

VICTORY ENERGY CORP  
Form 10-Q  
December 03, 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, 2014
- 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 or organization)	(I.R.S. Employer Identification No.)

3355 Bee Caves Road Ste 608, Austin, Texas	78746
(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 company” in Rule 12b-2 of the Exchange Act. (Check one):

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

As of December 3, 2014, there were 28,927,826 shares of common stock, par value \$0.001, issued and outstanding.

1

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VICTORY ENERGY CORPORATION  
 QUARTERLY REPORT ON  
 FORM 10-Q  
 FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2014

TABLE OF CONTENTS

	Page
Part I – Financial Information	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets as of September 30, 2014 (unaudited) and December 31, 2013	<u>5</u>
Condensed Consolidated Statements of Operations for the three months and nine months ended September 30, 2014 and 2013 (unaudited)	<u>6</u>
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014, and 2013 (unaudited)	<u>7</u>
Notes to the Condensed Consolidated Financial Statements	<u>8</u>
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	<u>16</u>
Item 3. Qualitative and Quantitative Discussions About Market Risk	<u>22</u>
Item 4. Controls and Procedures	<u>22</u>
Part II – Other Information	
Item 1. Legal Proceedings	<u>24</u>
Item 1A. Risk Factors	<u>24</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>24</u>
Item 3. Default Upon Senior Securities	<u>24</u>
Item 4. Mine Safety Disclosures	<u>24</u>
Item 5. Other Information	<u>24</u>
Item 6. Exhibits	<u>25</u>
Signature	<u>26</u>

### Cautionary Notice Regarding Forward Looking Statements

The terms “Victory,” “Company,” “we,” “our,” and “us,” refer to Victory Energy Corporation and its consolidated subsidiaries unless the context suggests otherwise. Victory’s asset interests are held through Aurora Energy Partners (“Aurora”), a Texas general partnership, which Victory controls as managing partner and consolidates as a subsidiary of Victory. Victory holds a 50% controlling partnership interest in Aurora.

This Quarterly Report on Form 10-Q contains a number of forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 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 Quarterly Report on Form 10-Q 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 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.

Our 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;
- our ability to continue as a going concern;
- difficulties in raising additional capital;
- our inability to meet the required financial covenants of our lender;
- 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 Securities and Exchange Commission (the “SEC”) regulations;
- FINRA requirements that may limit the ability to buy and sell our common stock;
- illiquidity and price volatility 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;
- the accuracy of assumptions associated with reserve estimates;
- the potential that drilling activities will not yield oil or natural gas in commercial quantities;
- potential exploration, production and acquisitions may not maintain revenue levels in the future;
- our recent acquisition of additional oil and natural gas assets in the Permian Basin and other 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 crude oil and 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 natural 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/A for the year ended December 31, 2013, 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 Quarterly Report on Form 10-Q and under the caption “Risk Factors”, in Item 1A of the Quarterly Report on Form 10-Q could cause actual results to differ materially from those in the forward-looking statements. Other unpredictable or unknown factors not discussed in this Quarterly Report on Form 10-Q and other documents filed with the SEC 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 Quarterly Report on Form 10-Q. 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

(Unaudited)

	September 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$46,062	\$20,858
Accounts receivable - less allowance for doubtful accounts of \$200,000, and \$200,000 for September 30, 2014 and December 31, 2013, respectively	56,541	116,542
Accounts receivable - affiliates	169,141	68,571
Prepaid expenses	21,956	38,663
Total current assets	293,700	244,634
<b>Fixed Assets</b>		
Furniture, equipment, and application software	46,883	43,173
Accumulated depreciation	(16,349)	(11,597)
Total furniture and fixtures, net	30,534	31,576
Oil gas properties (successful efforts method)	6,619,685	3,715,648
Accumulated depletion, depreciation and amortization	(1,553,356)	(1,517,836)
Total oil and gas properties, net	5,066,329	2,197,812
<b>Other Assets</b>		
Deferred debt financing costs	98,089	—
Total Assets	\$5,488,652	\$2,474,022
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$1,361,558	\$351,435
Accrued liabilities	199,531	196,913
Accrued liabilities - affiliates	33,323	18,542
Liability for unauthorized preferred stock issued	9,283	9,283
Current note payable	800,000	—
Total current liabilities	2,403,695	576,173
<b>Other Liabilities</b>		
Asset retirement obligations	42,117	51,954
Total long term liabilities	42,117	51,954
Total liabilities	2,445,812	628,127
<b>Stockholders' Equity</b>		
Common stock, \$0.001 par value, 47,500,000 shares authorized, 28,927,826 shares and 27,563,619 shares issued and outstanding for September 30, 2014 and December 31, 2013, respectively	28,928	27,564
Additional paid-in capital	34,915,154	34,404,239
Accumulated deficit	(37,687,804)	(36,901,894)
Total Victory Energy Corporation stockholders' deficit	(2,743,722)	(2,470,091)
Non-controlling interest	5,786,562	4,315,986
Total stockholders' equity	3,042,840	1,845,895

Total Liabilities and Stockholders' Equity	\$5,488,652	\$2,474,022
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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,	
	2014	2013	2014	2013
OIL AND GAS REVENUES	\$ 173,527	\$ 244,848	\$ 606,487	\$ 500,526
<b>COSTS AND EXPENSES</b>				
Lease operating expenses	42,154	55,849	157,786	130,835
Production taxes	9,547	14,113	34,809	34,716
Dry hole costs	576	87,626	576	91,236
Exploration	27,641	3,082	51,813	18,659
General and administrative expense	656,586	383,458	2,120,214	1,283,901
Impairment	—	11,160	—	11,160
Depletion, depreciation, and amortization	81,952	90,962	252,024	168,861
Total cost and expenses	818,456	646,250	2,617,222	1,739,368
<b>LOSS FROM OPERATIONS</b>	<b>(644,929</b>	<b>) (401,402</b>	<b>) (2,010,735</b>	<b>) (1,238,842</b>
<b>OTHER INCOME (EXPENSE):</b>				
Gain on sale of oil and gas properties	507	20,765	2,160,099	20,765
Management fee income	3,470	—	92,362	—
Interest expense	(18,631	) 111	(49,639	) (835
Total net other income and expense	(14,654	) 20,876	2,202,822	19,930
<b>INCOME (LOSS) BEFORE TAX EXPENSE</b>	<b>(659,583</b>	<b>) (380,526</b>	<b>) 192,087</b>	<b>) (1,218,912</b>
<b>TAX EXPENSE</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>NET INCOME (LOSS)</b>	<b>(659,583</b>	<b>) \$(380,526</b>	<b>) \$192,087</b>	<b>) \$(1,218,912</b>
Less: net income (loss) attributable to non-controlling interest	(36,788	) (39,470	) 977,997	(151,759
<b>NET LOSS ATTRIBUTABLE TO VICTORY ENERGY CORPORATION</b>	<b>\$(622,795</b>	<b>) \$(341,056</b>	<b>) \$(785,910</b>	<b>) \$(1,067,153</b>
<b>Weighted average shares</b>				
Basic	28,788,533	27,563,619	28,154,497	27,563,619
Diluted	28,788,533	27,563,619	28,154,497	27,563,619
<b>Net income (loss) per share, basic and diluted</b>				
Basic	\$(0.02	) \$(0.01	) \$(0.03	) \$(0.04
Diluted	\$(0.02	) \$(0.01	) \$(0.03	) \$(0.04

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,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 192,087	\$(1,218,912 )
Adjustments to reconcile net income (loss) from operations to net cash used in operating activities		
Amortization of debt financing costs	24,380	—
Accretion of asset retirement obligation	2,686	2,994
Gain from sale of oil and gas properties	(2,160,099 )	(20,765 )
Depletion, depreciation, and amortization	252,024	168,861
Impairment of assets	—	11,160
Stock based compensation	461,237	52,106
Warrants for services	—	22,500
Restricted stock in exchange for services	51,042	—
Change in operating assets and liabilities		
Accounts receivable	60,001	96,912
Accounts receivable - affiliates	(100,570 )	(34,917 )
Prepaid expense	16,707	(15,428 )
Accounts payable	1,010,123	341,851
Accrued liabilities	2,618	(28,519 )
Accrued interest	—	(25,639 )
Accrued liabilities – affiliates	14,781	71,871
Net cash used in operating activities	(172,983 )	(575,925 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Drilling and completion costs	(1,569,514 )	(1,926,816 )
Acquisition of oil and gas properties	(3,397,122 )	(81,550 )
Proceeds from the sale of assets	4,021,000	375,000
Purchase of furniture and fixtures	(3,710 )	—
Renewal of leaseholds	(22,577 )	—
Sale-farm out of leaseholds	—	160,000
Net cash (used in) in investing activities	(971,923 )	(1,473,366 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Non-controlling interest contributions	1,140,000	2,056,000
Non-controlling interest distributions	(647,421 )	—
Debt financing costs	(122,469 )	—
Proceeds from debt financing	1,233,000	—
Principal payments on debt financing	(433,000 )	—
Net cash provided by financing activities	1,170,110	2,056,000
Net change in cash	25,204	6,709
Beginning cash	20,858	158,165
Ending cash	\$ 46,062	\$ 164,874

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 is an independent, growth oriented natural resources company engaged in the acquisition, exploration and production of oil and natural gas properties, through its partnership with Aurora Energy Partners, a Texas general partnership (“Aurora”). Current operations are located primarily onshore in the State of Texas. 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 28,927,826 shares of common stock outstanding as of September 30, 2014. The Company’s corporate headquarters are located at 3355 Bee Caves Road Suite 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, and holds a 50% partnership interest in Aurora. Aurora, a subsidiary of the Company, is consolidated with Victory for financial statement reporting purposes, as the terms of the partnership agreement that governs the operations of Aurora give 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, 2013, which has been derived from audited consolidated financial statements, and the accompanying interim condensed consolidated financial statements as of September 30, 2014, for three and nine month periods ended September 30, 2014 and 2013, 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 consolidated financial condition, results of operations and cash flows of Victory and Aurora (hereinafter collectively referred to as the “Company” unless the context suggests otherwise) as of and for the periods presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), have been included.

Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014 or for any other interim period during such year. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. 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/A for the fiscal year ended December 31, 2013 filed with the SEC on April 21, 2014.

Non-controlling Interests:

The Navitus Energy Group, a Texas general partnership (“Navitus”) is a partner with Victory in Aurora. Victory and Navitus each own a 50% partnership interest in Aurora. Victory is the Managing Partner and has contractual authority to manage the business affairs of Aurora.

The non-controlling interest in Aurora is held by Navitus. As of September 30, 2014, \$5,786,562 was recorded as the equity of the non-controlling interest in our consolidated balance sheet representing the third-party investment in Aurora, with income (losses) attributable to non-controlling interests of \$(36,788) and \$(39,470) for the three months ended September 30, 2014 and 2013, respectively, and \$977,997 and \$(151,759) for the nine months ended September 30, 2014 and September 30, 2013, respectively. As of December 31, 2013, \$4,315,986 was recorded as the equity of the non-controlling interest in our consolidated balance sheet representing the third-party investment in Aurora.

Use of Estimates:

The preparation of our condensed consolidated financial statements in conformity with U.S. 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, general and administrative costs and interest, exploration expense, the purchase price allocation on properties acquired, various common stock, warrants and option transactions, and contingencies.

Oil and Natural Gas Properties:

We account for investments in oil and natural gas properties using the successful efforts method of accounting. Under this method of accounting, only successful exploration drilling costs that directly result in the discovery of proved reserves are capitalized. Unsuccessful exploration drilling costs that do not result in an asset with future economic benefit are expensed. All development costs are capitalized because the purpose of development activities is considered to be building a producing system of wells, and related equipment facilities, rather than searching for oil and natural gas. Items charged to expense generally include geological and geophysical costs. Capitalized costs for producing wells and associated land and other assets are depleted using a Units of Production methodology based on the proved, developed reserves and calculated on a by well basis, based upon reserve reports prepared by an independent petroleum engineer in accordance with SEC rules.

The net capitalized costs of proved oil and natural gas properties are subject to an impairment test which compares the net book value of assets, based on historical cost, to the undiscounted future cash flow of remaining oil and natural gas reserves based on current economic and operating conditions. Impairment of an individual producing oil and natural gas field is first determined by comparing the undiscounted future net cash flows associated with the proved property to the carrying value of the underlying property. If the cost of the underlying property is in excess of the undiscounted future net cash flows the carrying cost of the impaired property is compared to the estimated fair value and the difference is recorded as an impairment loss. Management’s estimate of fair value takes into account many factors such as the present value discount rate, pricing, and when appropriate, possible and probable reserves when activities justified by economic conditions and actual or planned drilling or other development.

Under the successful efforts method of accounting, 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.

We depreciate other property and equipment using the straight-line method based on estimated useful lives ranging from five to 10 years.

Asset Retirement Obligations:

The Company records the estimate of the fair value of liabilities related to future asset retirement obligations (“ARO”) 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 and required government regulations. 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.

Earnings (Losses) per Share:

Basic earnings per share ("EPS") is computed by dividing net income (loss) attributable to controlling interests by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share takes into account the dilutive effect of potential common stock that could be issued by the Company in conjunction with stock awards that have been granted to directors and employees. In accordance with ASC 260, Earnings Per Share, awards of nonvested shares shall be considered outstanding as of the respective grant dates for purposes of computing diluted EPS even though their exercise is contingent upon vesting.

#### 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.

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 likely that 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 at September 30, 2014 and December 31, 2013. 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.

#### Stock Based Compensation:

The Company applies ASC 718, "Compensation-Stock Compensation" to account for the issuance of options and warrants to employees, directors, officers and Navitus investors. 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 employees, 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 stock-based directors compensation expense from warrants and stock awards granted to directors for services of \$365,675 and \$22,500 for the nine months ended September 30, 2014 and 2013, respectively. For the three months ended September 30, 2014 and 2013, the Company recognized stock-based director compensation from warrants and stock awards granted to directors for services of \$73,200 and \$6,000, respectively.

The Company recognized stock-based incentive compensation expense from stock options granted to officers and employees of the company of \$10,937 and \$8,781 for the three months ended September 30, 2014 and 2013, respectively, and \$95,562 and \$52,106 for the nine months ended September 30, 2014 and 2013, respectively.



The Company also recognized stock-based general and administrative expense of \$30,625 and \$51,042 from stock issued to an investor relations management company for the three and nine months ended September 30, 2014, 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. 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.

As presented in the condensed consolidated financial statements, the Company is reporting a net loss, attributable to Victory Energy Corporation, of \$622,795 and \$341,056 for the three months ended September 30, 2014 and 2013, respectively, and a net loss of \$785,910 and \$1,067,153 for the nine months ended September 30, 2014 and 2013, respectively.

Proceeds from debt and Navitus contributions to Aurora have allowed the Company to continue operations and invest in oil and natural gas properties. Management anticipates that operating losses will continue until new wells are drilled and or acquisitions are successfully completed and incremental production increases operating profit.

The Company has invested \$1,701,947 and \$4,966,636, respectively, in leases, drilling and completion costs, and property acquisitions for the three and nine months ended September 30, 2014, respectively.

The Company remains in active discussions with Navitus and with third parties relating to the capital infusion and longer term financing required to fund our capital expenditures planned for 2014 and 2015. 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 Company, through Aurora as borrower, entered a \$25 million credit facility (the "Credit Agreement") with Texas Capital Bank, National Association on February 20, 2014. See Note 6 "Revolving Credit Agreement". As of September 30, 2014 the Company has \$800,000 in principal amount outstanding under the Credit Agreement. 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 – Acquisitions and Dispositions

### Dispositions

On June 5, 2014, Aurora completed the sale of all of its interest in the Lightnin' property for cash consideration of \$4,021,000. The effective date for the transaction was April 1, 2014. Aurora held a 20% working and 15% net revenue interest in the Lightnin' property operated by a third party. Estimated daily net production to Aurora's interest was approximately 36 BOEPD (barrels of oil equivalent per day) at the time of the sale from the 3 producing wells. The Company recognized a gain on the sale of the Lightnin' property of \$2,160,099 in its consolidated statement of operations for the three and nine months ended September 30, 2014.

### Acquisitions

On June 30, 2014, Aurora completed the initial closing (the "First Closing") of a purchase of a 10% working and 7.5% net revenue interest in the proved and unproved Permian Basin Fairway Operations from a third party (the "Fairway Seller") for an initial payment of \$2,491,888 in cash, subject to customary purchase price adjustments (the "Fairway Acquisition"), pursuant to the terms and conditions of the Purchase and Sale Agreement dated June 30, 2014 between Aurora and the Fairway Seller (the "PSA"). On the First Closing, the Fairway Seller assigned certain assets in its Permian Basin Fairway Operation (the "First Closing Assets") to Aurora. The second closing (the "Second Closing") was planned to follow the completion of curative title work and was expected in August 2014. On the Second Closing, the Fairway Seller should have assigned the remainder of its assets in its Permian Basin Fairway Operations to Aurora. The Effective Date for the transfer of all assets was May 1, 2014. The acquisition of the First Closing Assets included 7 producing wells and 4 wells completed and awaiting production start-up.

On September 23, 2014, the Company mutually agreed to the termination of the Purchase and Sale Agreement dated June 30, 2014. As previously disclosed, the PSA provided for the acquisition of certain of TELA's right, title and interest in certain oil and gas assets (the "Acquired Assets") at two closings, the first of which occurred on June 30, 2014, on which date Aurora acquired a 10% working interest and a 7.5% net revenue interest in approximately 2,080 gross acres located in Glasscock County and Howard County. On July 31, 2014, the Company made an additional

purchase price adjustment payment in accordance with the PSA of \$558,246. The remaining Acquired Assets were to be purchased by Aurora at a second closing (the "Second Closing"). Pursuant to the termination of the PSA, the Second Closing will no longer occur as the result of certain title impairment issues that were uncovered during the due diligence process and that were not remedied to the satisfaction of the Company and TELA. No penalties or payments were due as a result of the termination of the PSA. The Company has determined that a Seller's invoice dated September 18, 2014 for additional leasehold cost related purchase price adjustments in the amount of \$346,988, is valid and the Company has accrued such costs at September 30, 2014. This brings the total acquisition cost for the Fairway project to \$3.4 million. The completed acquisition of all assets includes 50 additional drilling locations.

The financial impact of the Lightnin' Asset disposition and the Fairway Acquisition was reported in the Company's Current Report Form 8-K/A filed September 15, 2014 and is incorporated by reference herewith. As a result of the aforementioned termination of the PSA, only the additional leasehold cost component of the acquisition was finalized. There were no changes to the pro forma results of operations disclosed in the Form 8- K/A noted above. The final purchase price allocation is summarized below:

Proved Producing Lease and Well Costs Acquired	\$2,240,530
Proved Producing Leasehold Costs Acquired	197,654
Unproved Leasehold Costs Acquired	958,938
Total Oil and Gas Property Costs Acquired	\$3,397,122

Note 3 – Oil and natural gas properties (under successful efforts accounting)

Oil and natural gas properties are comprised of the following:

	September 30, 2014	December 31, 2013
Oil and natural gas properties	\$6,619,685	\$3,715,648
Less: accumulated depletion	(1,553,356 )	(1,517,836 )
Oil and natural gas properties, net	\$5,066,329	\$2,197,812

Depletion, depreciation, accretion, and amortization expense for the three months ended September 30, 2014 and 2013 was \$81,952 and \$90,962, respectively, and for the nine months ended September 30, 2014 and 2013 was \$252,024 and \$168,861, respectively.

Note 4 – Asset Retirement Obligations

The following table is a reconciliation of the ARO liability for continuing operations for the nine months ended September 30, 2014 and the twelve months ended December 31, 2013.

	September 30, 2014	December 31, 2013
Asset retirement obligation at beginning of period	\$51,954	\$39,905
Liabilities incurred on properties acquired and developed	17,069	8,930
Revisions to previous estimates	(11,990 )	—
Liabilities on properties sold (Lightnin' properties)	(17,602 )	—
Accretion expense	2,686	3,119
Asset retirement obligation at end of period	\$42,117	\$51,954

Note 5 – Navitus Partnership Agreement

Under terms of the Second Amended Partnership Agreement of Aurora, Navitus earns a net profits interest respective to its 50% 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. The accumulated net deficits of Navitus, along with historical contributions, net of distributions, are reported as non-controlling interests in the equity section of the condensed consolidated financial statements.

Under the terms of Aurora's Second Amended Partnership Agreement, Navitus Partners, LLC, the fourth partner of Aurora, admitted under the Navitus Private Placement Memorandum (the "Navitus PPM"), earns a preferred return distribution of 10% based upon capital contributions to Aurora used by Victory to acquire or develop oil and gas

prospects or related enterprises on behalf of Aurora. The preferred return distribution is in addition to and does not reduce any net profits interest. Since August 23, 2012, preferred distributions rights total \$568,324 (\$25,942 attributable to 2012, \$241,784 attributable 2013, and \$300,598 attributable to the nine months ended September 30, 2014). Victory, as managing partner, may, in its sole discretion, choose to distribute all or a portion of the preferred returns, or, apply these funds to other partnership purposes.

Navitus Partners, LLC, a partner in Navitus, 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 Aurora's Second Amended Partnership Agreement and the Navitus PPM. Since August 23, 2012, \$4,565,900 of capital contributions have resulted in issuance of 4,565,900 common stock warrants (1,089,900 in 2012, 2,336,000 in 2013, and 1,140,000 for the nine months ended September 30, 2014).

#### Note 6 – Revolving Credit Agreement

On February 20, 2014, Aurora, as borrower, entered the Credit Agreement with Texas Capital Bank (“the Lender”). Guarantors on the Credit Agreement are Victory and Navitus, the two partners of Aurora. Pursuant to the Credit Agreement, the Lender agreed to extend credit to Aurora in the form of (a) one or more revolving credit loans (each such loan, a “Loan”) and (b) the issuance of standby letters of credit, of up to an aggregate principal amount at any one time not to exceed the lesser of (i) \$25,000,000 or (ii) the borrowing base in effect from time to time (the “Commitment”). The initial borrowing base on February 20, 2014 was set at \$1,450,000. The borrowing base is determined by the Lender, in its sole discretion, based on customary lending practices, review of the oil and natural gas properties included in the borrowing base, financial review of Aurora, the Company and Navitus and such other factors as may be deemed relevant. The borrowing base is re-determined (i) on or about June 30 of each year based on the previous December 31 reserve report prepared by an independent reserve engineer, and (ii) on or about August 31 of each year based on the previous June 30 reserve report prepared by Aurora's internal reserve engineers or an independent reserve engineer and certified by an officer of Aurora. The Credit Agreement will mature on February 20, 2017. Amounts borrowed under the Credit Agreement will bear interest at rates equal to the lesser of (i) the maximum rate of interest which may be charged or received by the Lender in accordance with applicable Texas law and (ii) the interest rate per annum publicly announced from time to time by the Lender as the prime rate in effect at its principal office plus the applicable margin. The applicable margin is, (i) with respect to Loans, one percent (1.00%) per annum, (ii) with respect to letter of credit fees, two percent (2.00%) per annum and (iii) with respect to commitment fees, one-half of one percent (0.50%) per annum. Loans made under the Credit Agreement are secured by (i) a first priority lien in the oil and gas properties of Aurora, the Company and Navitus, and (ii) a first priority security interest in substantially all of the assets of Aurora and its subsidiaries, if any, as well as in 100% of the partnership interests in Aurora held by the Company and Navitus. Loans made under the Credit Agreement to Aurora are fully guaranteed by the Company and Navitus.

The Credit Agreement contains various affirmative and negative covenants. These covenants, among other things, limit additional indebtedness, additional liens and transactions with affiliates. Among the covenants contained in the Credit Agreement are financial covenants that Aurora will maintain a minimum EBITDAX to Cash Interest Ratio of 3.5 to 1.0 and a minimum Current Ratio of not less than 1.0 to 1.0. The Current Ratio is defined under the covenants to include, as a current asset, the revolving credit availability. At September 30, 2014, Aurora's Current Ratio was 0.10 to 1 and it was therefore not in compliance with the aforementioned Current Ratio covenant requiring a ratio of current assets to current liabilities of not less than 1 to 1. Aurora notified the Lender that it is out compliance with the Current Ratio covenant and the Lender instructed the Company to fully explain its plans to come back into compliance with the Current Ratio covenant in their September 30, 2014 Compliance Certificate which is made upon filing of the Company's September 30, 2014 SEC Form 10-Q filing.

On November 19, 2014, Aurora entered into a Waiver of Event of Default (the “Waiver Agreement”) with the Lender. Under the terms of the Waiver Agreement, the Lender agreed to waive an event of default under the Loan Agreement resulting from Aurora's failure to maintain a current ratio of at least 1.00 to 1.00 as of the end of the fiscal quarter ending September 30, 2014 subject to certain conditions set forth therein, including the receipt by Aurora by December 1, 2014 of Navitus of at least \$1.5 million to be used to reduce Aurora's outstanding liabilities. As of December 1, 2014, the required equity contributions from Navitus had not been received by Aurora, therefore the lender has the right but not the obligation to elect certain remedies, including, among other things, the acceleration of

all amounts due under the Credit Agreement. As a result, the \$800,000 outstanding balance of the Credit Agreement has been classified as a current liability in accordance with GAAP. The Company has not been notified by the Lender of any changes in the terms of the debt repayment at this time. Aurora continues to be current in all related interest and fee obligations, and expects the required Navitus equity contributions over the next thirty days and be in compliance with all Credit Agreement covenants at December 31, 2014.

The Company has fully utilized its borrowing base as of September 30, 2014. During the first quarter ended March 31, 2014 and second quarter ended June 30, 2014, Aurora drew \$868,000, and \$365,000 respectively, of the initial \$1,450,000 borrowing base. In May 2014, revisions to the Credit Agreement lowered the borrowing base from \$1,450,000 to \$800,000 due to the sale of the Lightnin' properties. In effect, Victory was obligated to pay \$433,000 of the \$1.23 million in credit loans utilized to meet the requirements of the new borrowing base.

Amortization of debt financing costs and interest expense on this debt for the three months and nine months ended September 30, 2014 was \$18,631 and \$49,639, respectively.

#### Note 7 – Related Party Transactions

The Company has a combined receivable from Navitus and Blackacre Resources, LLC. (an investment firm in which two of the Company's board of directors are members of management) of \$169,141 and \$68,571 as of September 30, 2014 and December 31, 2013, respectively. The Company also uses legal and consulting services of three members of its Board of Directors in the ordinary course of the Company's business and reimburses for travel related costs. These charges totaled \$268,219 and \$89,375 for the nine months ended September 30, 2014 and 2013, respectively. Accrued liabilities to affiliates as of September 30, 2014 and December 31, 2013 were \$33,323 and \$18,542, respectively. In accordance with the Second Amended Partnership Agreement, the Company receives a 2% management fee on gross receipts of Aurora. The management fee totaled \$3,470 and \$92,632 for the three and nine months ended September 30, 2014, respectively. There were no management fees charged during the three and nine months ended September 30, 2013, respectively.

#### Note 8 – 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 three months ended September 30, 2014 and nine months ended September 30, 2014, and in consideration of capital contributions by Aurora of \$250,000 and \$1,140,000, respectively, pursuant to the Company's capital contribution agreement with Aurora, the Company issued 250,000 and 1,140,000 common stock warrants, respectively, to Navitus with an exercise price ranging from \$0.14-\$0.41. The warrants vest immediately and the Company valued the common stock warrants using the Black Scholes Option Pricing Model, for the three and nine months ended September 30, 2014 was \$77,500 and \$339,700, respectively.

During the three and nine months ended September 30, 2014, and respectively, the Company issued 1,250,000 shares of common stock, 400,000 common stock options, and 175,000 shares of restricted common stock. The common stock options are vesting over a period of 36 months.

#### Note 9 - 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 (“Oz”) sued Victory and other parties for bad faith trespass, among other claims, regarding the drilling of two wells on lands that Oz claims title to. Victory 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 on February 8 and 9, 2012. The Court found in favor of Oz and rendered a trespass finding against Victory and the other defendants. This case was appealed to the 8th Court of Appeals in El Paso, Texas, wherein that Court affirmed the ruling of the trial court. A Motion for Rehearing has been filed with the 8<sup>th</sup> Court of Appeals in El Paso, Texas. Victory has no monetary liability beyond those funds that were held in the registry of the Court on the date of judgment.

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 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 trespassed on lands owned by the plaintiffs named in the lawsuit in the drilling of the Adams-Baggett 115-8 well in Crockett County, Texas.

Discovery is ongoing in this case and Victory 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 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 condensed consolidated financial statements.

#### Note 10 - Subsequent Events

On November 1, 2014, the Company issued 175,000 shares of restricted stock to an investor relations management company.

On November 19, 2014, Aurora entered into a Waiver of Event of Default (the "Waiver Agreement") with the Lender. Refer to Note 6 regarding the Waiver Agreement.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist you in understanding our business and results of operations together with our present financial condition. This section should be read in conjunction with (i) our condensed consolidated financial statements and the accompanying notes included elsewhere in this Quarterly Report on Form 10-Q and (ii) our Annual Report on Form 10-K/A for the year ended December 31, 2013 ("2013 Form 10-K/A"). Statements in our discussion may be forward-looking statements. These forward-looking statements involve risks and uncertainties. We caution that a number of factors discussed in "Cautionary Notice Regarding Forward Looking Statements and "Risk Factors" in our 2013 Form 10-K/A could cause future production, revenues and expenses to differ materially from our expectations.

The following is management's discussion and analysis of certain significant factors that have affected certain aspects of our financial position and results of operations during the periods included in the accompanying unaudited condensed consolidated financial statements.

### General Overview

The Company is an early stage, high growth oil and gas exploration and production (E&P) company focused on the acquisition and development of assets in the Permian Basin. The Company is based in Austin, Texas with additional technical resources in Midland, Texas. The Company currently holds interests in the Permian Basin where its geologic targets are the multi-stack resource play opportunities such as the Wolfcamp, Wolfberry, Mississippian, Cline and Fusselman formations. The Company is currently growing through sustainable vertical well development on existing properties and through new acquisitions, which offer repeatable results and additional acreage for long term drilling programs.

Investment objectives are focused on creating long-term shareholder value by increasing oil and natural gas reserves, improving financial returns (higher production volumes and lower costs), and managing capital growth on its balance sheet. This includes the established \$25 million credit facility with Texas Capital Bank of Dallas, Texas, in April of 2014.

On September 30, 2014, the Company acquired the Permian Basin Fairway Operation prospect located in Glasscock County, Texas, which held 7 (gross) and 0.7 (net) producing wells. Additional components of the acquisition on which the title curative process was completed, and an additional payment was made July 31, 2014 in the amount of \$558,246. We also accrued \$346,988 for additional leasehold costs related purchase price adjustments.

At September 30, 2014, the Company held a working interest in 31 net wells located in the States of Texas and New Mexico. During the nine months ended September 30, 2014, the Company participated in the completion of 4 (gross) and 0.4 (net) wells, respectively. All wells were successfully completed.

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 reported net losses, attributable to Victory, of \$785,910 and \$1,067,153 during the nine months ended September 30, 2014 and 2013, respectively and losses are expected to continue in the near term. The Company has been funding its operations from the sale of assets, as well as contributions made by its Navitus partners. Management anticipates that significant additional capital expenditures and acquisitions will be necessary to develop the Company's oil and natural gas properties, which contain 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 acquisitions 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 must be reduced to match available operating cash flows.

The accompanying condensed consolidated financial statements are prepared as if the Company will continue as a going concern. The condensed 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.

#### Factors affecting financial reporting of our general and administrative expenses

Our historical general and administrative expenses included in our results of operations for the periods presented may not be comparable, either from period to period or going forward, for the following reasons:

##### Growth-in-business related general expenses

As part of our stated growth through acquisitions and development business plan, the Company has incurred additional costs associated with one key acquisition, during the quarter ended September 30, 2014. Among other things, these additional general and administrative expenses include legal, and geological analysis costs associated with title examination of properties, contractual purchase and sale agreements and third party reservoir engineering and geologic assessments for reserve calculations. Additionally, as part of the Company's credit facility agreement with our creditor bank, we also pay related legal expenses for property review and assessment. All of these expenses help us protect the assets of the Company and secure bank funding. These specific expenses are not quarterly recurring per se, however they will occur again when additional opportunities to increase reserves and future development opportunities present themselves. These expenses were significant, but enabled these key business growth transactions to be prudently structured and completed. We estimate the acquisition related costs to be significant as we continue to grow the asset base.

We have incurred significant costs to structure and close our debt facility and will continue to incur such costs as our asset base allows prudent borrowing against our proved reserves. These costs can fluctuate as debt instruments are ended, modified and replaced with new creditor entities.

We have incurred non-recurring costs associated with investor and public relations which are critical to operate and expand in the public company arena. These include our engagement of a SEC registered investment advisor as our market maker, and their services to help the Company move its trading platform from the OTCQX exchange. This move will help us in our next platform transition to a larger exchange in the future. Additionally, the Company engaged an investor relations and corporate communications firm to help improve investor communications, capital markets development and awareness. The Company is now presenting to large capital sources across the country and will continue to do so in the near future, and this firm has in the past helped companies move up to the largest of stock exchanges (NASDAQ, NYSE).

We have incurred director and employee stock based compensation, all non-cash in nature, as part of our key employee acquisition and retention plan. As we grow, we need to add new talent and incentivize our current key employees to stay with the company. The 2014 Long Term Incentive Plan, recently approved by our shareholders, was a key element of the platform to fulfill this need. Among other things, the Company incurred SEC related legal expenses as part of this plan and shareholder vote. Stock grants and multi-year stock option award based compensation is now a fundamental part of the Company's key-employee retention plan.

##### Public Company Expenses

We incur direct, incremental general and administrative expenses as a result of being a publicly traded company, including but not limited to, increased scope of operations as we evaluate potential acquisitions, implementation of stock based compensation programs to attract and retain talent, periodic public reporting to shareholders, tax consulting, independent auditor fees, investor relations activities, registrar and transfer fees, director and officer

liability insurance, and director compensation. In some cases, our small reporting company status will make key acquisitions and divestitures fall into “significant” status. This requires the Company to perform a series of financial reporting processes and reporting. As we grow, these transactions will become a smaller part of our overall size, and may no longer be required.

Three Months Ended September 30, 2014 compared to the Three Months Ended September 30, 2013

The condensed consolidated operating statements of our revenue, operating expenses, and net income for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 were as follows:

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	(Unaudited)			Percentage	
	Three Months Ended		Change	Change	
	September 30,				
	2014	2013			
OIL AND GAS REVENUES	\$173,527	\$244,848	\$(71,321)	) (29	)%
<b>COSTS AND EXPENSES</b>					
Lease operating expense	42,154	55,849	(13,695)	) (25	)%
Production Taxes	9,547	14,113	(4,566)	) (32	)%
Dry hole costs	576	87,626	(87,050)	) (99	)%
Exploration	27,641	3,082	24,559	797	%
General and administrative expense	656,586	383,458	273,128	71	%
Impairment	—	11,160	(11,160)	) (100	)%
Depletion, depreciation, and amortization	81,952	90,962	(9,010)	) (10	)%
Total expenses	818,456	646,250			
LOSS FROM OPERATIONS	(644,929)	) (401,402)	)		
<b>OTHER INCOME AND EXPENSE</b>					
Gain on sale of oil and gas properties	507	20,765	(20,258)	) n/a	
Management fee income	3,470	—	3,470	n/a	
Interest expense	(18,631)	) 111	(18,742)	) n/a	
Total net other income and expense	(14,654)	) 20,876			
NET LOSS BEFORE TAX BENEFIT	(659,583)	) (380,526)	) (279,057)	)	
TAX BENEFIT	—	—			
NET LOSS	(659,583)	) (380,526)	) (279,057)	)	
Less: Net income (loss) attributable to non-controlling interest	(36,788)	) (39,470)	) 2,682	(7	)%
NET LOSS ATTRIBUTABLE TO VICTORY ENERGY CORPORATION	\$(622,795)	) \$(341,056)	) \$(281,739)	) (83	)%

Revenues: Our revenues decreased \$71,321 or 29% to \$173,527 for the three months ended September 30, 2014 from \$244,848 for the three months ended September 30, 2013. The decrease in production is primarily due to the sale of the Lightnin' property in the end of the second quarter 2014.

Lease operating expense: Lease operating expenses decreased \$13,695 to \$42,154 or 25% from \$55,849 for the three months ended September 30, 2014. The decrease is primarily due to the sale of the Lightnin' property in the end of the second quarter 2014.

Production taxes: Production taxes are charged at the well head on the value of production of oil and natural gas. Production taxes decreased \$4,566 or 32% to \$9,547 for the three months ended September 30, 2014 from \$14,113 for the three months ended September 30, 2013. The decrease percentage is primarily due to the sale of the Lightnin' property in the end of the second quarter 2014.

Dry hole costs: Dry hole costs decreased \$87,050 or 99% for the three months ended September 30, 2014 from \$87,626 for the three months ended September 30, 2013. The prior year dry hole costs were in connection with the Company's dry hole in the Bootleg Canyon Prospect in Texas.

Exploration expense: Exploration expense increased \$24,559 or 797% to \$27,641 from \$3,082 for the three months ended September 30, 2013. The increase in Exploration expense is primarily the result of geological and geophysical (G&G) costs associated with the services related to acquisition work.



General and administrative expense: General and administrative expenses increased \$273,128 or 71% to \$656,586 for the three months ended September 30, 2014 from \$383,458 for the three months ended September 30, 2013. The increase is primarily due to costs associated with investor relation services, legal and audit fees, and an increase in non-cash - stock compensation expense for awards and options granted during the period.

Impairment of assets: Asset impairments decreased \$11,160 or 100% for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. This decline was the result of the Company's impairment of its Kemnitz 17#1 well in 2013.

Depletion, depreciation and amortization: Depletion, depreciation and amortization decreased \$9,010 or 10% to \$81,952 for the three months ended September 30, 2014 from \$90,962 for the three months ended September 30, 2013. The change is primarily due to the sale our Lightnin' wells in June 2014 coupled with lower production volumes in the three months ended September 30, 2014.

Management fee income: Management fee income increased \$3,470 for the three months ended September 30, 2013. Victory charges a 2% management fee which began as of December 31, 2013.

Interest expense: Amortization of debt financing costs and interest expense increased \$18,742 for the three months ended September 30, 2014 from \$111 of interest income (net) for the three months ended September 30, 2013. On February 24, 2014, Aurora, as borrower, closed a \$25,000,000 revolving credit facility, which included \$1,450,000 operating base and a 4.5% interest rate. Interest expense in 2013 was not related to the debt financing. The Company utilized this facility in April 2014 for the first time.

Income taxes: There is no provision for income tax recorded for either the three months ended September 30, 2014 or for the three months ended September 30, 2014 due to the net operating loss carry forwards ("NOLs") up through the period ending September 30, 2014. Accordingly, the Company has recorded a full valuation allowance against its net deferred tax assets. Our NOLs generally begin to expire in 2025.

Nine Months Ended September 30, 2014 compared to the nine Months Ended September 30, 2013

Our condensed consolidated operating statements of revenue, operating expenses, and net income for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 were as follows:

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	(Unaudited)			Percentage	
	Nine Months Ended			Change	
	September 30,			Inc (Dec)	
	2014	2013	Change		%
REVENUE	\$606,487	\$500,526	\$105,961	21	%
<b>COSTS AND EXPENSES</b>					
Lease operating expense	157,786	130,835	26,951	21	%
Production Taxes	34,809	34,716	93	—	%
Dry hole costs	576	91,236	(90,660)	(99)	%
Exploration	51,813	18,659	33,154	178	%
General and administrative expense	2,120,214	1,283,901	836,313	65	%
Impairment	—	11,160	(11,160)	(100)	%
Depletion, depreciation and amortization	252,024	168,861	83,163	49	%
Total expenses	2,617,222	1,739,368	877,854		
<b>LOSS FROM OPERATIONS</b>	<b>(2,010,735)</b>	<b>(1,238,842)</b>			
<b>OTHER INCOME AND EXPENSE</b>					
Gain on sale of oil and gas properties	2,160,099	20,765	2,139,334	n/a	
Management fee income	92,362	—	92,362	n/a	
Interest expense	(49,639)	(835)	(48,804)	n/a	
Total net other income and expense	2,202,822	19,930	2,182,892		
<b>INCOME (LOSS) BEFORE TAX BENEFIT</b>	<b>192,087</b>	<b>(1,218,912)</b>	<b>1,410,999</b>		
<b>TAX BENEFIT</b>	<b>—</b>	<b>—</b>			
<b>NET INCOME (LOSS)</b>	<b>192,087</b>	<b>(1,218,912)</b>			
Less: Net income (loss) attributable to non-controlling interest	977,997	(151,759)	1,129,665	744	%
<b>NET LOSS ATTRIBUTABLE TO VICTORY ENERGY CORPORATION</b>	<b>\$(785,910)</b>	<b>\$(1,067,153)</b>	<b>\$281,243</b>	<b>(26)</b>	<b>%</b>

Revenues: Our oil and gas revenues increased \$105,961 or 21% to \$606,487 for the nine months ended September 30, 2014 from \$500,526 for the nine months ended September 30, 2013. The increase in production was primarily due to the Fairway acquisition, the University 6 #1 and #2 wells that were developed in Bootleg Canyon, and new production on the Chapman well, partially offset by the sale of the Lightnin property in late second quarter.

Lease operating expenses: Lease operating expenses increased \$26,951 or 21% to \$157,786 for the nine months ended September 30, 2014 from \$130,835 for the nine months ended September 30, 2013. The increase in lease operating expenses reflects an increase in the number of producing wells in the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Production taxes: Production taxes increased \$93 to \$34,809 for the nine months ended September 30, 2014 from \$34,716 for the nine months ended September 30, 2013. The increase is not considered significant but it is lower than the revenue increase due to the lower natural gas production compared to the prior year, as natural gas is taxed at much higher rates than oil.

Exploration expense: Exploration expense increased \$33,154 or 178% to \$51,813 for the nine months ended September 30, 2014 from \$18,659 for the nine months ended September 30, 2013. The increase in exploration expense is primarily the result of geological and geophysical (G&G) costs associated with the services related to additional acquisition work.

Dry hole expense: Dry hole expense decreased \$90,660 or 99% to \$576 for the nine months ended September 30, 2014 from \$91,236 for the nine months ended September 30, 2013. The company recorded expense for a dry hole in Bootleg Canyon Prospect in the nine months ended September 30, 2013.

General and administrative expense: General and administrative expenses increased \$836,313 or 65% to \$2,120,214 for the nine months ended September 30, 2014 from \$1,283,901 for the nine months ended September 30, 2013. The increase is primarily due to costs associated with investor relation services, legal and audit fees associated with the acquisition, and an increase in non-cash stock compensation expense for awards and options granted during the nine-month period ended September 30, 2014.

Depletion, depreciation, and amortization: Depletion, depreciation and amortization increased \$83,163 or 49% to \$252,024 for the nine months ended September 30, 2014 from \$168,861 for the nine months ended September 30, 2013. The increase reflects the increase in the amount of producing volumes during the respective time periods.

Gain on sale of asset: The \$2,139,334 increase in the Gain on sale of asset is the result of the sale of the Lightnin' property. On June 5, 2014, Aurora completed the sale of all of its interest in the Lightnin' property, in which Aurora held a 20% working and 15% net revenue interest.

Management fee income: Management fee income increased \$92,362 for the nine months ended September 30, 2014. Victory charges a 2% management fee to Navitus which began as of December 31, 2013.

Interest expense: Interest expense increased \$48,804 for the nine months ended September 30, 2014. On February 24, 2014, Aurora, as borrower, closed a \$25,000,000 revolving credit facility, which included \$1,450,000 operating base and a 4.5% interest rate. Interest expense in 2013 was not related to the debt financing. The Company utilized this facility in April 2014 for the first time.

Income Taxes: There is no provision for income tax recorded for either the nine months ended September 30, 2014 or for the nine months ended September 30, 2013 due to the NOLs for both years. Accordingly, the Company has recorded a full valuation allowance against its net deferred tax assets for the periods ended September 30, 2014 and September 30, 2013. 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 NOLs and will recognize a deferred tax asset at that time. Our NOLs generally begin to expire in 2025.

## Liquidity and Capital Resources

Our cash, total current assets, total assets, total current liabilities, and total liabilities as of September 30, 2014 as compared to December 31, 2013, are as follows:

	September 30, 2014	December 31, 2013
Cash	\$46,062	\$20,858
Total current assets	\$293,700	\$244,634
Total assets	\$5,488,652	\$2,474,022
Total current liabilities	\$2,403,695	\$576,173
Total liabilities	\$2,445,812	\$628,127

At September 30, 2014, we had a working capital deficit of \$2,109,995 compared to a working capital deficit of \$331,539 at December 31, 2013. Current liabilities increased to \$2,403,695 at September 30, 2014 from \$576,173 at December 31, 2013.

Net cash used in operating activities for the nine months ended September 30, 2014 was \$172,983 after the net income of \$192,087 was decreased by \$1,368,730 in non-cash charges and gain on the sale of assets and offset by \$1,003,660 in changes to the other operating assets and liabilities. This compares to cash used in operating activities for the nine months ended September 30, 2013 of \$575,925 after the net loss for that period of \$1,218,912 was decreased by \$236,856 in non-cash charges and \$406,131 in changes to other operating assets and liabilities.

Net cash used in investing activities for the nine months ended September 30, 2014 was \$971,923 of which all was used for acquisitions, leases, drilling, and related costs. The Company also received \$4,021,000 in proceeds from the sale of the Lightnin' properties. This compares to \$1,473,366 in drilling and acquisition costs offset by \$160,000 for farm out of leaseholds sold for the nine months ended September 30, 2013.

Net cash provided by financing activities for the nine months ended September 30, 2014 was \$1,170,110 of which \$1,140,000 was contributions from Navitus, \$647,421 reduction was distributions to Navitus, \$122,469 reduction was the cost for debt financing, and \$1,233,000 was bank financing proceeds less \$433,000 of principal payments of debt financing. This compares to \$2,056,000 of contributions for the nine months ended September 30, 2013.

On November 19, 2014, Aurora entered into a Waiver of Event of Default (the “Waiver Agreement”) with the Lender. Under the terms of the Waiver Agreement, the Lender agreed to waive an event of default under the Loan Agreement resulting from Aurora’s failure to maintain a current ratio of at least 1.00 to 1.00 as of the end of the fiscal quarter ending September 30, 2014 subject to certain conditions set forth therein, including the receipt by Aurora by December 1, 2014 of Navitus of at least \$1.5 million to be used to reduce Aurora's outstanding liabilities. As of December 1, 2014, the required equity contributions from Navitus had not been received by Aurora, therefore the lender has the right but not the obligation to elect certain remedies, including, among other things, the acceleration of all amounts due under the Credit Agreement. As a result, the \$800,000 outstanding balance of the Credit Agreement has been classified as a current liability in accordance with GAAP. The Company has not been notified by the Lender of any changes in the terms of the debt repayment at this time. Aurora continues to be current in all related interest and fee obligations, and expects the required Navitus equity contributions over the next thirty days and be in compliance with all Credit Agreement covenants at December 31, 2014.

### Revenue Trends

The Company’s oil and gas revenue fluctuations are directly related to the volumes produced and the commodity prices paid over the respective periods presented. Oil revenues declined \$62,485 or 34% from \$185,066 to \$122,581 for the three months ended September 30, 2014 compared to the three months ended September 30, 2013, and gas revenues declined \$8,836 or 15% from \$59,782 to \$50,946 for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. As a result of these fluctuations, the Company’s oil revenues declined to 71% from 76% of total revenues, and the Company’s gas revenues increased from 24% to 29% of total revenues.

The Company’s oil revenues increased \$90,136 or 28% from \$327,138 to \$417,274 for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, and gas revenues increased \$15,825 or 9% from \$173,388 to \$189,213 for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. As a result of these fluctuations, the Company’s oil revenues increased to 69% from 65% of total revenues, and the Company’s gas revenues decreased from 35% to 31% of total revenues.

The following table provides the Company's oil and natural gas revenues for the three and nine months ended September 30, 2014 and September 30, 2013.

	(Unaudited) The Three Months Ended September 30,				(Unaudited) The Nine Months Ended September 30,							
	2014		2013		2014		2013					
Oil Revenue	\$122,581	71	%	\$185,066	76	%	\$417,274	69	%	\$327,138	65	%
Gas Revenue	50,946	29	%	59,782	24	%	189,213	31	%	173,388	35	%
Total Revenue	\$173,527	100	%	\$244,848	100	%	\$606,487	100	%	\$500,526	100	%

### 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/A for the year ended December 31, 2013 filed

with the SEC on April 21, 2014.

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 Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized

22

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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") and the Company's Chief Financial Officer ("CFO"), 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, 2013. 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 September 30, 2014. Based on this assessment, management identified the following material weakness that has caused management to conclude that, as of September 30, 2014, our disclosure controls and procedures, and our internal control over financial reporting, were not effective at the reasonable assurance level:

We do not have sufficient segregation of duties within all 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.

To address this material weakness, management performed other procedures and additional analyses to ensure that the condensed 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 condensed 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

The Company hired a CFO/Controller on June 2, 2014 and began to make limited changes to improve the Company's internal control over financial reporting during the period ended June 30, 2014. The Company continued making changes during the period covered by this report, but these changes have not been tested and cannot be relied upon at this time. These changes have included document version control of the filing document, supervisor review of all accounting entries to recording operator JIB invoices, and new operational accounting variance reports to analyze results of operations. Management plans to continue to put in place changes which will be designed to improve the internal controls over financial reporting during the remainder of 2014. However, during the period covered by this report, there have been no changes in the Company's internal controls over financial reporting that had a material

effect, or that are reasonably likely to materially affect, on the Company's internal controls over financial reporting.

23

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## 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/A for the year ended December 31, 2013 filed with the SEC on April 21, 2014.

### Item 1A. Risk Factors

We are subject to certain risks. For a discussion of these risks, see "Risk Factors" in our most recent Annual Report on Form 10-K, as amended. Except as set forth below, there have been no material changes to the risk factors disclosed in our most recent Annual Report on Form 10-K, as amended, during the quarter ended September 30, 2014.

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

Unregistered sales of equity securities during the nine months ended September 30, 2014:

During the nine months ended September 30, 2014 we issued warrants to purchase shares of common to stock at exercise prices ranging from \$0.14 to \$0.41 to Navitus in consideration of capital contributions by Aurora of \$1,140,000 pursuant to the Company's capital contribution agreement with Aurora. The Company issued these warrants between January 6, 2014 through July 16, 2014.

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.

### Dividends:

Our Credit Agreement with Texas Capital Bank includes certain restrictions on our ability to pay dividends or make other payments or distributions to the holders of our common stock.

### 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

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*\*

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*\*

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.\*\*

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.\*\*

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.

\*\* Filed herewith.

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: December 3, 2014

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

Date: December 3, 2014

By: /s/ Fred J. Smith, Jr.  
Fred J. Smith, Jr.  
Chief Financial Officer