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FORM 10-Q

Citadel Exploration, Inc. - COIL

Filed: May 13, 2013 (period: March 31, 2013)

Quarterly report with a continuing view of a company's financial position

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-54639



CITADEL EXPLORATION, INC.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

27-1550482
(I.R.S. Employer
Identification No.)

417 31st Street, Unit A
Newport Beach, California 92663
(Address of principal executive offices)

(949) 612-8040
(Registrant's telephone number, including area code)

Copies of Communications to:
Rutan & Tucker
611 Anton Blvd, 14th Floor Costa Mesa, CA 92626
(714) 641-3487
Fax (714) 546-9035

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Yes No

The number of shares of Common Stock, \$0.001 par value, outstanding on May 10, 2013 was 28,031,640 shares.

**CITADEL EXPLORATION, INC.
QUARTERLY PERIOD ENDED MARCH 31, 2013**

Index to Report on Form 10-Q

| | | <u>Page No.</u> |
|---------------------------------------|---|-----------------|
| PART I - FINANCIAL INFORMATION | | |
| Item 1. | Financial Statements | 3 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 11 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 15 |
| Item 4T. | Controls and Procedures | 15 |
| PART II - OTHER INFORMATION | | |
| Item 1. | Legal Proceedings | 15 |
| Item 1A. | Risk Factors | 16 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 16 |
| Item 3. | Defaults Upon Senior Securities | 16 |
| Item 4. | Mine Safety Disclosures | 16 |
| Item 5. | Other Information | 17 |
| Item 6. | Exhibits | 17 |
| | Signature | 18 |

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

**CITADEL EXPLORATION, INC. AND SUBSIDIARY
(AN EXPLORATION STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS
(Unaudited)**

| | March 31, 2013 | December 31, 2012 |
|--|---------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 1,305,478 | \$ 112,580 |
| Other receivable | 44,262 | 7,253 |
| Prepaid expenses | 58,900 | 9,283 |
| Total current assets | <u>1,408,640</u> | <u>129,116</u> |
| Deposits | 3,150 | - |
| Oil and gas properties | 186,574 | 159,833 |
| Fixed assets, net | 18,334 | 20,299 |
| Website, net | 535 | 649 |
| Total assets | <u>\$ 1,617,233</u> | <u>\$ 309,897</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Current liabilities: | | |
| Accounts payable | \$ 22,294 | \$ 22,438 |
| Accrued executive compensation | 130,638 | 80,000 |
| Accrued interest payable | 8,316 | 11,217 |
| Accrued interest payable - related party | - | 3,607 |
| Notes payable | 41,250 | 222,527 |
| Notes payable - related party | - | 34,990 |
| Total current liabilities | <u>202,498</u> | <u>374,779</u> |
| Total liabilities | <u>202,498</u> | <u>374,779</u> |
| Stockholders' equity (deficit): | | |
| Common stock, \$0.001 par value, 100,000,000 shares authorized, 28,031,640 and 22,613,000 shares issued and outstanding as of March 31, 2013 and December 31, 2012, respectively | 28,032 | 22,613 |
| Additional paid-in capital | 2,631,939 | 740,352 |
| Deficit accumulated during development stage | (1,245,236) | (827,847) |
| Total stockholders' equity (deficit) | <u>1,414,735</u> | <u>(64,882)</u> |
| Total liabilities and stockholders' equity (deficit) | <u>\$ 1,617,233</u> | <u>\$ 309,897</u> |

See Accompanying Notes to Consolidated Financial Statements.

CITADEL EXPLORATION, INC. AND SUBSIDIARY
(AN EXPLORATION STAGE COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | For the three months ended March 31, | | Inception (November 6, 2006) to March 31, |
|---|--|-------------------|---|
| | 2013 | 2012 | 2013 |
| | <u>2013</u> | <u>2012</u> | <u>2013</u> |
| Revenue | \$ - | \$ - | \$ - |
| Operating expenses: | | | |
| General and administrative | 55,283 | 17,716 | 251,795 |
| General and administrative - related party | - | 31,465 | 70,430 |
| Depreciation and amortization | 2,079 | 115 | 6,078 |
| Professional fees | 150,360 | 46,313 | 531,117 |
| Professional fees - related party | - | 30,000 | 60,000 |
| Executive compensation | 97,498 | - | 327,492 |
| Gain on sale of interest in oil & gas properties | - | (267,856) | (267,856) |
| Gain on settlement of accounts payable | - | (661) | (6,161) |
| Total operating (income) expenses | <u>305,220</u> | <u>(142,908)</u> | <u>972,895</u> |
| Other expenses: | | | |
| Interest expense | (112,021) | (1,364) | (259,466) |
| Interest expense - related party | (148) | (1,146) | (5,446) |
| Total other expenses | <u>(112,169)</u> | <u>(2,510)</u> | <u>(264,912)</u> |
| Net (loss) income before provision for income taxes | (417,389) | 140,398 | (1,237,807) |
| Provision for income taxes | - | - | 7,429 |
| Net (loss) income | <u>\$ (417,389)</u> | <u>\$ 140,398</u> | <u>\$ (1,245,236)</u> |
| Weighted average number of common shares outstanding - basic and diluted | <u>25,813,834</u> | <u>20,320,000</u> | |
| Net (loss) income per share - basic and diluted | <u>\$ (0.02)</u> | <u>\$ 0.01</u> | |

See Accompanying Notes to Consolidated Financial Statements.

CITADEL EXPLORATION, INC. AND SUBSIDIARY
(AN EXPLORATION STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | For the three months ended March 31, | | Inception (November 6, 2006) to March 31, 2013 |
|---|--|-------------------|---|
| | 2013 | 2012 | 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income (loss) | \$ (417,389) | \$ 140,398 | \$ (1,245,236) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | | |
| Depreciation and amortization | 2,079 | 115 | 6,078 |
| Amortization of prepaid stock compensation | - | 20,000 | 80,000 |
| Amortization of debt discount | 84,517 | - | 217,330 |
| Gain on sale of interest in oil & gas properties | - | (267,856) | (267,856) |
| Non cash interest expense | 22,500 | - | 22,500 |
| Gain on settlement of accounts payable | - | (661) | (6,161) |
| Stock based compensation expense | 37,498 | - | 187,492 |
| Shares issued for services | 116,000 | - | 164,430 |
| Changes in operating assets and liabilities: | | | |
| Increase in other receivables | (37,009) | - | (44,262) |
| Decrease (increase) in prepaid expenses | (8,367) | 8,503 | (17,650) |
| Increase (decrease) in accounts payable | (144) | (58,953) | 58,004 |
| (Increase) in deposits | (3,150) | - | (3,150) |
| Increase in accrued executive compensation | 50,638 | - | 130,638 |
| Increase (decrease) in accrued interest payable | (2,901) | 1,363 | 8,913 |
| Increase(decrease) in accrued interest payable - related party | (3,607) | 1,145 | (597) |
| Net cash used in operating activities | <u>(159,335)</u> | <u>(155,946)</u> | <u>(709,527)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase oil and gas properties | (26,741) | (20,999) | (268,718) |
| Proceeds from sale of interest in oil & gas properties | - | 350,000 | 350,000 |
| Purchase of website | - | - | (1,375) |
| Purchase of fixed assets | - | - | (23,572) |
| Net cash (used in) provided by investing activities | <u>(26,741)</u> | <u>329,001</u> | <u>56,335</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Member contributions | - | 980 | 105,523 |
| Member distribution | - | - | 10,000 |
| Proceeds from sale of common stock, net of costs | 1,410,711 | - | 1,540,711 |
| Proceeds from notes payable | - | - | 320,261 |
| Repayments for notes payable | 3,253 | - | (17,825) |
| Proceeds from notes payable - related party | - | 26,040 | 198,013 |
| Repayments for notes payable - related party | (34,990) | (95,000) | (198,013) |
| Net cash provided by (used in) financing activities | <u>1,378,974</u> | <u>(67,980)</u> | <u>1,958,670</u> |
| NET CHANGE IN CASH | 1,192,898 | 105,075 | 1,305,478 |
| CASH AT BEGINNING OF PERIOD | 112,580 | 1,245 | - |
| CASH AT END OF PERIOD | <u>\$ 1,305,478</u> | <u>\$ 106,320</u> | <u>\$ 1,305,478</u> |
| NON-CASH INVESTING AND FINANCING ACTIVITIES | | | |
| Liabilities assumed with the acquisition of Citadel Exploration, LLC | \$ - | \$ - | \$ 29,265 |
| Shares issued for prepaid stock compensation | \$ - | \$ - | \$ 80,000 |
| Financing of insurance | \$ 41,250 | \$ - | \$ 55,943 |
| Forgiveness of debt due to related party | \$ - | \$ - | \$ 50,953 |
| Issuance of common stock for settlement of notes payable | \$ 310,298 | \$ - | \$ 310,298 |

See Accompanying Notes to Consolidated Financial Statements.

CITADEL EXPLORATION, INC. AND SUBSIDIARY
(AN EXPLORATION STAGE COMPANY)
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The interim financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in US dollars, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these interim financial statements be read in conjunction with the financial statements of the Company for the year ended December 31, 2012 and notes thereto included in the Company's 10-K annual report and all amendments. The Company follows the same accounting policies in the preparation of interim reports.

Results of operations for the interim period are not indicative of annual results.

Principles of consolidation

For the three months ended March 31, 2013 and 2012, 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. The Company has not yet found oil and gas resources in commercially exploitable quantities and is engaged in exploring land in an effort to discover them. The Company has been in the exploration stage since its formation and has not realized revenues from its planned principal operations.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

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

Basic and Diluted Net Earnings (Loss) Per Share

The Company computes net income (loss) per share in accordance with ASC 260-10, which requires presentation of both basic and diluted earnings per share ("EPS") on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all potentially dilutive common shares outstanding during the period. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all potentially dilutive shares if their effect is anti-dilutive..

CITADEL EXPLORATION, INC. AND SUBSIDIARY
(AN EXPLORATION STAGE COMPANY)
Notes to Consolidated Financial Statements
(Unaudited)

Fair Value of Financial Instruments

The carrying value of the Company's financial instruments, including cash, due to shareholders/related parties and accounts and other payables approximate their fair values due to the immediate or short-term maturity of these instruments. It is management's opinion that the Company is not exposed to significant interest, price or credit risks arising from these financial instruments.

Recent pronouncements

The Company has evaluated the recent accounting pronouncements through April 2013 and believes that none of them will have a material effect on the Company's 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 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 accumulated net losses from Inception (November 6, 2006) through the period ended March 31, 2013 of (\$1,245,236). In addition, the Company's development activities since inception have been financially sustained through debt and equity financing.

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 – OIL AND GAS PROPERTIES

The costs capitalized in oil and gas properties as of March 31, 2013 and December 31, 2012 are as follows:

| | 2013 | 2012 |
|----------------------------|-------------------|-------------------|
| Oil and gas property lease | \$ 102,234 | \$ 57,830 |
| Exploration | 84,340 | 102,003 |
| | <u>\$ 186,574</u> | <u>\$ 159,833</u> |

On January 31, 2009, the Company entered into an oil, gas and mineral lease with an unrelated third party. The Company has the right to develop and operate the leased premises for an initial term of three years and the lease will continue as long as the Company continues actual drilling operations and continued development. The initial minimum lease payment of \$20,661 was made upon execution of the lease and the two remaining minimum lease payments were timely paid in 2010 and 2011, respectively. Additionally, the Company is obligated to pay royalties to the unrelated third party. On oil and gas from all wells on the leased premises, the royalty is a total of 20% of the market value. The royalty payments are due on or before the last day of each month for the preceding month's activity. If the royalty payment is not made timely, the Company will owe a 10% per annum interest on the royalties due.

On February 1, 2012, the Company renegotiated this oil, gas and mineral lease with an unrelated third party for an additional minimum term of two years. The minimum lease payment is \$20,640 per year. The terms of the renegotiated lease are substantially the same as the original lease disclosed above. On February 1, 2013, the Company paid \$20,640 to the mineral owner for this lease.

On February 22, 2012, the Company sold 40% of its interest in the property disclosed above in exchange for \$350,000. The Company recorded a gain on the sale of the partial interest totaling \$267,856.

CITADEL EXPLORATION, INC. AND SUBSIDIARY
(AN EXPLORATION STAGE COMPANY)
Notes to Consolidated Financial Statements
(Unaudited)

During the year ended December 31, 2012, the Company was owed \$9,301 of exploration costs from their joint venture partner \$2,048 was received during the year ended December 31, 2012 and the remaining balance is recorded as an Other receivable on the balance sheet. During the first quarter of 2013, an additional amount of \$22,534 was owed to the Company from the joint venture partner.

NOTE 4 – NOTES PAYABLE

Notes payable consists of the following at:

| | March 31, 2013 | December 31, 2012 |
|--|-------------------|-------------------|
| Note payable to an individual, line of credit to borrow up to \$100,000, unsecured, 10% interest, due upon demand | \$ - | \$ 55,498 |
| Note payable to an entity for the financing of insurance premiums, unsecured, 13.95% interest, due December 2013 | 41,250 | 1,746 |
| Note payable to an individual, personally guaranteed by shares of the Company which are owned by an officer, 12% interest, due on the earlier of February 2013 or the Company raising in excess of \$1,000,000 | - | 250,000 |
| Debt discount | - | (84,517) |
| | <u>\$ 41,250</u> | <u>\$ 222,527</u> |

NOTE 5 – NOTES PAYABLE – RELATED PARTY

Notes payable consists of the following at:

| | March 31, 2013 | December 31, 2012 |
|---|-------------------|-------------------|
| Note payable to an entity owned and controlled by an officer, director and shareholder, line of credit to borrow up to \$100,000, unsecured, 4% interest, due upon demand | \$ - | \$ 32,240 |
| Note payable to a director, unsecured, due upon demand, 0% interest | - | 2,750 |
| | <u>\$ -</u> | <u>\$ 34,990</u> |

The Company settled all notes payable during the three months ended March 31, 2013.

NOTE 6 – STOCKHOLDERS' EQUITY (DEFICIT)

The Company is authorized to issue 100,000,000 shares of its \$0.001 par value common stock.

In February 2013, the Company issued 4,186,000 shares of restricted common stock for cash consideration of \$1,423,490 or \$0.34 per share, less issuance cost of \$12,780.

In February 2013, the Company issued 912,640 shares of restricted common stock for the conversion of loans and interest in the amount of \$310,298. The fair value of the shares at the date of settlement was \$332,798, which resulted in the Company recording \$22,500 in additional interest expense.

In February 2013, the Company issued 320,000 shares of restricted common stock valued at \$116,000 to various parties for accounting, legal and marketing services.

CITADEL EXPLORATION, INC. AND SUBSIDIARY
(AN EXPLORATION STAGE COMPANY)
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 7 – STOCK OPTION PLAN

On September 1, 2012, the Board of Directors of the Company ratified, approved, and adopted a Stock Option Plan for the Company allowing for the grant of up to 10,000,000 shares of common stock or stock options to acquire common shares. In the event an optionee ceases to be employed by or to provide services to the Company for reasons other than cause, any Stock Option that is vested and held by such optionee may be exercisable within up to thirty days after the effective date that his position ceases. No Stock Option granted under the Stock Option Plan is transferable. Any Stock Option held by an optionee at the time of his death may be exercised by his estate within six months of his death or such longer period as the Board of Directors may determine.

As approved by the Board of Directors, on September 4, 2012, the Company granted 4,000,000 stock options to two officers of the Company at \$0.20 per share for terms of seven years. Of the total stock options, 1,000,000 vested immediately and the remaining vest equally over the next 3 years at the anniversary date of the employment agreements. The total fair value of these options at the date of grant was estimated to be \$599,974 and was determined using the Black-Scholes option pricing model with an expected life of 7 years, a risk free interest rate of 1.01%, a dividend yield of 0% and expected volatility of 254%. During three months ended March 31, 2013, \$37,498 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 March 31, 2013 and changes during the period ended on that date:

| | Number of Options | Weighted-Average Exercise Price | Weighted-Average Remaining Life (Years) |
|--------------------------------|----------------------|------------------------------------|--|
| Outstanding at January 1, 2013 | 4,000,000 | \$ 0.20 | 6.43 |
| Granted | - | \$ 0.00 | - |
| Exercised | - | \$ 0.00 | - |
| Cancelled | - | \$ 0.00 | - |
| Outstanding at March 31, 2013 | 4,000,000 | \$ 0.20 | 6.43 |
| Exercisable at March 31, 2013 | 1,000,000 | \$ 0.20 | 6.43 |

NOTE 8 – SUBSEQUENT EVENTS

On May 3, 2013, the Company executed an agreement with Sojitz Energy Ventures (Rancho Grande operator) for participation on two exploratory wells at Rancho Grande. Under terms of the agreement, the Company will pay 22.22% cost share for a 20% working interest. Drilling commenced on that date and management estimates the cost of these two wells will be approximately \$450,000 net to the Company's interest.

In May 2013, the Company entered into a one year lease for approximately 3,000 acres from AERA Energy, LLC. This acreage has been mapped using a combination of both 2D and 3D seismic, and is in close proximity to the Yowlumne oil field in Kern County, California.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements and involves risks and uncertainties that could materially affect expected results of operations, liquidity, cash flows, and business prospects. These statements include, among other things, statements regarding:

- o exploration risks such as drilling unsuccessful wells;
- o our ability to operate profitably;
- o our ability to efficiently and effectively finance our operations;
- o inability to achieve future sales levels or other operating results;
- o inability to raise additional financing for working capital;
- o inability to efficiently manage our operations;
- o inability to hire or retain sufficient qualified operating field personnel;
- o the inability of management to effectively implement our strategies and business plans;
- o the unavailability of funds for capital expenditures and/or general working capital;
- o deterioration in general or regional economic conditions;
- o the fact that our accounting policies and methods are fundamental to how we report our financial condition and results of operations, and they may require management to make estimates about matters that are inherently uncertain;
- o changes in U.S. GAAP or in the legal, regulatory and legislative environments in the markets in which we operate;
- o adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;

As well as other statements regarding our future operations, financial condition and prospects, and business strategies. These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q, and in particular, the risks discussed under the heading “Risk Factors” in Part II, Item 1A and those discussed in other documents we file with the Securities and Exchange Commission. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

References in the following discussion and throughout this quarterly report to “we”, “our”, “us”, “Citadel”, “the Company”, and similar terms refer to Citadel Exploration, Inc. and its subsidiary, unless otherwise expressly stated or the context otherwise requires.

AVAILABLE INFORMATION

We file annual, quarterly and other reports and other information with the SEC. You can read these SEC filings and reports over the Internet at the SEC's website at www.sec.gov or on our website at www.citadelexploration.com. You can also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 am and 3:00 pm. Please call the SEC at (800) SEC-0330 for further information on the operations of the public reference facilities. We will provide a copy of our annual report to security holders, including audited financial statements, at no charge upon receipt to of a written request to us at Citadel Exploration, Inc., 417 31st Street, Unit A, Newport Beach, California 92663.

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

Overview

Citadel is an energy company engaged in the exploration and development of oil and natural gas properties. Our properties are located in the Salinas and San Joaquin Basins of California. Subject to availability of capital, 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 corporate strategy is to build value in the Company through the acquisition of oil and gas leases with significant upside potential, successful exploration and exploitation and the efficient development of these assets.

Our revenues, profitability and future growth depend substantially on prevailing prices for oil and natural gas and our ability to find, develop and acquire oil and gas reserves that are economically recoverable.

Our Projects

Citadel has accepted a written invitation to participate with Black Hawk Oil Co. LLC (Blackhawk) and Sojitz Energy Ventures (Sojitz) in the South San Joaquin Valley. Sojitz and Blackhawk have collectively leased over 52,000 acres in the area under the guidance of The Nahabedian Exploration Group LLC. On May 3, 2013 Citadel signed an agreement for participation in two exploration wells in which it will pay 22.22% of the drilling cost to earn a 20% working interest. Drilling commenced on that date and management estimates the cost of these two wells will be approximately \$450,000 net to the Company's interest.

On February 22, 2012, the company executed a "Letter Agreement Sale of Partial Interest in Vintage Lease, Project Indian" ("Vintage Lease Agreement") with Sojitz, whereby we sold to Sojitz an undivided Forty percent (40%) interest ("Assigned Interest") relating to the Oil, Gas, and Mineral Lease dated February 1, 2012 from Vintage Petroleum California, LLC (the "Lessor"), a Delaware Limited Liability Company and wholly owned subsidiary of Occidental Petroleum, to Citadel, as Lessee. The Vintage Lease Agreement relates to a property known as "Project Indian," which is located in San Benito County, California, covering approximately 689 acres of land, for a term of Five (5) years. As consideration for the Assigned Interest, Sojitz paid Citadel the sum of Three Hundred and Fifty Thousand Dollars (\$350,000). Additionally, as part of the Vintage Lease Agreement, the parties entered into a Joint Operating Agreement ("JOA"), which includes all area under the Lease, as well as an area designated as Area of Mutual Interest or "AMI". The Company recorded a gain of the sale of the partial interest totaling \$267,856. The Company continues to work on obtaining permits.

In May 2013, the Company entered into a one year lease for approximately 3,000 acres from AERA Energy, LLC. This acreage has been mapped using a combination of both 2D and 3D seismic, and is in close proximity to the Yowlumne oil field in Kern County, California.

Going Concern

The 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 revenues from operations. As shown on the accompanying financial statements, the Company has incurred a net loss of \$1,245,236 for the period from inception (November 6, 2006) to March 31, 2013. 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

Results of Operations for the Three Months Ended March 31, 2013 and March 31, 2012

During the three month period ended March 31, 2013 and 2012 we did not generate revenue.

Operating expenses totaled \$305,220 during the three month period ended March 31, 2013 which was an increase over the period ended March 31, 2012. Operating expenses consisted of general and administrative costs, amortization and depreciation, professional fees, and executive compensation. During the period ended March 31, 2012 the Company's operating income totaled \$142,908 which was primarily the result of a \$267,856 gain on the sale of oil and gas properties.

General and administrative fees increased from \$17,716 to \$55,283 from the three month period ended March 31, 2012 to the three month period ended March 31, 2013. This increase was primarily due to insurance, marketing and meals and entertainment expenses.

General and administrative expense and professional fees to a related party were \$0 during the three month period ended March 31, 2013. This decrease was primarily as a result of the 2012 repayment of the balances due to entities owned and controlled by an officer, director and shareholder.

Professional fees increased from \$46,313 to \$150,360 from the three month period ended March 31, 2012 to the three month period ended March 31, 2013. The increase was primarily due to services provided to the Company for accounting, consulting and legal.

Executive compensation increased from \$0 to \$97,498 from the three month period ended March 31, 2012 to the three month period ended March 31, 2013. The increase was primarily due to the fair value of the vested stock options and monthly salary as part of the employment agreements with two officers.

Liquidity and Capital Resources

The Company established a capital budget for 2013 of approximately \$800,000 for Rancho Grande, Project Indian and Yowlumne. We may revise our capital budget during the year as a result of acquisitions and/or drilling outcomes or significant changes in cash flows.

As of March 31, 2013, we had \$1,408,640 of current assets, of this amount \$1,305,478 was cash. The following table provides detailed information about the net cash flow for the quarters ended March 31, 2013 and March 31, 2012 as presented in this Quarterly Report. To date, we have financed our operations through the issuance of stock and borrowings from related parties and an unrelated third party.

The following table sets forth a summary of our cash flows for the three months ended March 31, 2013 and 2012:

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | 2013 | 2012 |
| Net cash used in operating activities | \$(159,335) | \$(155,946) |
| Net cash provided by (used in) investing activities | (26,741) | 329,001 |
| Net cash provided by (used in) financing activities | 1,378,974 | (67,980) |
| Net increase in cash | 1,192,898 | 105,075 |
| Cash, beginning of year | 112,580 | 1,245 |
| Cash, end of year | \$1,305,478 | \$106,320 |

Operating activities

The net loss in the period was greater than the non-cash adjustments to reconcile the changes in the balance sheet and statement of operations, which is the reason cash used in operating activities was negative.

Investing activities

The net cash used in investing activities consisted of payment for drilling expenses on oil and gas properties of \$26,741 on the Project Indian lease.

Financing activities

As of March 31, 2013, 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.

In February 2013, the Company raised a total of \$1,423,490 in cash through the sale of 4,186,000 shares of common stock at a price of \$.34 per share. In addition, the Company settled all of their notes payable in the first quarter of 2013.

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 Shallow Indian Oil Development Project, exploration drilling at Rancho Grande and 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 a credit facility. 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 develop our assets.

Contractual Obligations

An operating lease for rental office space was entered into beginning March 1, 2013 for two years at \$2,150 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.

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 yet to generate any revenues 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 3. Quantitative and Qualitative Disclosure About Market Risk

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

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer, Armen Nahabedian, and our Chief Financial Officer, Philip McPherson evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Report. Based on that evaluation and assessment, Mr. Armen Nahabedian and Mr. Philip McPherson 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 and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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 are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are not presently a party to any material litigation, nor to the knowledge of management is any litigation threatened against us, which may materially affect us.

Item 1A. Risk Factors.

Our significant business risks are described in Item 1A. to Part I of Form 10-K for the year ended December 31, 2012 (filed April 1, 2013) to which reference is made herein.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.***Stock Issuances pursuant to Subscription Agreements***

In February 2013, we issued 4,186,000 shares of our restricted common stock for cash consideration of \$1,423,490 or \$0.34 per share.

In February 2013, we issued 912,640 shares of our restricted common stock for the conversion of notes payable and interest in the amount of \$332,798.

In February 2013, we issued 320,000 shares of our restricted common stock for accounting, legal and marketing services.

We believe that the issuance and sale of the above securities were exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2), Regulation D and/or Regulation S. The securities were issued directly by us and did not involve a public offering or general solicitation. The recipient of the securities was afforded an opportunity for effective access to files and records of our company that contained the relevant information needed to make her investment decision, including our financial statements and 34 Act reports. We reasonably believed that the recipient, immediately prior to issuing the securities, had such knowledge and experience in our financial and business matters that she was capable of evaluating the merits and risks of its investment. The recipient had the opportunity to speak with our management on several occasions prior to her investment decision. There were no commissions paid on the issuance and sale of the shares.

Option Grants

Our option grants are described in Form 10-K for the year ended December 31, 2012 (filed April 1, 2013) to which reference is made herein.

Subsequent Stock Issuances

None.

Issuer Purchases of Equity Securities

We did not repurchase any of our equity securities from the time of our inception on November 6, 2006 through the period ended March 31, 2013.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

2012 Stock Incentive Plan

On September 1, 2012, we adopted the 2012 Stock Incentive Plan. We have reserved for issuance an aggregate of 10,000,000 shares of common stock under our 2012 Stock Incentive Plan. To date 4,000,000 options and no shares of common stock have been granted under this plan.

Our employment agreements with executive officers are described in Form 10-K for the year ended December 31, 2012 (filed April 1, 2013) to which reference is made herein.

Item 6. Exhibits.

| Exhibit No. | Description |
|-------------|---|
| 10.4 | 2012 Stock Incentive Plan |
| 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 |
| 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 |
| 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 |
| 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 |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase |

* *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.*

SIGNATURE

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

CITADEL EXPLORATION, INC.

Date: May 13, 2013

By: _____ /s/ Armen Nahabedian
Armen Nahabedian
Chief Executive Officer
(Principal Executive Officer and duly authorized signatory)

EXHIBIT 31.1

CERTIFICATION

I, Armen Nahabedian, certify that:

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

Date: May 13, 2013

/S/ Armen Nahabedian
Armen Nahabedian
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

I, Philip McPherson, certify that:

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

Date: May 13, 2013

/s/ Philip McPherson
Philip McPherson
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

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

In connection with the Quarterly Report of Citadel Exploration, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Armen Nahabedian, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2013

/S/ Armen Nahabedian
Armen Nahabedian
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

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

In connection with the Quarterly Report of Citadel Exploration, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Philip McPherson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2013

/S/ Philip McPherson
Philip McPherson
Chief Financial Officer
(Principal Financial Officer)

