggregate of 20,000 restricted shares of our common stock. The securities were sold through a private placement offering. The warrants have a term of three years and an exercise price of $5.00. The securities were issued under the exemption from registration provided by Rule 506 of Regulation D promulgated under Section 4(2) of the Securities Act of 1933. The sale of securities did not involve a public offering based upon the following factors: (i) the sale of the securities was an isolated private transaction; (ii) a limited number of securities were issued to a limited number of offerees; (iii) there was no public solicitation; (iv) the offerees were all accredited investors ; (v) the investment intent of the offerees; and (vi) the restriction on transferability of the securities issued.

In April 2011, we issued a total of 155,971 shares of common stock to two different individuals as payment for investor relations services. The securities were issued under the exemption from registration provided by Section 4(2) of the Securities Act of 1933 and the rules and regulations promulgated thereunder. The issuance of securities did not involve a public offering based upon the following factors: (i) the issuance of the securities was an isolated private transaction; (ii) a limited number of securities were issued to a limited number of offerees; (iii) there was no public solicitation; (iv) the investment intent of the offerees; and (v) the restriction on transferability of the securities issued.

On June 24, 2011, we issued three 10% Convertible Promissory Notes with an aggregate principal amount of $262,500 to thee investors who paid $262,500 in aggregate consideration for the notes. Each of the notes bears interest at the rate of 10% per annum, is due on December 31, 2011 and is convertible into shares of our common stock in the event we undertake a private offering of our securities to one or more third parties. The notes are

convertible on the identical terms and conditions offered to such third parties. The securities were issued under the exemption from registration provided by Section 4(2) of the Securities Act and the rules and regulations promulgated thereunder. The issuance of securities did not involve a public offering based upon the following factors: (i) the issuance of the securities was an isolated private transaction; (ii) a limited number of securities were issued to a limited number of offerees; (iii) there was no public solicitation; (iv) each of the offerees was an accredited investor ; (v) the investment intent of the offerees; and (vi) the restriction on transferability of the securities issued.

ITEM 6. EXHIBITS

Exhibit No.	Description
2.1	Share Exchange Agreement dated November 23, 2010. (Incorporated by reference from Form 8-K filed with the SEC on November 24, 2010.) *
3.1	Articles of Incorporation. (Incorporated by reference from Form S-1 filed with the SEC on May 2, 2008.) *
3.2	Amended and Restated Bylaws (Incorporated by reference from Form 8-K filed with the SEC on January 12, 2011.) *
10.1	Employment Agreement between Thomas Lapinski and Torchlight Energy, Inc. (Incorporated by reference from Form 8-K filed with the SEC on November 24, 2010.) *
10.2	Agreement to Participate in Oil and Gas Development Joint Venture between Bayshore Operating Corporation, LLC and Torchlight Energy, Inc. (Incorporated by reference from Form 8-K filed with the SEC on November 24, 2010) *
14.1	Code of Ethics (Incorporated by reference from Form S-1 filed with the SEC on May 2, 2008.) *
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 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 of 18 U.S.C. 63.
32.2	Certification of principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 of 18 U.S.C. 63.

* 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 15, 2011

/s/ Thomas Lapinski
By: Thomas Lapinski
Chief Executive Officer and Principal Financial Officer