MCCORMICK & CO INC
Form 8-K
May 03, 2006

SECURITIES & EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported):

May 2, 2006

McCormick & Company, Incorporated

(Exact name of registrant as specified in its charter)

Maryland	**0-748**	**52-0408290**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

18 Loveton Circle
Sparks, Maryland **21152**
(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: **(410) 771-7301**

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 (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b).

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c).

Item 2.02 Results of Operation and Financial Condition

On May 2, 2006, the Registrant issued a press release to report it had completed the acquisition of the remaining 49% share of Dessert Products International, S.A.S. in exchange for its 50% interest in the Signature Brands, LLC joint venture.

Furnished with this Form 8-K as Exhibit 99.1 is a copy of the press release labeled McCormick Completes Acquisition of Remaining Share of Dessert Products International.

Item 8.01 Other Events

See above Item 2.02 Results of Operation and Financial Condition.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

The exhibit to this report is listed in Item 2.02 above and in the Exhibit Index that follows the signature line.

SIGNATURES

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

McCORMICK & COMPANY, INCORPORATED

Date: May 2, 2006 By: /s/ Robert W. Skelton
Robert W. Skelton
Senior Vice President, General Counsel & Secretary

Exhibit Index

Exhibit Number	Exhibit Description
99.1	Copy of the press release labeled McCormick Completes Acquisition of Remaining Share of Dessert Products International.

, 9,500,000 options and no shares of common stock have been granted under this plan.

On December 15, 2017, we adopted the 2017 Restricted Stock Unit Plan (RTU) authorizing the issuance of 10,000,000 restricted stock units to management and future employees. In conjunction with adopting this plan, the Compensation Committee of the Board of Directors authorized the issuance of 5,500,000 shares to the Company's three employees. The RTU's have a 2-year vesting period. The Compensation Committee believes that it is in the best interest of shareholders to incentive management via equity to align shareholders interest with management.

Recent Sales of Unregistered Securities

In March of 2016, the Company approved the sale of up to 500,000 shares of Series A Convertible Participating Preferred Stock. The Company sold 175,000 shares of Series A Convertible Participating Preferred Stock to convert its $3,500,000 related party note payable to preferred stock payable. In addition, the Company has sold 21,250 shares of Series A Convertible Participating Preferred Stock payable for cash in the amount of $425,000 through March 31, 2016.

In June of 2016, the Company sold 50,000 shares of Series A Convertible Participating Preferred Stock payable for cash in the amount of $1,000,000.

In September of 2016, the Company sold 26,500 shares of Series A Convertible Participating Preferred Stock payable for cash in the amount of $530,000. The Company issued 500,000 shares of common stock for cash in the amount of $100,000.

In October of 2016, the Company sold 10,350 shares of Series A Convertible Participating Preferred Stock payable for cash in the amount of $207,000.

In November of 2016, the Company sold 29,330 shares of Series A Convertible Participating Preferred Stock payable for cash in the amount of $586,600.

In December of 2016, the Company sold 13,300 shares of Series A Convertible Participating Preferred Stock payable for cash in the amount of $266,000.

In March of 2017, the Company sold 10,000 shares of Series A Convertible Participating Preferred Stock payable in cash in the amount of $200,000.

In March of 2017, the Company issued 2,034,002 common shares as a special dividend to Series A Preferred Shareholders for interest incurred during the 2016 offering period of the Series A.

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In June of 2017, the Company sold 13,750 shares of Series A Convertible Participating Preferred Stock payable in cash in the amount of $275,000.

In September of 2017, the Company sold 22,500 shares of Series A Convertible Participating Preferred Stock payable in cash in the amount of $450,000.

In December of 2017, the Company sold 17,750 shares of Series A Convertible Participating Preferred Stock payable in cash in the amount of $355,000.

In December of 2017, the Company issued 3,101,736 shares of common stock as payment for interest accrued on the Series A Preferred Stock during 2017.

Issuer Purchases of Equity Securities

The Company did not repurchase any of its equity securities during the year ended December 31, 2017.

ITEM 6. SELECTED FINANCIAL DATA

This item is not applicable, as we are considered a smaller reporting company.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW AND OUTLOOK

Background

Citadel Exploration, Inc. was incorporated in the State of Nevada in December of 2009. On February 28, 2011, we entered into an agreement for the acquisition of 100% of the membership interest of Citadel Exploration, LLC (“CEL”), a California limited liability company.

On March 2, 2011, we changed our name from Subprime Advantage, Inc. to Citadel Exploration, Inc. in anticipation of the completion of the acquisition of 100% of all of the outstanding membership interest of CEL. The acquisition of 100% of the outstanding membership interest of CEL was completed on May 3, 2011. As a result of the completion of the acquisition, we became an oil and gas exploration company with operations in the Salinas and San Joaquin Basins of California. We have since expanded our focus to be an oil and gas exploration, development and production company.

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Our Operations

Our principal strategy is to focus on the acquisition of oil and natural gas mineral leases that have known hydrocarbons or are in close proximity to known hydrocarbons that have been underdeveloped. Once acquired, we strive to implement an accelerated development program utilizing capital resources, a regional operating focus, an experienced management and technical team, and enhanced recovery technologies to attempt to increase production and increase returns for our stockholders. Our oil and natural gas acquisition and development activities are currently focused in the State of California.

On July 31, 2015 Citadel acquired approximately 1,100 acres of leases, production facilities and equipment that encompassed the Kern Bluff Oil Field. As consideration for this acquisition Citadel issued 6,000,000 shares of common stock and paid $2,000,000 in cash. The transaction was financed via a $3,500,000 one year term loan from Cibolo Creek Partners, of Midland Texas. In March of 2016, Cibolo Creek Partners converted the $3,500,000 term loan into Series A Convertible Participating Preferred Stock.

In December of 2015, Citadel shifted its CAPEX focus to remediation of the existing acquired facilities. At the time of purchase, the oil at Kern Bluff was being processed by temporary facilities installed by the previous owner. As production increased in September, it quickly became apparent that these facilities were not capable of processing the additional volumes of oil and water being produced. The existing permanent facilities were built in the 1970’s by Gulf Oil and require extensive remediation including new pipe, valves, flanges and tank repair. In order to facilitate the remediation, Citadel elected to shut down the eight producing wells in early January.

In July of 2016, Citadel completed its facility upgrades; the new facilities have production capacity of 500 BOPD. Citadel drilled three wells in June and returned to production 9 idle wells. Production from the new wells continues to increase as the wells clean up. As of December 31, 2017 the Company was producing approximately 50 barrels of oil per day.

In December of 2017, Citadel completed the installation of a 25MM BTU steam generator. The oil and Kern Bluff is characterized as heavy oil, therefore requiring stimulation via steam injection. This steam generator has capacity of over 1,400 barrels of steam per day (BOSPD) which will allow the Company to steam approximately 50 wells per year. The company currently has approximately 14 wells on production and has seen field wide production increase from approximately 20 barrels per day to approximately 100 barrels per day.

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Going Concern

The consolidated financial statements included in this filing have been prepared in conformity with generally accepted accounting principles that contemplate the continuance of the Company as a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company is in the exploration stage and, accordingly, has not generated any significant revenues from operations. As shown on the accompanying consolidated financial statements, the Company has incurred a net loss of $2,477,637 for the year ending December 31, 2017. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The future of the Company is dependent upon its ability to obtain financing and upon future profitable operations from the development of its oil and gas business opportunities.

RESULTS OF OPERATIONS

For accounting purposes, the acquisition of Citadel Exploration, LLC by the Company has been recorded as a reverse acquisition of a public company and recapitalization of Citadel Exploration, LLC based on the factors demonstrating that Citadel Exploration, LLC represents the accounting acquirer. The historic financial statements of Citadel Exploration, LLC and related entities, while historically presented as an LLC equity structure, have been retroactively presented as a corporation for comparability purposes.

During the year ended December 31, 2017 we generated $166,355 in revenue from oil sales. During the year ended December 31 2016, we generated $107,071 in revenue.

Operating expenses totaled $1,852,294 during the year ended December 31, 2017 as compared to $1,676,826 in the prior year ended December 31, 2016. Operating expenses primarily consisted of lease operating expenses, executive compensation, and general and administrative expenses in the year ended December 31, 2017.

General and administrative fees decreased $284,222 from the year ended December 31, 2016 to the year ended December 31, 2017. This decrease was primarily due to insurance, marketing and meals and entertainment expenses.

Professional fees decrease $8,147 from the year ended December 31, 2016 to the year ended December 31, 2017. The increase was primarily due to a decrease in services provided to the Company for accounting, consulting and legal.

Executive compensation increased $68,880 from the year ended December 31, 2016 to the year ended December 31, 2017. The increase was due to a contractual increase in salaries.

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Liquidity and Capital Resources

The Company has established a capital budget for 2018 of $6,000,000 to drill up to 15 wells. The Company's ability to complete this capital budget will be highly dependent on higher oil prices and access to capital.

As of December 31, 2017, we had $838,030 of current assets; of this amount $772,103 was cash. The following table provides detailed information about our net cash flow for all consolidated financial statement periods presented in this Annual Report. To date, we have financed our operations through the issuance of stock and borrowings.

The following table sets forth a summary of our cash flows for the years ended December 31, 2017 and 2016:

	Years Ended December 31,	
	2017	2016
Net cash used in operating activities	$(341,887)	$(1,028,947)
Net cash used in investing activities	(987,876)	(2,045,260)
Net cash provided by financing activities	1,913,073	3,116,445
Net increase in cash	583,310	42,238
Cash, beginning of year	188,793	146,555
Cash, end of year	$772,103	$188,793

Investing activities

Net cash used in investing activities was $987,876 for the year ended December 31, 2017. The net cash used in investing activities consisted primarily of payments for the development of Kern Bluff Oil Field and related facility upgrades.

Financing activities

Net cash provided by financing activities for the year ended December 31, 2017 was $1,913,073. The net cash provided by financing activities substantially consisted of proceeds from a $1,175,000 preferred stock sale, proceeds from a note payable of $605,000, a drilling plan obligation of $700,000, and note repayments totaling $556,927.

As of December 31, 2017, we continue to use traditional and/or debt financing as well as through the issuance of stock to provide the capital we need to run our business.

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Without cash flow from operations we will require additional cash resources, including the sale of equity or debt securities, to meet our planned capital expenditures and working capital requirements for the next 12 months. We will require additional cash resources due to changed business conditions, implementation of our strategy to successfully develop our projects, or acquisitions we may decide to pursue. If our own financial resources and then current cash-flows from operations are insufficient to satisfy our capital requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities will result in dilution to our stockholders. The incurrence of indebtedness will result in increased debt service obligations and could require us to agree to operating and financial covenants that could restrict our operations or modify our plans to grow the business. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, will limit our ability to expand our business operations and could harm our overall business prospects.

Our ability to obtain additional capital through additional equity and/or debt financing, and Joint Venture or Working Interest partnerships will also be important to our expansion plans. In the event we experience any significant problems assimilating acquired assets into our operations or cannot obtain the necessary capital to pursue our strategic plan, we may have to reduce the growth of our operations. This may materially impact our ability to increase revenue and continue our growth.

Contractual Obligations

An operating lease for rental office space was entered into beginning March 1, 2013 for two years at $2,150 per month. The original lease was amended to include additional space at a price of $1,100 per month for the same term. The original term of the lease expired on March 1, 2015. As such our office lease is now on a month to month basis at a rate of $3,000 per month.

Off-Balance Sheet Arrangements

As of the date of this Report, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Operation Plan

Our plan is to focus on the acquisition and drilling of prospective oil and natural gas mineral leases. Once we have tested a prospect as productive, subject to availability of capital, we will implement a development program with a regional operating focus in order to increase production and increase returns for our stockholders. Exploration, acquisition and development activities are currently focused in California. Depending on availability of capital, and other constraints, our goal is to increase stockholder value by finding and developing oil and natural gas reserves at costs that provide an attractive rate of return on our investments.

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We expect to achieve these results by:

- Investing capital in exploration and development drilling and in secondary and tertiary recovery of oil as well as natural gas;
- Using the latest technologies available to the oil and natural gas industry in our operations;
- Finding additional oil and natural gas reserves on the properties we acquire.

In addition to raising additional capital we plan to take on Joint Venture (JV) or Working Interest (WI) partners who may contribute to the capital costs of drilling and completion and then share in revenues derived from production. This economic strategy may allow us to utilize our own financial assets toward the growth of our leased acreage holdings, pursue the acquisition of strategic oil and gas producing properties or companies and generally expand our existing operations.

Because of our limited operating history we have only generated minimal revenue from the sale of oil or natural gas. Our activities have been limited to raising capital, negotiating WI agreements, becoming a publicly traded company and preliminary analysis of reserves and production capabilities from our exploratory test wells.

Our future financial results will depend primarily on: (i) the ability to continue to source and screen potential projects; (ii) the ability to discover commercial quantities of natural gas and oil; (iii) the market price for oil and natural gas; and (iv) the ability to fully implement our exploration and development program, which is dependent on the availability of capital resources. There can be no assurance that we will be successful in any of these respects, that the prices of oil and gas prevailing at the time of production will be at a level allowing for profitable production, or that we will be able to obtain additional funding to increase our currently limited capital resources.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This item in not applicable as we are currently considered a smaller reporting company.

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ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

We have had no disagreements with our independent auditors on accounting or financial disclosures.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Principal Executive Officer, Armen Nahabedian and Principal Financial Officer, Philip McPherson, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. Based on their evaluation, they concluded that our disclosure controls and procedures are not designed at a reasonable assurance level and are not effective to provide reasonable assurance that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control, as is defined in the Securities Exchange Act of 1934. These internal controls are designed to provide reasonable assurance that the reported financial information is presented fairly, that disclosures are adequate and that the judgments inherent in the preparation of consolidated financial statements are reasonable. There are inherent limitations in the effectiveness of any system of internal controls, including the possibility of human error and overriding of controls. Consequently, an effective internal control system can only provide reasonable, not absolute, assurance with respect to reporting financial information.

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Our internal control over financial reporting includes policies and procedures that: (i) pertain to maintaining records that in reasonable detail accurately and fairly reflect our transactions; (ii) provide reasonable assurance that transactions are recorded as necessary for preparation of our consolidated financial statements in accordance with generally accepted accounting principles and the receipts and expenditures of company assets are made and in accordance with our management and directors authorization; and (iii) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our consolidated financial statements.

Management has undertaken an assessment of the effectiveness of our internal control over financial reporting based on the framework and criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based upon this evaluation, management concluded that our internal control over financial reporting was not effective as of December 31, 2017. The evaluation concluded that there is a lack of segregation of duties within the control environment and a lack of formal review procedures, including a multiple level review. Both weaknesses are due to limited personnel.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to the temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

The names of our directors and executive officers and their ages, positions, and biographies are set forth below. Our executive officers are appointed by, and serve at the discretion of, our board of directors. There are no family relationships among any of our directors or executive officers.

Name	Age	Title	Director Since
Armen Nahabedian	39	Chief Executive Officer, President & Director	8/9/2011
Daniel Szymanski	56	Director	5/3/2011
Philip J. McPherson	43	Chief Financial Officer, Secretary, Treasurer & Director	9/1/2012
Jim Walesa	57	Chairman of the Board	9/1/2014
James Borgna	39	Director	5/3/2011

Armen Nahabedian, 39, President, Chief Executive Officer, and Director: Mr. Nahabedian is a fourth generation oil and gas explorer in the state of California. In 1999, Mr. Nahabedian joined the United States Marine Corp as an infantryman and reached the rank of Corporal (E-4) before serving in operation Iraqi Freedom and receiving an honorable discharge in 2003. Mr. Nahabedian immediately thereafter went to work in the oil fields of the South San Joaquin Valley for his family's oil company, The Nahabedian Exploration Group. After early success in his exploration efforts Mr. Nahabedian became a regional supervisor and managed the drilling operations for some of the deepest exploratory wells drilled in the state of California from 2004 through 2007. In 2007, Mr. Nahabedian then joined The Nahabedian Exploration Group as a partner and supervised land acquisition efforts (over 750,000 acres leased or optioned) and prospect generation. Mr. Nahabedian continued to act as an operational supervisor and in 2009; he became involved in business development and finance. Acting as the company's primary fund raiser Mr. Nahabedian educated himself in public financing and securities and with the assistance of an experienced legal team formed Citadel Exploration, Inc. in 2011.

Daniel L. Szymanski, 56, Director: Dan Szymanski comes to the board of Citadel Exploration, Inc. with over 20 years of industry experience, including exploration and production assignments with Tenneco and Chevron, and worldwide exploration with Occidental. Dan served as Manager of Business Development, then Manager-Financial Planning and Analysis at Oxy's Headquarters in LA. His final role at Oxy was Asset Manager for 42 oil and gas fields producing in California's San Joaquin and Sacramento Valleys. Since 2008, Dan has been a consultant to the oil and gas industry and partner in a seismic data firm. Mr. Szymanski has a Bachelors degree in Geology from the University of Wisconsin and a Masters in Geophysics from Purdue.

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Philip J. McPherson, 43, Chief Financial Officer and Director: Mr. McPherson joined Citadel Exploration in September of 2012 with nearly two decades of experience in the capital markets and financial services sectors. He started his career as a retail stock broker with Mission Capital in 1997 and became partner before it was acquired by oil and gas boutique C. K. Cooper & Company. At C.K. Cooper, Mr. McPherson was a research analyst specializing in small cap exploration & production companies. In 2007, he joined Global Hunter Securities as a partner and managing director of the energy research group. During his Wall Street career, Mr. McPherson was presented the Wall Street Journal "Best on the Street" Award was named a Zack's 5-Start Analyst for three consecutive years. He is a recognized expert on California E&P firms. Mr. McPherson received his Bachelors in Economics from East Carolina University.

James Walesa, 57, Chairman of the Board: Mr. Walesa has more than three decades of experience in financial services with an emphasis on the energy industry. He started in 1982 with First Investors (FIC) as a registered representative in Chicago and became the youngest vice president in firm history at age 26. He left FIC to form Asset Management & Protection Corporation (AMPC) in May 1988. AMPC started from scratch and today manages over $500 million. Mr. Walesa entered the energy industry in 1992 in the Permian Basin. He and some of his clients were original investors in Basic Energy Services (BAS: NYSE) and Southwest Royalties, now part of Clayton Williams Energy (CWE: NYSE). He is also a founding member of the Offshore Energy Center in Galveston, Texas. Mr. Walesa and AMPC clients continue to provide startup capital for energy related companies and was an original investor in Citadel's first offering. Mr. Walesa previously served on the board of NASDAQ-traded Financial Assurance and several private companies. He was the Chicago Chairman for the National Multiple Sclerosis Society and is a member of the Alzheimer's Alois Society in recognition of his leadership and support of the Alzheimer's Association to prevent and cure dementia related disease.

James Borgna, 39, Director: Mr. Borgna is a third generation oil and gas industry supplier and producer. Mr. Borgna currently owns and operates Grey Energy LLC which supplies production facilities and process equipment in California. Mr. Borgna specializes in scalable facilities that are fabricated work in-house. Mr. Borgna has supervised the fabrication of oil and gas facilities for many of the major operators in the San Joaquin Basin. Mr. Borgna gained valuable experience with project management, facilities design, and gained familiarity with permitting guidelines and restrictions. Prior to joining his family in the oil and gas industry Mr. Borgna served six years in the United States Navy and achieved the rank of E-5.

Indemnification of Directors and Officers

Our Articles of Incorporation and Bylaws both provide for the indemnification of our officers and directors to the fullest extent permitted by Nevada law.

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Limitation of Liability of Directors

Pursuant to the Nevada General Corporation Law, our Articles of Incorporation exclude personal liability for our Directors for monetary damages based upon any violation of their fiduciary duties as Directors, except as to liability for any breach of the duty of loyalty, acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, or any transaction from which a Director receives an improper personal benefit. This exclusion of liability does not limit any right which a Director may have to be indemnified and does not affect any Director's liability under federal or applicable state securities laws. We have agreed to indemnify our directors against expenses, judgments, and amounts paid in settlement in connection with any claim against a Director if he acted in good faith and in a manner he believed to be in our best interests.

Election of Directors and Officers

Directors are elected to serve until the next annual meeting of stockholders and until their successors have been elected and qualified. Officers are appointed to serve until the meeting of the Board of Directors following the next annual meeting of stockholders and until their successors have been elected and qualified.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires our executive officers and directors, and persons who beneficially own more than ten percent of our common stock, to file initial reports of ownership and reports of changes in ownership with the SEC. Executive officers, directors and greater-than-ten-percent beneficial owners are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based upon a review of the copies of such forms furnished to us and written representations from our executive officers and directors, we believe that as of the date of this filing they were current in their filings.

Code of Ethics

A code of ethics relates to written standards that are reasonably designed to deter wrongdoing and to promote:

(1) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

(2) Full, fair, accurate, timely and understandable disclosure in reports and documents that are filed with, or submitted to, the Commission and in other public communications made by an issuer;

(3) Compliance with applicable governmental laws, rules and regulations;

(4) The prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and

(5) Accountability for adherence to the code.

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We have not adopted a corporate code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

Our decision to not adopt such a code of ethics results from our having a small management for the Company. We believe that the limited interaction which occurs having such a small management structure for the Company eliminates the current need for such a code, in that violations of such a code would be reported to the party generating the violation.

Corporate Governance

We currently do not have standing audit, nominating and compensation committees of the board of directors, or committees performing similar functions. Until formal committees are established, our entire board of directors perform the same functions as an audit, nominating and compensation committee.

Involvement in Certain Legal Proceedings

To the best of our knowledge, none of our directors or executive officers has, during the past five years:

- been convicted in a criminal proceeding or been subject to a pending criminal proceeding (excluding traffic violations and other minor offences);
- had any bankruptcy petition filed by or against the business or property of the person, or of any partnership, corporation or business association of which he was a general partner or executive officer, either at the time of the bankruptcy filing or within two years prior to that time;
- been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction or federal or state authority, permanently or temporarily enjoining, barring, suspending or otherwise limiting, his involvement in any type of business, securities, futures, commodities, investment, banking, savings and loan, or insurance activities, or to be associated with persons engaged in any such activity;
- been found by a court of competent jurisdiction in a civil action or by the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;
- been the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated (not including any settlement of a civil proceeding among private litigants), relating to an alleged violation of any federal or state securities or commodities law or regulation, any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order, or any law or regulation

prohibiting mail or wire fraud or fraud in connection with any business entity; or

- been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

ITEM 11. EXECUTIVE COMPENSATION

Overview of Compensation Program

In December of 2017 we formed our Compensation Committee, the Committee is chaired by Dan Szymanski, with James Borgna and James Walesa as members. The Compensation Committee ensures that the total compensation paid to the executives is fair, reasonable and competitive.

Compensation Philosophy and Objectives

The Board of Directors believes that the most effective executive compensation program is one that is designed to reward the achievement of specific annual, long-term and strategic goals by the Company and that aligns executives' interests with those of the stockholders by rewarding performance above established goals, with the ultimate objective of improving stockholder value. As a result of the size of the Company, the Board evaluates both performance and compensation on an informal basis. To that end, the Board believes executive compensation packages provided by the Company to its executives, including the named executive officers, should include both cash and stock-based compensation that reward performance as measured against established goals.

Role of Executive Officers in Compensation Decisions

The Compensation Committee makes all compensation decisions for, and approves recommendations regarding equity awards to, the executive officers and Directors of the Company. Decisions regarding the non-equity compensation of other employees of the Company are made by management.

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Summary Compensation

During the year ended December 31, 2015, we entered into new employment contracts with both our CEO and CFO on September 1, 2015. The contract calls for each to receive a base salary of $20,000 per month for the first 12 months. The base salary shall increase to $25,000 per month for the next 12 month period and then increase to $30,000 per month for the final 12 months of the three year contract. As of the date of the salary increase, the CEO and CFO have deferred payment of approximately $10,000 per month of salary during the first year of the contract and $15,000 per month during the second year of the contract. The CEO and CFO are also entitled to quarterly and annual bonuses upon reaching mutually agreeable objectives set by Employer and Employee. The CEO and CFO shall be entitled to receive and or participate in all benefit plans and programs of Employer currently existing or hereafter made available to executives and or senior management of the Employer.

Summary Compensation Table

The table below summarizes the total compensation earned by our Executive Officers but does not account for deferred compensation as discussed above, for the last two fiscal years ended December 31, 2017 and 2016.

SUMMARY COMPENSATION TABLE

Name and Principal Positions	**Year**	**Salary ($)**	**Bonus ($)**	**Stock Awards ($)**	**Option Awards ($)**	**Non-Equity Incentive Plan Compen-sation ($)**	**Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)**	**All Other Compen-sation ($)**	**T (**
Armen Nahabedian, Chief Executive Officer, President, and Director (1)	2017	$340,000	-0-	-0-	-0-	-0-	-0-	-0-	$3
	2016	$260,000	-0-	-0-	-0-	-0-	-0-	-0-	$2
	2017	$340,000	-0-	-0-	-0-	-0-	-0-	-0-	$3

Philip McPherson Chief Financial Officer, Secretary, Treasurer, and Director (2)	2016	$260,000	-0-	-0-	-0-	-0-	-0-	-0-	$2

(1) Mr. Nahabedian was appointed Chief Executive Officer, President, and a Director of the Company on August 9, 2011.

(2) Mr. McPherson was appointed Chief Financial Officer, Secretary, Treasurer, and a Director of the Company on September 1, 2012.

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Termination of Employment

Pursuant to the terms of the employment contracts for the company's CEO and CFO, in the event of a change of control the CEO and CFO are entitled to five years of current monthly salary and five years of medical insurance. Additionally all unvested stock options immediately vest.

Option Grants in Last Fiscal Year

On July 29, 2015 the Board of Directors approved the granting of 4,700,000 stock options at $0.15 per share for a term of seven years to three of the five board members and to the newly appointed General Counsel. These stock options were granted under the current 2012 Stock Incentive Plan for up to 10,000,000 shares. Currently the Company has granted 9,500,000 shares under this plan.

Director Compensation

As a result of having limited capital resources we do not currently have an established compensation package for our board members. Therefore the Board of Directors approved issuing 200,000 stock options at $0.55 per share in 2014 as compensation.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information, to the best of our knowledge, about the beneficial ownership of our common stock on April 16, 2018 relating to the beneficial ownership of our common stock by those persons known to beneficially own more than 5% of our capital stock and by our directors and executive officers. The percentage of beneficial ownership for the following table is based on 45,000,000 shares of common stock outstanding.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and does not necessarily indicate beneficial ownership for any other purpose. Under these rules, beneficial ownership includes those shares of common stock over which the stockholder has sole or shared voting or investment power. The percentage ownership of the outstanding common stock, however, is based on the assumption, expressly required by the rules of the Securities and Exchange Commission, that only the person or entity whose ownership is being reported has converted options or warrants into shares of our common stock.

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Security Ownership of Certain Beneficial Owners and Management

Title of Class	Name and address of Beneficial Owner[1]	Number Of Shares	Percent Beneficially Owned	
Common	Armen Nahabedian, Chief Executive Officer, President & Director	4,421,500	9.0	%
Common	Daniel L. Szymanski, Chairman of the Board	250,000	1.0	%
Common	Philip J. McPherson, CFO & Director	2,030,000	4.0	%
Common	James Walesa, Director(2)	5,033,686	11.0	%
Common	James Borgna, Director	200,000	0.9	%
Common	Kern Bluff Resources, LLC	6,000,000	13.0	%
Common	Vahagn Nahabedian	4,000,000	9.0	%
	All Beneficial Owners as a Group	21,935,186	49.0	%

(1) As used in this table, "beneficial ownership" means the sole or shared power to vote, or to direct the voting of, a security, or the sole or shared investment power with respect to a security (i.e., the power to dispose of, or to direct the disposition of, a security). Each Parties' address is care of the Company at 417 31st St. Unit A, Newport Beach, CA 92663

(2) Includes 3,825,853 shares owned by Cibolo Creek Partners of which Mr. Walesa is a member.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Transactions with Related Persons

During the year ended December 31, 2017, the Company made the following purchases from entities considered related parties; $71,328 for oil field equipment and services from Grey Energy. Grey Energy is owned by James Borgna, who is a member of our Board of Directors.

In December 2014, we entered an agreement with Jim Walesa and Cibolo Creek Partners to fund $300,000 towards the Yowlumne #2-26 recompletion. In this agreement Mr. Walesa and Cibolo Creek will receive 75% of the net revenue after expenses, until they have received $300,000 in payment. Upon full repayment, Mr. Walesa and Cibolo

Creek will receive a 3% royalty on the well. Mr. Walesa is currently on the Board of Directors of Citadel and a member of Cibolo Creek Partners.

Promoters and Certain Control Persons

We did not have any promoters at any time since our inception in December 2009.

Director Independence

We currently have three independent directors, as the term “independent” is defined in Section 803A of the NYSE Amex LLC Company Guide. Since the OTCQB does not have rules regarding director independence, the Board makes its determination as to director independence based on the definition of “independence” as defined under the rules of the New York Stock Exchange (“NYSE”) and American Stock Exchange (“Amex”).

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ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

(1) AUDIT FEES

Audit and Non-Audit Fees

The following table sets forth the fees paid or accrued by us for the audit and other services provided by Anton and Chia, LLP for the audit of our annual consolidated financial statements for the year ended December 31, 2016: We have since engaged Malone-Bailey, LLP for the audit of our annual consolidated financial statements for the year ended December 31, 2017:

	Fiscal Year Ended December 31, 2017	**Fiscal Year Ended December 31, 2016**
Audit Fees[(1)]	$ 47,000	$ 23,550
2014 Re-Audit Fees	$ —	$ —
Tax Fees	$ —	$ —
All Other Fees	$ —	$ —
Total	$ 47,000	$ 23,550

(1) Audit Fees: This category represents fees for professional services provided in connection with the audit of our consolidated financial statements and review of our quarterly consolidated financial statements.

(2) AUDIT-RELATED FEES

None.

(3) TAX FEES

None.

(4) ALL OTHER FEES

None.

(5) AUDIT COMMITTEE POLICIES AND PROCEDURES

We do not have an audit committee.

(6) If greater than 50 percent, disclose the percentage of hours expended on the principal accountant's engagement to audit the registrant's consolidated financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees.

Not applicable.

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PART IV

ITEM 15. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

(a) We have filed the following documents as part of this Annual Report on Form 10-K:

1. The consolidated financial statements listed in the "Index to Consolidated Financial Statements" at page are filed as part of this report.

2. Consolidated financial statement schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits included or incorporated herein: See index to Exhibits.

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Exhibit Index

Exhibit Number	Exhibit Description	Filed herewith	Incorporated by reference Form	Period ending	Exhibit	Filing date
3(i)(a)	Articles of Incorporation of Citadel Exploration, Inc.		S-1		3(i)(a)	2/11/10
3(i)(b)	Certificate of Amendment – Name Change – Dated March 3, 2011		8-K		3(i)(b)	3/10/11
3(i)(c)	Certificate of Change – Dated March 3, 2011		8-K		3(i)(c)	3/10/11
3(ii)(a)	Bylaws of Citadel Exploration, Inc.		S-1		3(ii)(a)	2/11/10
10.1	Membership Purchase Agreement and Plan of Reorganization– Dated February 28, 2011		8-K		2.1	3/01/11
10.2	Addendum No. 1 to Membership Purchase Agreement and Plan of Reorganization – Dated April 27, 2011		8-K		2.2	5/3/11
10.3	Letter Agreement – Dated February 22, 2012		8-K		10.1	3/22/12
10.4	Bridge Loan Agreement		8-K		10.4	4/4/14
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1	Certifications of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
32.2	Certifications of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
99.2	Presentation – Dated November 10, 2011		8-K		EX. 99.2	11/15/12
99.3	MHA Reserve Report – Dated March 23, 2018		10-K		EX. 99.3	04/16/18
101.INS**	XBRL Instance Document	X				
101.SCG**	XBRL Taxonomy Extension Schema	X				
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase	X				
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X				
101.LAB**	XBRL Taxonomy Extension Label Linkbase	X				
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase	X				

** *XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.*

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused the report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITADEL EXPLORATION, INC.

By: /s/Armen Nahabedian

Armen Nahabedian, President

Date: April 16, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/Armen Nahabedian Armen Nahabedian	Chief Executive Officer (Principal Executive Officer), President, and Director	April 16, 2018
/s/Philip J. McPherson Philip J. McPherson	Chief Financial Officer (Principal Financial Officer) Secretary, Treasurer, and Director	April 16, 2018
/s/Daniel L. Szymanski Daniel L. Szymanski	Director	April 16, 2018
/s/James Walesa James Walesa	Chairman of the Board	April 16, 2018
/s/James Borgna	Director	

April 16, 2018

James Borgna

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CITADEL EXPLORATION, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017 AND 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Citadel Exploration, Inc.

We have audited the accompanying consolidated balance sheet of Citadel Exploration, Inc. and subsidiary ("the Company") as of December 31, 2016 and the related consolidated statements of operations, stockholders' deficit, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citadel Exploration, Inc. and subsidiary as of December 31, 2016 and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred losses from operations, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Anton & Chia, LLP

Newport Beach, CA

April 16, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and board of directors of

Citadel Exploration, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Citadel Exploration and its subsidiaries (collectively, the "Company") as of December 31, 2017, and the related consolidated statement of operations, stockholders' equity (deficit), and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern Matter

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ MaloneBailey, LLP

www.malonebailey.com

We have served as the Company's auditor since 2018.

Houston, Texas

April 16, 2018

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CITADEL EXPLORATION, INC.

Consolidated Balance Sheets

	December 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash	$772,103	$188,793
Other receivable	16,540	7,142
Prepaid expenses	29,280	33,436
Product inventory	20,107	4,881
Total current assets	838,030	234,252
Deposits	10,100	9,900
Restricted cash	200,000	245,000
Oil and gas properties (successful efforts basis)		
Proved, net	5,018,086	5,039,546
Unproved	1,170,000	1,170,000
Equipment, net	82,969	18,530
Total assets	$7,319,185	$6,717,228
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	$2,220,938	$1,584,258
Accrued interest payable	459,416	780,049
Drilling obligation, net of discount of $126,000	700,000	—
Notes payable, net	579,951	526,880
Preferred stock payable	—	6,514,600
Total current liabilities	3,960,305	9,405,787
Asset retirement obligation	224,380	217,212
Production payment liability, related party	300,000	300,000
	—	—
Total liabilities	$4,484,685	$9,922,999
Commitments and Contingencies – See Note 4		
Stockholders' equity/deficit:		
Common stock, $0.001 par value, 100,000,000 shares authorized, 44,449,742 and 39,314,004 shares issued and outstanding as of December 31, 2017 and December 31, 2016 respectively	44,450	39,314
Series A Preferred stock, $20.00 par value, 500,000 shares authorized,394,365 shares issued and outstanding as of December 31, 2017	7,887,300	—
Additional paid-in capital	5,691,239	5,790,060
Accumulated deficit	(10,788,489)	(9,035,145)
Total stockholders’ equity (deficit)	2,834,500	(3,205,771)
Total liabilities and stockholders’ equity (deficit)	$7,319,185	$6,717,228

See accompanying notes to consolidated financial statements.

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CITADEL EXPLORATION, INC.

Consolidated Statements of Operations

	For the years ended December 31, 2017	2016
Revenue	$166,355	$107,071
Operating expenses:		
Lease operating expense	232,081	221,160
General and administrative	246,764	530,986
Depreciation, depletion and amortization	134,619	23,285
Professional fees	201,763	209,910
Executive compensation	651,760	550,879
Dry hole, abandonment, impairment, and exploration	427,353	140,606
Total operating expenses	1,894,340	1,676,826
Other income (expenses):		
Gain on settlement of prior year preferred stock liability	50,122	—
Gain – other	4,000	—
Interest expense	(79,481)	(572,025)
Total other income (expenses)	(25,359)	(572,025)
Loss before provision for income taxes	(1,753,344)	(2,141,780)
Provision for income taxes expenses(benefits)	—	(8,279)
Net loss	(1,753,344)	(2,150,059)
Series A preferred stock dividends	(620,347)	—
Deemed dividend, ORRI issued with preferred stock	(442,136)	—
Net loss available to common stockholders	$(2,815,827)	$(2,150,059)
Weighted average number of common shares outstanding – basic and diluted	40,891,604	39,042,142
Net loss per common share - basic and diluted	$(0.07)	$(0.05)

See accompanying notes to consolidated financial statements.

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CITADEL EXPLORATION, INC.

Consolidated Statements of Stockholder Equity / (Deficit)

	Common Stock Shares	Amount	Preferred Stock Shares	Amount	Additional Paid-In Amount	Accumulated Deficit	Total Equity (Deficit)
Balance at January 1, 2016	38,814,004	$38,814			$5,690,560	$(6,885,086)	$(1,155,712)
Shares issued for cash	500,000	500			99,500		100,000
Net loss						(2,150,059)	(2,150,059)
Balance at December 31, 2016	39,314,004	$39,314			$5,790,060	$(9,035,145)	$(3,205,771)
Preferred shares issued for cash			58,750	1,175,000			1,175,000
Preferred shares issued to settle note payable			5,250	105,000			105,000
Preferred shares issued to settle preferred stock payable			330,365	6,607,300			6,607,300
Common shares issued for special preferred stock dividend	3,101,736	3,102			(3,102)		—
Common shares issued to settle accrued interest on preferred stock	2,034,002	2,034			242,046		244,080
Contribution from related party on preferred stock interest					104,371		104,371
Deemed dividend, overriding royalty interest issued with preferred stock					(442,136)		(442,136)
Net loss						(1,753,344)	(1,753,344)
Balance at December 31, 2017	44,449,742	$44,450	394,365	$7,887,300	$5,691,239	$(10,788,489)	$2,834,500

See accompanying notes to consolidated financial statements.

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CITADEL EXPLORATION, INC.

Consolidated Statements of Cash Flows

	For the years Ended December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(1,753,344)	$(2,150,059)
Depreciation, amortization and accretion	134,619	23,284
Amortization of debt discount	—	5,751
Abandonment and impairment	427,353	—
Gain on settlement of prior year preferred stock liability	(50,122)	—
Changes in operating assets and liabilities:		
Decrease (increase) in inventory	(191)	—
Decrease (increase) in other receivable	(9,398)	12,200
Decrease (increase) in prepaid expenses	57,076	(3,566)
Increase in deposits	(200)	—
Decrease in restricted cash	45,000	—
Increase in accrued interest payable	170,640	546,354
Increase in accounts payable and accrued liabilities	636,680	537,089
Net cash used in operating activities	(341,887)	(1,028,947)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and development of oil and gas properties	(981,622)	(2,032,760)
Purchase of equipment	(6,214)	(12,500)
Net cash used in investing activities	(987,876)	(2,045,260)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common stock, net of costs	—	100,000
Proceeds from sale of preferred stock, net of costs	1,175,000	3,014,600
Proceeds from notes payable	605,000	68,736
Proceeds from drilling liability	700,000	—
Repayments of notes payable	(566,927)	(66,891)
Net cash provided by financing activities	1,913,073	3,116,445
Net increase in cash	583,310	42,238
Cash at beginning of year	188,793	146,555
Cash at end of year	$772,103	$188,793
Supplemental disclosures of cash flow information:		
Interest paid	$—	$5,584
Income taxes paid	$2,300	$8,279
Non-cash investing and financing activities:		
Preferred shares issued to settle preferred stock payable	$6,607,300	$—
Preferred shares issued to settle note payable	$105,000	$—
Debt Discount from drilling liability	$126,000	$—
Common Stock issued for preferred stock dividend	$3,102	$—
Financing of vehicles	$67,078	$—

Financing of insurance premium	$52,920	$—
Common shares issued to settle accrued interest on preferred stock	$244,080	$—
Deemed dividend, ORRI issued with preferred stock	$442,136	$—
Gain of settlement of prior year preferred stock liability recorded in APIC	$104,371	$—
Conversion of debt to equity	$—	$3,500,000
Asset retirement obligation	$—	$12,264

See accompanying notes to consolidated financial statements.

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

Organization

Citadel Exploration, Inc. ("Citadel Inc") was incorporated on December 17, 2009 in the State of Nevada originally under the name Subprime Advantage, Inc. On March 2, 2011, the Company changed its name from Subprime Advantage, Inc. to Citadel Exploration, Inc.

On May 3, 2011, Citadel Inc completed the acquisition of 100% interest in Citadel Exploration, LLC, a California limited liability company, ("Citadel LLC") pursuant to a Membership Purchase Agreement (the "MPA"). Under the MPA, Citadel Inc issued 14,000,000 shares of the its common stock an individual in exchange for a 100% interest in Citadel LLC. Additionally under the MPA, the former officers and directors of Citadel Inc agreed to cancel 7,696,000 shares of its common stock. For accounting purposes, the acquisition of the Citadel LLC by Citadel Inc has been accounted for as a recapitalization, similar to a reverse acquisition except no goodwill is recorded, whereby the private company, Citadel LLC, in substance acquired a non-operational public company (Citadel Inc) with nominal assets and liabilities for the purpose of becoming a public company. Accordingly, Citadel LLC are considered the acquirer for accounting purposes and thus, the historical financials are primarily that of Citadel LLC. As a result of this transaction, Citadel Inc changed its business direction and is now involved in the acquisition and development of oil and gas resources in California. Citadel LLC was incorporated on November 6, 2006 (Date of Inception) and accordingly, the accompanying consolidated financial statements are from the Date of Inception of Citadel LLC through ending reporting periods reflected.

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to exploration stage enterprises, and are expressed in U.S. dollars. The Company’s fiscal year end is December 31.

Principles of consolidation

For the years ended December 31, 2017 and 2016, the consolidated financial statements include the accounts of Citadel Exploration, Inc. and Citadel Exploration, LLC. All significant intercompany balances and transactions have been eliminated. Citadel Exploration, Inc. and Citadel Exploration, LLC will be collectively referred herein to as the “Company”.

Nature of operations

Currently, the Company is focused on the acquisition and development of oil and gas resources in California.

Assumptions, Judgments and Estimates

In the course of preparing the consolidated financial statements, management makes various assumptions, judgments and estimates to determine the reported amounts of assets, liabilities, revenues and expenses, and in the disclosures of commitments and contingencies. Changes in these assumptions, judgments, and estimates will occur as a result of the passage of time and the occurrence of future events and, accordingly, actual results could differ from amounts previously established.

Assumptions, Judgments and Estimates (continued)

The more significant areas requiring the use of assumptions, judgments, and estimates include: (1) oil and natural gas reserves; (2) cash flow estimates used in impairment tests of long-lived assets; (3) depreciation, depletion and amortization; (4) asset retirement obligations; (5) assigning fair value and allocating purchase price in connection with business combinations; (6) income taxes; (7) valuation of derivative instruments; and (8) accrued revenue and related receivables. Although management believes these estimates are reasonable, actual results could differ from these estimates.

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Fair value of financial instruments

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of December 31, 2017 and 2016. See Footnote No. 13, "Fair Value of Financial Instruments," for further information. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash, prepaid expenses and accounts payable. Fair values were assumed to approximate carrying values for payables because they are short term in nature and their carrying amounts approximate fair values or they are payable on demand.

Level 1: The preferred inputs to valuation efforts are "quoted prices in active markets for identical assets or liabilities," with the caveat that the reporting entity must have access to that market. Information at this level is based on direct observations of transactions involving the same assets and liabilities, not assumptions, and thus offers superior reliability. However, relatively few items, especially physical assets, actually trade in active markets.

Level 2: FASB acknowledged that active markets for identical assets and liabilities are relatively uncommon and, even when they do exist, they may be too thin to provide reliable information. To deal with this shortage of direct data, the board provided a second level of inputs that can be applied in three situations.

Level 3: If inputs from levels 1 and 2 are not available, FASB acknowledges that fair value measures of many assets and liabilities are less precise. The board describes Level 3 inputs as "unobservable," and limits their use by saying they "shall be used to measure fair value to the extent that observable inputs are not available." This category allows "for situations in which there is little, if any, market activity for the asset or liability at the measurement date". Earlier in the standard, FASB explains that "observable inputs" are gathered from sources other than the reporting company and that they are expected to reflect assumptions made by market participants.

Inventories

Materials and supplies are valued at weighted-average cost and are reviewed periodically for obsolescence. Finished goods include oil and natural gas products, which are valued at the lower of cost or market.

Oil and Natural Gas Properties

The Company accounts for our oil and gas exploration and development costs using the successful efforts method. Exploratory well costs are capitalized pending further evaluation of whether economically recoverable reserves have been found.

If economically recoverable reserves are not found, exploratory well costs are expensed as dry holes. All exploratory wells are evaluated for economic viability within one year of well completion, and the related capitalized costs are reviewed quarterly. Exploratory wells that discover potentially economic reserves in areas where a major capital expenditure would be required before production could begin and where the economic viability of that major capital expenditure depends upon the successful completion of further exploratory work in the area remain capitalized if the well finds a sufficient quantity of reserves to justify its completion as a producing well and the Company is making sufficient progress assessing the reserves and the economic and operating viability of the project.

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Oil and Natural Gas Properties (continued)

The costs of development wells are capitalized whether productive or nonproductive. We review our oil and natural gas producing properties for impairment on a field-by-field basis whenever events or changes in circumstances indicate that the carrying amount of such properties may not be recoverable. If the sum of the expected undiscounted future cash flows from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment charge is recorded based on the fair value of the asset. This may occur if a field contains lower than anticipated reserves or if commodity prices fall below a level that significantly effects anticipated future cash flows on the field. The fair value measurement used in the impairment test is generally calculated with a discounted cash flow model using several Level 3 inputs which are based upon estimates, the most significant of which is the estimate of net proved reserves. There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond our control. Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. The quantities of oil and natural gas that are ultimately recovered, production and operating costs, the amount and timing of future development expenditures and future oil and natural gas sales prices may all differ from those assumed in these estimates.

Property, Plant and Equipment

The Company records all property and equipment at cost less accumulated depreciation. Improvements are capitalized while repairs and maintenance costs are expensed as incurred. Depreciation is calculated on a straight-line basis over estimated useful lives ranging from 5 to 30 years for buildings and improvements and 3 to 10 years for machinery and equipment. Leasehold improvements include the cost of the Company's internal development and construction department. The Company capitalizes the costs associated with the development of the Company's website pursuant to ASC Topic 350.

Stock-based compensation

The Company records stock based compensation in accordance with the guidance in ASC Topic 505 and 718 which requires the Company to recognize expenses related to the fair value of its employee stock option awards. This eliminates accounting for share-based compensation transactions using the intrinsic value and requires instead that such transactions be accounted for using a fair-value-based method. The Company recognizes the cost of all share-based awards on a graded vesting basis over the vesting period of the award.

The Company accounts for equity instruments issued in exchange for the receipt of goods or services from other than employees in accordance with FASB ASC 718-10 and the conclusions reached by the FASB ASC 505-50. Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably measurable. The value of equity instruments issued for consideration other than employee services is determined on the earliest of a performance commitment or completion of performance by the provider of goods or services as defined by FASB ASC 505-50.

Earnings per share

The Company follows ASC Topic 260 to account for the earnings per share. Basic earnings per common share ("EPS") calculations are determined by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share calculations are determined by dividing net income by the weighted average number of common shares and dilutive common share equivalents outstanding. During periods when common stock equivalents, if any, are anti-dilutive they are not considered in the computation.

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents.

Concentrations of credit risk

Financial instruments that subject the Company to credit risk could consist of cash balances maintained in excess of federal depository insurance limits. The Company maintains its cash and cash equivalent balances with high credit quality financial institutions. At times, cash and cash equivalent balances may be in excess of Federal Deposit Insurance Corporation limits. To date, the Company has not experienced any such losses.

Restricted cash

Restricted cash consisted of a blanket bond totaling $200,000. Bonds are required to meet financial bonding requirements in the state of California. The blanket bond, which will cover 50 wells, was purchased in August 2015 following the acquisition of the Kern Bluff Oil Field.

Debt discount

The Company records debt discount as a contra liability account and is presented net of the associated note payable. The discount is amortized over the life on the note payable using the straight line method because the straight line method approximates the effective interest method.

Revenue Recognition

Sales of oil are recognized when the product has been delivered to a custody transfer point, persuasive evidence of a sales arrangement exists, the rights and responsibility of ownership pass to the purchaser upon delivery, collection of revenue from the sale is reasonably assured, and the sales price is fixed or determinable. We sold to two purchasers during 2017 and one purchaser represents 100% of the Company's accounts receivable at December 31, 2017.

Asset Retirement Obligation

The Company's asset retirement obligations (AROs) relate to future costs associated with plugging and abandonment of oil wells, removal of equipment and facilities from leased acreage and returning such land to its original condition. The fair value of a liability for an ARO is recorded in the period in which it is incurred (typically when the asset is installed at the production location), and the cost of such liability increases the carrying amount of the related long-lived asset by the same amount. The liability is accreted each period through charges to depreciation, depletion and amortization expense, and the capitalized cost is depleted on a units-of-production basis over the proved developed reserves of the related asset. Revisions to estimated AROs result in adjustments to the related capitalized asset and corresponding liability.

Revenue & Expense Recognition

The Company utilizes accrual basis of accounting when measuring financial position and operating results. The accrual basis recognizes revenues and expenses in the accounting period in which those transactions, events, or circumstances occur (goods or services are received) and become measurable.

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Revenue & Expense Recognition (continued)

The Company recognizes its expenses when the expenses are incurred, not necessarily when they are paid. Expenses are generally incurred when the company receives tangible goods or services are provided.

Lease operating expense

Operating expenses include field operating expenses, transportation expenses, compression charges, and an allocation of overhead that directly relates to production activities.

Depreciation, Depletion and Amortization

The provision for DD&A-oil and natural gas production is calculated on a field-by-field basis using the unit-of-production method. Projected future production rates, the timing of future capital expenditures as well as changes in commodity prices, may significantly impact estimated reserve quantities. Depreciation, depletion and amortization —oil and natural gas production is dependent upon our estimates of total proved and proved developed reserves, which estimates incorporate various assumptions and future projections. These estimates are subject to change as additional information and technologies become available. Accordingly, oil and natural gas quantities ultimately recovered and the timing of production may be substantially different than projected. Reduction in reserve estimates may result in increased depreciation, depletion and amortization oil and natural gas production, which in turn reduces net earnings. Changes in reserve estimates are applied on a prospective basis. Such a decline in reserves may result from lower commodity prices, which may make it uneconomic to drill for and produce higher costs fields.

Income taxes

The Company follows ASC Topic 740 for recording the provision for income taxes. Deferred tax assets and liabilities are computed based upon the difference between the consolidated financial statements and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability each period.

If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change.

Deferred income taxes may arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. Deferred taxes are classified as current or non-current, depending on the classification of assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse. The net operating loss carryforward for the year ended December 31, 2017 is $9,183,185 and the deferred tax asset is $2,979,000. The Company maintains a full valuation allowance for the deferred tax asset of $2,979,000.

The Company applies a more-likely-than-not recognition threshold for all tax uncertainties. ASC Topic 740 only allows the recognition of those tax benefits that have a greater than fifty percent likelihood of being sustained upon examination by the taxing authorities. As of December 31, 2017 and 2016, the Company reviewed its tax positions and determined there were no outstanding, or retroactive

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Income taxes (continued)

tax positions with less than a 50% likelihood of being sustained upon examination by the taxing authorities, therefore this standard has not had a material effect on the Company.

The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

The Company classifies tax-related penalties and net interest as income tax expense. As of December 31, 2017 and 2016, no income tax expense has been recorded.

Long-lived Assets

In accordance with the Financial Accounting Standards Board ("FASB") Accounts Standard Codification (ASC) ASC 360-10, "Property, Plant and Equipment," the carrying value of intangible assets and other long-lived assets is reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment. Proved oil properties are reviewed for impairment on a field-by-field basis, annually or when events and circumstances indicate a possible decline in the recoverability of the carrying amount of such property. The Company estimates the expected future cash flows of its oil properties and compares these undiscounted cash flows to the carrying amount of the oil properties to determine if the carrying amount is recoverable. If the carrying amount exceeds the estimated undiscounted future cash flows, the Company will write down the carrying amount of the oil properties to fair value.

The factors used to determine fair value include, but are not limited to, estimates of reserves, future commodity prices, future production estimates, estimated future capital expenditures, and discount rates commensurate with the risk associated with realizing the projected cash flows.

Unproved oil and natural gas properties are periodically assessed for impairment on a project-by-project basis. The impairment assessment is affected by the results of exploration activities, commodity price outlooks, planned future sales or expiration of all or a portion of such projects. If the quantity of potential reserves determined by such evaluations is not sufficient to fully recover the cost invested in each project, the Company will recognize an impairment loss at that time.

Leases

The Company had two types of leases. A capital lease for the financing of vehicles. An operational lease on its steam generator, in which the Company had previously purchased the generator and then sold the generator with an agreement to lease the equipment. Thus, this meets the definition of a sales lease-back arrangement. Since there was no gain or loss from the sale, there is no affect in the income statement.

Recent pronouncements

The Company has evaluated the recent accounting pronouncements ASU 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash*", ASU No. 2016-09, "*Compensation – Stock Compensation (Topic 718), ASU 2014-15, "Presentation of Financial Statements-Going Concern (Subtopic 205-40),* ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*". The Company evaluated between full retrospective and modified retrospective treatment. The Company decided to use modified retrospective in applying Topic 606. Through April 2018, the Company believes that the accounting pronouncement will not have a material effect on the Company's consolidated financial statements.

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the recoverability of assets and the satisfaction of liabilities in the normal course of business. As noted above, the Company is in the exploration stage and, accordingly, has not yet generated significant revenues from operations. Since its inception, the Company has been engaged substantially in financing activities and developing its business plan and incurring startup costs and expenses. As a result, the Company incurred a net loss for period ended December 31, 2017 of $1,753,344. In addition, the Company's exploration activities since inception have been financially sustained through debt and equity financing. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

The ability of the Company to continue as a going concern is dependent upon its ability to raise additional capital from the sale of common stock and, ultimately, the achievement of significant operating revenues. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty.

Note 3 – Prepaid Expenses

As of December 31, 2017 and 2016, the Company had prepaid insurance totaling $29,280 and $33,436 respectively. The prepaid insurance will be expensed on a straight line basis over the remaining life of the insurance policies. During the years ended December 31, 2017 and 2016, the Company recorded $69,971 and $87,788 of insurance expenses. As of December 31, 2017 and 2016, the Company had a prepaid deposit of $5,000 and $5,000 respectively for leased office space.

Note 4 – Commitments and Contingencies

Operating Leases

The Company leases field equipment under a non-cancelable lease arrangement expiring on November 1, 2018. At December 31, 2017, the aggregate future minimum lease payments under this non-cancelable lease agreement are $78,400.

Legal Proceedings

Various lawsuits, claims and other contingencies arise in the ordinary course of the Company's business activities. While the ultimate outcome of the aforementioned contingencies are not determinable at this time, management believes that any liability or loss resulting therefrom will not materially affect the financial position, results of operations or cash flows of the Company.

The Company, as an owner or lessee and operator of oil and gas properties, is subject to various federal state and local laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the lessee under an oil and gas lease for the cost of pollution cleanup resulting from operations and subject the lessee to liability for pollution damages. In some instances, the Company may be directed to suspend or cease operations in the affected areas. The Company maintains insurance coverage that is customary in the industry, although the Company is not fully insured against all environmental risks.

The Company is not aware of any environmental claims existing as of December 31, 2017. There can be no assurance, however, that the current regulatory requirements will not change, or past non-compliance with environmental issues will not be discovered on the Company's oil and gas properties.

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Oil and Gas Properties, Buildings, and Equipment

Oil and natural gas properties consist of the following:

	2017	2016
Oil and Natural Gas:		
Proved properties	$3,468,306	$3,751,401
Unproved properties	1,170,000	1,170,000
Facilities	2,244,716	1,443,060
	6,883,022	6,364,461
Less oil property impairment	(562,030)	(140,606)
Less accumulated depreciation, depletion, and amortization	(132,906)	(14,309)
	$6,188,086	$6,209,546

During the year ended December 31, 2017, the Company spent $981,662 to continue to develop the Kern Bluff field and associated facilities.

As an annual process, Citadel reviewed the field to determine if asset impairment is required. If the carrying amount of the asset exceeds the sum of the undiscounted estimated future net cash flows, the Company will recognize impairment expense equal to the difference between the carrying value and the fair value of the asset, which is estimated to be the expected present value of discounted future net cash flows from proved reserves, utilizing a 10% rate of return. This process includes a projection of future oil and natural gas reserves that will be produced from a field, the timing of this future production, future costs to produce the oil and natural gas, and future inflation levels. Citadel cannot predict the amount of impairment charges that may be recorded in the future. During the year ended December 31, 2016, the Company reduced the asset value by $140,606 as a result of low oil prices. During the year ended December 31, 2017, the Company reduced the asset value by $427,353 as a result of low oil prices.

<u>Kern Bluff Oil Field</u>

The Kern Bluff Oil Field is comprised of approximately 1,100 acres. The field currently has 15 producing wells and an additional 20 idle well bores.

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 – Income Taxes

The (benefit) provision for income taxes from continuing operations consists of the following (in thousands):

	Year Ended December 31,	
	2017	2016
Current:		
Federal	$ —	$ —
State	2	8
	2	8
Deferred:		
Federal	—	—
State	—	—
	—	—
Total	$ 2	$ 8

The components of the net deferred income tax liabilities consist of the following:

	Year Ended December 31,	
	2017	2016
Deferred income tax assets:		
Equity and deferred compensation	239	272
Net operating loss	1,918	2,728
State net operating loss carry forward	808	689
Other, net	—	—
Total deferred tax assets	2,965	3,689
Valuation allowance	(2,907)	(3,628)
	58	61
Deferred income tax liabilities:		
Depreciation and depletion	(58)	(61)
Net deferred income tax liabilities	$—	$—

As of the year ended December 31, 2017, the Company does not have any uncertain tax positions. As of December 31, 2017, we had approximately $9,183,000 in net operating loss carryforwards for each federal and state income tax purposes. The net operating loss carryforward will begin to expire in 20 years if left unused. In assessing the realizability of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management has concluded that there is no assurance that the company will have taxable income in the future; therefore 100% of the deferred income tax assets is not recognized.

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 – Income Taxes (continued)

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the “Act”) which made significant changes to the Internal Revenue Code of 1986, including lowering the maximum federal corporate income tax rate from 35 percent to 21 percent, repealing the corporate alternative minimum tax (AMT), and imposing limitations on the use of net operating losses arising in taxable years beginning after December 31, 2017. Although most of the provisions of the Act are not effective until tax years ending after December 31, 2017, the effects of new legislation are recognized upon enactment in accordance with GAAP. As a result, recognition of the tax effects of the Act is required in the consolidated financial statements for the fiscal year ended December 31, 2017. In accordance with this Act, the Company has calculated its deferred tax asset at December 31, 2017 using the newly enacted corporate tax rate of 21%.

We consider the scheduled reversal of deferred tax assets, the level of historical taxable income and tax planning strategies in making the assessment of the realizability of deferred tax assets. We have identified the U.S. federal and California as our "major" tax jurisdiction. With limited exceptions, we remain subject to IRS examination of our income tax returns filed within the last three (3) years, and to California Franchise Tax Board examination of our income tax returns filed within the last four (4) years.

Note 7 – Equipment

Equipment as of December 31, 2017 and 2016 are as follows:

	2017	2016
Vehicles	$83,578	$46,072
Website	1,375	1,375
Furniture	10,000	10,000
Computer Equipment	10,380	8,165
Less: Accumulated depreciation	(22,364)	(47,083)
	$82,969	$18,530

Two vehicles were purchased during the year ended December 31, 2017 totaling $73,292. Of this amount, $67,078 was financed and $6,214 was paid in cash. Depreciation expense for the years ended December 31, 2017 and 2016, respectively, was $8,854 and $7,831.

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 – Notes Payable

Notes payable consists of the following:

	December 31, 2017	December 31, 2016
Note payable to an entity for the financing of insurance premiums, unsecured; 7.75% interest, due March 2018	$14,548	$26,880
Note payable to an entity for the financing of a company vehicle, secured; 4.95% interest, due October 2022	32,351	—
Note payable to an entity for the financing of a company vehicle, secured; 4.95% interest, due November 2022	33,052	—
Two notes payable to investors, unsecured, 10% interest; due March 31, 2017	500,000	500,000
Notes Payable – Total	$579,951	$526,880

During the 2017 period, the Company received proceeds of $605,000 in the form of a note payable. Repayments of notes for year ended December 31, 2017 and 2016, respectively, was $566,927 and $66,891. Interest expense for the year ended December 31, 2017 was $79,481 and relates to notes payable and insurance financing. In 2017, a note of $52,920 was used to finance insurance for the year.

The Company entered into a drilling Joint Venture agreement with investors to drill two exploration wells. The $700,000 drilling liability has an 18% rate of return due to the investor and as such, the Company has booked a debt discount of $126,000 and will be amortized over the next 18 months. The term is an estimate based on when management expects this liability to be fully settled.

Interest expense for the year ended December 31, 2016 was $572,025. Of that amount $566,273 relates to preferred stock, notes payable and insurance financing and $5,751 is amortization of debt discount. In 2016, a note of $68,736 was used to finance insurance for the year. The two notes totaling $500,000 matured in 2017 and are in default as of December 31, 2017. In 2018, due to the refinancing disclosed in the subsequent events, the default status has been rectified.

Note 9 – Production Payment Liability

In December 2014, the Company entered into a financing agreement with two related party entities. The Company received $300,000 in total from both entities to fund costs of the Yowlumne 2-26 well recompletion. In return for the funds received, the two entities will receive a combined 75% of the net revenue from the well until the $300,000 is repaid. At the time of repayment, the entities will own a total 3% overriding royalty on the well. This liability is completely dependent on the well generating revenue.

If the well fails to generate enough revenue to repay the $300,000, Citadel is not responsible for the unpaid amount. According to ASC 932-470-25 Section B, Funds advanced to an operator that are repayable in cash out of the proceeds from a specified share of future production of a producing property, until the amount advanced $300,000 is paid in full, shall be accounted for as a borrowing. The advance is a payable for the recipient of the cash invested. Given the well is not currently on production coupled with the high cost of water disposal, we believe it will take more than two years for payback to occur; therefore this has been classified as a long-term payable.

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 – Asset Retirement Obligations (AROs)

The Company's ARO relates to future costs associated with the plugging and abandonment of oil and natural gas wells, removal of equipment facilities from leased acreage and land restoration in accordance with applicable local, state and federal laws. The discounted fair value of an ARO liability is required to be recognized in the period in which it is incurred, with the associated asset retirement cost capitalized as part of the carrying cost of the oil and natural gas asset. In periods subsequent to the initial measurement of the ARO, the Company must recognize period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The increases in the ARO liability due to the passage of time impact net earnings as accretion expense. The related capital cost, including revisions thereto, is charged to expense through depreciation, depletion and amortization of oil and natural gas production over the life of the oil and natural gas field.

The following table summarizes the activity for the Company's abandonment obligations:

	Year Ended December 31,	
	2017	2016
Beginning balance at January 1	$217,212	$198,279
Liabilities incurred from property acquisition	—	12,264
Accretion expense	7,168	6,669
Ending balance at December 31	$224,380	$217,212

Note 11 – Stockholders' Equity

The Company is authorized to issue 300,000,000 shares of its $0.001 par value common stock.

In March of 2016, the Company approved the sale of up to 500,000 shares of Series A Convertible Participating Preferred Stock. The following are terms of the Series A Convertible Participating Preferred Stock:

1. Series A – Senior to Common Stock

2.

Three-Year Term – Series a Convertible at any time at the holder's discretion, during the three year-term. Issuer, Citadel Exploration, Inc., can only force convert Series A, if the company's common stock trades at $1.00 or more for 90 consecutive days.

3. Convertible into Citadel Exploration, Inc. common stock at a term of 1 share of preferred par value $20.00 to 100 shares of Common Stock par value $0.001 – implied conversion rate of $0.20 per share.
4. 10% Coupon, $2.00 per share, paid in semi-annual installments at $1.00 per share and payable in cash or payment in kind of additional Series A Convertible Participating Preferred Stock during first year.
5. 2% Over Riding Royalty Interest (ORRI) on the Kern Bluff Oil Field until conversion into common stock. Upon conversion, ORRI will be reduced to 1% in perpetuity.
6. Royalty to be paid on a quarterly basis, starting at 90 days after the close of the offering.
7. There is no redemption right by the company or the shares holders

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 – Stockholders’ Equity (continued)

The Company sold 175,000 shares of Series A Convertible Participating Preferred Stock to convert its $3,500,000 related party note payable to preferred stock. In addition, the Company has sold 21,250 shares of Series A Convertible Participating Preferred Stock for cash in the amount of $425,000 through March 31, 2016.

A 2% overriding royalty interest was issued in conjunction with the Series A Convertible Participating Preferred Stock. That value of $442,136 reduces the Company’s proved property valuation.

In June of 2016, the Company sold 50,000 shares of Series A Convertible Participating Preferred Stock for cash in the amount of $1,000,000.

In September of 2016, the Company sold 26,500 shares of Series A Convertible Participating Preferred Stock for cash in the amount of $530,000. The Company issued 500,000 shares of common stock for cash in the amount of $100,000.

In October of 2016, the Company sold 10,350 shares of Series A Convertible Participating Preferred Stock for cash in the amount of $207,000.

In November of 2016, the Company sold 29,330 shares of Series A Convertible Participating Preferred Stock for cash in the amount of $586,600.

In December of 2016, the Company sold 13,300 shares of Series A Convertible Participating Preferred Stock for cash in the amount of $266,000.

As detailed above in the related 2016 issuances, the Company issued 330,365 shares of Series A Convertible Participating Preferred stock to settle the 2016 preferred stock payable in the amount of 6,607,300.

In March of 2017, the Company sold 10,000 shares of Series A Convertible Participating Preferred Stock payable in cash in the amount of $200,000.

In March of 2017, the Company issued 2,034,002 common shares as a special dividend to Series A Preferred Shareholders to settle accrued interest on preferred stock during the 2016 offering period of the Series A totaling $244,080. A gain occurred on the issuance which totaled $50,122.

In June of 2017, the Company sold 13,750 shares of Series A Convertible Participating Preferred Stock payable in cash in the amount of $275,000.

In September of 2017, the Company sold 22,500 shares of Series A Convertible Participating Preferred Stock payable in cash in the amount of $450,000.

In October of 2017, the Company issued 5,250 shares of Series A Convertible Participating Preferred Stock as payment to settle note payable in the amount of $105,000.

In December of 2017, the Company sold 12,500 shares of Series A Convertible Participating Preferred Stock payable in cash in the amount of $250,000.

In December of 2017, the Company issued 3,101,736 shares of common stock as payment for dividend on the Series A Preferred Stock during 2017 totaling $3,102.

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – Stock Option Plan

On July 29, 2015 as approved by the Board of Directors, the Company granted 4,700,000 stock options to three members of management and to three members of the Board of Directors. These options vest over a three year period, at $0.15 per share for a term of seven years. The total fair value of these options at the date of grant was estimated to be $376,490 and was determined using the Black Scholes option pricing model with an expected life of 7 years, risk free interest rate of 1.872%, dividend yield of 0%, and expected volatility of 333%. During the year ended December 31, 2015, $152,198 was recorded as a stock based compensation expense.

The following is a summary of the status of all of the Company's stock options as of December 31, 2017 and changes during the period ended on that date:

	Number of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Life (Years)
Outstanding at January 1, 2016	9,500,000	$ 0.20	$—	5.26
Exercisable at January 1, 2016	7,902,000	$ 0.20	$—	4.00
Granted		$ 0.00	$—	—
Exercised	—	$ 0.00	$—	—
Cancelled	—	$ 0.00	$—	—
Outstanding at December 31, 2016	9,500,000	$ 0.20	$—	5.26
Exercisable at December 31, 2016	7,902,000	$ 0.20	$—	4.00
Granted		$ 0.00	$—	
Exercised	—	$ 0.00	$—	—
Cancelled	—	$ 0.00	$—	—
Outstanding at December 31, 2017	9,500,000	$ 0.20	$—	4.30
Exercisable at December 31, 2017	9,500,000	$ 0.20	$235,000	3.26

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 – Warrants

In March 2014, the Company closed on a $500,000 180-day bridge loan with two investors. The loans bear interest of 10%. Additionally, the investors were granted a total of 500,000 stock warrants to purchase stock at $1.00 per share for a period of two years valued at $147,102. The total fair value of these warrant at the date of grant was determined using the Black-Scholes option pricing model with an expected life of 2 years, a risk free interest rate of 0.45%, a dividend yield of 0% and expected volatility of 333%. In September of 2014, the maturity date of this bridge loan was extended by 30 days; in return the exercise price of the warrant was reduced to $0.34 per share, with the original two year term remaining. Due to the change in the terms of the warrants, the Company recalculated the value of the warrants to be $85,325. Accordingly, the Company recognized a gain on the extinguishment of $73,573. In December of 2015, the maturity date of this bridge loan was extended until September 30, 2016, in return the exercise price of the warrant was reduced to $0.20 and the term of the warrants also extended to until September 30, 2016. At September 30, 2016, the maturity date was further extended to March 31, 2017. The exercise price of the warrant did not change during the extension to March 31, 2016. The warrants have expired as of period ended March 31, 2017.

The following is a summary of the status of all of the Company's stock warrants as of December 31, 2017 and changes during the period ended on that date:

	Number of Warrants	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)
Outstanding at January 1, 2016	500,000	$ 0.20	0.75
Granted	—	$ 0.00	—
Exercised	—	$ 0.00	—
Cancelled	—	$ 0.00	—
Outstanding at December 31, 2016	500,000	$ 0.20	0.25
Exercisable at December 31, 2016	500,000	$ 0.20	0.25
Granted	—	$ 0.00	—
Exercised	—	$ 0.00	—
Cancelled	—	$ 0.00	—
Forfeited	500,000	$ 0.20	0.00
Outstanding at December 31, 2017	—	$ 0.00	0.00
Exercisable at December 31, 2017	—	$ 0.00	0.00

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 – Related Party Transactions

In December 2014, the Company entered into an agreement with Jim Walesa and Cibolo Creek Partners to fund $300,000 towards the Yowlumne #2-26 recompletion. In this agreement Mr. Walesa and Cibolo Creek will receive 75% of the net revenue after expenses, until they have received $300,000 in payment. Upon full repayment, Mr. Walesa and Cibolo Creek will receive a 3% royalty on the well. Mr. Walesa is currently on the Board of Directors of Citadel and a member of Cibolo Creek Partners.

During the year ended December 31, 2017 and December 31, 2016, Jim Walesa and Cibolo Creek Partners invested a total of $3,700,000 and $630,000 into the Company's Series A Preferred Shares. During 2017, the Company has issued Jim Walesa and Cibolo Creek Partners a total of 2,413,867 shares in common stock.

During the year ended December 31, 2017 and December 31, 2016, the Company made the following purchases in the amount of $71,328 and $227,903, respectively, from an entity considered a related party for oil field equipment and services from Grey Energy. Grey Energy is owned by James Borgna, who is a member of our Board of Directors.

Note 15 – Subsequent Events

In February of 2018, we sold an additional 1,250 shares of Series A Preferred Stock for cash proceeds of $25,000.

In February of 2018, we issued 550,262 shares of our common stock to vendors for services in 2017, including accounting and oil field work.

In March of 2017, we closed on a $3,000,000 Senior Secured Debt Facility, which is secured by a Deed of Trust on the Kern Bluff Oil Field, with a Tranche A closing of $1,750,000. The facility has a one-year term, bears 10% interest and includes one five-year warrant at $0.10 per share for every $2.00 drawn. As such we issued 875,000 warrants reflecting the Tranche A draw. Future draws are at the discretion of the lender.

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 - Supplemental Information about Oil & Natural Gas Producing Activities (Unaudited)

The Company's oil and natural gas reserves are attributable solely to properties within the United States.

Capitalized Costs

	December 31,	
	2017	2016
Oil and natural gas properties:	(in thousands)	
Proved properties	$3,513	$3,751
Unproved properties	1,170	1,170
Facilities	2,200	1,443
Total oil and natural gas properties	6,883	6,364
Less oil property impairment	(562)	(141)
Less accumulated depreciation, depletion and amortization	(133)	(14)
Net oil and natural gas properties capitalized	$6,188	$6,209

Costs Incurred for Oil and Natural Gas Producing Activities

	Year Ended December 31,		
	2017	2016	2015
Acquisition costs:	(in thousands)		
Proved properties	$—	$—	$1,200
Unproved properties	—	—	1,170
Development costs	344	2,171	944
Total	$344	$2,171	$3,314

Reserve Quantity Information

The following information represents estimates of the Company's proved reserves as of December 31, 2017, which have been prepared and presented under SEC rules. These rules require SEC reporting companies to prepare their reserve estimates using specified reserve definitions and pricing based on a 12-month unweighted average of the first-day-of-the-month pricing. The pricing that was used for estimates of the Company's reserves as of December 31, 2017 was based on an unweighted average 12-month average WTI posted price per Bbl for oil as set forth in the following table:

	Year Ended December 31,		
	2017	2016	2015
Oil (per Bbl)	$45.94	$35.53	$44.62

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 - Supplemental Information about Oil & Natural Gas Producing Activities (Unaudited)(continued)

Subject to limited exceptions, proved undeveloped reserves may only be booked if they relate to wells scheduled to be drilled within five years of the date of booking. This requirement has limited, and may continue to limit, the Company's potential to record additional proved undeveloped reserves as it pursues its drilling program. Moreover, the Company may be required to write down its proved undeveloped reserves if it does not drill on those reserves within the required five-year timeframe. The Company does not have any proved undeveloped reserves which have remained undeveloped for five years or more.

The Company's proved oil reserves are located in the United States in the San Joaquin Valley of California. Proved reserves were estimated in accordance with the guidelines established by the SEC and the FASB.

Oil reserve quantity estimates are subject to numerous uncertainties inherent in the estimation of quantities of proved reserves and in the projection of future rates of production and the timing of development expenditures. The accuracy of such estimates is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of subsequent drilling, testing and production may cause either upward or downward revision of previous estimates.

Further, the volumes considered to be commercially recoverable fluctuate with changes in prices and operating costs. The Company emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of currently producing oil and natural gas properties. Accordingly, these estimates are expected to change as additional information becomes available in the future.

The following table provides a roll forward of the total proved reserves for the years ended December 31, 2017, 2016, and 2015, as well as proved developed and proved undeveloped reserves at the beginning and end of each respective year:

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 - Supplemental Information about Oil & Natural Gas Producing Activities (Unaudited)(continued)

	Year Ended December 31, 2017		
	Crude Oil (Bbls)	Natural Gas (Mcf)	Boe
	(in thousands)		
Proved Developed and Undeveloped Reserves:			
Beginning of the year	1,160	—	1,160
Extensions and discoveries	—	—	—
Revisions of previous estimates	78	—	78
Purchases of reserves in place		—	
Divestures of reserves in place	—	—	—
Production	(4)	—	(4)
End of the year	1,234	—	1,234
Proved Developed Reserves:			
Beginning of the year	240	—	240
End of the year	281	—	281
Proved Undeveloped Reserves:			
Beginning of the year	920	—	920
End of the year	952	—	952

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 - Supplemental Information about Oil & Natural Gas Producing Activities (Unaudited)(continued)

	Year Ended December 31, 2016		
	Crude Oil (Bbls)	Natural Gas (Mcf)	Boe
	(in thousands)		
Proved Developed and Undeveloped Reserves:			
Beginning of the year	1,414	—	1,414
Extensions and discoveries	—	—	—
Revisions of previous estimates	(251)	—	(251)
Purchases of reserves in place		—	
Divestures of reserves in place	—	—	—
Production	(3)	—	(3)
End of the year	1,160	—	1,160
Proved Developed Reserves:			
Beginning of the year	358	—	358
End of the year	240	—	240
Proved Undeveloped Reserves:			
Beginning of the year	1,056	—	1,056
End of the year	920	—	920

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 - Supplemental Information about Oil & Natural Gas Producing Activities (Unaudited)(continued)

	Year Ended December 31, 2015		
	Crude Oil (Bbls)	Natural Gas (Mcf)	Boe
	(in thousands)		
Proved Developed and Undeveloped Reserves:			
Beginning of the year	—	—	—
Extensions and discoveries	—	—	—
Revisions of previous estimates	—	—	—
Purchases of reserves in place	1,418	—	1,418
Divestures of reserves in place	—	—	—
Production	(4)	—	(4)
End of the year	1,414	—	1,414
Proved Developed Reserves:			
Beginning of the year	—	—	—
End of the year	358	—	358
Proved Undeveloped Reserves:			
Beginning of the year	—	—	—
End of the year	1,056	—	1,056

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 - Supplemental Information about Oil & Natural Gas Producing Activities (Unaudited)(continued)

Standardized Measure of Discounted Future Net Cash Flows

The standardized measure of discounted future net cash flows does not purport to be, nor should it be interpreted to present, the fair value of the oil and natural gas reserves of the property. An estimate of fair value would take into account, among other things, the recovery of reserves not presently classified as proved, the value of unproved properties, and consideration of expected future economic and operating conditions.

The estimates of future cash flows and future production and development costs as of December 31, 2017, 2016, and 2015 are based on the unweighted arithmetic average first-day-of-the-month price for the preceding 12-month period. Estimated future production of proved reserves and estimated future production and development costs of proved reserves are based on current costs and economic conditions. All wellhead prices are held flat over the forecast period for all reserve categories. The estimated future net cash flows are then discounted at a rate of 10%.

The standardized measure of discounted future net cash flows relating to proved oil and natural gas reserves is as follows:

	December 31,		
	2017	2016	2015
	(in thousands)		
Future cash inflows	$56,674	$41,220	$63,111
Future development costs	(9,350)	(8,785)	(13,141)
Future production costs	(29,232)	(25,567)	(34,494)
Future income tax expenses	(1,521)	(860)	(2,974)
Future net cash flows	16,571	6,008	12,502
10% discount to reflect timing of cash flows	(6,871)	(2,927)	(5,395)
Standardized measure of discounted future net cash flows	$9,700	$3,081	$7,107

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CITADEL EXPLORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 - Supplemental Information about Oil & Natural Gas Producing Activities (Unaudited)(continued)

In the foregoing determination of future cash inflows, sales prices used for oil and natural gas for December 31, 2017, 2016, and 2015, were estimated using the average price during the 12-month period, determined as the unweighted arithmetic average of the first-day-of-the-month price for each month. Prices were adjusted by lease for quality, transportation fees and regional price differentials. Future costs of developing and producing the proved gas and oil reserves reported at the end of each year shown were based on costs determined at each such year-end, assuming the continuation of existing economic conditions. Future income tax expenses are computed by applying the appropriate year-end statutory income tax rates to the estimated future pre-tax net cash flows relating to proved oil and natural gas reserves, less the tax bases of the properties involved. The future income tax expenses give effect to income tax deductions, credits, NOL's and allowances relating to the proved oil and gas reserves. All cash flow amounts, including income taxes, are discounted at 10%.

It is not intended that the FASB's standardized measure of discounted future net cash flows represent the fair market value the Company's proved reserves. The Company cautions that the disclosures shown are based on estimates of proved reserve quantities and future production schedules which are inherently imprecise and subject to revision, and the 10% discount rate is arbitrary. In addition, costs and prices as of the measurement date are used in the determinations, and no value may be assigned to probable or possible reserves.

Changes in the standardized measure of discounted future net cash flows relating to proved oil and natural gas reserves are as follows:

	Year Ended December 31,		
	2017	**2016**	**2015**
	(in thousands)		
Standardized measure of discounted future net cash flows at the beginning of the year	$ 3,081	$7,107	$--
Sales of oil and natural gas, net of production costs	(66)	(5)	--
Purchase of minerals in place	--	--	7,107
Divestiture of minerals in place	--	--	--
Extensions and discoveries, net of future development costs	--	--	--
Previously estimated development costs incurred during the period	334	--	--
Net changes in prices and production costs	4,826	8,927	--
Changes in estimated future development costs	(324)	4,356	--
Revisions of previous quantity estimates	1,896	(21,886)	--
Accretion of discount	267	2,468	--
Net change in income taxes	(314)	2,114	--
Net changes in timing of production and other	--	--	--
Standardized measure of discounted future net cash flows at the end of the year	$ 9,700	$3,081	$7,107