

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 March 31, 2011

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
(State or other jurisdiction of
incorporation or organization)

87-0564472
(I.R.S. Employer
Identification No.)

20341 Irvine Avenue, Newport Beach, California (Address of
principal executive offices)

92660
(Zip Code)

(714) 480-0300

(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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(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 May 20, 2011, there were 136,719,608 shares of common stock, par value \$0.001, issued and outstanding.

VICTORY ENERGY CORPORATION
QUARTERLY REPORT ON
FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2011
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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 Annual 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. Factors that could cause or contribute to such differences include, but are not limited to, the “Risk Factors” as well as those discussed elsewhere in this report, and the risks discussed in press releases and other communications to stockholders issued by Victory Energy Corporation from time to time which attempt to advise interested parties of the risks and factors that may affect the business. Except as may be required under the federal securities laws, Victory Energy Corporation undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Part I

Item 1. Financial Statements

VICTORY ENERGY CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	March 31, 2011 (Unaudited)	December 31, 2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 187,494	\$ 111,572
Accounts receivable, net	70,567	74,828
Prepaid expenses	22,745	24,898
Total current assets	280,806	211,298
FIXED ASSETS		
Furniture and equipment	10,623	2,294
Accumulated depreciation	(2,491)	(2,294)
Total furniture and fixtures	8,132	-
Option to acquire leases and mineral interests	25,000	25,000
Drilling in process costs	205,539	-
Oil and natural gas properties	1,466,813	1,466,813
Accumulated depletion	(965,089)	(953,084)
Oil and natural gas properties, net	732,263	538,729
OTHER ASSETS		
Fund held at court	13,006	13,006
TOTAL ASSETS	\$ 1,034,207	\$ 763,033
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	\$ 388,097	\$ 342,285
Accrued liabilities	100,093	74,088
Accrued interest	41,994	10,501
Line of credit - bank	62,067	68,667
Notes payable - related parties	-	50,000
Liability for unauthorized preferred stock issued	85,654	85,654
Total current liabilities	677,905	631,195
OTHER LIABILITIES		
Senior convertible debenture, net of debt discount	297,424	127,338
Deferred tax liability	489,550	238,000
Asset retirement obligation	27,282	27,282
TOTAL LIABILITIES	1,492,161	1,023,815
STOCKHOLDERS' DEFICIT		
Common Stock, \$0.001 par value, 490,000,000 shares authorized, 136,719,608 and 136,719,608 issued and outstanding, respectively	136,720	136,720
Additional paid in capital	32,359,395	31,740,090
Accumulated deficit	(32,954,069)	(32,137,592)
TOTAL STOCKHOLDERS' DEFICIT	(457,954)	(260,782)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 1,034,207	\$ 763,033

VICTORY ENERGY CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	For the Three Months Ending March	
	2011	2010
REVENUES	\$ 108,320	\$ 149,371
COSTS AND EXPENSES		
Costs of production	69,160	11,882
General and administrative expense	688,428	158,428
Depletion, depreciation, and accretion	12,202	24,983
Gain on settlement with former officer	-	(404,623)
Total expenses	<u>769,790</u>	<u>(209,330)</u>
INCOME (LOSS) FROM OPERATIONS	<u>(661,470)</u>	<u>358,701</u>
OTHER EXPENSE		
Interest expense	213,112	8,252
Total other expense	<u>213,112</u>	<u>8,252</u>
INCOME (LOSS) BEFORE TAX BENEFIT	<u>(874,582)</u>	<u>350,449</u>
TAX BENEFIT	58,105	-
NET INCOME (LOSS)	<u>\$ (816,477)</u>	<u>\$ 350,449</u>
Weighted average shares, basic and diluted	<u>136,719,608</u>	<u>136,719,608</u>
Net loss per share, basic and diluted	<u>\$ (0.01)</u>	<u>\$ 0.00</u>

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

	For the Three Months Ended March	
	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (816,477)	\$ 350,449
Adjustment to reconcile net income (loss) from operations to net cash used in operating activities		
Depletion and depreciation	12,202	24,983
Amortization of debt discount	170,086	-
Warrants for services	18,960	2,700
Gain on settlement with former officer	-	(404,623)
Tax benefit of debenture discount		
Change in working capital		
Accounts receivable	4,261	2,731
Prepaid expenses	2,153	10,222
Accounts payable	45,812	(27,818)
Accrued liabilities	57,498	(16,063)
Net cash used in operating activities	<u>(563,610)</u>	<u>(57,419)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Drilling in progress costs	(205,539)	-
Purchase of furniture and equipment	(8,329)	-
Net cash used in investing activities	<u>(213,868)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank line of credit net repayments	(6,600)	(6,057)
Repayment on note payable to related parties	(50,000)	-
Proceeds from note payable to related parties	-	90,000
Proceeds from issuance of senior secured convertible debentures	910,000	-
Net cash provided by financing activities	<u>853,400</u>	<u>83,943</u>
Net change in cash and cash equivalents	75,922	26,524
Beginning cash and cash equivalents	<u>111,572</u>	<u>22,076</u>
Ending cash and cash equivalents	<u>\$ 187,494</u>	<u>\$ 48,600</u>
Supplemental schedule of non-cash investing and financing activities		
Deferred tax liability	<u>\$ 309,655</u>	<u>\$ -</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for		
Interest	<u>\$ 10,274</u>	<u>\$ -</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

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

Note 1 – Financial Statement Presentation

Basis of Presentation

The accompanying consolidated balance sheet as of December 31, 2010, which has been derived from audited financial statements, and the accompanying interim consolidated financial statements as of March 31, 2011, for the three-month periods ended March 31, 2011 and 2010, have been prepared by management pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial reporting. These interim consolidated financial statements are unaudited and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments and accruals) 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"). Operating results for the three-month period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011 or for any other interim period during such year. Certain information and footnote disclosures normally included in 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, 2010 filed with the SEC on May 16, 2011.

Organization and nature of operations

Victory Energy Corporation (Pink Sheets symbol VYFY), formerly known as Victory Capital Holdings Corporation (the "Company") was organized under the laws of the State of Nevada on January 7, 1982, under the name All Things, Inc. On March 21, 1985 the Corporation's name was changed to New Environmental Technologies Corporation and on April 28, 2003 to Victory Capital Holdings Corporation. The name was changed finally to Victory Energy Corporation on May 3, 2006.

The business of the Company is to acquire, develop, produce and exploit oil and natural gas properties. The Company's major oil and natural gas properties are located in Texas. The Company's executive offices are located in Newport Beach, California and its operations offices are located in Austin, Texas.

The Company's initial authorized capital consisted of 100,000,000 shares of \$0.001 par value common voting stock and, as of the date of this filing, has authorized capital of 490,000,000 shares of \$0.001 par value common stock.

Going Concern

As presented in the consolidated financial statements, we had a net loss of \$816,477 for the three months ended March 31, 2011. For the most part, this loss is due to the one-time legal, audit, and accountings charges for the preparation and filing of the 2007, 2008, 2009 and 2010 audited financial statements with the SEC, the legal costs incurred in the final settlement with the former officer of the Company, as well as the non-cash charges associated with the sale of the Company's 10% Senior Secured Convertible Debentures. Losses are expected to continue in the near term. Current liabilities exceeded current assets by \$397,099 and the accumulated deficit is \$32,954,069 at March 31, 2011. The Company is currently in default on one of its debt obligations and the Company has no future borrowings or funding sources available under existing financing arrangements. Management anticipates that significant additional capital expenditures will be necessary to develop the Company's oil and natural gas properties before significant positive operating cash flows will be achieved.

Management plans to alleviate these conditions by 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 available operating cash flows will support.

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 – Summary of Significant Accounting Policies

Principles of consolidation

The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States. The consolidated financial statements include the accounts of the Company and Aurora Energy Partners, A Texas General Partnership. The Company holds a 15% equity interest in Aurora Energy Partners. Since the Company serves as managing partner and is responsible for managing all business operations of the partnership, the financial statements of Aurora have been consolidated with the Company. All significant intercompany transactions have been eliminated. The consolidated financial statements reflect necessary adjustments, all of which were of a recurring nature and are in the opinion of management necessary for a fair presentation.

Property and equipment

Property and equipment are recorded at cost. Cost of repairs and maintenance are expensed as they are incurred. Major repairs that extend the useful life of equipment are capitalized and depreciated over the remaining estimated useful life. When property and equipment are sold or otherwise disposed, the related costs and accumulated depreciation are removed from the respective accounts and the gains or losses realized on the disposition are reflected in operations. The Company uses the straight-line method in computing depreciation for financial reporting purposes.

Revenue Recognition

We use 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 we are entitled based on our interests in the properties. Differences between volumes sold and entitled volumes create oil and gas imbalances which are generally reflected as adjustments to reported proved oil and gas reserves and future cash flows in our supplemental oil and gas disclosures. If our excess takes of natural gas or oil exceed our estimated remaining proved reserves for a property, a natural gas or oil imbalance liability is recorded in the consolidated balance sheet.

Allowance for Doubtful Accounts

We recognize an allowance for doubtful accounts to ensure trade receivables are not overstated due to uncollectability. Bad debt reserves 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 reserve for individual accounts is recorded when we 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.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, other assets, fixed assets, derivative liability, deferred revenue, accounts payable, accrued liabilities and short-term debt. The estimated fair value of cash, accounts receivable, other assets, accounts payable, deferred revenue and accrued liabilities approximated their carrying amounts due to the short-term nature of these instruments. The carrying value of short-term debt also approximates fair value since their terms are similar to those in the lending market for comparable loans with comparable risks. None of these instruments are held for trading purposes.

The Company utilizes various types of financing to fund its business needs, including debt with warrants attached and other instruments indexed to its stock. The Company reviews its warrants and conversion features of securities issued as to whether they are freestanding or contain an embedded derivative and if so, whether they are classified as a liability at each reporting period until the amount is settled and reclassified into equity with changes in fair value recognized in current earnings.

Inputs used in the valuation to derive fair value are classified based on a fair value hierarchy which distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

- Level one – Quoted market prices in active markets for identical assets or liabilities;
- Level two – Inputs other than level one inputs that are either directly or indirectly observable; and
- Level three – Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter. The following table presents all assets that were measured and recognized at fair value as of March 31, 2011 and for the three months then ended on a non-recurring basis. The assets shown below were presented at fair value due to the impairment analysis indicating an estimated fair value below the carrying value for the proved oil and gas properties.

Fair value of assets measured and recognized at fair value on a non-recurring basis as of March 31, 2011 were as follows:

Description	Level 1	Level 2	Level 3	Total Realized (Loss) due to valuation	Total Unrealized (Loss)
Proved Properties (net)	\$ —	\$ —	\$ 501,724	\$ ---	\$ —
Totals	\$ —	\$ —	\$ 501,724	\$ --	\$ —

The Company valued the Proved Properties at their fair value in accordance with the applicable Financial Accounting Standards Board (“FASB”) standard due to the impairment indicators prevalent as of March 31, 2011. The inputs that were used in determining the fair value of these 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. No impairment expense was recorded as of March 31, 2011.

Concentrations

There is a ready market for the sale of crude oil and natural gas. During the three months ended March 31, 2011, each of our fields sold all of its oil production to one purchaser for each field and all of its natural gas production to one purchaser for each field. 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

Accounting estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from these estimates.

Significant estimates include volumes of oil and natural gas reserves used in calculating depletion of proved oil and natural gas properties, future net revenues and abandonment obligations, impairment of proved and unproved properties, future income taxes and related assets and liabilities, the fair value of various common stock, warrants and option transactions, and contingencies. Oil and natural gas reserve estimates, which are the basis for unit-of-production depletion and the calculation of impairment, have numerous inherent uncertainties. The accuracy of any reserve estimate is a function of the quality of available data, the engineering and geological interpretation and judgment. Results of drilling, testing and production subsequent to the date of the estimate may justify revision of such estimate. Accordingly, reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered. In addition, reserve estimates are vulnerable to changes in wellhead prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be volatile in the future.

These significant estimates are based on current assumptions that may be materially affected by changes to future economic conditions such as the market prices received for sales of volumes of oil and natural gas, interest rates, the fair value of the Company's common stock and corresponding volatility, and the Company's ability to generate future taxable income. Future changes to these assumptions may affect these significant estimates materially in the near term.

Oil and natural gas properties

The Company accounts for its oil and natural gas properties using the successful efforts method of accounting. 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 subject to 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 10 years.

Long-lived assets and intangible assets

The Company accounts for intangible assets in accordance with the applicable Accounting Standards Codification ("ASC"). 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. While there are prospects for possible capital funding (either debt or equity), much is left to the market and outside instability. As such, at this time, management cannot anticipate with a comfortable degree of certainty if the appropriate amount of funding will be achieved and any funding will be diverted fully to its exploration and production activities. 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.

The Company recorded no impairment for the three months ended March 31, 2011.

Asset retirement obligation

In accordance with the ASC, the Company recognizes the fair value of the liability for asset retirement costs in an entity's balance sheet, as both a liability and an increase in the carrying values of such assets, in the periods in which such liabilities can be reasonably estimated. The present value of the estimated future asset retirement obligation ("ARO"), as of the date of acquisition or the date at which a successful well is drilled, is capitalized as part of the costs of proved oil and natural gas properties and recorded as a liability. The asset retirement costs are depleted over the production life of the oil and natural gas property on a unit-of-production basis.

The ARO is recorded at fair value and accretion expense is recognized as the discounted liability is accreted to its expected settlement value. The fair value of the ARO liability is measured by using expected future cash outflows discounted at the Company's credit adjusted risk free interest rate.

Amounts incurred to settle plugging and abandonment obligations that are either less than or greater than amounts accrued are recorded as a gain or loss in current operations. Revisions to previous estimates, such as the estimated cost to plug a well or the estimated future economic life of a well, may require adjustments to the ARO and are capitalized as part of the costs of proved oil and natural gas property.

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.

On January 1, 2007, the Company adopted the FASB Interpretation on accounting for uncertainty in income taxes. The interpretation prescribes a measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, the interpretation provides guidance regarding uncertain tax positions relating to derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company will classify any interest and penalties associated with income taxes as interest expense.

Stock based compensation

Beginning January 1, 2006, the Company adopted the FASB standard for accounting for stock based compensation to account for its issuance of 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 common 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 comparable public companies. 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 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 compensation expense from warrants granted to directors for the three months ended March 31, 2011 of \$18,960.

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. The Company showed positive net income of \$350,449 for the three months ended March 31, 2010 which resulted from a one-time gain on a settlement with a former officer of \$404,623. Had the gain not occurred, the Company would have shown a net loss of \$54,174 for the three months ended March 31, 2010. To avoid possible confusion surrounding the effect of the one-time gain, basic and diluted net income and net loss per share are the stated as being the same when the net income is the result of a one-time gain. Given the historical and projected future losses of the Company, all potentially dilutive common stock equivalents are anti-dilutive.

Note 3 – Oil and natural gas properties

Oil and natural gas properties are comprised of the following as of:

	March 31, 2011	December 31, 2010
Option on oil and gas property	\$ 25,000	\$ 25,000
Drilling in process costs	205,539	-
Proved property - purchased wells	3,015,322	3,015,322
Proved property - drilled wells	1,753,026	1,753,026
Total oil and natural gas properties, cost	4,998,887	4,793,348
Less: accumulated depletion and impairment	(4,266,624)	(4,254,619)
Oil and natural gas properties, net	<u>\$ 732,263</u>	<u>\$ 538,729</u>

Drilling in process costs for the three months ended March 31, 2011 reflects the acquisition costs and our share of the operating and drilling costs for our respective working interest in a producing well operated by CO Energy and a working interest in the Tunis Creek project operated by V-F Petroleum Inc. In each case, participation in the operating costs was part of the respective consideration given in the acquisition.

Note 4 – Loans payable to related parties

On March 24, 2011 the former CEO and shareholder waived his claim to his loan payable as part of a comprehensive settlement agreement with the Company (see Note 7). The Company realized a gain on settlement of \$404,623 at December 31, 2010 as a result of the cancellation of this debt.

Note 5 – Unsecured notes payable to related parties

Unsecured notes payable to related parties were as follows as of:

	March 31, 2011	December 31, 2010
Note payable to an affiliate of a shareholder and director, unsecured, 10% interest payable at maturity, due on March 31, 2011 (Note (a))	-	50,000
Totals, notes payable to related parties	<u>\$ -</u>	<u>\$ 50,000</u>

(a) note and accrued interest settled for cash on March 25, 2011.

Note 6 – Line of credit payable to Wells Fargo Bank

On October 7, 2008, the Company executed an unsecured Business Line of Credit Agreement with Wells Fargo Bank, National Association. The Credit Agreement provides the Company with a line of credit facility in the aggregate amount of \$96,761. Interest on the loan is payable monthly, at the rate of 10.0% per annum. The line of credit was personally guaranteed by the Company's former CEO and shareholder.

During the three months ended December 31, 2010, the Company defaulted on its monthly loan payments to Wells Fargo Bank and the loan was referred to the Bank's workout department. The Company has negotiated an informal repayment program with the Bank's workout department whereby the Bank will not institute collection actions provided the Company continues to make monthly principal payments of \$2,200 monthly to the Bank. As of March 31, 2011, the Company was current on the workout terms of this line of credit.

	March 31, 2011	December 31, 2010
Line of credit payable to Wells Fargo Bank, 10% interest payable at maturity, currently in workout phase	<u>\$ 62,067</u>	<u>\$ 68,667</u>

Note 7 – Separation Settlement Payable to former officer and shareholder

On May 15, 2009, the Company entered into a "Separation Agreement and General Release of Claims" with Jon Fullenkamp ("Fullenkamp") and the Virgin Family Trust. The terms of the Agreement include (a) termination of an employment agreement between the Company and Fullenkamp; (b) payment of all accrued salaries, unreimbursed expenses, and shareholder advances previously made by Fullenkamp; (c) reduction of shareholder advances from estimated balance owed at the time of settlement of \$1,665,375 to a balance of \$500,000 (the "Separation Settlement"); (d) Payment terms of the Separation Settlement of \$10,000 monthly commencing June 1, 2009, and payable over a fifty (50) month period, including imputed interest at the rate of 3.52% per annum; (e) cancellation of 2,000,000 shares of preferred stock, convertible at the rate of 100 shares of common, (d) lockup agreement with respect to all shares owned directly or indirectly by Fullenkamp for a period of five years, (e) Fullenkamp was to cooperate with the Company to recover misappropriated funds and agreed to bring litigation or induce others to bring litigation against the Company.

At the time of the agreement, Fullenkamp was owed the sum of approximately \$1,665,375 in shareholder advances which were settled for \$500,000, resulting in a gain on the settlement of this debt of \$1,199,748. After the first payment of \$10,000 the Company recorded a discount of 3.25% on \$490,000, the minimum federal rate in the amount of \$34,373 against the note. The discount is amortized to interest expense over the period of estimated maturity. During the year ended December 31, 2009, the Company recorded interest expense of \$8,997 and the note had an unamortized discount of \$24,476. During the year ended December 31, 2009, the Company paid \$51,004 of the principal of the Separation Settlement, reducing the outstanding balance as of December 31, 2009 to \$404,623.

During the year ended December 31, 2009, Fullenkamp filed a lawsuit against the Company. The Company subsequently filed a lawsuit against Fullenkamp and others on January 19, 2010, in Midland County, Texas.

On March 24, 2011 the Company, James Capital Energy, LLC and other related parties entered into a comprehensive Settlement Agreement with Jon Fullenkamp. Under the Settlement Agreement, Victory agreed to i) dismiss Jon Fullenkamp from the Texas lawsuit with prejudice, ii) provide him with a general release from all acts related thereto, and iii) pay him \$30,000 over 70 days. In turn, Jon Fullenkamp agreed to i) dismiss with prejudice the lawsuit he filed against the Company and others in California; ii) transfer to Victory 2,000,000 shares of Victory preferred stock; iii) transfer to Victory 400,000 warrants for Victory common stock; iv) transfer to James Capital Energy, LLC 16,144,563 shares of Victory common stock; v) voluntarily appear for his deposition to discuss events that occurred at the Adams-Baggett Ranch; vi) waive the claim he had to the \$430,000 severance payment under the May 15, 2009 Separation Agreement; and vii) provide Victory James Capital Energy, LLC and other related parties with a general release.

Note 8 – Liability for Unauthorized Preferred Stock Issued

During the year ended December 31, 2006, the Company authorized 10,000,000 shares of Preferred Stock, convertible to common stock at the rate of 100 shares of common for every share of preferred. During 2006, the Company issued 715, 517 of this 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.

During the course of the Company's internal investigation, it was determined by the Company's legal counsel 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 reclassified the preferred stock into a liability. The Company has offered to settle the debt with the remaining holders of the unauthorized preferred stock by honoring the terms of conversion of one share of preferred into 100 shares of common stock.

The preferred stock liability consisted of the following as of:

	March 31, 2011	December 31, 2010
Liability for unauthorized preferred stock	<u>\$ 85,654</u>	<u>\$ 85,654</u>

Note 9 – Senior Secured Convertible Debentures

Between October 15, 2010, and April 22, 2011, the Company entered into agreements with 33 accredited investors for the cash sale by the Company of an aggregate of \$1,535,000 of 10% Senior Secured Convertible Debentures (the “Debentures”) which are convertible into an aggregate of 307,000,000 shares of the Company’s common stock at a conversion price of \$0.005 per share of common stock, subject to adjustment. The maturity date of the Debentures is September 30, 2013, but may be extended at the sole discretion of the Company to December 31, 2013. The Debentures are immediately convertible by the holder into shares of the Company’s common stock at a conversion price of \$0.005 per share, subject to customary adjustments for stock splits, stock dividends, recapitalizations and the like. The Company has the right to force conversion of the Debenture if, among other things, the closing sales price of the Company’s common stock is equal to or exceeds \$0.025 for twenty (20) consecutive trading days. In connection with this offering, the Company also issued five (5) year warrants to purchase an aggregate of 1,535,000 shares of the Company’s common stock at an exercise price of \$0.005 per share, subject to adjustment, to the investors. The cash proceeds of \$1,535,000 were allocated to working capital. The Debentures are secured under the terms of a Security Agreement by a security interest in all of the Company’s personal property. The relative fair value of the warrants and beneficial conversion features of the debentures were determined at the time of issuance using the methodology prescribed by current accounting guidance.

During the three months ended March 31, 2011, the Company issued \$910,000 of these debentures for cash of \$910,000. The Company determined the initial fair value of the beneficial conversion feature was approximately \$910,000. The Company also determined that the relative fair value of the warrants upon issuance was \$15,195 which was calculated under a Black-Scholes option pricing model using as assumptions an expected life of 5 years, a stock volatility ranging from 674.5% to 678.7% , a risk free interest rate ranging from 1.9% to 2.4%, and no expected dividend yield. The initial fair value of the warrants of \$15,195 and the beneficial conversion feature of \$910,000 were recorded by the Company as a financing discount of \$925,195, which the Company is amortizing to interest expense over the life of the notes.

Senior secured convertible debentures consists of the following as of:

	March 31, 2011	December 31, 2010
Convertible debenture, interest at 10% per annum payable quarterly, due September 30, 2013 with separable warrants	\$ 1,185,000	\$ 275,000
Convertible debenture, interest at 10% per annum payable quarterly, due September 30, 2013 issued in exchange for notes payable and accrued interest to related party	552,275	552,275
Subtotal	<u>1,737,275</u>	<u>827,275</u>
Debt discount	<u>(1,439,851)</u>	<u>(699,937)</u>
Net book value	<u>\$ 297,424</u>	<u>\$ 127,338</u>

Amortization of debt discount totaled \$170,086 for the three months ended March 31, 2011.

In May 2011, a majority of the investors in the private placement agreed to an amendment proposed by the Company to remove a condition under which the Company would be required to unilaterally adjust the conversion price of the debentures and the exercise price of the warrants if the Company issued securities at a price below the stated conversion price of \$.005 per share.

As the Company did not intend to be unilaterally required to adjust the conversion price of the debentures because the conversion price included in the offering of the debentures is so low, the Company is treating the amendment as a correction to the original offering documents. The error in the private offering documents was identified and consents to the amendment were obtained after March 31, 2011. As such, the transactions were recorded as a Type 1 subsequent event as of March 31, 2011.

Note 10 – Shareholders Equity

During the three months ended March 31, 2011, the following unregistered securities were issued for the purposes noted.

On January 31, 2011, we agreed to issue warrants to purchase a total of 400,000 shares of common stock to board members of the Company at an exercise price of \$0.01 per share in exchange for services. Of these warrants, each board member is to receive warrants to purchase 100,000 shares. These warrants will be issued by us to the individuals on December 31, 2011.

On February 28, 2011, we agreed to issue warrants to purchase a total of 400,000 shares of common stock to board members of the Company at an exercise price of \$0.01 per share in exchange for services. Of these warrants, each board member is to receive warrants to purchase 100,000 shares. These warrants will be issued by us to the individuals on December 31, 2011.

On March 31, 2011, we agreed to issue warrants to purchase a total of 400,000 shares of common stock to board members of the Company at an exercise price of \$0.01 per share in exchange for services. Of these warrants, each board member is to receive warrants to purchase 100,000 shares. These warrants will be issued by us to the individuals on December 31, 2011.

During the three months ended March 31, 2011, we issued 10% Senior Secured Convertible Debentures with the total face value of \$670,000 to 19 individual or investment entities who are non-affiliates of the Company in exchange for \$670,000. The debentures are convertible into shares of common stock at a conversion price of \$0.005 per share.

During the three months ended March 31, 2011, we issued warrants to purchase a total of 670,000 shares of common stock to 19 individual or investment entities who are non-affiliates of the Company, at an exercise price of \$0.005 as part of the terms of the sale of the debentures.

During the three months ended March 31, 2011, we issued 10% Senior Secured Convertible Debentures with the total face value of \$240,000 to 9 individual or investment entities who are affiliates of the Company in exchange for \$240,000. The debentures are convertible into shares of common stock at a conversion price of \$0.005 per share.

During the three months ended March 31, 2011, we issued warrants to purchase a total of 240,000 shares of common stock to a 9 individual or investment entities who are affiliates of the Company at an exercise price of \$0.005 as part of the terms of the sale of the debentures.

Note 11 – Income Taxes

As a result of net operating losses and the inability to record a benefit for its deferred income tax assets, the Company has no income tax provision for the three months ended March 31, 2011 or for the year ended December 31, 2010.

The Internal Revenue Code of 1986, as amended, imposes substantial restrictions on the utilization of net operating losses in the event of an “ownership change” of a corporation. Accordingly, a company’s ability to use net operating losses may be limited as prescribed under Internal Revenue Code Section 382 (“IRC Section 382”). Events which may cause limitations in the amount of the net operating losses that the company may use in any one year include, but are not limited to, a cumulative ownership change of more than 50% over a three-year period. There have been transactions that have changed the Company’s ownership structure since inception that may have resulted in one or more ownership changes as defined by the Internal Revenue Code of 1986.

At December 31, 2010, the Company had available approximately \$2,896,000 in Federal and state net operating loss to reduce future taxable income. The Federal net operating loss carry forward begins to expire in 2025.

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. Current standards require 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 recorded a full valuation allowance against its net deferred tax assets at December 31, 2010. Upon the attainment of taxable income by the Company, management will assess the likelihood of realizing the tax benefit associated with the use of the carry forwards and will recognize a deferred tax asset at that time.

Accounting principles generally accepted in the United States requires the recognition of a deferred tax liability for the tax benefit associated with the beneficial conversion feature related to the Company's 10% Senior Secured Convertible Debentures. The beneficial conversion value is created whenever the market price of the Company's stock is less than the conversion price of the debentures. The resulting deferred tax liability is designed to reflect the potential tax credit associated with the difference between the basis of the debentures for accounting purposes and the basis of the debentures for tax purposes. During the three months ended March 31, 2011, the Company recognized a benefit of \$58,105 as a result of this difference.

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 our consolidated financial statements and the accompanying notes included elsewhere in this report. Statements in our discussion may be forward-looking statements. These forward-looking statements involve risks and uncertainties. We caution that a number of factors 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 audited consolidated financial statements. You should read this in conjunction with the discussion under "Financial Information" and the audited consolidated financial statements included in our Annual Report on Form 10-K for the years ended December 31, 2010 and 2009.

Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements concerning our beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, operations, future results and prospects, including statements that include the words "may," "could," "should," "would," "believe," "expect," "will," "shall," "anticipate," "estimate," "intend," "plan" and similar expressions. These forward-looking statements are based upon current expectations and are subject to risk, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, intended, committed or believed. We provide the following cautionary statement identifying important factors (some of which are beyond our control) which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

General Overview

We are an independent oil and natural gas company engaged in the production, acquisition and exploitation of oil and natural gas properties through our partnership with Aurora Energy Partners. We are geographically focused on the onshore United States. Our operational focus is the acquisition, through the most cost effective means possible, of production or near production oil and natural gas field assets. Our areas of operation include Crockett County and South Padre Island, Texas.

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 natural gas and oil. Historically, the markets for natural gas and oil have been volatile, and those markets are likely to continue to be volatile in the future. It is impossible to predict future natural gas and oil price movements with certainty. Prices for natural gas and oil are subject to wide fluctuations in response to relatively minor changes in the supply of and demand for natural gas and oil, market uncertainty, and a variety of additional factors beyond our control.

Going Concern

As presented in the consolidated financial statements, we had a net loss of \$816,477 for the three months ended March 31, 2011. For the most part, this loss is due to the one-time legal, audit, and accountings charges for the preparation and filing of the 2007, 2008, and 2009 audited financial statements with the SEC, the legal costs incurred in the final settlement with the former officer of the Company, as well as the non-cash charges associated with the sale of the Company's 10% Senior Secured Convertible Debentures. Losses are expected to continue in the near term. Current liabilities exceeded current assets by \$397,099 and the accumulated deficit is \$32,954,069 at March 31, 2011. The Company is currently in default on one of its debt obligations and the Company has no future borrowings or funding sources available under existing financing arrangements. Management anticipates that significant additional capital expenditures will be necessary to develop the Company's oil and natural gas properties before significant positive operating cash flows will be achieved.

Management plans to alleviate these conditions by 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 available operating cash flows will support.

The accompanying consolidated financial statements are prepared as if we 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 we were unable to continue as a going concern.

Three Months Ended March 31, 2011 Compared to the Three Months Ended March 31, 2010

Our revenue, operating expenses, and net loss from operations for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 were as follows:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Change	Percentage Change Inc (Dec)
REVENUES	\$ 108,320	\$ 149,371	\$ (41,051)	(27.5%)
COSTS AND EXPENSES				
Costs of production	69,160	11,882	57,278	482.1%
General and administrative expense	688,428	158,428	530,000	334.5%
Depletion, accretion, and depreciation	12,202	24,983	(12,781)	(51.2%)
Gain on settlement with former officer	-	(404,623)	404,623	n/m
Total expenses	<u>769,790</u>	<u>(209,330)</u>	979,120	(467.7%)
INCOME (LOSS) FROM OPERATIONS	<u>(661,470)</u>	<u>358,701</u>	(1,020,171)	(284.4%)
OTHER EXPENSE				
Interest expense	<u>213,112</u>	<u>8,252</u>	204,860	2482.5%
Total other expense	<u>213,112</u>	<u>8,252</u>		
NET INCOME (LOSS) BEFORE TAX BENEFIT	(874,582)	350,449		
TAX BENEFIT	58,105	-		
NET INCOME (LOSS)	<u>\$ (816,477)</u>	<u>\$ 350,449</u>	\$ (1,166,926)	(333.0%)
Weighted average shares, basic and diluted	<u>136,719,608</u>	<u>136,719,608</u>		
Net loss per share, basic and diluted	<u>\$ (0.01)</u>	<u>\$ 0.00</u>		

Revenues: All of our revenue was derived from the sale of natural gas. Our revenues decreased \$41,051 or 27.5% to \$108,320 for the three months ended March 31, 2011 from \$149,371 for the three months ended March 31, 2010. The decrease reflects both a decline in volume of gas sold to 16,591 MCF (thousand cubic feet) in the three months ended March 31, 2011 compared to 21,406 MCF for the three months ended March 31, 2010 and the decrease in the average natural gas price received of \$6.53 per MCF for the three months ended March 31, 2011 compared to \$7.16 for the three months ended March 31, 2010. The decline in gas production is attributable to the normal productivity decline that occurs with these types of wells over time.

Costs of Production: Our cost of production, including royalties, lease, operations, production taxes and expenses increased \$57,278 or 482% to \$69,160 for the three months ended March 31, 2011 from \$11,882 for the three months ended March 31, 2010. This increase is due to additional operating expenses and other one-time charges associated with on-going well production.

General and Administrative Expense: General and administrative expenses increased 530,000 or 335% to \$688,428 for the three months ended March 31, 2011 from \$158,428 for the three months ended March 31, 2010. The increase reflects a number of one-time charges including accounting, auditing, and legal expenses to bring the Company current on its SEC filings, the final settlement with the former officer of the Company, and the increase in salaries and expenses associated with the start up of the Austin office.

Depletion and Accretion: Depletion, accretion, and depreciation declined \$12,781 or 51.2% to \$12,202 for the three months ended March 31, 2011 from \$24,983 for the three months ended March 31, 2010. The decrease was due to the lower amount of asset cost basis available to deplete following the impairment adjustment of 2010.

Gain on Settlement: On March 24, 2011, we entered into a comprehensive Settlement Agreement with Jon Fullenkamp in which Fullenkamp gave up his claim to several amounts reported by us as owing to him. The elimination of the claims were made to the financial statements in 2010 and reported in the both the 2010 Annual Report on Form 10-K and the 2010 Quarterly Reports on Forms 10-Q which had not been filed at the time of the settlement.

Interest Expense: Interest expense increased \$204,860 or 2,483% to \$213,112 for the three months ended March 31, 2011 from \$8,252 for the three months ended March 31, 2010. Of this amount, \$170,086 represents the amortization of the non-cash debt discount associated with the sale of the 10% Senior Secured Debentures and \$43,026 represents the actual interest expense due on the 10% Senior Secured Convertible Debentures.

Income Taxes: There is no provision for income tax recorded for either the three months ended March 31, 2011 or for the three months ended March 31, 2010 due to the expected operating losses of both years. We had available Federal income tax net operating loss ("NOL") carry forwards of approximately \$5,472,000 at December 31, 2010. Our NOL generally begins to expire in 2025. We recognize the tax benefit of NOL carry forwards as assets to the extent that management believes that the realization of the NOL carry forward is more likely than not. The realization of future tax benefits is dependent on our ability to generate taxable income within the carry forward period. This valuation allowance is provided for all deferred tax assets.

The Company recognized a tax benefit of \$58,105 due to the timing difference in tax effect between the accounting and tax basis of the Company's 10% Senior Secured Convertible Debenture.

Net Income: We had a net loss of \$816,477 for the three months ended March 31, 2011. For the three months ended March 31, 2010, we had net income of \$350,449 due primarily to the one-time gain of \$404,623 on the settlement with our former executive officer. Without the one-time gain we would have incurred a net loss of \$54,174 during the three months ended March 31, 2010. This net income should be viewed in light of the cash flow from operations discussed below.

During the three months ended March 31, 2011, as with the three months ended March 31, 2010, we did not generate positive cash flow from normal operations. As a result, we funded our operations through the private sale of equity and debt securities, the issuance of our securities in exchange for services, and loans.

Liquidity and Capital Resources

The global financial and credit crisis may have impacts on our liquidity and financial condition that we currently cannot predict.

The continued credit crisis and related turmoil in the global financial system may have a material impact on our liquidity and our financial condition, and we may ultimately face major challenges if conditions in the financial markets do not improve. Our ability to access the capital markets or borrow money may be restricted at a time when we would like, or need, to raise capital, which could have an adverse impact on our flexibility to react to changing economic and business conditions and on our ability to fund our operations and capital expenditures in the future. Additionally, the current economic situation could lead to reduced demand for natural gas and oil, or further reductions in the prices of natural gas and oil, or both, which could have a negative impact on our financial position, results of operations and cash flows. While the ultimate outcome and impact of the current financial crisis cannot be predicted, it may have a material adverse effect on our future liquidity, results of operations and financial condition.

Our cash and cash equivalents, total current assets, total assets, total current liabilities, and total liabilities as of March 31, 2011 as compared to March 31, 2010, are as follows:

	March 31,	
	2011	2010
Cash	\$ 187,494	\$ 48,600
Total current assets	280,806	182,784
Total assets	1,034,207	978,188
Total current liabilities	677,905	894,949
Total liabilities	1,492,161	929,926

At March 31, 2011, we had a working capital deficit of \$397,099 compared to a working capital deficit of \$712,165 at March 31, 2010. Current liabilities decreased to \$677,905 at March 31, 2011 from \$894,949 at March 31, 2010 primarily due to the conversion of short term notes payable and accrued interest due a related party to a 10% Senior Debenture.

Net cash used by operating activities for the three months ended March 31, 2011 totaled \$563,610 after the cash used in the net loss of \$816,477 was decreased by \$143,143 in non-cash charges and increased by \$109,724 in net increases in the working capital accounts. This compares to cash used by operating activities for the three months ended March 31, 2010 was \$57,419 after the net income for the period of \$350,449 was reduced by \$376,940 in non cash gains and offset by \$30,928 in changes to the working capital accounts.

Net cash used in investing activities for the three months ended March 31, 2011 was \$213,868 of which \$205,539 was used for drilling costs related to the new working interest acquired during the period and \$8,329 was used in the purchase of furniture and equipment for the Austin office. There was no cash used in investing activities for the three months ended March 31, 2010.

Net cash provided by financing activities for the three months ended March 31, 2011 totaled \$853,400 of which \$910,000 came from sale of the 10% Senior Secured Convertible Debentures. Notes payable to a related party was paid off for \$50,000 and the bank line of credit was paid down by \$6,600. This compares to \$83,943 in cash used in financing activities for the three month period ended March 31, 2010 of which \$90,000 came from notes payable to a related party and \$6,057 was used to pay down the bank line of credit.

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, 2010 filed with the SEC on May 16, 2011.

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 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(b) 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) and Chief Financial Officer ("CFO") (the Company's principal financial and accounting 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 March 31, 2011. Based upon that evaluation, our management concluded that our control over financial reporting and related disclosure controls and procedures were not effective because for the significant part of the year (a) we did not have adequate controls over our control environment, (b) our accounting processes lacked appropriate segregation of responsibilities necessary for an effective system of internal control, and (c) we were unable to complete the financial statements for the quarterly reporting periods in 2010 and for the year ended December 31, 2010, in a timely manner to enable us to file the Quarterly Reports on Forms 10-Q and the Annual Report on Form 10-K by the respective due dates. We believe that our lack of segregation of duties and inadequate controls over the control environment constitute material weaknesses in our internal control.

Management has taken steps to remediate the material weakness over our control over financial reporting and related disclosure controls and procedures by implementing the following controls:

During November, 2008, we hired a CFO who possesses the needed GAAP accounting and SEC reporting skills necessary to improve our internal controls over financial reporting.

During January, 2009, we appointed our CFO to the board of directors. While the CFO is qualified as an audit committee financial expert as defined in Item 407(d)(5)(ii) of Regulation S-K, he is not independent and, as such, his role on the board of directors does not meet the independence requirements of Item 407(d)(5)(ii) of Regulation S-K.

During February, 2011, we engaged a corporate accountant who has significant SEC financial reporting and accounting experience. This individual assisted with the accounting update for the year ended December 31, 2010, including preparation of the delinquent Quarterly Reports on Forms 10-Q for the quarterly periods ended March 31, 2010, June 30, 2010, and September 30, 2010. This individual also is assisting in preparing this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011.

Changes in Internal Controls

Our management, with the participation of our CEO and CFO, performed an evaluation as to whether any change in our internal controls over financial reporting occurred during the quarter ended March 31, 2011. Based on that evaluation, our CEO and CFO concluded that no change occurred in the Company's internal controls over financial reporting during the quarter ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Part II

Item 1. Legal Proceedings

We are subject to litigation and claims that have arisen in the ordinary course of business, the majority of which have resulted from our thorough restructuring and turnaround efforts resulting from the malfeasance that occurred in 2008. Many of these claims have been resolved. Management believes individually such litigation and claims will not have a material adverse impact on our financial position or our results of operations but these matters are subject to inherent uncertainties and management's view may change in the future. If an unfavorable final outcome were to occur, there exists the possibility of a material impact on our financial position and the results of operations for the period in which the effect becomes reasonably estimable.

The current legal action is detailed in Item 3 of the Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on May 16, 2011. There were no material developments since the time of that filing.

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, 2010 filed with the SEC on May 16, 2011.

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

During the three months ended March 31, 2011, the following unregistered securities were issued for the purposes noted.

On January 31, 2011, we agreed to issue warrants to purchase a total of 400,000 shares of common stock to board members of the Company at an exercise price of \$0.01 per share in exchange for services. Of these warrants, each board member is to receive warrants to purchase 100,000 shares. These warrants will be issued by us to the individuals on December 31, 2011.

On February 28, 2011, we agreed to issue warrants to purchase a total of 400,000 shares of common stock to board members of the Company at an exercise price of \$0.01 per share in exchange for services. Of these warrants, each board member is to receive warrants to purchase 100,000 shares. These warrants will be issued by us to the individuals on December 31, 2011.

On March 31, 2011, we agreed to issue warrants to purchase a total of 400,000 shares of common stock to board members of the Company at an exercise price of \$0.01 per share in exchange for services. Of these warrants, each board member is to receive warrants to purchase 100,000 shares. These warrants will be issued by us to the individuals on December 31, 2011.

During the three months ended March 31, 2011, we issued 10% Senior Secured Convertible Debentures with the total face value of \$670,000 to 19 individual or investment entities who are non-affiliates of the Company in exchange for \$670,000. The debentures are convertible into shares of common stock at a conversion price of \$0.005 per share.

During the three months ended March 31, 2011, we issued warrants to purchase a total of 670,000 shares of common stock to 19 individual or investment entities who are non-affiliates of the Company, at an exercise price of \$0.005 as part of the terms of the sale of the debentures.

During the three months ended March 31, 2011, we issued 10% Senior Secured Convertible Debentures with the total face value of \$240,000 to 9 individual or investment entities who are affiliates of the Company in exchange for \$240,000. The debentures are convertible into shares of common stock at a conversion price of \$0.005 per share.

During the three months ended March 31, 2011, we issued warrants to purchase a total of 240,000 shares of common stock to a 9 individual or investment entities who are affiliates of the Company at an exercise price of \$0.005 as part of the terms of the sale of the debentures.

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

None

Item 4. Removed and Reserved

None

Item 5. Other Information

Appointment of Officers; Compensatory Agreements of Officers

As previously disclosed in a Current Report on Form 8-K filed with the SEC on January 14, 2011, Kenneth Hill was appointed as our Vice President and Chief Operating Officer effective January 7, 2011. Contemporaneously with Mr. Hill's appointment, we entered into an Employment Agreement with Mr. Hill. The term of the agreement began on January 10, 2011, and will end upon notice by either party. Mr. Hill will receive a base annual salary of \$180,000 per year and he will participate in the employee benefit plans made available to our executive officers generally. A copy of the Employment Agreement is attached hereto and is incorporated by reference.

As previously disclosed in a Current Report on Form 8-K filed with the SEC on January 14, 2011, Stanley Lindsey was appointed as our Vice President of Exploration and Development effective January 7, 2011. Contemporaneously with Mr. Lindsey's appointment, we entered into an Employment Agreement with Mr. Lindsey. The term of the agreement began on January 10, 2011, and will end upon notice by either party. Mr. Lindsey will receive a base annual salary of \$180,000 per year and he will participate in the employee benefit plans made available to our executive officers generally. A copy of the Employment Agreement is attached hereto and is incorporated by reference.

Jones County, Texas Oil Well Interest

As previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, Aurora acquired a two and a half percent (2.5%) working interest in the Young No. 1 well located in Jones County, Texas on February 28, 2011. This "Glen Thomas" wildcat well was completed and tested January 14, 2011. The well is now on production at a rate of 300 BOPD and 100 MCF of natural gas per day. Interest assignment of this production is effective February 1, 2011, with Aurora expecting revenue during the second quarter of 2011.. The agreement also includes a working interest of no less than 1.5 percent in a sixty-four (64) square mile (40,966 acres) 3-D seismic imaging supported development area. The well operator, C.O. Energy, envisions drilling one to two wells per month until the targeted area is fully developed. Aurora maintains a thirty (30)-day first right of refusal to participate in each development well.

Amendment to Private Placement of 10% Senior Secured Convertible Debentures and related Warrants

As previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, and in the Current Report on Form 8-K filed with the SEC on February 1, 2011, the Company is selling 75 Units of investment in the Company in a private placement to accredited investors. Each Unit is comprised of (i) a \$10,000 principal amount 10% Senior Secured Convertible Debenture, and (ii) a five-year warrant to purchase 10,000 shares of common stock at an exercise price of \$0.005 per share. In May 2011, a majority of the investors in the private placement agreed to an amendment proposed by the Company to remove a condition under which the Company would be required to unilaterally adjust the conversion price of the debentures and the exercise price of the warrants if the Company issued securities at a price below the stated conversion price of \$.005 per share.

As the Company did not intend to be unilaterally required to adjust the conversion price of the debentures because the conversion price included in the offering of the debentures is so low the Company is treating the amendment as a correction to the original offering documents. The error in the private offering documents was identified and consents to the amendment were obtained after March 31, 2011. As such, the transactions were recorded as a Type 1 subsequent event as of March 31, 2011.

The Company has also authorized an increase in the total amount to be raised in the private placement from \$750,000 to \$2.0 million. Additionally, the Company extended the closing of the private placement from its original closing date of March 31, 2011 to June 30, 2011.

Item 6. Exhibits

- 10.1 Employment Agreement by and between Victory Energy Corporation and Kenneth Hill dated January 10, 2011
- 10.2 Employment Agreement by and between Victory Energy Corporation and Stanley Lindsey dated January 10, 2011
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Robert Miranda
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Robert Miranda
- 32 Section 1350 Certification of Robert Miranda

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.

Date: May 23, 2011

VICTORY ENERGY CORPORATION

By: /s/ Robert J. Miranda
Robert J. Miranda
Chief Executive Officer,
Chief Financial Officer,
Chairman, and Director

Exhibit 10.1

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, made this 10th day of January, 2011, by and between Victory Energy Corporation, a Nevada corporation (hereinafter called "Company"), and Kenneth E. Hill., an individual residing at 11617 Woodland Hills Trail, Texas 78732 (hereinafter called "Employee").

BACKGROUND

Company wishes to employ Employee and Employee wishes to enter into the employ of Company on the terms and conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the facts, mutual promises and covenants contained herein and intending to be legally bound hereby, Company and Employee agree as follows:

1. Definitions. As used herein, the following terms shall have the meanings set forth below unless the contexts otherwise requires.

"Affiliate" shall mean any person or entity that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, Company.

"Arbitrable Claims" shall have the meaning specified in Section 12.1 hereof.

"Base Salary" shall mean the annual rate of base pay set forth in Section 5.1, as such amount may be adjusted from time to time.

"Board" shall mean the Board of Directors of Company.

"Business" shall mean the business conducted by Company in the past and on the date of execution of this Agreement, including business activities under investigation or in developmental stages, all other business activities which flow therefrom by a foreseeable expansion of the present activities of Company, all business activities which may be developed by Company during the period of Employee's employment by Company, and all business activities now conducted by Company or any Affiliate or which may be developed by Company or any Affiliates during such period as foreseeable expansions of their present activities.

"Cause" shall mean

(a) Unsatisfactory performance, incompetence, unfitness for service, or habitual neglect of duty;

(b) Gross negligence;

- (c) Insubordination or willful failure to perform required duties;
- (d) Material failure to carry out directives of the Board or superior Company officers or to perform Employee's duties under this Agreement;
- (e) Willful violation of any express direction of the Board of Directors or any supervisor of Employee or willful violation of any rule, regulation, policy, or plan established by Company from time to time regarding the conduct of its employees and/or its business;
- (f) Willful misconduct;
- (g) Fraud, misappropriation or dishonesty relating to or involving Company in any material way;
- (h) Conviction of a crime involving dishonesty, breach of trust, mental or physical harm to any person, or moral turpitude whether or not related to Employee's employment or entry of a plea of *nolo contendere* (or similar plea) to a charge of such an offense;
- (i) Possession, use or being under the influence of any unlawful controlled substance on Company property or on Company business; or use or being under the influence of alcohol to an extent that it interferes on a continuing and material basis with the performance of Employee's duties under the Agreement;
- (j) Supplying materially misleading information to Company or for Company's use in any application or other document provided by Employee to the Company submitted in connection with Employee's employment with the Company and/or selection employment;
- (k) Willful unauthorized disclosure or use of Confidential Information, unless such disclosure or use was (i) believed in good faith by Employee to be appropriate in the course of properly carrying out Employee's duties under the Agreement, or (ii) required by law;
- (l) Material breach of this Agreement and failure to cure such breach within ten (10) days after written notice thereof;
- (m) Willful violation of Sections 8 or 9 of this Agreement relating to confidential information and inventions;
- (n) Material conflict of interest not disclosed in advance in writing by Employee to the Board and approved in writing by the Board; or
- (o) Willful conduct contrary to the best interest of Company;

"Company Property" shall have the meaning specified in Section 7.4 hereof.

"Competitive Activity" shall have the meaning specified in Section 8.3 hereof.

“Confidential Information” shall have the meaning specified in Section 8.1 hereof.

“Disability” shall have the meaning specified in Section 7.1 hereof.

“Effective Date” shall mean date the agreement commences.

“Inventions” shall have the meaning specified in Section 9.1 hereof.

“Restricted Area” shall have the meaning specified in Section 8.4 hereof.

“Restricted Period” shall have the meaning specified in Section 8.4 hereof.

“Period of Employment” shall mean the period Employee is employed under the terms of this Agreement, as it may be renewed, extended, or modified.

“Subsidiary” shall mean any corporation in which Company owns directly or indirectly 50% or more of the Voting Stock or 50% or more of the equity; or any other venture in which it owns either 50% or more of the voting rights or 50% or more of the equity, or in which the Company serves as Managing Partner.

“Voting Stock” shall mean capital stock of any class or classes having general voting power under ordinary circumstances, in the absence of contingencies, to elect the directors of a corporation.

2. Employment. Company hereby employs Employee and Employee hereby accepts employment by Company for the period and upon the terms and conditions specified in this Agreement.

3. Position and Responsibilities.

3.1 Employee shall serve in the position of Vice President and Chief Operating Officer and shall have such authority and responsibilities as Company may determine from time to time consistent with such position. Employee shall perform any other duties reasonably required by Company the Board and supervisors to be specified and, if requested by Company, shall serve as an officer or director of Company or any Subsidiary without additional compensation.

3.2 During the Period of Employment, (i) Employee’s entire working time, energy, skill and best efforts shall be devoted to the performance of Employee’s duties hereunder in a manner which will faithfully and diligently further the business and interests of Company; and (ii) except upon the prior written consent of Company, Employee shall not accept any other employment, or engage, directly or indirectly, in any other business, commercial, or professional activity (whether or not providing compensation) that is or may be competitive with Company or any Affiliate, or that might create a conflict of interest with Company or any Affiliate, or that otherwise might interfere with the business of Company or any Affiliate. Employee may engage in charitable, civic, fraternal, professional and trade association activities that do not interfere materially with Employee’s obligations to Company.

3.3 Employee shall work out of Company's principal executive office in the City of Austin, Texas. It is acknowledged that Employee's duties may require extensive travel.

4. Term. This agreement shall commence on the Effective Date and shall continue unless earlier terminated under Section 7 herein.

5. Compensation.

5.1 For all of the services rendered by Employee to Company, Employee shall receive: Base Salary at the gross annual rate of one hundred eighty thousand Dollars (\$180,000), payable in installments in accordance with Company's regular payroll practices in effect from time to time. All compensation under this Agreement shall be paid less withholdings required by law and less deductions agreed to by Company and Employee.

Employee's Base Salary will be reviewed from time to time in accordance with the established procedures of Company for adjusting salaries for similarly-situated employees and may be adjusted in the sole discretion of the Company or the Board.

6. Benefits. During the Period of Employment, Company shall provide Employee the following benefits:

6.1 The benefits made generally available by the Company to similarly-situated employees, in accordance with the benefit plans established by the Company, and as may be amended from time to time in the Company's sole discretion.

6.2 Employee shall be entitled to Three (3) weeks paid vacation during each year, subject to Company's generally applicable policies relating to vacations. Employee shall take vacations at such time or times as shall be approved by Company, which approval shall not be withheld unreasonably.

6.3 Company will reimburse Employee for all reasonable and necessary expenses incurred by Employee in connection with the performance of Employee's duties upon receipt of supporting documentation in accordance with Company's regular reimbursement procedures and practices in effect from time to time. The Board of Directors from time to time may require prior approval for individual expense items in excess of pre-established aggregate amounts for a fixed period or in excess of pre-established amounts for any type of expenditure during any fixed period.

7. Termination.

7.1 At-Will Employment.

(a) The employment of Employee shall be at-will. The Employee or Company may terminate Employee's employment at any time, without any advance notice, for any or no reason, notwithstanding anything to the contrary contained in or arising from any statements, policies or practices of the Company relating to the employment, discipline, or termination of its employees. Upon and after such termination, all obligations of the Company under this Agreement shall cease.

(b) If Employee is unable to perform the essential duties or responsibilities of his position specified hereunder due to partial or total disability or incapacity resulting from a mental or physical illness, injury or any other cause for a period of Twelve (12) consecutive weeks or for a cumulative period of Ninety (90) business days during any Twelve (12) month period ("Disability"), then, to the extent permitted by law, Company shall have the right to terminate Employee's employment. The Company shall pay to employee all compensation to which Employee is entitled up through the date of termination, and thereafter all obligations of the Company under this Agreement shall cease.

7.2 If Employee dies during the Period of Employment, Employee's employment with the Company shall terminate on the last day of the calendar month in which the death occurs. The Company shall pay to Employee's beneficiaries or estate, as appropriate, any compensation then due and owing. Thereafter, all obligations of the Company under this Agreement shall cease except as otherwise provided by law or by Company-sponsored benefit plans.

7.3. For Cause. Company may terminate Employee's employment relationship with Company at any time for Cause. Upon Employee's termination for Cause the Company shall pay Employee all compensation that may be due and owing through the date of termination and, thereafter, all obligations of the Company under this Agreement shall cease.

7.4 Termination Obligations.

(a) All tangible Company Property shall be returned promptly to Company upon termination of the Period of Employment. For purposes of this Agreement, Company Property means all equipment and all tangible and intangible information relating to Company, its employees and its customers or vendors furnished to, obtained by or prepared by Employee or any other person during the course of or incident to employment by Company and shall remain the sole property of Company ("Company Property"). Company Property shall include, but not be limited to, computer equipment, books, manuals, records, reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage.

(b) Upon termination of the Period of Employment, Employee shall be deemed to have resigned from all offices and directorships then held with Company or any Affiliate.

(c) Employee's obligations under this Section 7.4 on Termination Obligations, Section 9 on Confidential Information and Competitive Activity, Section 9 on Inventions, Section 10 on Arbitration, Section 12.5 on Injunctive Relief, and Section 12.6 on Attorneys' Fees and Expenses shall survive the termination of the Period of Employment and the expiration or termination of this Agreement.

(d) Following any termination of the Period of Employment, Employee shall cooperate fully with Company in all matters relating to completing pending work on behalf of Company and the orderly transfer of work to other employees of Company. Employee shall also cooperate in the defense of any action brought by any third party against Company that relates in any way to Employee's acts or omissions while employed by Company.

8. Confidential Information and Competitive Activity.

Employee hereby acknowledges that, during and solely as a result of his employment by Company, Employee has received and will continue to receive special training and education with respect to the operations of Company's business and other related matters, and access to confidential information and business and professional contacts. In consideration of such special and unique opportunities afforded by Company to Employee as a result of Employee's employment, the Employee hereby agrees as follows:

8.1 "Confidential Information" shall mean any information, tangible or intangible, relating to the Company or to its products, finances, budgets, methods, policies, procedures, business or other plans, computer or other data, techniques, research or development projects or results, customers or clients, employees, trade secrets, or other knowledge or processes of or developed by Company or any other confidential information relating to or dealing with the business of Company, made known to Employee or learned or acquired by Employee while in the employ of Company, but Confidential Information shall not include information lawfully known generally by [or readily accessible to] the trade or the general public.

8.2 During the Period of Employment, Employee shall use and disclose Confidential Information only for the benefit of Company and only as necessary to carry out Employee's responsibilities under this Agreement. After the Period of Employment, Employee shall not, directly or indirectly, disclose to any person or entity, or use for the direct or indirect benefit or any person or entity, any Confidential Information, without the express written permission of Company. The foregoing provisions shall be in addition to (and not a limitation of) any legally applicable protections of Company's interest in confidential information, trade secrets, and the like.

8.3 During the Period of Employment, Employee shall not engage anywhere directly or indirectly in (as a principal, shareholder, partner, director, officer, agent, employee, consultant or otherwise) or be financially interested in any business which is involved in business activities which are the same as, similar to, or in competition with business activities carried on by Company ("Competitive Activity").

8.4 For one year after the Period of Employment (“Restricted Period”), Employee shall not engage in Competitive Activity in any county of any state in which Company conducted business at any time during the Period of Employment (“Restricted Area”), unless such Competitive Activity can be carried out without any use or disclosure whatsoever of trade secrets.

8.5 During the Period of Employment (and during the Restricted Period in the Restricted Area), Employee shall not directly or indirectly solicit, induce or attempt to induce any employee, customer, independent contractor or supplier of Company to terminate employment or any other relationship with Company.

8.6 Nothing contained in this Section 8 shall prevent Employee from holding for investment no more than one percent (1%) of any class of equity securities of a company whose securities are publicly traded on a national securities exchange or in a national market system.

8.7 Employee acknowledges that the restrictions contained in the foregoing Sections 8.2 through 8.5, in view of the nature of the business in which Company is engaged, are reasonable and necessary in order to protect the legitimate interests of Company, that their enforcement will not impose a hardship on Employee or significantly impair Employee’s ability to earn a livelihood and that any violation thereof would result in irreparable injuries to Company. Employee therefore acknowledges that, in the event of Employee’s violation of any of these restrictions, Company shall be entitled to obtain from any court of competent jurisdiction preliminary and permanent injunctive relief as well as damages and an equitable accounting of all earnings, profits and other benefits arising from such violation, which rights shall be cumulative and in addition to any other rights or remedies to which Company may be entitled.

8.8 If the Restricted Period or the Restricted Area specified in Sections 8.4 and 8.5 above should be adjudged unreasonable in any proceeding, then the period of time shall be reduced by such amount or the area shall be reduced by the elimination of such portion or both such reductions shall be made so that such restrictions may be enforced for such time and in such area as is adjudged to be reasonable. If Employee violates any of the restrictions contained in the foregoing Sections 8.4 and 8.5, the Restricted Period shall be extended by a period equal to the length of time from the commencement of any such violation until such time as such violation shall be cured by Employee to the satisfaction of Company. Employee hereby expressly consents to the jurisdiction of any court within the Restricted Area to enforce the provisions of this Section 8, and agrees to accept service of process by mail relating to any such proceeding. Company may supply a copy of Section 8 of this Agreement to any future or prospective employer of Employee.

9. Inventions.

9.1 “Inventions” shall mean any and all writings, original works or authorship, inventions, ideas, trademarks, service marks, patents, copyrights, know-how, improvements, processes, designs, formulas, discoveries, technology, computer hardware or software, procedures and/or techniques which Employee may make, conceive, discover, reduce to practice or develop, either solely or jointly with any other person or persons, at any time during the Period of Employment, whether or not during working hours and whether or not at the request or upon the suggestion of Company, which relate to or are useful in connection with any business now or hereafter carried on or contemplated by Company, including developments or expansions of its present fields of operations.

9.2 Employee shall make full disclosure to Company of all Inventions and shall do everything necessary or desirable to vest the absolute title thereto in Company. Employee shall write and prepare all specifications and procedures regarding such inventions, improvements, processes, procedures and techniques and otherwise aid and assist Company so that Company can prepare and present applications for copyright or Letters Patent therefore and can secure such copyright or Letters Patent wherever possible, as well as reissues, renewals, and extensions thereof, and can obtain the record title to such copyright or patents so that Company shall be the sole and absolute owner thereof in all countries in which it may desire to have copyright or patent protection. Employee shall not be entitled to any additional or special compensation or reimbursement regarding any Invention.

9.3 All Inventions shall be the sole and exclusive property of Company. Employee agrees to, and hereby does, assign to Company all of Employee’s right, title, and interest (throughout the United States and in all foreign countries), free and clear of all liens and encumbrances, in and to each Invention.

10. Arbitration.

10.1 Arbitrable Claims. To the fullest extent permitted by law, all disputes between Employee (and his attorneys, successors and assigns) and Company (and its Affiliates, shareholders, directors, officers, employees, agents, successors, attorneys and assigns) relating in any manner whatsoever to the employment or termination of Employee, including, without limitation, all disputes arising under this Agreement (“Arbitrable Claims”), shall be resolved by arbitration. All persons and entities specified in the preceding sentence (other than Company and Employee) shall be considered third-party beneficiaries of the rights and obligations created by this Section on Arbitration. Arbitrable Claims shall include, but are not limited to, contract (express or implied) and tort claims of all kinds, as well as all claims based on any federal, state or local law, statute or regulation, excepting only claims under applicable workers’ compensation law and unemployment insurance claims. By way of example and not in limitation of the foregoing, Arbitrable Claims shall include any claims arising under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act and the California Fair Employment and Housing Act.

10.2 Procedure. Arbitration of Arbitrable Claims shall be in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association, as amended (“AAA Employment Rules”), as augmented in this Agreement. Arbitration shall be initiated as provided by the AAA Employment Rules, although the written notice to the other party initiating arbitration shall also include a statement of the claim(s) asserted and the facts upon which the claim(s) are based. Arbitration shall be final and binding upon the parties and shall be the exclusive remedy for all Arbitrable Claims. Either party may bring an action in court to compel arbitration under this Agreement and to enforce an arbitration award. Otherwise, neither party shall initiate or prosecute any lawsuit or administrative action in any way related to any Arbitrable Claim. All arbitration hearings under this Agreement shall be conducted in Austin, Texas, and the laws of the State of Texas shall apply to any disputes submitted to arbitration. **THE PARTIES HEREBY WAIVE ANY RIGHTS THEY MAY HAVE TO TRIAL BY JURY IN REGARD TO ARBITRABLE CLAIMS, INCLUDING, WITHOUT LIMITATION, ANY RIGHT TO TRIAL BY JURY AS TO THE MAKING, EXISTENCE, VALIDITY OR ENFORCEABILITY OF THE AGREEMENT TO ARBITRATE.**

10.3 Arbitrator Selection and Authority. All disputes involving Arbitrable Claims shall be decided by a single arbitrator. The arbitrator shall be selected by mutual agreement of the parties within thirty (30) days of the effective date of the notice initiating the arbitration. If the parties cannot agree on an arbitrator, then the complaining party shall notify the AAA and request selection of an arbitrator in accordance with the AAA Employment Rules. The arbitrator shall have authority to award equitable relief, damages, costs and fees (including attorneys’ fees) to the same extent that, but not greater than, a court would have. The fees of the arbitrator shall be paid by the Company would render this Section of Arbitration unenforceable, in which case the arbitrator shall apportion said fees so as to preserve enforceability. The arbitrator shall have exclusive authority to resolve all Arbitrable Claims, including, but not limited to, whether any particular claim is arbitrable and whether all or any part of this Agreement is void or unenforceable.

10.4 Continuing Obligations. The rights and obligations of Employee and Company set forth in this Section on Arbitration shall survive the termination of Employee’s employment and the expiration of this Agreement.

11. Prior Agreements Employee represents to Company: (a) that there are no restrictions, agreements or understandings, oral or written, to which Employee is a party or by which Employee is bound that prevent or make unlawful Employee’s execution or performance of this Agreement; and (b) none of the information supplied by Employee to Company or any representative of Company or placement agency in connection with Employee’s employment by Company misstated a material fact or omitted information necessary to make the information supplied not materially misleading; and (c) Employee does not have any business or other relationship that creates a conflict between the interests of Employee and the Company.

12. Miscellaneous.

12.1 Binding Nature of Agreement. This Agreement shall be binding upon Company and shall inure to the benefit of Company, its present and future Subsidiaries, successors and assigns, including any transferee of the business operation, as a going concern, in which Employee is employed and shall be binding upon Employee, Employee’s heirs and personal representatives. None of the rights or obligations of Employee hereunder may be assigned or delegated, except that in the event of Employee’s death or Disability, any rights of Employee hereunder shall be transferred to Employee’s estate or personal representative, as the case may be. Company may assign its rights and obligations under this Agreement in whole or in part to any one or more Subsidiaries or successors. Any entity into which Company is merged or with which Company is consolidated or which acquires the business of Company or the business unit in which Employee is to be principally employed shall be deemed to be a successor of Company for purposes hereof.

12.2 Provisions Separable. The provisions of this Agreement are independent of and separable from each other, and no provision shall be affected or rendered invalid or unenforceable by virtue of the fact that for any reason any other or others of them may be invalid or unenforceable in whole or in part.

12.3 Entire Agreement. This Agreement contains the entire understanding among the parties hereto with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements and understandings, express or implied, oral or written, except as herein contained. This Agreement may not be modified or amended other than by an agreement in writing executed by Employees and the President/CEO of the Company. To the extent that the practices, policies or procedures of Company, now or in the future, are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control. Notwithstanding the foregoing, nothing herein shall limit the application of any generally applicable Company policy, practice, plan or the terms of any manual or handbook applicable to Company's employees generally.

12.4 Interpretation. This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation, this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement.

12.5 Injunctive Relief. Notwithstanding anything contained in this Agreement to the contrary, if Employee commits a breach, or threatens to commit a breach, of any of the provisions of Sections 8 or 9, Company shall have the following rights and remedies (each of which shall be independent of the other, and shall be severally enforceable, and all of which shall be in addition to, and not in lieu of, any other rights and remedies available to Company at law or in equity):

(a) The right and remedy to have the provisions of this Agreement specifically enforced by any court having equity jurisdiction, it being acknowledged by Employee that any such breach or threatened breach will or may cause irreparable injury to Company and that money damages will or may not provide an adequate remedy to Company; and

(b) The right and remedy to require Employee to account for and pay over to Company all compensation, profits, monies, increments, things of value or other benefits derived or received by Employee as the result of any acts or transactions constituting a breach of any of the provisions of Sections 8 or 9 of this Agreement, and Employee hereby agrees to account for and pay over all such compensation, profits, monies, increments, things of value or other benefits to the Company.

Employee specifically agrees not to object to any application made by the Company to any court having equity jurisdiction, seeking an injunction restraining Employee from committing, threatening or continuing any violation of Sections 8 or 9 of this Agreement.

12.6 Attorneys' Fees and Expenses. In the event that any action, suit or other proceeding at law or in equity is brought to enforce the provisions of this Agreement, or to obtain money damages for the breach thereof, and such action results in the award of a judgment for money damages or in the granting of any injunction in favor of Company, then all reasonable expenses, including, but not limited to, reasonable attorneys' fees and disbursements (including those incurred on appeal) of Company in such action, suit or other proceeding, shall (on demand of Company) forthwith be paid by Employee. If such action results in a judgment in favor of Employee, then all reasonable expenses, including, but not limited to, reasonable attorneys' fees and disbursements (including those incurred on appeal) of Employee in such action, suit or other proceeding, shall (on demand of Employee) forthwith be paid by Company.

IN WITNESS WHEREOF, the parties have executed this Agreement on January 10, 2011.

COMPANY

Victory Energy Corporation,
A Nevada corporation

By: /s/ Robert J Miranda
Robert J Miranda

Its: Chief Executive Officer

EMPLOYEE

Kenneth E. Hill

By: /s/ Kenneth E. Hill
Kenneth E. Hill

Exhibit 10.2

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, made this 10th day of January, 2011, by and between Victory Energy Corporation, a Nevada corporation (hereinafter called "Company"), and Stanley L. Lindsey, Jr., an individual residing at 304 Furr Mays Road, Smithville, Texas 78957 (hereinafter called "Employee").

BACKGROUND

Company wishes to employ Employee and Employee wishes to enter into the employ of Company on the terms and conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the facts, mutual promises and covenants contained herein and intending to be legally bound hereby, Company and Employee agree as follows:

1. Definitions. As used herein, the following terms shall have the meanings set forth below unless the contexts otherwise requires.

"Affiliate" shall mean any person or entity that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, Company.

"Arbitrable Claims" shall have the meaning specified in Section 12.1 hereof.

"Base Salary" shall mean the annual rate of base pay set forth in Section 5.1, as such amount may be adjusted from time to time.

"Board" shall mean the Board of Directors of Company.

"Business" shall mean the business conducted by Company in the past and on the date of execution of this Agreement, including business activities under investigation or in developmental stages, all other business activities which flow therefrom by a foreseeable expansion of the present activities of Company, all business activities which may be developed by Company during the period of Employee's employment by Company, and all business activities now conducted by Company or any Affiliate or which may be developed by Company or any Affiliates during such period as foreseeable expansions of their present activities.

"Cause" shall mean

- (a) Unsatisfactory performance, incompetence, unfitness for service, or habitual neglect of duty;
 - (b) Gross negligence;
-

- (c) Insubordination or willful failure to perform required duties;
- (d) Material failure to carry out directives of the Board or superior Company officers or to perform Employee's duties under this Agreement;
- (e) Willful violation of any express direction of the Board of Directors or any supervisor of Employee or willful violation of any rule, regulation, policy, or plan established by Company from time to time regarding the conduct of its employees and/or its business;
- (f) Willful misconduct;
- (g) Fraud, misappropriation or dishonesty relating to or involving Company in any material way;
- (h) Conviction of a crime involving dishonesty, breach of trust, mental or physical harm to any person, or moral turpitude whether or not related to Employee's employment or entry of a plea of *nolo contendere* (or similar plea) to a charge of such an offense;
- (i) Possession, use or being under the influence of any unlawful controlled substance on Company property or on Company business; or use or being under the influence of alcohol to an extent that it interferes on a continuing and material basis with the performance of Employee's duties under the Agreement;
- (j) Supplying materially misleading information to Company or for Company's use in any application or other document provided by Employee to the Company submitted in connection with Employee's employment with the Company and/or selection employment;
- (k) Willful unauthorized disclosure or use of Confidential Information, unless such disclosure or use was (i) believed in good faith by Employee to be appropriate in the course of properly carrying out Employee's duties under the Agreement, or (ii) required by law;
- (l) Material breach of this Agreement and failure to cure such breach within ten (10) days after written notice thereof;
- (m) Willful violation of Sections 8 or 9 of this Agreement relating to confidential information and inventions;
- (n) Material conflict of interest not disclosed in advance in writing by Employee to the Board and approved in writing by the Board; or
- (o) Willful conduct contrary to the best interest of Company;

"Company Property" shall have the meaning specified in Section 7.4 hereof.

"Competitive Activity" shall have the meaning specified in Section 8.3 hereof.

“Confidential Information” shall have the meaning specified in Section 8.1 hereof.

“Disability” shall have the meaning specified in Section 7.1 hereof.

“Effective Date” shall mean date the agreement commences.

“Inventions” shall have the meaning specified in Section 9.1 hereof.

“Restricted Area” shall have the meaning specified in Section 8.4 hereof.

“Restricted Period” shall have the meaning specified in Section 8.4 hereof.

“Period of Employment” shall mean the period Employee is employed under the terms of this Agreement, as it may be renewed, extended, or modified.

“Subsidiary” shall mean any corporation in which Company owns directly or indirectly 50% or more of the Voting Stock or 50% or more of the equity; or any other venture in which it owns either 50% or more of the voting rights or 50% or more of the equity, or in which the Company serves as Managing Partner.

“Voting Stock” shall mean capital stock of any class or classes having general voting power under ordinary circumstances, in the absence of contingencies, to elect the directors of a corporation.

2. Employment. Company hereby employs Employee and Employee hereby accepts employment by Company for the period and upon the terms and conditions specified in this Agreement.

3. Position and Responsibilities.

3.1 Employee shall serve in the position of Vice President and Chief Operating Officer and shall have such authority and responsibilities as Company may determine from time to time consistent with such position. Employee shall perform any other duties reasonably required by Company the Board and supervisors to be specified and, if requested by Company, shall serve as an officer or director of Company or any Subsidiary without additional compensation.

3.2 During the Period of Employment, (i) Employee’s entire working time, energy, skill and best efforts shall be devoted to the performance of Employee’s duties hereunder in a manner which will faithfully and diligently further the business and interests of Company; and (ii) except upon the prior written consent of Company, Employee shall not accept any other employment, or engage, directly or indirectly, in any other business, commercial, or professional activity (whether or not providing compensation) that is or may be competitive with Company or any Affiliate, or that might create a conflict of interest with Company or any Affiliate, or that otherwise might interfere with the business of Company or any Affiliate. Employee may engage in charitable, civic, fraternal, professional and trade association activities that do not interfere materially with Employee’s obligations to Company.

3.3 Employee shall work out of Company's principal executive office in the City of Austin, Texas. It is acknowledged that Employee's duties may require extensive travel.

4. Term. This agreement shall commence on the Effective Date and shall continue unless earlier terminated under Section 7 herein.

5. Compensation.

5.1 For all of the services rendered by Employee to Company, Employee shall receive: Base Salary at the gross annual rate of one hundred eighty thousand Dollars (\$180,000), payable in installments in accordance with Company's regular payroll practices in effect from time to time. All compensation under this Agreement shall be paid less withholdings required by law and less deductions agreed to by Company and Employee.

Employee's Base Salary will be reviewed from time to time in accordance with the established procedures of Company for adjusting salaries for similarly-situated employees and may be adjusted in the sole discretion of the Company or the Board.

6. Benefits. During the Period of Employment, Company shall provide Employee the following benefits:

6.1 The benefits made generally available by the Company to similarly-situated employees, in accordance with the benefit plans established by the Company, and as may be amended from time to time in the Company's sole discretion.

6.2 Employee shall be entitled to Three (3) weeks paid vacation during each year, subject to Company's generally applicable policies relating to vacations. Employee shall take vacations at such time or times as shall be approved by Company, which approval shall not be withheld unreasonably.

6.3 Company will reimburse Employee for all reasonable and necessary expenses incurred by Employee in connection with the performance of Employee's duties upon receipt of supporting documentation in accordance with Company's regular reimbursement procedures and practices in effect from time to time. The Board of Directors from time to time may require prior approval for individual expense items in excess of pre-established aggregate amounts for a fixed period or in excess of pre-established amounts for any type of expenditure during any fixed period.

7. Termination.

7.1 At-Will Employment.

(a) The employment of Employee shall be at-will. The Employee or Company may terminate Employee's employment at any time, without any advance notice, for any or no reason, notwithstanding anything to the contrary contained in or arising from any statements, policies or practices of the Company relating to the employment, discipline, or termination of its employees. Upon and after such termination, all obligations of the Company under this Agreement shall cease.

(b) If Employee is unable to perform the essential duties or responsibilities of his position specified hereunder due to partial or total disability or incapacity resulting from a mental or physical illness, injury or any other cause for a period of Twelve (12) consecutive weeks or for a cumulative period of Ninety (90) business days during any Twelve (12) month period ("Disability"), then, to the extent permitted by law, Company shall have the right to terminate Employee's employment. The Company shall pay to employee all compensation to which Employee is entitled up through the date of termination, and thereafter all obligations of the Company under this Agreement shall cease.

7.2 If Employee dies during the Period of Employment, Employee's employment with the Company shall terminate on the last day of the calendar month in which the death occurs. The Company shall pay to Employee's beneficiaries or estate, as appropriate, any compensation then due and owing. Thereafter, all obligations of the Company under this Agreement shall cease except as otherwise provided by law or by Company-sponsored benefit plans.

7.3. For Cause. Company may terminate Employee's employment relationship with Company at any time for Cause. Upon Employee's termination for Cause the Company shall pay Employee all compensation that may be due and owing through the date of termination and, thereafter, all obligations of the Company under this Agreement shall cease.

7.4 Termination Obligations.

(a) All tangible Company Property shall be returned promptly to Company upon termination of the Period of Employment. For purposes of this Agreement, Company Property means all equipment and all tangible and intangible information relating to Company, its employees and its customers or vendors furnished to, obtained by or prepared by Employee or any other person during the course of or incident to employment by Company are and shall remain the sole property of Company ("Company Property"). Company Property shall include, but not be limited to, computer equipment, books, manuals, records, reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage.

(b) Upon termination of the Period of Employment, Employee shall be deemed to have resigned from all offices and directorships then held with Company or any Affiliate.

(c) Employee's obligations under this Section 7.4 on Termination Obligations, Section 9 on Confidential Information and Competitive Activity, Section 9 on Inventions, Section 10 on Arbitration, Section 12.5 on Injunctive Relief, and Section 12.6 on Attorneys' Fees and Expenses shall survive the termination of the Period of Employment and the expiration or termination of this Agreement.

(d) Following any termination of the Period of Employment, Employee shall cooperate fully with Company in all matters relating to completing pending work on behalf of Company and the orderly transfer of work to other employees of Company. Employee shall also cooperate in the defense of any action brought by any third party against Company that relates in any way to Employee's acts or omissions while employed by Company.

8. Confidential Information and Competitive Activity.

Employee hereby acknowledges that, during and solely as a result of his employment by Company, Employee has received and will continue to receive special training and education with respect to the operations of Company's business and other related matters, and access to confidential information and business and professional contacts. In consideration of such special and unique opportunities afforded by Company to Employee as a result of Employee's employment, the Employee hereby agrees as follows:

8.1 "Confidential Information" shall mean any information, tangible or intangible, relating to the Company or to its products, finances, budgets, methods, policies, procedures, business or other plans, computer or other data, techniques, research or development projects or results, customers or clients, employees, trade secrets, or other knowledge or processes of or developed by Company or any other confidential information relating to or dealing with the business of Company, made known to Employee or learned or acquired by Employee while in the employ of Company, but Confidential Information shall not include information lawfully known generally by [or readily accessible to] the trade or the general public.

8.2 During the Period of Employment, Employee shall use and disclose Confidential Information only for the benefit of Company and only as necessary to carry out Employee's responsibilities under this Agreement. After the Period of Employment, Employee shall not, directly or indirectly, disclose to any person or entity, or use for the direct or indirect benefit or any person or entity, any Confidential Information, without the express written permission of Company. The foregoing provisions shall be in addition to (and not a limitation of) any legally applicable protections of Company's interest in confidential information, trade secrets, and the like.

8.3 During the Period of Employment, Employee shall not engage anywhere directly or indirectly in (as a principal, shareholder, partner, director, officer, agent, employee, consultant or otherwise) or be financially interested in any business which is involved in business activities which are the same as, similar to, or in competition with business activities carried on by Company ("Competitive Activity").

8.4 For one year after the Period of Employment (“Restricted Period”), Employee shall not engage in Competitive Activity in any county of any state in which Company conducted business at any time during the Period of Employment (“Restricted Area”), unless such Competitive Activity can be carried out without any use or disclosure whatsoever of trade secrets.

8.5 During the Period of Employment (and during the Restricted Period in the Restricted Area), Employee shall not directly or indirectly solicit, induce or attempt to induce any employee, customer, independent contractor or supplier of Company to terminate employment or any other relationship with Company.

8.6 Nothing contained in this Section 8 shall prevent Employee from holding for investment no more than one percent (1%) of any class of equity securities of a company whose securities are publicly traded on a national securities exchange or in a national market system.

8.7 Employee acknowledges that the restrictions contained in the foregoing Sections 8.2 through 8.5, in view of the nature of the business in which Company is engaged, are reasonable and necessary in order to protect the legitimate interests of Company, that their enforcement will not impose a hardship on Employee or significantly impair Employee’s ability to earn a livelihood and that any violation thereof would result in irreparable injuries to Company. Employee therefore acknowledges that, in the event of Employee’s violation of any of these restrictions, Company shall be entitled to obtain from any court of competent jurisdiction preliminary and permanent injunctive relief as well as damages and an equitable accounting of all earnings, profits and other benefits arising from such violation, which rights shall be cumulative and in addition to any other rights or remedies to which Company may be entitled.

8.8 If the Restricted Period or the Restricted Area specified in Sections 8.4 and 8.5 above should be adjudged unreasonable in any proceeding, then the period of time shall be reduced by such amount or the area shall be reduced by the elimination of such portion or both such reductions shall be made so that such restrictions may be enforced for such time and in such area as is adjudged to be reasonable. If Employee violates any of the restrictions contained in the foregoing Sections 8.4 and 8.5, the Restricted Period shall be extended by a period equal to the length of time from the commencement of any such violation until such time as such violation shall be cured by Employee to the satisfaction of Company. Employee hereby expressly consents to the jurisdiction of any court within the Restricted Area to enforce the provisions of this Section 8, and agrees to accept service of process by mail relating to any such proceeding. Company may supply a copy of Section 8 of this Agreement to any future or prospective employer of Employee.

9. Inventions.

9.1 “Inventions” shall mean any and all writings, original works or authorship, inventions, ideas, trademarks, service marks, patents, copyrights, know-how, improvements, processes, designs, formulas, discoveries, technology, computer hardware or software, procedures and/or techniques which Employee may make, conceive, discover, reduce to practice or develop, either solely or jointly with any other person or persons, at any time during the Period of Employment, whether or not during working hours and whether or not at the request or upon the suggestion of Company, which relate to or are useful in connection with any business now or hereafter carried on or contemplated by Company, including developments or expansions of its present fields of operations.

9.2 Employee shall make full disclosure to Company of all Inventions and shall do everything necessary or desirable to vest the absolute title thereto in Company. Employee shall write and prepare all specifications and procedures regarding such inventions, improvements, processes, procedures and techniques and otherwise aid and assist Company so that Company can prepare and present applications for copyright or Letters Patent therefore and can secure such copyright or Letters Patent wherever possible, as well as reissues, renewals, and extensions thereof, and can obtain the record title to such copyright or patents so that Company shall be the sole and absolute owner thereof in all countries in which it may desire to have copyright or patent protection. Employee shall not be entitled to any additional or special compensation or reimbursement regarding any Invention.

9.3 All Inventions shall be the sole and exclusive property of Company. Employee agrees to, and hereby does, assign to Company all of Employee’s right, title, and interest (throughout the United States and in all foreign countries), free and clear of all liens and encumbrances, in and to each Invention.

10. Arbitration.

10.1 Arbitrable Claims. To the fullest extent permitted by law, all disputes between Employee (and his attorneys, successors and assigns) and Company (and its Affiliates, shareholders, directors, officers, employees, agents, successors, attorneys and assigns) relating in any manner whatsoever to the employment or termination of Employee, including, without limitation, all disputes arising under this Agreement (“Arbitrable Claims”), shall be resolved by arbitration. All persons and entities specified in the preceding sentence (other than Company and Employee) shall be considered third-party beneficiaries of the rights and obligations created by this Section on Arbitration. Arbitrable Claims shall include, but are not limited to, contract (express or implied) and tort claims of all kinds, as well as all claims based on any federal, state or local law, statute or regulation, excepting only claims under applicable workers’ compensation law and unemployment insurance claims. By way of example and not in limitation of the foregoing, Arbitrable Claims shall include any claims arising under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act and the California Fair Employment and Housing Act.

10.2 Procedure. Arbitration of Arbitrable Claims shall be in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association, as amended (“AAA Employment Rules”), as augmented in this Agreement. Arbitration shall be initiated as provided by the AAA Employment Rules, although the written notice to the other party initiating arbitration shall also include a statement of the claim(s) asserted and the facts upon which the claim(s) are based. Arbitration shall be final and binding upon the parties and shall be the exclusive remedy for all Arbitrable Claims. Either party may bring an action in court to compel arbitration under this Agreement and to enforce an arbitration award. Otherwise, neither party shall initiate or prosecute any lawsuit or administrative action in any way related to any Arbitrable Claim. All arbitration hearings under this Agreement shall be conducted in Austin, Texas, and the laws of the State of Texas shall apply to any disputes submitted to arbitration. **THE PARTIES HEREBY WAIVE ANY RIGHTS THEY MAY HAVE TO TRIAL BY JURY IN REGARD TO ARBITRABLE CLAIMS, INCLUDING, WITHOUT LIMITATION, ANY RIGHT TO TRIAL BY JURY AS TO THE MAKING, EXISTENCE, VALIDITY OR ENFORCEABILITY OF THE AGREEMENT TO ARBITRATE.**

10.3 Arbitrator Selection and Authority. All disputes involving Arbitrable Claims shall be decided by a single arbitrator. The arbitrator shall be selected by mutual agreement of the parties within thirty (30) days of the effective date of the notice initiating the arbitration. If the parties cannot agree on an arbitrator, then the complaining party shall notify the AAA and request selection of an arbitrator in accordance with the AAA Employment Rules. The arbitrator shall have authority to award equitable relief, damages, costs and fees (including attorneys’ fees) to the same extent that, but not greater than, a court would have. The fees of the arbitrator shall be paid by the Company would render this Section of Arbitration unenforceable, in which case the arbitrator shall apportion said fees so as to preserve enforceability. The arbitrator shall have exclusive authority to resolve all Arbitrable Claims, including, but not limited to, whether any particular claim is arbitrable and whether all or any part of this Agreement is void or unenforceable.

10.4 Continuing Obligations. The rights and obligations of Employee and Company set forth in this Section on Arbitration shall survive the termination of Employee’s employment and the expiration of this Agreement.

11. Prior Agreements Employee represents to Company: (a) that there are no restrictions, agreements or understandings, oral or written, to which Employee is a party or by which Employee is bound that prevent or make unlawful Employee’s execution or performance of this Agreement; and (b) none of the information supplied by Employee to Company or any representative of Company or placement agency in connection with Employee’s employment by Company misstated a material fact or omitted information necessary to make the information supplied not materially misleading; and (c) Employee does not have any business or other relationship that creates a conflict between the interests of Employee and the Company.

12. Miscellaneous.

12.1 Binding Nature of Agreement. This Agreement shall be binding upon Company and shall inure to the benefit of Company, its present and future Subsidiaries, successors and assigns, including any transferee of the business operation, as a going concern, in which Employee is employed and shall be binding upon Employee, Employee’s heirs and personal representatives. None of the rights or obligations of Employee hereunder may be assigned or delegated, except that in the event of Employee’s death or Disability, any rights of Employee hereunder shall be transferred to Employee’s estate or personal representative, as the case may be. Company may assign its rights and obligations under this Agreement in whole or in part to any one or more Subsidiaries or successors. Any entity into which Company is merged or with which Company is consolidated or which acquires the business of Company or the business unit in which Employee is to be principally employed shall be deemed to be a successor of Company for purposes hereof.

12.2 Provisions Separable. The provisions of this Agreement are independent of and separable from each other, and no provision shall be affected or rendered invalid or unenforceable by virtue of the fact that for any reason any other or others of them may be invalid or unenforceable in whole or in part.

12.3 Entire Agreement. This Agreement contains the entire understanding among the parties hereto with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements and understandings, express or implied, oral or written, except as herein contained. This Agreement may not be modified or amended other than by an agreement in writing executed by Employees and the President/CEO of the Company. To the extent that the practices, policies or procedures of Company, now or in the future, are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control. Notwithstanding the foregoing, nothing herein shall limit the application of any generally applicable Company policy, practice, plan or the terms of any manual or handbook applicable to Company's employees generally.

12.4 Interpretation. This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation, this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement.

12.5 Injunctive Relief. Notwithstanding anything contained in this Agreement to the contrary, if Employee commits a breach, or threatens to commit a breach, of any of the provisions of Sections 8 or 9, Company shall have the following rights and remedies (each of which shall be independent of the other, and shall be severally enforceable, and all of which shall be in addition to, and not in lieu of, any other rights and remedies available to Company at law or in equity):

(a) The right and remedy to have the provisions of this Agreement specifically enforced by any court having equity jurisdiction, it being acknowledged by Employee that any such breach or threatened breach will or may cause irreparable injury to Company and that money damages will or may not provide an adequate remedy to Company; and

(b) The right and remedy to require Employee to account for and pay over to Company all compensation, profits, monies, increments, things of value or other benefits derived or received by Employee as the result of any acts or transactions constituting a breach of any of the provisions of Sections 8 or 9 of this Agreement, and Employee hereby agrees to account for and pay over all such compensation, profits, monies, increments, things of value or other benefits to the Company.

Employee specifically agrees not to object to any application made by the Company to any court having equity jurisdiction, seeking an injunction restraining Employee from committing, threatening or continuing any violation of Sections 8 or 9 of this Agreement.

12.6 Attorneys' Fees and Expenses. In the event that any action, suit or other proceeding at law or in equity is brought to enforce the provisions of this Agreement, or to obtain money damages for the breach thereof, and such action results in the award of a judgment for money damages or in the granting of any injunction in favor of Company, then all reasonable expenses, including, but not limited to, reasonable attorneys' fees and disbursements (including those incurred on appeal) of Company in such action, suit or other proceeding, shall (on demand of Company) forthwith be paid by Employee. If such action results in a judgment in favor of Employee, then all reasonable expenses, including, but not limited to, reasonable attorneys' fees and disbursements (including those incurred on appeal) of Employee in such action, suit or other proceeding, shall (on demand of Employee) forthwith be paid by Company.

IN WITNESS WHEREOF, the parties have executed this Agreement on January 10, 2011.

COMPANY

Victory Energy Corporation,
A Nevada corporation

By: /s/ Robert J Miranda
Robert J Miranda

Its: Chief Executive Officer

EMPLOYEE

Stanley L. Lindsey, Jr.

By: /s/ Stanley L. Lindsey, Jr.
Stanley L. Lindsey, Jr.

EXHIBIT 31.1
CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER REQUIRED BY RULE 13A-14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert J. Miranda, certify that:

1. I have reviewed this Form 10-Q of Victory Energy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 23, 2011

/s/ ROBERT J. MIRANDA

Robert J. Miranda

Chief Executive Officer (principal executive officer)

EXHIBIT 31.2
CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER REQUIRED BY RULE 13A-14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert Miranda, certify that:

1. I have reviewed this Form 10-Q of Victory Energy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 23, 2011

/s/ ROBERT J. MIRANDA

Robert J. Miranda

Chief Financial Officer (principal financial officer)

EXHIBIT 32

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

In connection with the Quarterly Report on Form 10-Q of Victory Energy Corporation (the "Company") for the three-month period ended March 31, 2011, (the "Report"), the undersigned hereby certify in their capacities as Chief Executive Officer and Chief Financial Officer of the Company, respectively, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: May 23 ,2011

By: /s/ ROBERT J. MIRANDA
Robert J. Miranda
Chief Executive Officer (principal executive officer)

Dated: May 23, 2011

By: /s/ ROBERT J. MIRANDA
Robert J. Miranda
Chief Financial Officer (principal financial officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
