

VICTORY ENERGY CORP
Form 10-Q
February 24, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____.

Commission file number 002-76219NY

VICTORY ENERGY CORPORATION
(Exact Name of Company as Specified in its Charter)

Nevada 87-0564472
(State or other jurisdiction of incorporation (I.R.S. Employer Identification No.)
or organization)

3355 Bee Caves Road Ste 608, Austin, 78746
Texas
(Address of principal executive offices) (Zip Code)

(512)-347-7300
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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

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company” in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|-------------------------|-----------------------|---------------------------|----------------------------------|
| Large accelerated filer | <input type="radio"/> | Accelerated filer | <input type="radio"/> |
| Non-accelerated filer | <input type="radio"/> | Smaller reporting company | <input checked="" type="radio"/> |

(Do not check if a 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

Applicable only to issuers involved in bankruptcy proceedings during the preceding five years

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes No

Applicable only to corporate issuers:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. As of February 24, 2014, there were 27,563,619 shares of common stock, par value \$0.001, issued and outstanding and held by 1,431 stockholders of record. This reflects the 50:1 reverse stock split that became effective on January 12, 2012.

VICTORY ENERGY CORPORATION

QUARTERLY REPORT ON
FORM 10-Q
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013
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Cautionary Notice Regarding Forward Looking Statements

Victory Energy Corporation desires to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. This report contains a number of forward-looking statements that reflect management's current views and expectations with respect to business, strategies, future results and events and financial performance. All statements made in this report other than statements of historical fact, including statements that address operating performance, events or developments that management expects or anticipates will or may occur in the future, including statements related to revenues, cash flow, profitability, adequacy of funds from operations, statements expressing general optimism about future operating results and non-historical information, are forward looking statements. In particular, the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “may,” “will,” variations of such words and similar expressions identify forward-looking statements, but are not the exclusive means of identifying such statements and their absence does not mean that the statement is not forward-looking.

Readers should not place undue reliance on these forward-looking statements, which are based on management's current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions and apply only as of the date of this report. Victory Energy Corporation's actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. It is not possible to identify all of these risks, uncertainties or assumptions. Among the important factors that could cause actual results to differ materially from those in the forward-looking statements are:

- continued operating losses;
- investors questioning of our ability to continue as a going concern;
- difficulties in raising additional capital;
- our inability to pay a preferred return to The Navitus Energy Group for new capital contributions to Aurora Energy Partners
- challenges in growing our business;
- designation of our common stock as a “penny stock” under SEC regulations;
- FINRA requirements that may limit the ability to buy and sell our common stock;
- volatility in the price of our common stock;
- the highly speculative nature of an investment in our common stock;
- climate change and greenhouse gas regulations;
- global economic conditions;
- the substantial amount of capital required by our operations;
- the volatility of oil and natural gas prices;
- the high level of risk associated with drilling for and producing oil and natural gas;
- assumptions associated with reserve estimates;
- the potential that drilling activities will not yield oil or natural gas in commercial quantities;
- seismic studies may not guarantee the presence of oil or natural gas in commercial quantities;
- potential exploration, production and acquisitions may not maintain revenue levels in the future;
- future acquisitions may yield revenues or production that differ significantly from our projections;
- difficulties associated with managing a growing enterprise;
- strong competition from other oil and natural gas companies;
- the unavailability or high cost of drilling rigs and related equipment;
- our inability to control properties that we do not operate;

- our dependence on key management personnel and technical experts;
- our dependence on third parties for the marketing of our natural gas production;
- our inability to keep pace with technological advancements in our industry;
- the potential for write-downs in the carrying values of our oil and natural gas properties;
- our compliance with complex laws governing our business;
- our failure to comply with environmental laws and regulations;
- the demand for oil and natural gas and our ability to transport our production;
- the financial condition of the operators of the properties in which we own an interest;
- our levels of insurance or those of our operators may be insufficient;
- terrorist attacks on our operations;
- the dilutive effect of additional issuances of our common stock, options or warrants;
- any impairments of our oil and gas properties;
- the results of pending litigation; and
- the dissolution of the Aurora Energy Partners agreement.

Additionally, the information set forth under the heading “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, as well as disclosures made under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of this report could cause actual results to differ materially from those in the forward-looking statements. Other unpredictable or unknown factors not discussed in this report could also cause actual results to differ materially from those in the forward-looking statements. The reader should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. Unless legally required, we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Part I – Financial Information

Item 1. Financial Statements

VICTORY ENERGY CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

| | September 30, 2013 (Unaudited) | December 31, 2012 |
|---|---|-------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 164,874 | \$ 158,165 |
| Accounts receivable—less allowance for doubtful accounts of \$200,000, and \$200,000 for September 30, 2013 and December 31, 2012, respectively | 60,569 | 157,481 |
| Accounts receivable from related party | 34,917 | - |
| Prepaid expenses | 84,121 | 68,693 |
| Total current assets | 344,481 | 384,339 |
| FIXED ASSETS | | |
| Furniture and equipment | 43,173 | 43,173 |
| Accumulated depreciation | (10,078) | (5,521) |
| Total furniture and fixtures, net | 33,095 | 37,652 |
| Producing oil and natural gas properties, net of impairment | 4,077,154 | 2,583,504 |
| Accumulated depletion | (1,309,818) | (1,145,514) |
| Total oil and gas properties, net | 2,767,336 | 1,437,990 |
| TOTAL ASSETS | \$ 3,144,912 | \$ 1,859,981 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 346,190 | \$ 4,339 |
| Accrued interest | - | 25,639 |
| Accrued liabilities | 187,925 | 216,444 |
| Accrued liabilities—related parties | 89,375 | 17,504 |
| Liability for unauthorized preferred stock issued | 9,283 | 9,283 |
| Total current liabilities | 632,773 | 273,209 |
| OTHER LIABILITIES | | |
| Asset retirement obligations | 53,578 | 39,905 |
| TOTAL LIABILITIES | 686,351 | 313,114 |
| STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Common Stock, \$0.001 par value, 47,500,000 shares authorized, 27,563,619 shares and 27,563,619 issued and outstanding, September 30, 2013, and December 31, 2012, respectively | 27,564 | 27,564 |

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| | | |
|---|--------------|--------------|
| Additional paid-in capital | 34,399,679 | 34,325,073 |
| Accumulated deficit | (36,282,420) | (35,215,267) |
| VICTORY ENERGY CORPORATION STOCKHOLDERS' EQUITY (DEFICIT) | (1,855,177) | (862,630) |
| Non-controlling Interest | 4,313,738 | 2,409,497 |
| TOTAL STOCKHOLDER'S EQUITY (DEFICIT) | 2,458,561 | 1,546,867 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | \$ 3,144,912 | \$ 1,859,981 |

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

VICTORY ENERGY CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|-----------------------|--|-----------------------|
| | 2013 | 2012 (as restated) | 2013 | 2012 (as restated) |
| REVENUE | \$ 244,848 | \$ 77,035 | \$ 500,526 | \$ 209,151 |
| COSTS AND EXPENSES | | | | |
| Lease operating expenses | 55,849 | 21,285 | 130,835 | 64,695 |
| Production taxes | 14,113 | 3,630 | 34,716 | 15,780 |
| Dry hole costs | 87,626 | - | 91,236 | - |
| Exploration | 3,082 | 62,415 | 18,659 | 229,611 |
| General and administrative expense | 383,458 | 676,376 | 1,283,901 | 2,244,001 |
| Impairment of assets | 11,160 | 162,703 | 11,160 | 162,703 |
| Depletion, depreciation, and accretion | 90,962 | 15,679 | 168,861 | 47,760 |
| Total expenses | 646,250 | 942,088 | 1,739,368 | 2,764,550 |
| INCOME (LOSS) FROM OPERATIONS | (401,402) | (865,053) | (1,238,842) | (2,555,399) |
| OTHER INCOME (EXPENSE): | | | | |
| Gain on sale of oil and gas assets | 20,765 | - | 20,765 | 268,169 |
| Interest income (expense) | 111 | (3,040) | (835) | (3,987,381) |
| Total other income and expense | 20,876 | (3,040) | 19,930 | (3,719,212) |
| LOSS BEFORE TAX EXPENSE | (380,526) | (868,093) | (1,218,912) | (6,274,611) |
| TAX EXPENSE | - | - | - | - |
| LOSS | (380,526) | \$ (868,093) | \$ (1,218,912) | \$ (6,274,611) |
| Less: loss attributable to non-controlling interest | \$ (39,470) | (223,962) | (151,759) | (172,752) |
| NET INCOME (LOSS) ATTRIBUTABLE TO VICTORY ENERGY CORPORATION | (341,056) | \$ (644,131) | \$ (1,067,153) | \$ (6,101,859) |
| Weighted average shares, basic and diluted | 27,563,619 | 27,511,583 | 27,563,619 | 21,866,363 |
| Net loss per share, basic and diluted | \$ (0.01) | (0.03) | (0.04) | (0.28) |

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

VICTORY ENERGY CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

For the Nine Months Ended
September 30,
2013 2012

CASH FLOWS FROM OPERATING ACTIVITIES

| | | |
|--|----------------|----------------|
| Net (loss) | \$ (1,218,912) | \$ (6,274,611) |
| Adjustments to reconcile net loss from operations to net cash used in operating activities | 2,994 | |
| Accretion of asset retirement obligation | | |
| Amortization of debt discount and financing warrants | - | 265,460 |
| Gain from sale of oil and gas properties | (20,765) | (268,169) |
| Allowance for doubtful accounts | - | 200,000 |
| Debt discount on debentures converted to common stock | - | 3,661,780 |
| Depletion and depreciation | 168,861 | 36,887 |
| Impairment of assets | 11,160 | 162,703 |
| Warrants for board services | 22,500 | 484,979 |
| Stock based compensation | 52,106 | 161,187 |
| Change in operating assets and liabilities | | |
| Accounts receivable | 96,912 | 18,511 |
| Accounts receivable – related parties | (34,917) | - |
| Prepaid expense | (15,428) | 25,346 |
| Accounts payable | 341,851 | (169,048) |
| Accrued liabilities | (28,519) | 75,320 |
| Accrued interest | (25,639) | - |
| Accrued liabilities–related parties | 71,871 | (128,616) |
| Net cash used in operating activities | (575,925) | (1,748,270) |

CASH FLOWS FROM INVESTING ACTIVITIES

| | | |
|--|-------------|-----------|
| Drilling and completion costs | (1,926,816) | (263,950) |
| Acquisition of oil and gas properties | (81,550) | (661,983) |
| Proceeds from the sale of oil and gas properties | 375,000 | 200,000 |
| Purchase of furniture and fixtures | - | (10,359) |
| Sale-farm out of leaseholds | 160,000 | - |
| Net cash (used) in investing activities | (1,473,366) | (736,292) |

CASH FLOWS FROM FINANCING ACTIVITIES

| | | |
|---|-----------|-----------|
| Proceeds from issuance of senior secured convertible debentures | - | 1,815,000 |
| Exercise of warrants for cash | - | 4,874 |
| Non-controlling interest contributions | 2,056,000 | 349,900 |
| Non-controlling interest distributions | - | (61,472) |
| Net cash provided by financing activities | 2,056,000 | 2,108,302 |

| | | |
|---|-------|-----------|
| Net change in cash and cash equivalents | 6,709 | (376,260) |
|---|-------|-----------|

| | | |
|-------------------------------------|---------|---------|
| Beginning cash and cash equivalents | 158,165 | 475,623 |
|-------------------------------------|---------|---------|

| | | |
|----------------------------------|------------|-----------|
| Ending cash and cash equivalents | \$ 164,874 | \$ 99,363 |
|----------------------------------|------------|-----------|

The accompanying notes are an integral part to these condensed consolidated financial statements.

Victory Energy Corporation and Subsidiary
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Note 1 – Organization and Summary of Significant Accounting Policies:

Victory Energy Corporation (Victory) is an independent, growth oriented oil and natural gas company engaged in the acquisition, exploration and production of oil and natural gas properties, through its partnership with Aurora Energy Partners. The Company is engaged in the exploration, acquisition, development, and production of domestic oil and natural gas properties. Current operations are primarily located onshore in Texas and New Mexico. The Company was organized under the laws of the State of Nevada on January 7, 1982. The Company is authorized to issue 47,500,000 shares of \$0.001 par value common stock, and has 27,563,619 shares of common stock outstanding as of September 30, 2013. On January 12, 2012 the Company implemented a 50:1 reverse stock split. All information in this report reflects the recent stock split. Our corporate headquarters are located at 3355 Bee Caves Rd. Ste. 608, Austin, TX 78746.

A summary of significant accounting policies followed in the preparation of the accompanying condensed consolidated financial statements is set forth below.

Basis of Presentation and Consolidation:

Victory is the managing partner of Aurora Energy Partners, a Texas General Partnership (“Aurora”), and holds a 50% partnership interest in Aurora. Aurora is consolidated with Victory for financial statement purposes, as the terms of the partnership agreement gives Victory effective control of the partnership. The condensed consolidated financial statements include the accounts of Victory and the accounts of Aurora. The Company’s management, in considering accounting policies pertaining to consolidation, has reviewed the relevant accounting literature. The Company follows that literature, in assessing whether the rights of the non-controlling interests should overcome the presumption of consolidation when a majority voting, or controlling interest in its investee “is a matter of judgment that depends on facts and circumstances.” In applying the circumstances and contractual provisions of the partnership agreement, management determined that the non-controlling rights do not, individually or in the aggregate, provide for the non-controlling interest to “effectively participate in significant decisions that would be expected to be made in the ordinary course of business.” The rights of the non-controlling interest are protective in nature. All intercompany balances have been eliminated in consolidation.

The accompanying condensed consolidated balance sheet as of December 31, 2012, which has been derived from audited consolidated financial statements, and the accompanying interim condensed consolidated financial statements as of September 30, 2013, for the three and nine-month periods ended September 30, 2013 and September 30, 2012, have been prepared by management pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial reporting. These interim condensed consolidated financial statements are unaudited and, in the opinion of management, all adjustments, including normal recurring adjustments necessary to present fairly the financial condition, results of operations and cash flows of Victory Energy Corporation and subsidiary (hereinafter collectively referred to as the “Company”) as of and for the periods presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”), have been included.

Operating results for the three and nine-month periods ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013 or for any other interim period during such year. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial

statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC on November 12, 2013.

Non-controlling Interests:

The Navitus Energy Group is a partner with Victory in Aurora. The two partners each own a 50% interest in Aurora. Victory is the Managing Partner and has contractual authority to manage the business affairs of Aurora. The Navitus Energy Group currently has four partners. They are James Capital Consulting, LLC ("JCC"), James Capital Energy, LLC ("JCE"), Rodinia Partners, LLC and Navitus Partners, LLC. Although this partnership has been in place since January 2008, its members and other elements have changed since that time.

The non-controlling interest in Aurora is held by Navitus Energy Group, a Texas general partnership. As of September 30, 2013, \$4,313,738 was recorded as the equity of the non-controlling interest in our consolidated balance sheet representing the third-party investment in Aurora, with losses attributable to non-controlling interests of \$39,470 and \$223,962 for the three months ended September 30, 2013 and 2012, respectively, and \$151,759 and \$172,752 for the nine months ended September 30, 2013 and 2012, respectively. As of December 31, 2012, \$2,409,497 was recorded as the equity of the non-controlling interest in our consolidated balance sheet representing the third-party investment in Aurora, with losses attributable to the non-controlling interests of \$359,864 for the year ended December 31, 2012.

Restatements and Reclassifications:

Certain prior year and quarterly amounts have been restated; to correctly present the non-controlling interest representing the third-party investment in Aurora in our condensed consolidated financial statements. Users of these financial statements should refer to the Company's Annual Report Form 10K filed November 12, 2013 for more information regarding any restatements.

Certain reclassifications have been made between common stock and additional paid-in capital on the December 31, 2012 Condensed Consolidated Balance Sheet to conform to the presentation on the current period Condensed Consolidated Balance Sheet and reflect the 50:1 reverse stock-split. These reclassifications had no impact on the net income for the year ended December 31, 2012 or total stockholder's equity at December 31, 2012.

Use of Estimates:

The preparation of our condensed consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used primarily when accounting for depreciation, depletion, and amortization ("DD&A") expense, property costs, estimated future net cash flows from proved reserves, cost to abandon oil and natural gas properties, taxes, accruals of capitalized costs, operating costs and production revenue, capitalized general and administrative costs and interest, insurance recoveries, effectiveness and estimated fair value of derivative positions, the purchase price allocation on properties acquired, various common stock, warrants and option transactions, and contingencies.

Oil and Natural Gas Properties:

We follow the successful efforts method of accounting for oil and natural gas properties. Under this method, all costs associated with property acquisitions, successful exploratory wells, all development wells, including dry hole development wells, and asset retirement obligation assets are capitalized. Additionally, interest is capitalized while wells are being drilled and the underlying property is in development. Costs of exploratory wells are capitalized pending determination of whether each well has resulted in the discovery of proved reserves. Oil and natural gas mineral leasehold costs are capitalized as incurred. Items charged to expense generally include geological and

geophysical costs, costs of unsuccessful exploratory wells, and oil and natural gas production costs. Capitalized costs of proved properties including associated salvage are depleted on a well-by-well or field-by-field (common reservoir) basis using the units-of-production method based upon proved producing oil and natural gas reserves. The depletion rate is the current period production as a percentage of the total proved producing reserves. The depletion rate is applied to the net book value of property costs to calculate the depletion expense. Proved reserves materially impact depletion expense. If the proved reserves decline, then the depletion rate (the rate at which we record depletion expense) increases, reducing net income. Dispositions of oil and natural gas properties are accounted for as adjustments to capitalized costs with gain or loss recognized upon sale. A gain (loss) is recognized to the extent the sales price exceeds or is less than original cost or the carrying value, net of impairment. Oil and natural gas properties are also reviewed for impairment at the end of each reporting period. Unproved property costs are excluded from depletable costs until the related properties are developed. See impairment discussed in “Long-lived assets and intangible assets” below.

We depreciate other property and equipment using the straight-line method based on estimated useful lives ranging from five to ten years.

The Company recognized \$11,160 and \$162,703 of impairment expense for the three and the nine months ended September 30, 2013 and 2012, respectively

Long-lived Assets and Intangible Assets:

The Company accounts for intangible assets in accordance with ASC 360, "Property, Plant and Equipment". Intangible assets that have defined lives are subject to amortization over the useful life of the assets. Intangible assets held having no contractual factors or other factors limiting the useful life of the asset are not subject to amortization but are reviewed at least annually for impairment or when indicators suggest that impairment may be needed. Intangible assets are subject to impairment review at least annually or when there is an indication that an asset has been impaired.

For unproved property costs, management reviews these investments for impairment on a property-by-property basis if a triggering event should occur that may suggest that impairment may be required.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount of the asset, including any intangible assets associated with that asset, exceeds its estimated future undiscounted net cash flows, the Company will recognize an impairment loss equal to the difference between its carrying amount and its estimated fair value. The fair value used to calculate the impairment for producing oil and natural gas field that produces from a common reservoir is first determined by comparing the undiscounted future net cash flows associated with total proved properties to the carrying value of the underlying evaluated property. If the cost of the underlying evaluated property is in excess of the undiscounted future net cash flows, the future net cash flows are discounted at 10%, which the Company believes approximates fair value, to determine the amount of impairment.

Asset Retirement Obligations:

U.S. GAAP requires us to record our estimate of the fair value of liabilities related to future asset retirement obligations in the period the obligation is incurred. Asset retirement obligations relate to the removal of facilities and tangible equipment at the end of an oil and natural gas property's useful life. The application of this rule requires the use of management's estimates with respect to future abandonment costs, inflation, market risk premiums, useful life and cost of capital. U.S. GAAP requires that our estimate of our asset retirement obligations does not give consideration to the value the related assets could have to other parties.

The following table is a reconciliation of the ARO liability for continuing operations for the nine months ended September 30, 2013 and the twelve months ended December 31, 2012.

| | September 30, 2013 | December 31, 2012 |
|--|--------------------------|-------------------------|
| Asset retirement obligation at beginning of period | \$ 39,905 | \$ 30,004 |
| Liabilities incurred | 10,679 | 7,002 |
| Revisions to previous estimates | 0 | 0 |
| Accretion expense | 2,994 | 2,899 |
| Asset retirement obligation at end of period | \$ 53,578 | \$ 39,905 |

Other Property and Equipment:

Our office equipment in Austin, Texas is being depreciated on the straight-line method over their estimated useful life of 5 to 7 years.

Cash and Cash Equivalents:

The Company considers all liquid investments with a maturity of three months or less from the date of purchase that are readily convertible into cash to be cash equivalents. The Company had no cash equivalents at September 30, 2013 and December 31, 2012, respectively.

Accounts Receivable:

Our accounts receivable are primarily from purchasers of natural gas and oil and exploration and production companies which operate properties we own working interests in.

Allowance for Doubtful Accounts:

The Company recognizes an allowance for doubtful accounts to ensure trade receivables are not overstated due to uncollectability. Allowance for doubtful accounts are maintained for all customers based on a variety of factors, including the length of time receivables are past due, macroeconomic conditions, significant one-time events and historical experience. An additional allowance for individual accounts is recorded when they become aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to customers change, estimates of the recoverability of receivables would be further adjusted. As of September 30, 2013 and December 31, 2012, the Company has deemed \$200,000 from the sale of oil and gas properties associated with the Jones County prospect, to be uncollectible and thus, has recorded this amount as an allowance for doubtful accounts.

Fair Value:

At September 30, 2013 and December 31, 2012, the carrying value of the Company's financial instruments such as prepaid expenses and payables approximated their fair values based on the short-term maturities of these instruments. The carrying value of other long-term liabilities approximated their fair values because the underlying interest rates approximate market rates at the balance sheet dates. Management believes that due to the Company's current credit worthiness, the fair value of long-term debt could be less than the book value; however, due to current market conditions and available information, the fair value of such debt is not readily determinable. Financial Accounting Standard Board ("FASB") ASC Topic 820 established a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring fair value. This framework defined three levels of inputs to the fair value measurement process and requires that each fair value measurement be assigned to a level corresponding to the lowest level input that is significant to the fair value measurement in its entirety. The three broad levels of inputs defined by

FASB ASC Topic 820 hierarchy are as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability; and

Level 3 - unobservable inputs for the asset or liability. These unobservable inputs reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances (which might include the reporting entity's own data).

The initial measurement of asset retirement obligations at fair value is calculated using discounted cash flows techniques and based on internal estimates of future retirement costs associated with proved oil and gas properties. Inputs used in the calculation of asset retirement obligations include plugging costs and reserve lives. A reconciliation of Victory's asset retirement obligations is presented in Note 1.

The Company recognized \$11,160 and \$162,703 of impairment expense for the three and the nine months ended September 30, 2013 and 2012, respectively. The Company valued the producing properties at their fair value in accordance with the applicable Accounting Standards Codification ("ASC") standard due to the impairment indicators prevalent as of September 30, 2013 and 2012. The inputs that were used in determining the fair value of the assets were Level 3 inputs. These inputs consist of but are not limited to the following: estimates of reserve quantities, estimates of future production costs and taxes, estimates of consistent pricing of commodities, 10% discount rate, etc.

Revenue Recognition:

The Company uses the sales method of accounting for oil and natural gas revenues. Under this method, revenues are recognized based on actual volumes of gas and oil sold to purchasers. The volumes sold may differ from the volumes to which the Company is entitled based on our interests in the properties. Differences between volumes sold and entitled volumes create oil and natural gas imbalances which are generally reflected as adjustments to reported proved oil and natural gas reserves and future cash flows in their supplemental oil and natural gas disclosures. If their excess takes of natural gas or oil exceed their estimated remaining proved reserves for a property, a natural gas or oil imbalance liability is recorded in the Condensed Consolidated Balance Sheets.

Concentrations:

There is a ready market for the sale of crude oil and natural gas. During 2013 and 2012, our producing wells sold their respective gas and oil production to one purchaser for each field or well. However, because alternate purchasers of oil and natural gas are readily available at similar prices, we believe that the loss of any of our purchasers would not have a material adverse effect on our financial results.

Earnings per Share:

Basic earnings per share are computed using the weighted average number of common shares outstanding. Diluted earnings per share reflect the potential dilutive effects of common stock equivalents such as options, warrants and convertible securities. Given the historical and projected future losses of the Company, all potentially dilutive common stock equivalents are considered anti-dilutive.

Income Taxes:

The Company accounts for income taxes in accordance with ASC 740 "Income Taxes" which requires an asset and liability approach for financial accounting and reporting of income taxes. Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. Deferred tax assets include tax loss and credit carry forwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Stock Based Compensation:

The Company applies ASC 718, "Compensation-Stock Compensation" to account for its issuance of options and warrants to key partners, directors and officers. The standard requires all share-based payments, including employee stock options, warrants and restricted stock, be measured at the fair value of the award and expensed over the requisite service period (generally the vesting period). The fair value of options and warrants granted to key partners, directors and officers is estimated at the date of grant using the Black-Scholes option pricing model by using the historical volatility of the Company's stock price. The calculation also takes into account the common stock fair market value at the grant date, the exercise price, the expected life of the common stock option or warrant, the dividend yield and the risk-free interest rate.

The Company from time to time may issue stock options, warrants and restricted stock to acquire goods or services from third parties. Restricted stock, options or warrants issued to third parties are recorded on the basis of their fair value, which is measured as of the date issued. The options or warrants are valued using the Black-Scholes option pricing model on the basis of the market price of the underlying equity instrument on the "valuation date," which for options and warrants related to contracts that have substantial disincentives to non-performance, is the date of the

contract, and for all other contracts is the vesting date. Expense related to the options and warrants is recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period.

The Company recognized warrants granted to directors for services of \$6,000 and \$22,500 for the three and nine months ended September 30, 2013, respectively, and \$28,800 and \$484,979 for the three and nine months ended September 30, 2012, respectively.

The Company recognized stock-based compensation expense from stock options granted to officers and employees of the company of \$8,781 and 52,106 for the three and nine months ended September 30, 2013, respectively, and \$34,656 and \$161,187 for the three and nine months ended September 30, 2012, respectively.

Going Concern:

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. As presented in the condensed consolidated financial statements, the Company has incurred a net loss of \$1,218,912 for the nine months ended September 30, 2013.

The proceeds from the sale and conversion to stock of the Company's 10% Senior Secured Convertible Debentures in 2012 and new contributions to the Aurora partnership by The Navitus Energy Group ("Navitus") have allowed the Company to continue operations and invest in new oil and natural gas properties. Management anticipates that operating losses will continue in the near term until new wells are drilled, successfully completed and incremental production increases revenue. For the nine months ended September 30, 2013, the Company has invested a net of \$1,926,816 in drilling and completion costs.

The Company remains in active discussions with Navitus and others related to longer term financing required for our capital expenditures planned for 2013. Without additional outside investment from the sale of equity securities and/or debt financing, our capital expenditures and overhead expenses must be reduced to a level commensurate with available cash flows.

The accompanying consolidated financial statements are prepared as if the Company will continue as a going concern. The consolidated financial statements do not contain adjustments, including adjustments to recorded assets and liabilities, which might be necessary if the Company were unable to continue as a going concern.

Note 2 – Navitus Energy Group Funding, Tracking and Accrual

Under terms of the Second Amended Partnership Agreement, the Navitus Energy Group partners are to accrue a net profits interest respective to their partnership interest. Any distributions of the net profits interest to partners are at the discretion of Victory, as managing partner, together with 100% of the partnership interests. As of September 30, 2013, there are no accrued, or accumulated, net profits interest of the Aurora Energy Partnership. The accumulated net deficits of Navitus Energy Group, along with historical contributions, net of distributions, are reported as non-controlling interests in the equity section of the Victory and Aurora consolidated financial statements.

10% Preferred Distributions

Under the terms of the Second Amended Aurora Partnership Agreement, Navitus Partners, LLC, the fourth partner of the partnership, admitted under the Navitus Private Placement Memorandum (Navitus PPM), is accrued a preferred distribution of 10% based upon capital contributions to Aurora. The preferred distribution is in addition to and does not reduce any net profits interest which may accrue. Since August 23, 2012, these accrued preferred distributions total \$187,892 (\$25,639 attributable to 2012 and \$162,263 attributable to the nine months ended September 30, 2013). Victory, as managing partner, may, in its sole discretion, choose to distribute the preferred returns, or, apply these funds to other partnership purposes. Navitus Partners, LLC also receives warrants for Victory's common stock, allocated as 50,000 warrants for every Unit purchased under the Navitus PPM (equivalent of 1 warrant for every \$1.00 invested), exercisable under the terms of the Second Amended Partnership Agreement and the Navitus PPM. Since August 23, 2012, \$3,145,900 of capital contributions have resulted in issuance of 3,145,900 common stock warrants (1,089,900 in 2012 and 2,056,000 in the nine months ended September 30, 2013).

Note 3 – Oil and natural gas properties

Oil and natural gas properties are comprised of the following:

| | September 30, 2013 | December 31, 2012 |
|--|-----------------------|----------------------|
| Total oil and natural gas properties, at cost | \$ 7,773,516 | \$ 6,268,706 |
| Less: accumulated impairment | (3,696,362) | (3,685,202) |
| Oil and natural gas properties, net impairment | 4,077,154 | 2,583,504 |
| Less: accumulated depletion | (1,309,818) | (1,145,514) |
| Oil and natural gas properties, net | \$ 2,767,336 | \$ 1,437,990 |

Depletion, depreciation, and accretion expense for the three and nine months ended September 30, 2013 and 2012 was \$90,962 and \$168,861, respectively.

Note 4 – Senior Secured Convertible Debentures

All share references have been adjusted to reflect a 50:1 reverse stock split by the Company on January 12, 2012.

During the years ended December 31, 2011 and December 31, 2012 the Company raised \$4,935,000 from accredited investors via 10% Senior Secured Convertible Debentures. Specifically the Company raised \$3,120,000 in 2011 and \$1,815,000 on February 29, 2012. These debentures were converted to 19,505,523 shares of the Company's common stock in accordance with the terms of the debenture, on February 29, 2012. As of the periods ended September 30, 2013 and December 31, 2012, the Company no longer had any outstanding Senior Secured Convertible Debentures.

Note 5 – Liability for Unauthorized Preferred Stock Issued

During the year ended December 31, 2006, the Company authorized the issuance of 10,000,000 shares of Preferred Stock, convertible at the shareholder's option to common stock at the rate of 100 shares of common stock for every share of preferred stock. During the year ended December 31, 2006, the Company issued 715,517 shares of preferred stock for cash of \$246,950. The Company subsequently issued additional preferred stock and had several preferred shareholders convert their shares into common stock during the years ended December 31, 2009, 2008, and 2007.

The Company's legal counsel determined that the preferred shares had not been duly authorized by the State of Nevada. Since the Company had issued and received consideration for the preferred stock, notwithstanding that the stock was not legally authorized, the Company has presented the preferred stock as a liability in the consolidated balance sheets. The Company has offered to settle the debt with the remaining holders of the unauthorized preferred stock by honoring the terms of conversion of two shares of preferred stock into 100 shares of common stock. The Company intends to cancel the preferred stock once all remaining preferred stockholders have converted.

There were 68,966 shares of unconverted preferred stock outstanding at September 30, 2013. The Company needs approximately 138,000 common shares in order to settle the outstanding debt as stated below.

The remaining liability for the unconverted preferred stock is based on the original cash tendered and consisted of the following as of:

| | September 30, 2013 | December 31, 2012 |
|--|--------------------------|-------------------------|
| Liability for unauthorized preferred stock | \$ 9,283 | \$ 9,283 |

Note 6 – Related Party Transactions

The Company uses legal and accounting services of two of its members of its Board of Directors in the ordinary course of the Company's business. Accounts receivable from related parties for the nine months ended September 30, 2013 and the year ended December 31, 2012 were \$34,917 and \$0. Accrued liabilities to related parties for the nine months ended September 30, 2013 and the year ended December 31, 2012 were \$89,375 and \$17,504, respectively.

Note 7 – Shareholders Equity

Common stock

The Company estimates the fair value of employee stock options and warrants granted using the Black-Scholes Option Pricing Model. Key assumptions used to estimate the fair value of warrants and stock options include the exercise price of the award, the fair value of the Company's common stock on the date of grant, the expected warrant or option term, the risk free interest rate at the date of grant, the expected volatility and the expected annual dividend yield on the Company's common stock.

During the nine months ended September 30, 2013, the Company granted 90,000 warrants to its directors for board services with an exercise price of \$.30. The warrants vest immediately and the Company has valued the warrants for services using the Black Scholes Option Pricing Model, at \$22,500.

During the nine months ended September 30, 2013, and in consideration of capital contributions by Aurora of \$2,056,000 pursuant to the Company's capital contribution agreement with Aurora, the Company issued 2,056,000 warrants to Navitus with an exercise price of \$.30. The warrants vest immediately and the Company has valued the warrants using the Black Scholes Option Pricing Model, at \$600,600.

Note 8 – Commitments and Contingencies

Contingencies

Liabilities and other contingencies are recognized upon determination of an exposure, which when analyzed indicates that it is both probable that an asset has been impaired or that a liability has been incurred and that the amount of such loss is reasonably estimable.

Volatility of Oil and Natural Gas Prices

Our revenues, future rate of growth, results of operations, financial condition and ability to borrow funds or obtain additional capital, as well as the carrying value of our properties, are substantially dependent upon prevailing prices of oil and natural gas.

Legal Proceedings

Cause No. 08-04-07047-CV; Oz Gas Corporation v. Remuda Operating Company, et al. v. Victory Energy Corporation.; In the 112th District Court of Crockett County, Texas.

Plaintiff Oz Gas Corporation sued Victory Energy Corporation and other parties for bad faith trespass, among other claims, regarding the drilling of two wells on lands that Oz ("OZ") claims title to. Victory Energy Corporation has a 50% interest in one of the named wells involved in this lawsuit (that being well 155-2 on the Adams Baggett Ranch in Crockett County, Texas). The lawsuit was originally filed against other parties in April 2008, and Victory intervened in the case on November 18, 2009 to protect its interest in the 155-2 well.

The case was tried in February 2012. The Court found in favor of Oz and rendered verdict against Victory and the other defendants for the sum of \$137,000. Victory Energy Corporation has appealed this decision to the 8th Court of Appeals in El Paso, Texas, and the case has been fully briefed and submitted.

Cause No. CV-47,230; James Capital Energy, LLC and Victory Energy Corporation v. Jim Dial, et al.; In the 142nd District Court of Midland County, Texas.

This lawsuit was filed in the 142nd District Court of Midland County, Texas on January 19, 2010 by James Capital Energy, LLC and Victory Energy Corporation against numerous parties for fraud, fraudulent inducement, and negligent misrepresentation, breach of contract, breach of fiduciary duty, trespass, conversion and a few other related causes of action. This lawsuit stems from an investment made by Victory for the purchase of six wells on the Adams Baggett Ranch.

On December 9, 2010, Victory was granted an interlocutory Default Judgment against Defendants Jim Dial, 1st Texas Natural Gas Company, Inc., Universal Energy Resources, Inc., Grifco International, Inc., and Precision Drilling & Exploration, Inc. The total judgment amounted to approximately \$17.2 million. Recently Victory has added additional parties to this lawsuit. Discovery is ongoing in this case and no trial date has been set at this time.

Victory believes that it will be victorious against all the remaining Defendants in this case.

On October 20, 2011 Defendant Remuda filed a Motion to Consolidate and a Counterclaim against Victory. Remuda is seeking to consolidate this case with two other cases in which Remuda is the named Defendant. An objection to this motion was filed and the cases have not been consolidated. Additionally, we do not believe that the counterclaim made by Remuda has any legal merit.

Cause No. 10-09-07213; Perry Howell, et al. v. Charles Gary Garlitz, et al.; In the 112th District Court of Crockett County, Texas.

The above referenced lawsuit was filed in the 112th District Court of Crockett County, Texas on September 6, 2010. This lawsuit alleges that Cambrian Management, Ltd. and Victory Energy Corporation trespassed on lands owned by the Plaintiffs in the drilling of the Adams-Baggett 115-8 well in Crockett County, Texas.

Discovery is ongoing in this case and the case is set for trial in July 2014. Victory Energy Corporation believes that the claims have no merit and that it will prevail.

Cause No. D-1-GN-13-00044; Aurora Energy Partners and Victory Energy Corporation v. Crooked Oaks; In the 261st District Court of Travis County, Texas.

The Company has yet to collect an installment balance of \$200,000 for the sale of its Jones County, Texas oil and gas interests in May of 2012. The Company believes it will ultimately recover this receivable, but has provided for it as an allowance for doubtful accounts, and has not included it in the net accounts receivable balance of the Company's consolidated financial statements.

gas and 18% oil.

Our revenue, profitability, cash flow, oil and natural gas reserves value, future growth, and ability to borrow funds or obtain additional capital, as well as the carrying value of our properties, are substantially dependent on prevailing prices of oil and natural gas. Historically, the markets for oil and natural gas have been volatile, and those markets are likely to continue to be volatile in the future. It is impossible to predict, with certainty, future prices for oil and natural gas. These prices are subject to wide fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas. Market uncertainty and a variety of additional factors are beyond our control.

Going Concern

As presented in the condensed consolidated financial statements, the Company has incurred a net loss of \$380,526 and \$1,218,912 during the three and nine months ended September 30, 2013, and losses are expected to continue in the near term. The Company has been funding its operations through Aurora and from contributions made by its partners. Management anticipates that significant additional capital expenditures will be necessary to develop the Company's oil and natural gas properties, which consist of proved and unproved reserves, some of which may be non-producing, before significant positive operating cash flows will be achieved.

Management is pursuing business partnering arrangements for the acquisition and development of its properties as well as debt and equity funding through private placements. Without outside investment from the sale of equity securities, debt financing or partnering with other oil and natural gas companies, operating activities and overhead expenses will be reduced to a pace that will match available operating cash flows.

The accompanying condensed consolidated financial statements are prepared as if the Company will continue as a going concern. The consolidated financial statements do not contain adjustments, including adjustments to recorded assets and liabilities, which might be necessary if the Company were unable to continue as a going concern.

Three Months Ended September 30, 2013 compared to the Three Months Ended September 30, 2012

Our revenue, operating expenses, and net income for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 were as follows:

| | Three Months Ended | | | Percentage |
|---|--------------------|---------------|------------|------------|
| | September 30, | September 30, | Change | Change |
| | 2013 | 2012 | | |
| REVENUE | \$ 244,848 | \$ 77,035 | \$ 167,813 | 218% |
| COSTS AND EXPENSES | | | | |
| Lease operating expense | 55,849 | 21,285 | 34,564 | 162% |
| Production Taxes | 14,113 | 3,630 | 10,483 | 289% |
| Dry hole costs | 87,626 | - | 87,626 | 100% |
| Exploration | 3,082 | 62,415 | (59,333) | (95%) |
| General and administrative expense | 383,458 | 676,376 | (292,918) | (43%) |
| Impairment | 11,160 | 162,703 | (151,543) | (93%) |
| Depletion and accretion | 90,962 | 15,679 | 75,283 | 480% |
| Total expenses | 646,250 | 942,088 | (295,838) | |
| LOSS FROM OPERATIONS | (401,402) | (865,053) | (463,651) | (54%) |
| OTHER INCOME AND EXPENSE | | | | |
| Gain (loss) on sale of oil and gas properties | 20,765 | - | 20,765 | 100% |
| Interest income (expense) | 111 | (3,040) | 3,151 | 104% |
| Total other income and expense | 20,876 | (3,040) | 23,916 | |
| NET LOSS BEFORE TAX EXPENSE | (380,526) | (868,093) | | |
| TAX EXPENSE | - | - | | |

| | | |
|----------|--------------|--------------|
| NET LOSS | \$ (380,526) | \$ (868,093) |
|----------|--------------|--------------|

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Revenues: All of our revenue was derived from the sale of oil and natural gas. Our revenues increased \$167,813 or 218% to \$244,848 for the three months ended September 30, 2013 from \$77,035 for the three months ended September 30, 2012. Oil volumes continued to increase during the three ended September 30, 2013, compared to the three months ended September 30, 2012. The increase in production was primarily due to the development of the Lightin' prospect with the Cotter 6 #1 and the McCauley 6 #2 wells.

Lease Operating Expenses: Our cost of production increased \$34,564 or 162% to \$55,849 for the three months ended September 30, 2013 from \$21,285 for the three months ended September 30, 2012. The increase in lease operating expenses reflects an increase in the number of operating properties in the three months ended September 30, 2013 compared to the three months ended September 30, 2012.

Production Taxes: Production taxes increased \$10,483 or 289% to \$14,113 for the three months ended September 30, 2013 from \$3,630 for the three months ended September 30, 2012. This results primarily from the increase in production in turn, revenues for the three months ended September 30, 2013 compared to the same period in 2012.

Exploration Expense: Exploration expense decreased \$59,333 or 95% to \$3,082 for the three months ended September 30, 2013 from \$62,415 for the three months ended September 30, 2012. The change is not considered meaningful and simply reflects the timing of expenses for exploration activities.

General and Administrative Expense: General and administrative expenses decreased \$292,918 or 43% to \$383,458 for the three months ended September 30, 2013 from \$676,376 for the three months ended September 30, 2012. The decrease is due to the Company no longer utilizing outside services for consultants, software, accounting and tax.

Depletion and Accretion: Depletion, accretion, and depreciation increased \$75,283 or 480% to \$90,962 for the three months ended September 30, 2013 from \$15,679 for the three months ended September 30, 2012. The increase reflects the increase in the amount of producing wells in the during the respective time periods.

Impairment of Assets: During the three months ended September 30, 2013, the Company recorded \$11,160 in asset impairment charges for our Kemnitz 17#1 well which was deemed not commercial and a charge associated with the write-off of other undeveloped land costs. During the three months ended September 30, 2012, the Company recorded \$162,703 in asset impairment charges for our Uno Mas well which was deemed not commercial and a charge associated with the write-off of other undeveloped land costs in New Mexico.

Interest Income (Expense): Interest income was \$111 for the three months ending September 30, 2013. Interest expense was \$3,040 for the three months ending September 30, 2012. This primarily represents banking activity and is not considered meaningful.

Income Taxes: There is no provision for income tax recorded for either the three months ended September 30, 2013 or for the three months ended September 30, 2012 due to the expected operating losses of both years. Accordingly, the Company has recorded a full valuation allowance against its net deferred tax assets at December 31, 2012 and 2011. Our NOL generally begins to expire in 2025.

The realization of future tax benefits is dependent on our ability to generate taxable income within the carry forward period. Given the Company's history of net operating losses, management has determined that it is more-likely-than-not the Company will not be able to realize the tax benefit of the carry forwards. ASC 740 requires that a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized.

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Accordingly, the Company has a full valuation allowance against its net deferred tax assets for the periods ended September 30, 2013 and September 30, 2012. Upon the attainment of taxable income by the Company, management will assess the likelihood of realizing the deferred tax benefit associated with the use of the net operating loss carry forwards and will recognize a deferred tax asset at that time.

Net Loss: We had a net loss of \$380,526 for the three months ended September 30, 2013 compared to a net loss of \$868,093 for the three months ended September 30, 2012. This loss should be viewed in light of the cash flow from operations discussed below.

Nine Months Ended September 30, 2013 compared to the Nine Months Ended September 30, 2012

Our revenue, operating expenses, and net income for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012 were as follows:

| | Nine Months Ended September 30, | | Change | Percentage Change Inc (Dec) |
|---|------------------------------------|-----------------------|-------------|-----------------------------------|
| | 2013 | 2012 (as restated) | | |
| REVENUE | \$ 500,526 | \$ 209,151 | \$ 291,375 | 139% |
| COSTS AND EXPENSES | | | | |
| Lease operating expense | 130,835 | 64,695 | 66,140 | 102% |
| Production Taxes | 34,716 | 15,780 | 18,936 | 120% |
| Dry hole costs | 91,236 | - | 91,236 | 100% |
| Exploration | 18,659 | 229,611 | (210,952) | (92%) |
| General and administrative expense | 1,283,901 | 2,244,001 | (960,100) | (43%) |
| Impairment of assets | 11,160 | 162,703 | (151,543) | (93%) |
| Depletion and accretion | 168,861 | 47,760 | 121,101 | 254% |
| Total expenses | 1,739,368 | 2,764,550 | (1,025,182) | |
| LOSS FROM OPERATIONS | (1,238,842) | (2,555,399) | (1,316,557) | (52%) |
| OTHER INCOME AND EXPENSE | | | | |
| Gain on sale of oil and gas properties | 20,765 | 268,169 | (247,404) | (92%) |
| Interest expense | (835) | (3,987,381) | (3,986,546) | (100%) |
| Total other income and expense | 19,930 | (3,719,212) | (3,739,142) | |
| NET LOSS BEFORE TAX EXPENSE | (1,218,912) | (6,274,611) | | |
| TAX EXPENSE | - | - | | |
| NET LOSS | (1,218,952) | (6,274,611) | | |
| Less: Net income (loss) attributable to noncontrolling interest | (151,759) | (172,752) | | |
| NET LOSS ATTRIBUTABLE TO VICTORY ENERGY CORPORATION | \$ (1,067,153) | \$ (6,101,859) | | |

Revenues: Our revenues are derived from the sale of oil and natural gas. Our revenues increased \$291,375 or 139% to \$500,526 for the nine months ended September 30, 2013 from \$209,151 for the nine months ended September 30, 2012. Oil volumes increased 1,323 barrels, or 160% for the nine months ended September 30, 2013, compared to barrels for the nine months ended September 30, 2012. The increase in production was primarily due to the development of the Lightin' prospect with the Cotter 6 #1 and the McCauley 6 #2 wells.

Lease Operating Expenses: Lease operating expenses increased \$66,140 to \$130,835 for the nine months ended September 30, 2013. The increase in lease operating expenses reflects an increase in the number of operating properties in the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012.

Production Taxes: Production taxes are charged at the well head for the production of gas and oil. Production taxes increased \$18,936 or 120% to \$34,716 for the nine months ended September 30, 2013 from \$15,780 for the nine months ended September 30, 2012. Our production taxes are up because our production has increased.

Dry Hole Costs: Dry hole costs increased 100% to \$91,236 for the nine months ended September 30, 2013. During the third quarter of 2013, the Company had a 5% working interest in a dry hole in Bootleg Canyon.

Exploration Expense: Exploration expense decreased \$210,952 or 92% to \$18,659 for the nine months ended September 30, 2013 from \$229,611 for the nine months ended September 30, 2012. The change is not considered meaningful and simply reflects the timing of expenses for exploration activities.

General and Administrative Expense: General and administrative expenses decreased \$960,100 or 43% to \$1,283,901 for the nine months ended September 30, 2013 from \$2,244,001 for the nine months ended September 30, 2012. The decrease is due to the Company no longer utilizing outside services for consultants, software, accounting and tax.

Depletion and Accretion: Depletion, accretion, and depreciation increased \$121,101 or 254% to \$168,681 for the nine months ended September 30, 2013 from \$47,760 for the nine months ended September 30, 2012. The change is not considered meaningful and partly reflects the increase in proved reserves available for production.

Interest Expense: Interest expense was \$835 for the nine months ended September 30, 2013. This represents the immaterial banking fees during the period and is not considered meaningful. The \$3,397,381 interest charge for the nine months ended September 30, 2012 was almost entirely due to the non-cash debt discount associated with the conversion of all outstanding debentures to common stock on February 29, 2012.

Income Taxes: There is no provision for income tax recorded for either the nine months ended September 30, 2013 or for the nine months ended September 30, 2012 due to the expected operating losses of both years. Accordingly, the Company has recorded a full valuation allowance against its net deferred tax assets. Our NOL generally begins to expire in 2025.

The realization of future tax benefits is dependent on our ability to generate taxable income within the carry forward period. Given the Company's history of net operating losses, management has determined that it is more-likely-than-not the Company will not be able to realize the tax benefit of the carry forwards. ASC 740 requires that a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized.

Accordingly, the Company has a full valuation allowance against its net deferred tax assets for the periods ended September 30, 2013 and September 30, 2012. Upon the attainment of taxable income by the Company, management will assess the likelihood of realizing the deferred tax benefit associated with the use of the net operating loss carry forwards and will recognize a deferred tax asset at that time.

Net Loss: We had a net loss of \$1,218,912 for the nine months ended September 30, 2013 compared to a net loss of \$6,274,611 for the nine months ended September 30, 2012. This net loss should be viewed in light of the cash flow from operations discussed below.

Liquidity and Capital Resources

Our cash, total current assets, total assets, total current liabilities, and total liabilities as of September 30, 2013 as compared to September 30, 2012, are as follows:

| | September 30, 2013 | December 31, 2012 |
|---------------------------|--------------------------|-------------------------|
| Cash | \$ 164,874 | \$ 158,165 |
| Total current assets | 344,481 | 384,339 |
| Total assets | 3,144,912 | 1,859,981 |
| Total current liabilities | 632,773 | 273,209 |
| Total liabilities | 686,351 | 313,114 |

At September 30, 2013, we had negative working capital of \$288,292 compared to a working capital of \$111,130 at December 31, 2012. Current liabilities increased to \$632,773 at September 30, 2013 from \$273,209 at December 31, 2012 primarily due to expenses related to the drilling of new wells.

Net cash used in operating activities for the nine months ended September 30, 2013 was \$575,925 after the net loss of \$1,218,912 was decreased by \$236,856 in non-cash charges and offset by \$406,131 in changes to the other operating assets and liabilities. This compares to cash used in operating activities for the nine months ended September 30, 2012 of \$1,748,270 after the net loss for that period of \$6,274,611 was decreased by \$4,704,827 in non-cash charges offset by \$178,487 to other assets and liabilities.

Net cash used in investing activities for the nine months ended September 30, 2013 was \$1,473,336 of which \$1,926,816 was for drilling and related costs for exploration efforts, \$81,550 was for the acquisition of a leasehold, \$375,000 of proceeds from sale of 5% working interest in an oil and gas property, and \$160,000 was a farm out of leaseholds. This compares to \$263,950 in drilling costs and \$661,983 for acquired land for the nine months ended September 30, 2012.

Net cash provided by financing activities for the nine months ended September 30, 2013 was \$2,056,000 in contributions from Navitus. This compares to \$1,815,000 which came from the sale of the Company's 10% Senior Convertible Debentures, \$4,874 from warrants exercised for cash, \$349,900 from non-controlling contributions, and \$61,472 in non-controlling distributions for the nine months ended September 30, 2012.

Item 3. Qualitative and Quantitative Discussions About Market Risk

As a smaller reporting company we are not required to provide the information required by this Item. However, we did include market risk factors in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on November 30, 2013.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial

officer, as appropriate, to allow timely decisions regarding required disclosure.

Pursuant to Rule 13a-15(e) under the Exchange Act, the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") (the Company's principal executive officer), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of December 31, 2012. Based upon that evaluation, our management concluded that our control over financial reporting and related disclosure controls and procedures reflect a material weakness due to the size and nature of our Company.

Management's Report on Internal Control over Financial Reporting

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. Our management assessed the effectiveness of our internal control over financial reporting as of June 30, 2013. Based on this assessment, management identified the following material weaknesses that have caused management to conclude that, as of September 30, 2013, our disclosure controls and procedures, and our internal control over financial reporting, were not effective at the reasonable assurance level:

1. We do not have sufficient segregation of duties within accounting functions, which is a basic internal control. Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, the initiation of transactions, the custody of assets and the recording of transactions should be performed by separate individuals. Management evaluated the impact of our failure to have segregation of duties on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted represented a material weakness.
2. To address this material weaknesses, management performed additional analyses and other procedures to ensure that the consolidated financial statements included herein fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented. Accordingly, we believe that the consolidated financial statements included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

Changes in Internal Controls

There have been no changes in the Company's internal control over financial reporting during the period covered by this report that have materially affected, or that are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

There have been no material developments in the status of the litigation as reported in Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on November 12, 2013.

Item 1A. Risk Factors

As a smaller reporting company we are not required to provide the information required by this Item. However, we did include risk factors in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on November 30, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the nine months ended September 30, 2013, the following unregistered securities were issued for the purposes noted. All shares and prices have been adjusted for the 50:1 reverse stock split effective for the Company on January 12, 2012.

During the nine months ended September 30, 2013, we issued warrants to purchase shares of common to stock at an exercise price of \$.30 to Navitus in consideration of capital contributions by Aurora of \$2,056,000 pursuant to the Company's capital contribution agreement with Aurora.

Unless otherwise indicated, we relied on the exemption from registration relating to offerings that do not involve any public offering pursuant to Section 4(2) under the Securities Act of 1933 (the "Act") and/or Rule 506 of Regulation D of the Act. We believe that each investor had adequate access to information about us through the investor's relationship with us.

Item 3. Default Upon Senior Securities

There is no information required to be reported under this Item.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

There is no information required to be reported under this Item.

Item 6. Exhibits

(a) Exhibits

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| 31.1 | Rule 13a-14(a)/15d-14(a) Certification by Kenneth Hill |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification by Kenneth Hill |
| 32.1 | Section 1350 Certification by Kenneth Hill |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema Document |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document |

* XBRL (Extensible Business Reporting Language) information is furnished and not filed or part of a registration statement or prospectus for purposes of Section 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.

VICTORY ENERGY CORPORATION

Date: February 24 , 2014

By: /s/ KENNETH HILL
Kenneth Hill
Chief Executive Officer and
Director