AMERISERV FINANCIAL INC /PA/
Form 8-K
October 16, 2012

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report

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

Date of Report (Date of earliest event reported) October 16, 2012

AMERISERV FINANCIAL, Inc.

(exact name of registrant as specified in its charter)

Pennsylvania	0-11204	25-1424278
(State or other jurisdiction of Incorporation)	(commission File Number)	(I.R.S. Employer Identification No.)

Main and Franklin Streets, Johnstown, Pa. 15901

(address or principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 814-533-5300

N/A

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to

simultaneously satisfy the filing obligation of the registrant under

any of the following provisions:

( ) Written communications pursuant to Rule 425 under the Securities

Act (17 CFR 230.425)

( ) Soliciting material pursuant to Rule 14a-12 under the Exchange

Act (17 CFR 240.14a-12)

( ) Pre-commencement communications pursuant to Rule 14d-2(b) under the

Exchange Act (17 CFR 240.14d-2(b))

( ) Pre-commencement communications pursuant to Rule 13e-4(c) under the

Exchange Act (17 CFR 240.13e-4c))

Form 8-K

Item 2.02 Results of operation and financial condition.

AMERISERV FINANCIAL Inc. (the "Registrant") announced third quarter and first nine month results through September 30, 2012. For a more detailed description of the announcement see the press release attached as Exhibit #99.1.

Exhibits

Exhibit 99.1

Press release dated October 16, 2012, announcing the third quarter and first nine month results through September 30, 2012.

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

AMERISERV FINANCIAL, Inc.

By /s/Jeffrey A. Stopko

Jeffrey A. Stopko

Executive Vice President

& CFO

Date: October 16, 2012

Exhibit 99.1

AMERISERV FINANCIAL REPORTS EARNINGS FOR THE THIRD QUARTER AND FIRST NINE MONTHS OF 2012

JOHNSTOWN, PA AmeriServ Financial, Inc. (NASDAQ: ASRV) reported third quarter 2012 net income available to common shareholders of $1,056,000 or $0.05 per diluted common share. This performance is consistent with the financial results reported for the third quarter of 2011. For the nine month period ended September 30, 2012, the Company reported net income available to common shareholders of $3,528,000 or $0.18 per diluted share. While net income available to common shareholders for the nine month period was down by $120,000 or 3.3%, compared to the same period in 2011, diluted earnings per share increased by $0.01 or 5.9% due to the success of the Company s common stock repurchase program. The sustained improvements in asset quality continued to result in a negative provision for loan losses in 2012, but at a lesser level than in 2011. This is the factor causing the reduction in net income for both the third quarter and nine month period of 2012. The following table highlights the Company s financial performance for both the three and nine month periods ended September 30, 2012:

	Third Quarter 2012	Third Quarter 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net income	$1,307,000	$1,566,000	$4,304,000	$4,767,000
Net income available to common shareholders	$1,056,000	$1,027,000	$3,528,000	$3,648,000
Diluted earnings per share	$ 0.05	$ 0.05	$ 0.18	$0.17

Glenn L. Wilson, President and Chief Executive Officer, commented on the third quarter 2012 financial results: AmeriServ Financial was able to report a sixth consecutive quarter of loan growth during the third quarter of 2012 and now exceeds $1 billion in total assets. This loan growth helped us increase our net interest income by over $200,000 and maintain a stable net interest margin on a linked quarter basis, despite the challenging interest rate environment. I was pleased that our recently opened loan production offices are now contributing to the loan increase we have achieved in 2012. Additionally, this loan growth has occurred in loan categories that qualify for the Small Business Lending Fund (SBLF). As a result, we will pay the lowest preferred share dividend rate available under the SBLF program for at least two consecutive quarters beginning in the fourth quarter of 2012. This will have a positive impact on the key shareholder value metrics of earnings per share and tangible book value per share in future quarters.

The Company s net interest income has been relatively consistent this year as it increased by $24,000 or 0.3% in the third quarter of 2012 from the prior year s third quarter and for the first nine months of 2012 decreased by only $49,000 or 0.2% when compared to the first nine months of 2011. The Company s 2012 net interest margin of 3.63% was seven basis points lower than the net interest margin of 3.70% for the first nine months of 2011. The decreased net interest margin reflects the challenges of a flatter yield curve which has pressured interest revenue in 2012. The Company has been able to overcome this net interest margin pressure and keep net interest income relatively constant by reducing its cost of funds and growing its earning assets, particularly loans. Specifically, total loans outstanding have increased for six consecutive quarters and now are $39.2 million or 5.9% higher than they were at September 30, 2011. This loan growth reflects the successful results of the Company s more intensive sales calling efforts with an emphasis on generating commercial loans and owner occupied commercial real estate loans which qualify as Small Business Lending Fund loans, particularly through its new loan production offices. Despite this growth in loans, total interest revenue dropped by $1.6 million between years and reflects the lower interest rate environment and flatter yield curve. Interest revenue has also been negatively impacted by increased premium amortization on mortgage backed securities due to faster mortgage prepayment speeds. However, careful management of funding costs has allowed the Company to mitigate a significant portion of this drop in interest revenue during the past year. Specifically, interest expense in the first nine months of 2012 declined by $1.5 million from the same prior year period due to the Company s proactive efforts to reduce deposit and borrowing costs. Even with this reduction in deposit costs, the Company still experienced solid growth in deposits which increased by $22.8 million or 2.8% over the past 12 months. The Company continues to maintain strong liquidity as evidenced by a loan to deposit ratio of 83.1% at September 30, 2012.

Sustained improvements in asset quality evidenced by low levels of non-performing assets, net charge-offs, and classified loans allowed the Company to again reverse a portion of the allowance for loan losses into earnings in the third quarter of 2012 while still maintaining strong coverage ratios. At September 30, 2012, non-performing assets totaled $5.4 million or 0.77% of total loans. This represents the fifth consecutive quarter where non-performing assets have been near the $5 million level. Criticized and classified loans also dropped by $11 million or 20.7% during the past 12 months. Actual credit losses realized through net charge-offs have also declined in 2012 for both the third quarter and nine month periods. For the first nine months of 2012, net charge-offs totaled $470,000 or 0.09% of total loans which represents a decrease from the first nine months of 2011 when net charge-offs totaled $1.4 million or 0.28% of total loans. As a result of this sustained asset quality improvement, the Company recorded a negative provision for loan losses of $200,000 in the third quarter of 2012 compared to a negative provision of $550,000 in the third quarter of 2011. For the nine month period in 2012, the negative provision amounted to $1,325,000 compared to a $2,325,000 credit provision in the first nine months of 2011. Overall, there has been $1.0 million less earnings benefit from negative loan loss provisions in 2012. When determining the provision for loan losses, the Company considers a number of factors some of which include periodic credit reviews, non-performing asset, loan delinquency and charge-off trends, concentrations of credit, loan volume trends and broader local and national economic trends. In summary, the allowance for loan losses provided 282% coverage of non-performing loans, and was 1.83% of total loans, at September 30, 2012, compared to 288% of non-performing loans, and 2.18% of total loans, at December 31, 2011.

The Company s growth in non-interest income has also been a financial performance highlight in 2012. Total non-interest income in the third quarter of 2012 increased by $125,000 or 3.5% from the prior year s third quarter and for the first nine months of 2012 increased by $973,000 or 9.6% when compared to the first nine months of 2011. The 2012 non-interest income increase was driven by increased revenue from residential mortgage banking activities. Specifically, gains realized on residential mortgage loan sales into the secondary market increased by $76,000 for the third quarter and by $186,000 for the nine month period due to increased mortgage loan production in 2012. Higher fees related to residential mortgage banking activities along with increased revenue from financial services (annuity

and mutual funds sales) were the key factors responsible for the $159,000 quarterly increase and $377,000 nine month increase in other income in 2012. Also for the nine month period, our Trust Company continued its positive momentum with trust fees increasing by $115,000 or 2.4% as our wealth management businesses benefited from the implementation of new fee schedules and improved asset values under management in 2012. Finally, the Company realized a modest $12,000 investment security gain in 2012 compared to a $358,000 investment security loss in the first quarter of 2011 that resulted from a portfolio repositioning strategy.

Total non-interest expense in the third quarter of 2012 increased by $205,000 from the prior year s third quarter and for the first nine months of 2012 increased by $590,000 or 2.0% when compared to the first nine months of 2011. Salaries and employee benefits increased by $430,000 for the third quarter and $1.3 million or 7.9% for the nine month period due to higher salaries expense, incentive compensation, and pension expense. The 2012 personnel expenses also reflect the staffing costs associated with new loan production offices in Altoona, Harrisburg and Hagerstown, Maryland. Other expenses also increased by $152,000 for the nine month period due to an increase in the reserve for unfunded loan commitments as result of increased commercial loan origination activity in 2012 and higher business development related expenses. These negative items were partially offset by a $158,000 reduction in FDIC deposit insurance expense for the third quarter of 2012 and an $837,000 reduction for the nine month period. This reduction resulted from a change in the calculation methodology which took effect in the second half of 2011 and the Company s improved risk profile resulting primarily from better asset quality. Finally, the Company recorded an income tax expense of $1.9 million or an effective tax rate of 31.0% for the first nine months of 2012 which was comparable with the income tax expense of $2.1 million or an effective tax rate of 30.9% for the first nine months of 2011. The quarterly effective tax rates were also comparable with the nine month average.

ASRV had total assets of $1.0 billion and shareholders equity of $112 million or a book value of $4.74 per common share and a tangible book value of $4.09 per common share at September 30, 2012. During the first nine months of 2012, the Company repurchased 1,667,000 shares or 8.0% of its outstanding common stock at an average price of $2.49 in conjunction with the terms of its previously announced common stock repurchase program. This was a key factor contributing to an 8.8% growth in tangible book value per share since the end of 2011. The Company continued to maintain strong capital ratios that considerably exceed the regulatory defined well capitalized status with a risk based capital ratio of 16.26%, an asset leverage ratio of 11.45% and a tangible common equity to tangible assets ratio of 7.95% at September 30, 2012.

This news release may contain forward-looking statements that involve risks and uncertainties, as defined in the Private Securities Litigation Reform Act of 1995, including the risks detailed in the Company's Annual Report and Form 10-K to the Securities and Exchange Commission. Actual results may differ materially.

Nasdaq: ASRV

SUPPLEMENTAL FINANCIAL PERFORMANCE DATA

September 30, 2012

(In thousands, except per share and ratio data)

(Unaudited)

2012

	1QTR	2QTR	3QTR	YEAR TO DATE
PERFORMANCE DATA FOR THE PERIOD:				
Net income	$1,565	$1,432	$1,307	$4,304
Net income available to common shareholders	1,302	1,170	1,056	3,528
PERFORMANCE PERCENTAGES (annualized):				
Return on average assets	0.65%	0.59%	0.52%	0.59%
Return on average equity	5.60	5.19	4.66	5.15
Net interest margin	3.70	3.59	3.59	3.63
Net charge-offs (recoveries) as a percentage of average loans	0.13	(0.02)	0.16	0.09
Loan loss provision as a percentage of average loans	(0.38)	(0.30)	(0.11)	(0.26)
Efficiency ratio	86.17	86.34	85.50	86.00
PER COMMON SHARE:				
Net income:				
Basic	$0.06	$0.06	$0.05	$0.18
Average number of common shares outstanding	20,679	19,584	19,275	19,844
Diluted	0.06	0.06	0.05	0.18
Average number of common shares outstanding	20,722	19,652	19,351	19,904

2011

	1QTR	2QTR	3QTR	YEAR TO DATE

PERFORMANCE DATA FOR THE PERIOD:				
Net income	$1,263	$1,938	$1,566	$4,767
Net income available to common				
shareholders	973	1,648	1,027	3,648
PERFORMANCE PERCENTAGES (annualized):				
Return on average assets	0.54%	0.81%	0.64%	0.66%
Return on average equity	4.77	7.11	5.52	5.81
Net interest margin	3.70	3.71	3.68	3.70
Net charge-offs as a percentage of				
average loans	0.70	(0.07)	0.20	0.28
Loan loss provision as a percentage of				
average loans	(0.37)	(0.72)	(0.33)	(0.47)
Efficiency ratio	89.53	85.53	84.83	86.59
PER COMMON SHARE:				
Net income:				
Basic	$0.05	$0.08	$0.05	$0.17
Average number of common shares				
outstanding	21,208	21,208	21,208	21,208
Diluted	0.05	0.08	0.05	0.17
Average number of common shares				
outstanding	21,230	21,236	21,227	21,231

AMERISERV FINANCIAL, INC.

(In thousands, except per share, statistical, and ratio data)

(Unaudited)

2012

	1QTR	2QTR	3QTR
PERFORMANCE DATA AT PERIOD END			
Assets	$967,401	$997,102	$1,002,281

Short-term investments/overnight funds	7,398	14,158	14,210
Investment securities	190,089	191,791	181,319
Loans and loans held for sale	671,328	690,815	706,624
Allowance for loan losses	13,778	13,317	12,829
Goodwill	12,613	12,613	12,613
Deposits	820,105	854,017	850,125
FHLB borrowings	6,390	3,000	12,000
Shareholders equity	112,270	110,810	112,311
Non-performing assets	4,801	5,077	5,372
Asset leverage ratio	11.83%	11.60%	11.45%
Tangible common equity ratio	8.24	7.84	7.95
PER COMMON SHARE:			
Book value (A)	$4.46	$4.66	$4.74
Tangible book value	3.84	4.00	4.09
Market value	2.74	2.82	2.97
Trust assets fair market value (B)	$1,469,789	$1,447,877	$1,511,012
STATISTICAL DATA AT PERIOD END:			
Full-time equivalent employees	353	353	355
Branch locations	18	18	18
Common shares outstanding	20,465,521	19,284,521	19,255,221

2011

	1QTR	2QTR	3QTR	4QTR
PERFORMANCE DATA AT PERIOD END				
Assets	$961,067	$954,893	$973,439	$979,076
Short-term investments/overnight funds	26,769	4,338	17,941	7,845
Investment securities	195,272	198,770	195,784	195,203
Loans and loans held for sale	644,836	656,838	667,409	670,847
Allowance for loan losses	18,025	16,958	16,069	14,623
Goodwill and core deposit intangibles	12,613	12,613	12,613	12,613
Deposits	816,528	810,082	827,358	816,420
FHLB borrowings	9,736	9,722	9,707	21,765
Shareholders equity	108,170	111,410	114,164	112,352
Non-performing assets	9,328	7,433	5,344	5,199
Asset leverage ratio	11.40%	11.60%	11.70%	11.66%

Tangible common equity ratio	7.89	8.29	8.38	8.15
PER COMMON SHARE:				
Book value (A)	$4.12	$4.28	$4.39	$4.37
Tangible book value	3.53	3.68	3.80	3.76
Market value	2.37	1.95	1.90	1.95
Trust assets fair market value (B)	$1,410,755	$1,390,534	$1,313,440	$1,382,745
STATISTICAL DATA AT PERIOD END:				
Full-time equivalent employees	351	352	342	347
Branch locations	18	18	18	18
Common shares outstanding	21,207,670	21,208,421	21,208,421	20,921,021

NOTES:

(A)

Preferred stock of $21 million received through the Small Business Lending Fund is excluded from the book value per common share and tangible book value per common share calculations.

(B) Not recognized on the balance sheet.

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENT OF INCOME

(In thousands)

(Unaudited)

2012

	1QTR	2QTR	3QTR	YEAR TO DATE
INTEREST INCOME				
Interest and fees on loans	$8,729	$8,552	$8,807	$26,088
Total investment portfolio	1,395	1,333	1,223	3,951
Total Interest Income	10,124	9,885	10,030	30,039
INTEREST EXPENSE				
Deposits	1,762	1,668	1,587	5,017
All borrowings	304	296	301	901

Total Interest Expense	2,066	1,964	1,888	5,918
NET INTEREST INCOME	8,058	7,921	8,142	24,121
Provision (credit) for loan losses	(625)	(500)	(200)	(1,325)
NET INTEREST INCOME AFTER				
PROVISION (CREDIT) FOR LOAN				
LOSSES	8,683	8,421	8,342	25,446
NON-INTEREST INCOME				
Trust fees	1,697	1,628	1,533	4,858
Investment advisory fees	193	177	182	552
Net realized gains on investment securities	-	12	-	12
Net realized gains on loans held for sale	276	251	262	789
Service charges on deposit accounts	535	517	567	1,619
Bank owned life insurance	215	212	217	644
Other income	758	936	888	2,582
Total Non-interest Income	3,674	3,733	3,649	11,056
NON-INTEREST EXPENSE				
Salaries and employee benefits	5,986	5,976	6,132	18,094
Net occupancy expense	729	702	698	2,129
Equipment expense	451	473	395	1,319
Professional fees	923	937	977	2,837
FDIC deposit insurance expense	129	114	104	347
Other expenses	1,896	1,865	1,781	5,542
Total Non-interest Expense	10,114	10,067	10,087	30,268
PRETAX INCOME	2,243	2,087	1,904	6,234
Income tax expense	678	655	597	1,930
NET INCOME	1,565	1,432	1,307	4,304
Preferred stock dividends	263	262	251	776
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$1,302	$1,170	$1,056	$3,528

2011

	1QTR	2QTR	3QTR	YEAR

INTEREST INCOME				TO DATE
Interest and fees on loans	$9,083	$8,804	$8,888	$26,775
Total investment portfolio	1,513	1,726	1,604	4,843
Total Interest Income	10,596	10,530	10,492	31,618
INTEREST EXPENSE				
Deposits	2,294	2,106	2,038	6,438
All borrowings	336	338	336	1,010
Total Interest Expense	2,630	2,444	2,374	7,448
NET INTEREST INCOME	7,966	8,086	8,118	24,170
Provision (credit) for loan losses	(600)	(1,175)	(550)	(2,325)
NET INTEREST INCOME AFTER PROVISION (CREDIT) FOR LOAN LOSSES	8,566	9,261	8,668	26,495
NON-INTEREST INCOME				
Trust fees	1,556	1,617	1,570	4,743
Investment advisory fees	198	198	172	568
Net realized losses on investment securities	(358)	-	-	(358)
Net realized gains on loans held for sale	262	155	186	603
Service charges on deposit accounts	472	549	640	1,661
Bank owned life insurance	216	218	227	661
Other income	759	717	729	2,205
Total Non-interest Income	3,105	3,454	3,524	10,083
NON-INTEREST EXPENSE				
Salaries and employee benefits	5,500	5,574	5,702	16,776
Net occupancy expense	757	742	680	2,179
Equipment expense	429	411	435	1,275
Professional fees	980	911	983	2,874
FDIC deposit insurance expense	462	460	262	1,184
Other expenses	1,791	1,779	1,820	5,390
Total Non-interest Expense	9,919	9,877	9,882	29,678
PRETAX INCOME	1,752	2,838	2,310	6,900
Income tax expense	489	900	744	2,133
NET INCOME	1,263	1,938	1,566	4,767

Preferred stock dividends and accretion of preferred stock	290	290	539	1,119
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$973	$1,648	$1,027	$3,648

AMERISERV FINANCIAL, INC.

Nasdaq: ASRV

Average Balance Sheet Data (In thousands)

(Unaudited)

2012

2011

	3QTR	NINE MONTHS	3QTR	NINE MONTHS
Interest earning assets:				
Loans and loans held for sale, net of unearned income	$701,104	$678,995	$663,230	$658,442
Deposits with banks	5,265	8,870	9,861	4,546
Short-term investment in money market funds	4,717	4,567	3,547	3,451
Federal funds sold	-	-	-	7,784
Total investment securities	187,474	190,662	199,228	198,580
Total interest earning assets	898,560	883,094	875,866	872,803
Non-interest earning assets:				
Cash and due from banks	17,090	16,775	16,228	15,598
	11,019	10,925	10,535	10,504

Premises and equipment				
Other assets	81,526	81,793	79,342	79,323
Allowance for loan losses	(13,167)	(13,830)	(17,032)	(18,309)
Total assets	$995,028	$978,757	$964,939	$959,919
Interest bearing liabilities:				
Interest bearing deposits:				
Interest bearing demand	$63,321	$59,703	$59,099	$57,143
Savings	86,373	85,152	83,280	81,241
Money market	216,644	208,414	193,921	190,642
Other time	328,410	330,073	346,639	352,643
Total interest bearing deposits	694,748	683,342	682,939	681,669
Borrowings:				
Federal funds purchased and other short- term	3,808	2,827	227	507
borrowings				
Advances from Federal Home Loan Bank	4,417	5,683	9,715	9,729
Guaranteed junior subordinated deferrable interest	13,085	13,085	13,085	13,085
debentures				
Total interest bearing liabilities	716,058	704,937	705,966	704,990
Non-interest bearing liabilities:				
Demand deposits	150,844	146,229	134,767	133,465
Other liabilities	16,467	15,970	11,634	11,691
Shareholders equity	111,659	111,621	112,572	109,773
Total liabilities and shareholders equity	-			

Cash - end of period	$ 898,452	$ 278,191

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

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 its 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 any 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 March 31, 2011, the Company had not yet achieved profitable operations, has accumulated losses of $1,233,069 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 three months ended March 31, 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 a convertible promissory note. The estimated fair values of cash and accounts payable approximate the carrying amount due to the relatively short maturity of these instruments. The carrying amount of the convertible promissory note approximates its fair value giving affect for a discount relative to the fair value of warrants issued in conjunction with the promissory note. See note 10.

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 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.

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 three months ended March 31, 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 three months ended March 31, 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 March 31, 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 three months ended March 31, 2011and the period from June 25, 2010 (inception) to December 31, 2010 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 March 31, 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.

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 March 31, 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 May 16, 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 $60,000 for the three months ended March 31, 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 terminated in early 2011.

In connection with the issuance of the convertible promissory note (see note 10) a related party pledged 750,000 shares of Company common stock as collateral.

5.

COMMITMENTS AND CONTINGENCIES

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

After mutual agreement as to the location, the second well is to be drilled within six months of the effective date of the Addendum. For the second well, the Company will pay Bayshore $50,000 at rig move-in and $200,000 when the well is completed or plugged and abandoned, whichever comes first. Further, the Company will pay 100% of the total drilling and completion costs for a 75% working interest.

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 to two individuals 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. The estimated fair value of the warrants issued was $29,607 at the date of issuance. 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.

As noted in note 10, in December 2010 the Company issued convertible debt with warrants attached. The warrant is exercisable into 225,000 shares of common stock. At December 31, 2010 and at March 31, 2011 these shares were excluded from the calculation of earnings per share as the shares were anti-dilutive.

A summary of warrant activity for the three months ended March 31, 2011and the period from June 25, 2010 (inception) to December 31, 2010 is presented below:

		Number of Warrants	Weighted Average Exercise Price		Weighted Average Remaining Contract
Outstanding June 25, 2010		-		-	
Issued	12/30/2010	225,000	$	2.50	3.75 years
Issued	02/18/2011	30,000	$	5.00	3.00 years
Issued	03/08/2011	30,000	$	5.00	3.00 years
Issued	03/08/2011	30,000	$	5.00	3.00 years
Issued	03/14/2011	25,000	$	5.00	3.00 years
Issued	03/15/2011	154,857	$	5.00	3.00 years
Exercised		-	$	-	
Outstanding March 31, 2011		494,857			

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.

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:

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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 March 31, 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 three months ended March 31, 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 three months ended March 31, 2011and the period from June 25, 2010 (inception) to December 31, 2010:

	March 31, 2011	December 31, 2010
Federal income tax benefit at statutory rate	(199,841)	(219,403)
Permanent differences	10,625	-
Less valuation allowance	189,216	219,403
Provision for income taxes	-	-

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

		March 31, 2011	December 31, 2010
Deferred tax assets:			
	Net operating loss carryforward	543,980	336,835
	Accruals	3,740	7,820
Deferred tax liabilities:			
	Intangible drilling costs for oil and gas properties	(139,101)	(125,252)
Net deferred tax assets and liabilities		408,619	219,403
Less valuation allowance		(408,619)	(219,403)
Total deferred tax assets and liabilities		- -	

The Company had a net deferred tax asset related to federal net operating loss carryforwards of $1,599,939 and $990,691 at 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. The increase in the valuation allowance for the three months ended March 31, 2011 was $189,216.

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 bears interest at the rate of 10% per annum, had a principal amount of $250,000 and is 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 is 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 is 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 $31,250 and 0 for the three months ended March 31, 2011and the period from June 25, 2010 (inception) to December 31, 2010, respectively. The initial value of the warrants was calculated using the Black Scholes Option Pricing Model. The assumptions were as follows:

Risk-free interest rate	0.64%
Expected volatility of common stock	40.00%
Dividend yield	0.00%
Discount due to lack of marketability	30.00%
Expected life of warrant	2 years
Weighted average warrant	225,000

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.

The Company 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. Revenue and expenses listed below reflect the operations of TEI.

Historical Results for the Three Months Ended March 31, 2011 and the Period from June 25, 2010 (Inception) to December 31, 2010.

Revenues and Cost of Revenues

The Company had no revenue or cost of revenues during either the three months ended March 31, 2011 or during the period from June 25, 2010 (Inception) to December 31, 2010.

General and Administrative Expenses

The Company s total operating expenses for both the three months ended March 31, 2011and the period from June 25, 2010 (Inception) to December 31, 2010 consisting of entirely of general and administrative expenses, which were $550,429 and $645,302, respectively. The Company s general and administrative expenses consisted of accounting and administrative costs, professional fees and other general corporate expenses.

Liquidity and Capital Resources

As of March 31, 2011, the Company had total current assets of $924,237, consisting of $898,452 in cash and $25,785 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. The $620,261 increase in cash from December 31, 2010 to March 31, 2011 is primarily attributable to cash the Company received through a private placement. As of March 31, 2011, the Company had $1,196,418 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.

For the three months ended March 31, 2011, the Company had net cash used in operating activities of $242,778, which was comprised of a net loss of $587,767, a change in prepaid expenses of $24,785 and a change in accounts payable of $99,640, partially offset by $432,000 in stock based compensation, $31,250 in accretion of convertible note discount and $6,164 in change in interest payable.

For the three months ended March 31, 2011, the Company s cash flows from investing activities consisted entirely of $81,460 in investment in oil and gas properties unevaluated.

The Company had $944,499 in net cash provided by financing activities that was entirely attributable to Units, comprised of two shares of common stock and one warrant each, issued for private placement.

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 March 31, 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.

After mutual agreement as to the location, the second well is to be drilled within six months of the effective date of the Participation Agreement. For the second well, we are to pay Bayshore $50,000 at rig move-in and $200,000 when the well is completed or plugged and abandoned, whichever comes first. Further, we are to pay 100% of the total drilling and completion costs for a 75% working interest.

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. Further a $25,000 cash payment is to be made concurrent with the approval of the Authority for Expenditure (AFE) for the Johnson #2 well. As additional consideration, Bayshore is no longer obligated to pay its proportionate share of completion costs on the second vertical 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 March 31, 2011, the Company had not yet achieved profitable operations, has accumulated losses of $1,233,069 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 March 31, 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:

On January 6, 2011, we issued 10,000 shares of common stock to a party as consideration for agreeing to amend the terms of an oil and gas participation agreement. 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 single offeree; (iii) there was no public solicitation; (iv) the investment intent of the offeree; and (v) the restriction on transferability of the securities issued.

On January 10, 2011, we issued 100,000 shares of common stock to a party as consideration for professional services rendered. 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 single offeree; (iii) there was no public solicitation; (iv) the investment intent of the offeree; and (v) the restriction on transferability of the securities issued.

On March 23, 2011, we issued and aggregate of 30,000 shares of common stock to two parties pursuant to the terms of a settlement agreement and mutual release. 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.

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: May 16, 2011

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