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

Form 10-Q

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

For the quarterly period ended September 30, 2012

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

For the transition period from _______________ to _______________.

Commission file number 002-76219NY

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

Nevada	**87-0564472**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3355 Bee Caves Road Ste 608, Austin, Texas	**78746**
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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 November 1, 2012, there were 27,512,919 shares of common stock, par value $0.001, issued and outstanding and held by 1,434 stockholders of record. This reflects the 1:50 reverse stock split that became effective on January 12, 2012.

VICTORY ENERGY CORPORATION
QUARTERLY REPORT ON
FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012
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Cautionary Notice Regarding Forward Looking Statements

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

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

- continued operating losses;
- our auditors questioning of our ability to continue as a going concern;
- difficulties in raising additional capital;
- our inability to pay a preferred return to The Navitus Energy Group for new capital contributions to Aurora Energy Partners
- challenges in growing our business;
- designation of our common stock as a "penny stock" under SEC regulations;
- FINRA requirements that may limit the ability to buy and sell our common stock;
- volatility in the price of our common stock;
- the highly speculative nature of an investment in our common stock;
- climate change and greenhouse gas regulations;
- global economic conditions;
- the substantial amount of capital required by our operations;
- the volatility of oil and natural gas prices;
- the high level of risk associated with drilling for and producing oil and natural gas;
- assumptions associated with reserve estimates;
- the potential that drilling activities will not yield oil or natural gas in commercial quantities;
- seismic studies may not guarantee the presence of oil or natural gas in commercial quantities;
- potential exploration, production and acquisitions may not maintain revenue levels in the future;
- future acquisitions may yield revenues or production that differ significantly from our projections;
- difficulties associated with managing a growing enterprise;
- strong competition from other oil and natural gas companies;
- the unavailability or high cost of drilling rigs and related equipment;
- our inability to control properties that we do not operate;
- our dependence on key management personnel and technical experts;
- our dependence on third parties for the marketing of our natural gas production;
- our inability to keep pace with technological advancements in our industry;
- the potential for write-downs in the carrying values of our oil and natural gas properties;
- our compliance with complex laws governing our business;
- our failure to comply with environmental laws and regulations;
- the demand for oil and natural gas and our ability to transport our production;
- the financial condition of the operators of the properties in which we own an interest;
- our levels of insurance or those of our operators may be insufficient;
- terrorist attacks on our operations;
- the dilutive effect of additional issuances of our common stock, options or warrants;
- any impairments of our oil and gas properties; and
- the results of pending litigation.
- the dissolution of the Aurora Energy Partners agreement

Additionally, the information set forth under the heading “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011, as well as disclosures made under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of this report could cause actual results to differ materially from those in the forward-looking statements. Other unpredictable or unknown factors not discussed in this report could also cause actual results to differ materially from those in the forward-looking statements. The reader should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. Unless legally required, we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Part I – Financial Information

Item 1. Financial Statements

VICTORY ENERGY CORPORATION AND SUBSIDIARY
COMBINED BALANCE SHEETS

	September 30, 2012 (Unaudited)	December 31, 2011
CURRENT ASSETS		
Cash	$ 99,363	$ 475,623
Accounts receivable - net	60,674	79,185
Other receivable - net	-	-
Prepaid expenses	4,209	29,555
Total current assets	164,246	584,363
FIXED ASSETS		
Furniture and equipment	20,982	10,623
Accumulated depreciation	(4,771)	(3,550)
Total furniture and fixtures, net	16,211	7,073
Producing oil and natural gas properties, net of impairment	1,841,973	1,585,745
Accumulated depletion	(1,210,165)	(1,026,900)
Drilling costs in process	221,126	266,625
Undeveloped land	661,983	101,259
Total oil and gas properties, net	1,514,917	926,729
TOTAL ASSETS	$ 1,695,374	$ 1,518,165
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	$ 1,269	$ 170,317
Accrued interest	-	150,267
Accrued liabilities	191,290	179,979
Accrued liabilities - related parties	28,040	156,656
Liability for unauthorized preferred stock issued	9,283	32,164
Total current liabilities	229,882	689,383
OTHER LIABILITIES		
Senior secured convertible debenture, net of debt discount	-	632,534
Deferred tax liability	-	748,763
Asset retirement obligation	30,004	30,004
TOTAL LIABILITIES	259,886	2,100,684
STOCKHOLDERS' EQUITY (DEFICIT)		
Common Stock, $0.001 par value, 47,500,000 shares authorized, 27,511,819 and 7,647,494 issued and outstanding, respectively	402,172	382,308
Additional paid in capital	43,399,217	35,126,462
Accumulated deficit	(42,365,901)	(36,091,289)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	1,435,488	(582,519)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 1,695,374	$ 1,518,165

See the accompanying notes to the combined financial statements.

VICTORY ENERGY CORPORATION AND SUBSIDIARY
COMBINED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
REVENUE	$ 77,035	$ 90,570	$ 209,151	$ 253,794
COSTS AND EXPENSES				
Lease operating expenses	21,285	18,384	64,695	90,385
Production taxes	3,630	12,829	15,780	22,093
Exploration	52,290	69,426	199,236	131,699
Exploration - non cash	10,125	43,875	30,375	43,875
General and administrative expense	454,545	306,216	1,459,710	1,370,822
General and administrative expense - non cash	221,831	138,875	784,291	174,075
Depletion, depreciation, and accretion	15,679	10,166	47,760	40,770
Total expenses	779,385	599,771	2,601,847	1,873,719
LOSS FROM OPERATIONS	(702,350)	(509,201)	(2,392,696)	(1,619,925)
OTHER INCOME AND EXPENSE				
Gain on sale of oil and gas assets	-	-	(268,169)	-
Impairment of assets	162,703	-	162,703	-
Interest expense	3,040	332,604	3,987,381	1,511,019
Total other income and expense	165,743	332,604	3,881,915	1,511,019
NET LOSS BEFORE TAX BENEFIT	(868,093)	(841,805)	(6,274,611)	(3,130,944)
TAX BENEFIT	-	76,671	-	466,703
NET LOSS	$ (868,093)	$ (765,134)	$ (6,274,611)	$ (2,664,241)
Weighted average shares, basic and diluted	27,511,583	7,647,494	21,866,363	4,483,911
Net loss per share, basic and diluted	$ (0.03)	$ (0.10)	$ (0.29)	$ (0.59)

See the accompanying notes to the combined financial statements.

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

	For the Nine Months Ended September 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (6,274,611)	$ (2,664,241)
Adjustments to reconcile net loss from operations to net cash used in operating activities		
Allowance for doubtful accounts	200,000	-
Amortization of debt discount and financing warrants	265,460	468,936
Debt discount on debentures converted to common stock	3,661,781	902,908
Depletion and depreciation	36,887	40,770
Gain on sale of assets	(268,169)	-
Impairment of assets	162,703	-
Stock based compensation	161,187	87,750
Tax benefit of debenture discount	-	(466,703)
Warrants for services	484,979	130,200
Change in working capital		
Accounts receivable	18,511	(13,561)
Accounts receivable - related party	-	(26,333)
Prepaid expense	25,346	17,396
Accounts payable	(169,048)	(96,161)
Accrued liabilities	75,320	141,298
Accrued liabilities - related parties	(128,616)	(136,037)
Net cash used in operating activities	(1,748,270)	(1,613,778)
CASH FLOWS FROM INVESTING ACTIVITIES		
Drilling costs in progress	(263,950)	(417,567)
Acquisition of land	(661,983)	-
Purchase of furniture and fixtures	(10,359)	(8,329)
Net cash used in investing activities	(936,292)	(425,896)
CASH FLOWS FROM FINANCING ACTIVITIES		
Sale of senior convertible debentures	1,815,000	2,270,000
Capital contributions	349,900	-
Distributions to The Navitus Energy Group	(61,472)	-
Sale of oil and gas assets	200,000	-
Exercise of warrants for cash	4,874	-
Bank line of credit - net of repayments	-	(68,667)
Payments on notes payable to related party	-	(50,000)
Net cash provided by financing activities	2,308,302	2,151,333
Net change in cash and cash equivalents	(376,260)	111,659
Beginning cash and cash equivalents	475,623	111,572
Ending cash and cash equivalents	$ 99,363	$ 223,231

See the accompanying notes to the combined financial statements.

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

	For the Nine Months Ended September 30, 2012	2011
Supplemental schedule of non-cash investing and financing activities:		
Preferred stock converted to common stock	$ 22,881	$ 53,490
Debentures exchanged for common stock	$ 4,559,775	$ 1,112,500
Accrued interested exchanged for common stock	$ 206,731	$ 37,940
Warrant incentives for fund raising	$ 432,684	$ -
Deferred tax liability	$ -	$ 360,327
Supplemental disclosures of cash flow information:		
Cash paid during the period for		
Interest	$ 318	$ 19,872
Income taxes	$ -	$ -

See the accompanying notes to the combined financial statements.

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

Note 1 – Financial Statement Presentation

Basis of Presentation

The accompanying combined balance sheet as of December 31, 2011, which has been derived from audited financial statements, and the accompanying interim combined financial statements as of September 30, 2012, for the three months and nine months ended September 30, 2012 and 2011, have been prepared by management pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial reporting. These interim combined 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 combined financial condition, results of operations and cash flows of Victory Energy Corporation and Aurora Energy Partners (hereinafter collectively referred to as the "Company," or “we”) 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 and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 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 combined financial statements should be read in conjunction with the audited combined financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on March 30, 2012.

Organization and nature of operations

Victory Energy Corporation (OTCQB symbol “VYEY”) was organized under the laws of the State of Nevada on January 7, 1982. Prior to May 3, 2006, the Company operated as Victory Capital Holdings Corporation among other corporate names. The Company is authorized to issue 47,500,000 shares of $0.001 par value common stock.

On January 12, 2012 the Company implemented a 1:50 reverse stock split. All information in this Form 10-Q reflects this reverse stock split.

The Company is engaged in the exploration, acquisition, development and production of domestic oil and gas properties. Current operations are primarily located onshore in Texas and New Mexico. We are headquartered in Austin, Texas.

The Company may invest in oil and gas projects directly, or through its 50% partnership in Aurora Energy Partners, a Texas general partnership (“Aurora”, or “AEP”). Currently all of the Company’s oil and gas assets are held through Aurora. The Company is the managing partner of AEP. Our future capital and exploration expenditures will focus primarily on oil or liquid-rich gas projects. The Company will develop its investment opportunities through both internal capabilities and strategic industry relationships.

Going Concern

As reported in the combined financial statements, we had a net loss of $6,274,611 for the nine months ended September 30, 2012. Of this amount, $4,704,828 was for non-cash expenses including the amortization of the debt discount and warrants associated with the Company’s 10% Senior Secured Convertible Debentures, the unamortized portion of the debt discount recognized on the conversion of the debentures to common stock on February 29, 2012, depletion, depreciation, impairment, warrants given for services, and stock based compensation.

The cash proceeds from the sale of the Company’s debentures and new contributions to the Aurora partnership by The Navitus Energy Group (“Navitus”) have allowed the Company to continue operations and invest in new oil and gas properties. Management anticipates that operating losses will continue in the near term until new wells are drilled, successfully completed and incremental production increases revenue. As of September 30, 2012 on a year-to-date basis the Company has invested $925,933 in the acquisition of land or the drilling of wells.

At September 30, 2012, the Company had a working capital deficit of $65,636 and was in active discussions with Navitus and others related to longer term financing required for our capital expenditures planned for the remaining part of 2012 and 2013. Without additional outside investment from the sale of equity securities and/or debt financing, our capital expenditures and overhead expenses must be reduced to a level commensurate with available cash flows.

The accompanying combined financial statements are prepared as if the Company will continue as a going concern. The combined financial statements do not contain adjustments, including adjustments to 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 combination

The accompanying combined financial statements are presented in accordance with GAAP. The combined financial statements include the accounts of Victory Energy Corporation and Aurora. The Company holds a 50% equity interest in Aurora. Since the Company serves as managing partner and is responsible for managing all business operations of Aurora, the financial statements of Aurora have been combined with the financial statements of the Company. All significant intercompany transactions have been eliminated. The remaining 50% of Aurora is owned by Navitus which, in turn, is effectively controlled by investors who have a significant stake in the Company's common shares and serve as directors on the Company's Board of Directors. For this reason, the Company has chosen to eliminate all references to presumably unaffiliated non-controlling entities and interests in the combination process. The combined 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.

Reclassification

Some balances on the prior's year's combined financial statements have been reclassified to conform to the current year presentation. Such reclassifications had no effect on net income or earnings per share.

Accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Revenue Recognition

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

Allowance for Doubtful Accounts

The Company recognizes 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 they become aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to customers change, estimates of the recoverability of receivables would be further adjusted.

Earnings per share

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

Fair Value of Financial Instruments

The Company's financial instruments consist of cash, 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 September 30, 2012 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 September 30, 2012 were as follows:

Description	Level 1	Level 2	Level 3	Total (Loss) Recognized for Valuation	Total Unrealized (Loss)
Proved Properties (net)	$ —	$ —	$ 631,808	$ (162,703)	$ --
Totals	$ —	$ —	$ 631,808	$ (162,703)	$ --

The Company valued the producing properties at their fair value in accordance with the applicable Accounting Standards Codification ("ASC") standard due to the impairment indicators prevalent as of September 30, 2012. 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. During the three months ended September 30, 2012, the Company recorded $162,703 in asset impairment charges for the non-commercial Uno Mas well and an undeveloped land prospect in New Mexico.

Note 3 - Other Receivables

On May 10, 2012, the Company sold its interests in the Jones County Oil Play and the Atwood Secondary Oil Recovery project for $400,000 in cash payable in two even installments in May and July, 2012 to CO Energy. The sale resulted in a one-time pre-tax gain of $268,169. As the Company has yet to receive the second installment on the note and now believes that CO Energy may be in financial difficulty, the Company has recognized a bad debt reserve equal to the balance due on the note of $200,000.

Note 4 – Oil and natural gas properties

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.

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.

On April 3, 2012, the Company, through its partnership with Aurora, acquired a 5% working interest stake in the Chapman Ranch prospect area located in Nueces County, Texas. Two wells may be drilled on this acreage. The first well was spud on September 11, 2012 and was recently completed. Production is still being evaluated. The commerciality of this first well will be determined in November 2012 and then a decision made on whether to pursue the other potential drilling location.

On May 10, 2012, the Company, through its partnership with Aurora, sold its interests in the Jones County Oil Play and the Atwood Secondary Oil Recovery project for $400,000 in cash and recognized a pre-tax gain of $268,169. The Company no longer has producing properties in Oklahoma. The Company was to receive proceeds on an installment basis but has taken a reserve for bad debts against the second payment of $200,000 otherwise due in July.

On April 18, 2012, the Company spud a development well in our Bootleg Canyon prospect (5% working interest) in Pecos County, Texas. The well was successfully completed and is currently producing. Another development well is planned for late 2012. This acreage has the opportunity for additional development drilling in 2013.

On June 5, 2012, the Company, through its partnership with Aurora, acquired 335 gross acres of land just east of Eagle Lake, Texas in Colorado County. The Company holds a 50% working interest in the SRV prospect. Land acquisition costs of $32,011 were incurred to-date for SRV. A well is planned for the fourth quarter of 2012.

On June 13, 2012, the Company, through its partnership with Aurora, acquired a 4% working interest before payout, and a 3% (after pay-out) working interest in the Pinetop oil and gas prospect located in Lea County, New Mexico. The first well was spud in late June. That initial well has now been drilled, completed and is successfully producing oil and gas. The Company recorded its first sales in October 2012. The Company believes that this prospect will provide a multi-well development opportunity during 2013 and 2014.

Other capital expenditures were incurred in the first quarter of 2012, as reported previously, including a position in undeveloped land in Glasscock County, Texas. The land acquisition there cost $480,000. We refer to this area as the Lightnin' prospect. The Company plans to farm-out a portion of its working interest prior to drilling the first well on this acreage, leaving us with about a 25% working interest position. Farm-out discussions continue and we anticipate that the first Lightnin' well will spud in December 2012. If successful, this prospect will provide a multi-well development opportunity to the Company on acreage where we hold a significant working interest position.

The year-to-date capital expenditures total about $925,933 which excludes exploration expense.

The Company formally updates its oil and gas reserves on an annual basis. We expect that our 2012 drilling program will result in additions to our proved developed and proved undeveloped reserves position.

At September 30, 2012, oil and natural gas properties, net of property sales in May 2012, are comprised of the following as of:

	September 30, 2012	December 31, 2011
Land	$ 661,983	$ 101,259
Drilling and work in process	221,126	268,436
Proved property – purchased gas wells	3,013,170	3,015,322
Proved property – drilled gas wells	1,748,742	1,753,026
Producing oil wells	439,479	219,700
Total oil and natural gas properties, cost	6,084,500	5,357,743
Less: accumulated depletion and impairment	(4,569,583)	(4,431,014)
Oil and natural gas properties, net	$ 1,514,917	$ 926,729

Depletion expense for the three months ended September 30, 2012 and 2011 was $14,929 and $9,772, respectively. Depletion expense for the nine months ended September 30, 2012 and 2011 was $36,887 and $40,770, respectively.

Long-lived assets and intangible assets

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.

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.

During the nine months ended September 30, 2012 and 2011, respectively, the Company recorded $162,703 and zero in impairment losses on its oil and gas properties.

Note 5 – Liabilities to Related Parties

The Company uses the legal and accounting services of two of its members of its Board of Directors in the ordinary course of the Company's business. In addition, under the Second Amended Partnership Agreement, the Company pays a preferred return to Navitus on funds raised by Navitus and contributed to Aurora.

	September 30, 2012	December 31, 2011
Liabilities to related parties	$ 28,040	$ 156,656

Note 6 – 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 shares of this preferred stock for cash of $246,950. The Company subsequently issued additional preferred stock and had several preferred shareholders converted their shares into common stock during the years ended December 31, 2010, 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 and does not present preferred stock in the equity section of the balance sheet. 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 on a pre-split basis. The Company intends to cancel the preferred stock once all remaining preferred stockholders have converted.

There were 68,966 and 238,966 shares of unconverted preferred stock liability outstanding at September 30, 2012 and December 31, 2011, respectively.

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

	September 30, 2012	December 31, 2011
Liability for unauthorized preferred stock	$ 9,283	$ 32,164

Note 7 – Senior Secured Convertible Debentures

Between October 15, 2010, and February 29, 2012, the Company entered into agreements with accredited investors for the cash sale by the Company of an aggregate of $5,120,000 of 10% Senior Secured Convertible Debentures (the "Debentures") which were convertible into an aggregate of 20,480,000 shares of the Company's common stock at a conversion price of $0.25 per share of common stock, subject to the customary adjustments for stock splits, stock dividends, recapitalizations and the like. There are no registration rights for the converted shares. All share references have been adjusted to reflect a 1:50 reverse stock split by the Company on January 12, 2012.

On February 29, 2012, all of the $4,559,775 then outstanding Debentures were converted into 18,239,101 shares of the Company's common stock at a conversion price of $.25 per share in accordance with their terms. Accrued interest in the amount of $206,731 on the outstanding Debentures at the time of conversion was converted into 903,464 shares of the Company's common stock, at a conversion price of $0.2288 per share.

During the two months ended February 29, 2012, the Company issued $1,725,000 of the senior convertible Debentures for cash. The Company determined the initial fair value of the beneficial conversion feature was approximately $1,663,351. The Company also determined that the relative fair value of the warrants issued with the debentures was $61,649 which was calculated using a Black-Scholes option pricing model using assumptions of an expected life of 5 years, a stock volatility ranging from 673.2% to 674.8%, a risk free interest rate ranging from .71% to ..87%, and no expected dividend yield. The initial fair value of the warrants of $61,649 and the beneficial conversion feature of $1,663,351 were recorded by the Company as a total financing discount of $1,725,000 which the Company was amortizing to interest expense over the life of the Debentures.

Note 8 – Shareholders Equity

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

The Company recognized non-cash compensation expense of $63,456 and $677,666 from warrants granted to consultants and directors for their services and from stock options issued to officers and employees for the three and nine months ended September 30, 2012, respectively. For the three and nine months ended September 30, 2011, the Company recognized $182,750 and $217,950 in non-cash expense for warrants and options granted to consultants, officers, and directors.

The following weighted average assumptions were used in estimating the fair value of share-based payment arrangements during the three months ended September 30, 2012:

Annual dividends	0
Expected volatility	561.5 – 568.8%
Risk-free interest rate	0.62% - .72%
Expected life	5 years

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

On August 23, 2012, we issued warrants to purchase 249,900 shares of common stock at an exercise price of $.65 to Navitus in consideration of a new capital contribution to Aurora of $249,900 pursuant to the terms and conditions of the amended Aurora partnership agreement. The Board valued the warrants at $152,439 under the Black Scholes parameters above and recorded the amount as a cost against the funds raised in the equity accounts of the Company.

On September 14, 2012, we issued warrants to purchase 100,000 shares of common stock at an exercise price of $.51 to Navitus in consideration of a new capital contribution to Aurora of $100,000 pursuant to the terms and conditions of the amended Aurora partnership agreement. The Board valued the warrants at $48,000 under the Black Scholes parameters above and recorded the amount as a cost against the funds raised in the equity accounts of the Company.

On September 28, 2012 we authorized warrants to be issued to purchase a total of 60,000 shares of common stock at an exercise price of $.46 to members of the board in return for their board service during the months of April through September, 2012. Each of the five board members earns warrants to purchase 2,000 shares for each monthly meeting attended. These warrants will be physically issued by us to the individuals on December 31, 2012. The Board valued the warrants at $28,800 under the Black Scholes parameters above and recognized a non-cash charge of that amount for services during the three months ended September 30, 2012.

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 combined financial statements and the accompanying notes included elsewhere in this report. Statements in this section of our quarterly report 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 significant factors that have affected certain aspects of our financial position and results of operations during the periods included in the accompanying unaudited combined financial statements. You should read this in conjunction with the discussion under "Financial Information" and the audited combined financial statements included in our Annual Report on Form 10-K for the years ended December 31, 2011 and 2010.

General Overview

We are an independent oil and natural gas company engaged in the acquisition, exploration and production of oil and natural gas properties, through our partnership in Aurora. We are geographically focused onshore in the United States in Texas and New Mexico. The Company attempts to increase long-term shareholder value by implementing a strategy to increase oil reserves, improve financial returns (higher production, lower costs per barrel of energy produced) and effectively managing the capital on our balance sheet. Profitability and cash flow should improve as a result of our capital budget expenditures and the drilling of commercially successful wells. Year-to-date 2012 capital expenditures as of September 30, 2012 total $925,933, with over half of that being for land assets. During the remainder of 2012 most of the planned capital investment will be on wells.

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 reported in the combined financial statements, we had a net loss of $6,274,611 for the nine months ended September 30, 2012. Of this amount, $4,704,828 was for non-cash expenses including the amortization of the debt discount and warrants associated with the Company's 10% Senior Secured Convertible Debentures, the unamortized portion of the debt discount recognized on the conversion of the debentures to common stock on February 29, 2012, warrants given for services, depletion, impairment and stock based compensation.

The cash proceeds from the sale of debentures by the Company, and new capital contributions into Aurora made by Navitus, have allowed the Company to continue operations and invest in new oil and gas properties. Management anticipates that operating losses will continue in the near term until new wells are drilled, successfully completed and incremental production increases revenue. As of September 30, 2012 on a year-to-date basis the Company has invested approximately $925,333 in the acquisition of land or the drilling of wells this year.

At September 30, 2012, the Company had a working capital deficit of $65,636 and was in active discussions with Navitus and others related to longer term financing required for our capital expenditures planned for the remaining part of 2012 and 2013. Without additional outside investment from the sale of equity securities and/or debt financing our capital expenditures and overhead expenses must be reduced to a level commensurate with available cash flows.

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

Three Months Ended September 30, 2012 compared to the Three Months Ended September 30, 2011

Our revenue, operating expenses, and net income for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011 were as follows:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Change	Percentage Change Inc (Dec)
REVENUE	$ 77,035	$ 90,570	$ (13,535)	(14.9%)
COSTS AND EXPENSES				
Lease operating expense	21,285	18,384	2,901	15.8%
Production Taxes	3,630	12,829	(9,199)	(71.7%)
Exploration	52,290	69,426	(17,136)	(24.7%)
Exploration - non cash	10,125	43,875	(33,750)	(76.9%)
General and administrative expense	454,545	306,216	148,329	48.4%
General and administrative expense - non cash	221,831	138,875	82,956	59.7%
Depletion and accretion	15,679	10,166	5,513	54.2%
Total expenses	779,385	599,771	179,614	
LOSS FROM OPERATIONS	(702,350)	(509,201)	(193,149)	(37.9%)
OTHER INCOME AND EXPENSE				
Impairment of assets	162,703	-	162,703	n/m
Interest expense	3,040	332,604	(329,564)	n/m
Total other income and expense	165,743	332,604	(166,861)	
NET LOSS BEFORE TAX BENEFIT	(868,093)	(841,805)		
TAX BENEFIT	-	76,671		
NET LOSS	$ (868,093)	$ (765,134)		

Revenues: All of our revenue was derived from the sale of oil and natural gas. Our revenues decreased $13,535 or 14.9% to $77,035 for the three months ended September 30, 2012 from $90,570 for the three months ended September 30, 2011. The decrease reflects a decline in both the price and volume of natural gas sold to a weighted average of $4.03 per Mcf (thousand cubic feet) for the 14,349 Mcf of gas sold during the three months ending September 30, 2012 from a weighted average of $7.10 per Mcf for the 16,688 Mcf of gas sold during the three months ended September 30, 2011. The decline in physical gas production is attributable to the normal productivity decline that occurs with these types of wells over time. During the three months ended September 30, 2012, we also sold 406 barrels of oil at a weighted average of $81.39 per barrel compared to 111 barrels of oil at a weighted average price of $87.75 per barrel in the three month period ended September 30, 2011.

Lease Operating Expenses: Our cost of production increased $2,901 or 15.8% to $21,285 for the three months ended September 30, 2012 from $18,384 for the three months ended September 30, 2011. The increase in lease operating expenses reflects an increase in the number of operating properties in the three months ended September 30, 2012 compared to the three months ended September 30, 2011.

Production Taxes: Production taxes decreased $9,199 or 71.7% to $3,630 for the three months ended September 30, 2012 from $12,829 for the three months ended September 30, 2011. This results primarily from the decline in revenue for the three months ended September 30, 2012 compared to the same period in 2011.

Exploration Expense: Exploration expense decreased $17,136 or 24.7% to $52,290 for the three months ended September 30, 2012 from $69,426 for the three months ended September 30, 2011. The change is not considered meaningful and simply reflects the timing of expenses for exploration activities.

Exploration Expense – non cash: Exploration non-cash expense decreased $33,750 to $10,125 for the three months ended September 30, 2012 from $43,875 for the three months ended September 30, 2011. This decrease reflects the vesting of exploration-dedicated employee stock options during the three months ended September 30, 2012. The Company first awarded stock options (some of which vested immediately) to employees during the three months ended September 30, 2011.

General and Administrative Expense: General and administrative expenses increased $148,329 or 48.4% to $454,545 for the three months ended September 30, 2012 from $306,216 for the three months ended September 30, 2011. The cash G&A burn rate was higher for this this period in 2012 primarily due to additional headcount in Austin (CFO and Accounting Manager) and non-recurring costs associated with the transfer of accounting services from California to Texas.

General and Administrative Expense – non cash: General and administrative non-cash expenses increased $82,956 to $221,831 for the three months ended September 30, 2012 from $138,875 for the three months ended September 30, 2011. This increase reflects the bad debt expense of $200,000 recorded in the third quarter of 2012 associated with the sale of oil and gas assets to CO Energy in May 2012, warrants issued for Board service, all net of a negative adjustment for warrants authorized in a prior period of this year.

Depletion and Accretion: Depletion, accretion, and depreciation increased $5,513 or 54.2% to $15,679 for the three months ended September 30, 2012 from $10,166 for the three months ended September 30, 2011. The increase reflects the increase in the amount of producing wells in the during the respective time periods.

Impairment of Assets: During the three months ended September 30, 2012, the Company recorded $162,703 in asset impairment charges for our Uno Mas well which was deemed not commercial and a charge associated with the write-off of other undeveloped land costs in New Mexico. There were no impairment charges for the three months ending September 30, 2011.

Interest Expense: Interest expense was $3,040 for the three months ending September 30, 2012. This represents the 10% preferred return which Navitus receives under the Second Amended Partnership Agreement for capital contributions to Aurora arranged by Navitus. During the three months ended September 30, 2011, the Company incurred $332,604 in interest expense virtually all of which was associated with the Company's 10% Senior Secured Convertible Debentures which were converted to common stock on February 29, 2012.

Income Taxes: There is no provision for income tax recorded for either the three months ended September 30, 2012 or for the three months ended September 30, 2011 due to the expected operating losses of both years. We had available Federal income tax net operating loss ("NOL") carry forwards of approximately $13,130,000 at December 31, 2011. Our NOL generally begins to expire in 2025.

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

All tax benefits recognized in 2011 and 2012 due to the timing difference in tax effect between the accounting and tax basis of the Debentures were eliminated when the Debentures were converted to common stock on February 29, 2012.

Net Loss: We had a net loss of $863,093 for the three months ended September 30, 2012 compared to a net loss of $765,134 for the three months ended September 30, 2011. The net loss for the three months ended September 30, 2012 included $200,000 in bad debt allowance recognized for the final payment due in July, 2012, on the sale of the Jones County Oil Play and the Atwood Secondary Oil Recovery recorded May 10, 2012. The net loss for the three months ended September 30, 2012 should be viewed in light of the cash flow from operations discussed below.

Nine Months Ended September 30, 2012 Compared to the Nine Months Ended September 30, 2011

Our revenue, operating expenses, and net income for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011 were as follows:

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	Change	Percentage Change Inc (Dec)
REVENUE	$ 209,151	$ 253,794	$ (44,643)	(17.6%)
COSTS AND EXPENSES				
Lease operating expense	64,695	90,385	(25,690)	(28.4%)
Production Taxes	15,780	22,093	(6,313)	(28.6%)
Exploration	199,236	131,699	67,537	51.3%
Exploration - non cash	30,375	43,875	(13,500)	(30.8%)
General and administrative expense	1,459,710	1,370,822	88,888	6.5%
General and administrative expense - non cash	784,291	174,075	610,216	350.5%
Depletion and accretion	47,760	40,770	6,990	17.1%
Total expenses	2,601,847	1,873,719	728,128	
LOSS FROM OPERATIONS	(2,392,696)	(1,619,925)	(772,771)	(47.7%)
OTHER INCOME AND EXPENSE				
Gain on sale of assets	(268,169)	-	(268,169)	n/m
Impairment of assets	162,703	-	162,703	n/m
Interest expense	3,987,381	1,511,019	2,476,362	n/m
Total other expense	3,881,915	1,511,019	2,370,896	
NET LOSS BEFORE TAX BENEFIT	(6,274,611)	(3,130,944)		
TAX BENEFIT	-	466,703		
NET LOSS	$ (6,274,611)	$ (2,664,241)		

Revenues: All of our revenue was derived from the sale of oil and natural gas. Our revenues decreased $44,643 or 17.6% to $209,151 for the nine months ended September 30, 2012 from $253,794 for the nine months ended September 30, 2011. The decrease reflects a decline in both the price and volume of natural gas sold to a weighted average of $4.19 per Mcf (thousand cubic feet) for the 43,789 Mcf of gas sold for the nine months ending September 30, 2012 from a weighted average of $6.74 per Mcf for the 50,762 Mcf of gas sold in the nine months ended September 30, 2011. The decline in physical gas production is attributable to the normal productivity decline that occurs with these types of wells over time. During the nine months ended September 30, 2012, we also sold 898 barrels of oil at weighted average price of $87.69 per barrel compared to 168 barrels of oil sold in the three month period ended September 30, 2011 at weighted average price of $90.31 per barrel.

Lease Operating Expenses: Our cost of production decreased $25,690 or 28.4% to $64,695 for the nine months ended September 30, 2012 from $90,385 for the nine months ended September 30, 2011. The decrease is primarily due to a credit received from a drilling services company in early 2012 for an over-charge paid in 2011.

Production Taxes: Production taxes decreased $6,313 to $15,780 for the nine months ended September 30, 2012 from $22,093 for the nine months ended September 30, 2011. The decrease is primarily due to the effect of lower gas volumes and sales prices in 2012 compared to 2011.

Exploration Expense: Exploration expense increased $67,537 or 51.3% to $199,236 for the nine months ended September 30, 2012 from $131,699 for the nine months ended September 30, 2011. The increase reflects the higher overall level of exploration activities for the nine months ended September 30, 2012 compared to the nine month period ended September 30, 2011.

Exploration Expense – non cash: Exploration non-cash expense decreased $13,500 to $30,375 for the nine months ended September 30, 2012 from $43,875 for the nine months ended September 30, 2011. The decrease reflects the amortization of the non-cash charges in the current year related to the initial grants of stock options (some of which vested immediately) to employees in the nine month period ended September 30, 2011.

General and Administrative Expense- cash: General and administrative expenses increased $88,888 or 6.5% to $1,459,710 for the nine months ended September 30, 2012 from $1,370,822 for the nine months ended September 30, 2011. For the most part, the increase reflects the increase in non-recurring accounting service expenses associated with the transfer of the accounting function from Irvine, CA, to Austin, TX during the three month period ending September 30, 2012 and the compensation expense associated with the addition of one officer and one employee compared to no such costs for the same three months ending September 30, 2011.

General and Administrative Expense – non cash: General and administrative non-cash expenses increased $610,216 or 350.5% to $784,291 for the nine months ended September 30, 2012 from $174,075 for the nine months ended September 30, 2011. The increase reflects charges in 2012 related to a bad debt expense associated with the sale of oil and gas assets in May 2012, grants related to non-qualified stock options to employees and officers of the Company, the amortization of previous of stock option as they vest over time, the cost of warrants granted to affiliates and non-affiliates is of the Company for special consulting assistance in certain undertakings of the Company, and warrants granted to a related party to serve as general counsel of the Company all net of a negative adjustment for warrants authorized in a prior period of this year.

Depletion and Accretion: Depletion, accretion, and depreciation increased $6,990 or 17.1% to $47,760 for the nine months ended September 30, 2012 from $40,770 for the nine months ended September 30, 2011. The increase is due to the additional depletion of the operating oil wells in early 2012 which the Company did not have in the nine months ending September 30, 2011 notwithstanding the reduction in amount of assets subject to depletion as a result of the sale of the Jones County/Atwood properties in May, 2012.

Gain on Sale of Assets: On May 10, 2012, the Company sold its interests in the Jones County Oil Play and the Atwood Secondary Oil Recovery project for $400,000 in cash payable in two even installments in May and July, 2012. The sale resulted in a one-time gain of $268,169. The Company has recognized a bad debt allowance of $200,000 against the second installment which was due in July, 2012.

Impairment of Assets: During the nine months ended September 30, 2012, the Company recorded $162,703 in asset impairment charges for our Uno Mas well which was deemed not commercial and a charge associated with the write-off of other undeveloped land costs in New Mexico. There were no impairment charges for the nine months ending September 30, 2011.

Interest Expense: Interest expense increased $2,476,362 to $3,987,381 for the nine months ended September 30, 2012 from $1,511,019 for the nine months ended September 30, 2011. For the nine months ended September 30, 2012, $265,460 represents the amortization of the non-cash debt discount associated with the sale of the Debentures from January 1, 2012 up to the point where the Debentures were converted to common stock on February 29, 2012, $3,661,781 represents the recognition of the remaining non-cash debt discount associated with the conversion of all the outstanding Debentures to common stock on February 29, 2012, and $57,100, for the most part, represents the actual interest expense accrued on the Debentures outstanding until the conversion of the Debentures on February 29, 2012, and $3,040 represents the 10% return paid to Navitus for arranging for additional contributions to AEP.

Income Taxes: There is no provision for income tax recorded for either the nine months ended September 30, 2012 or for the nine months ended September 30, 2011 due to the expected operating losses of both years. We had available NOL carry forwards of approximately $13,130,000 at December 31, 2011. Our NOL generally begins to expire in 2025.

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

All tax benefits recognized in 2011 and 2012 due to the timing difference in tax effect between the accounting and tax basis of the Company's Debentures were eliminated when the Debentures were converted to common stock during the three month period ended September 30, 2012.

Net Loss: We had a net loss of $6,274,611 for the nine months ended September 30, 2012 compared to a net loss of $2,664,241 for the nine months ended September 30, 2011. This net loss should be viewed in light of the cash flow from operations discussed below.

Liquidity and Capital Resources

Our cash, total current assets, total assets, total current liabilities, and total liabilities as of September 30, 2012 as compared to September 30, 2011, are as follows:

	September 30, 2012	September 30, 2011
Cash	$ 99,363	$ 223,231
Total current assets	164,246	345,455
Total assets	1,695,374	1,282,316
Total current liabilities	229,882	330,192
Total liabilities	259,886	1,287,508

At September 30, 2012, we had a working capital deficit of $65,636 compared to a working capital surplus of $15,263 at September 30, 2011. Current liabilities decreased to $229,882 at September 30, 2012 from $330,192 at September 30, 2011 primarily due to the pay down of accounts payable offset somewhat by an increase in accrued royalties and the conversion of accrued interest to common stock.

Net cash used in operating activities for the nine months ended September 30, 2012 was $1,748,270 after the net loss of $6,274,611 was decreased by $4,704,828 in non-cash charges and offset by $178,487 in changes to the working capital accounts. This compares to cash used in operating activities for the nine months ended September 30, 2011 of $1,613,778 after the net loss for that period of $2,664,241 was decreased by $1,163,861 in non-cash charges offset by $113,398 in changes to the working capital accounts.

Net cash used in investing activities for the nine months ended September 30, 2012 was $936,292 of which $263,650 was for drilling and related costs for exploration efforts, $661,983 was used to acquire land and rights to land for drilling, and $10,359 was used to purchase furniture and fixtures for the Austin, Texas office. This compares to $417,567 in drilling costs and $8,329 in purchases of furniture and fixtures for the then new Austin, Texas office during the nine months ended September 30, 2011.

Net cash provided by financing activities for the nine months ended September 30, 2012 was $2,308,302 of which $1,815,000 came from the sale of the Company's 10% Senior Secured Convertible Debentures, $200,000 came from the sale of the Company's investment in the Jones County/Atwood properties, $349,900 came from contributions from Navitus, and $4,874 came from the exercise of warrants. In the meantime, $61,472 in distributions was made to Navitus in accordance with the Second Amended Aurora Partnership Agreement. This compares to $2,151,333 provided by financing activities during the nine months ended September 30, 2011 of which $2,270,000 came from the sale of the Company's 10% Senior Secured Convertible Debentures while $68,667 was used to pay down a bank line of credit and $50,000 was used to pay off a note due a related party.

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, 2011 filed with the SEC on March 30, 2012.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Pursuant to Rule 13a-15(e) under the Exchange Act, the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") (the Company's principal executive officer) 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 September 30, 2012. Based upon that evaluation, our management concluded that our control over financial reporting and related disclosure controls and procedures are effective.

Changes in Internal Controls

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

Part II – Other Information

Item 1. Legal Proceedings

There have been no material developments in the status of the litigation as reported in Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 30, 2012.

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, 2011 filed with the SEC on March 30, 2012.

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

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

On August 23, 2012, we issued warrants to purchase 249,900 shares of common stock at an exercise price of $.65 to Navitus in consideration of a capital contribution by Aurora of $249,900 pursuant to the Company's capital contribution agreement with Aurora. The Board valued the warrants at $152,439 under the Black Scholes parameters in Part I Note 6 above and recorded the amount as a cost against the funds raised in the equity accounts of the Company.

On September 14, 2012, we issued warrants to purchase 100,000 shares of common stock at an exercise price of $.51 to Navitus in consideration of a capital contribution by Aurora of $100,000 pursuant to the Company's capital contribution agreement with Aurora. The Board valued the warrants at $48,000 under the Black Scholes parameters in Part I Note 6 above and recorded the amount as a cost against the funds raised in the equity accounts of the Company.

On September 28, 2012 we authorized warrants to be issued to purchase a total of 60,000 shares of common stock at an exercise price of $.46 to members of the board in return for their board service during the months of April through September, 2012. Each of the five board member earns warrants to purchase 2,000 shares for each monthly meeting attended. These warrants will be physically issued by us to the individuals on December 31, 2012. The Board valued the warrants at $28,800 under the Black Scholes parameters Part I Note 6 above and recognized a non-cash charge of that amount for services during the three months ended September 30, 2012.

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

Item 3. Default Upon Senior Securities

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

Item 4. Removed and Reserved

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

Item 5. Other Information

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

Item 6. Exhibits

(a) Exhibits

5.02	Employment Agreement with Mark Biggers as Chief Financial Officer originally noticed in Form 8K on December 28, 2011
10.1	Second Amended Partnership Agreement for Aurora Energy Partners
31.1	Rule 13a-14(a)/15d-14(a) Certification by Kenneth Hill
31.2	Rule 13a-14(a)/15d-14(a) Certification by Mark Biggers
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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

Signature

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

VICTORY ENERGY CORPORATION

Date: November 14, 2012

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

EXHIBIT 5.02

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, made this 28th day of December, 2011, by and between Victory Energy Corporation, a Nevada corporation (hereinafter called "Company"), and Mark Biggers, an individual residing at 107 Deer Trail, Boerne, Texas 78006-8958 (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;

<u>"Company Property"</u> 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 Chief Financial 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.

5.2 In addition to the Base Salary, Employee shall be paid a one time signing bonus of $25,000, payable within five (5) business days from Employee's first day of full employment. Within five (5) business days from Employee's first full day of employment, the Company shall also pay Employee, as an additional signing bonus, a one-time retainer bonus of $35,000.00, payable not in cash but as a Debenture, equivalent to 3.50 units ($35,000.00) under the Company's current Private Placement Memorandum. Neither of these bonuses are loans from the Company.

5.3 In addition to the foregoing, Employee shall be paid a performance bonus, based on mutually acceptable performance standards, in an amount equal to one percent (1%) of the gross receipts of the Company from its partnership interest in Aurora Energy Partners. The term "gross receipts" shall not include any management fees earned by the Company as Managing Partner of Aurora Energy Partners, or any loans or reimbursements made by Aurora Energy Partners to the Company. The performance bonus, payable on the last business day of each calendar year during Employee's tenure, shall not exceed $200,000.00 during any such calendar; provided, however, that the performance bonus during the first year of this contract shall be reduced by the $35,000.00 payment referenced in Paragraph 5.2 above.

5.4 As additional consideration, the Company will grant Employee an option to purchase 1,500,000 shares of the Company's common stock, exercisable at any time or times within a five-year period from the date hereof, at a strike price of $.010. Further, the Company will grant Employee and additional option to purchase 3,000,000 of the Company's common stock , which will vest each month (125,000 options per month) over a twenty four (24) month period, at a strike price of $.02 per share. The latter options shall expire at the end of the calendar year in 2017. The options and strike prices referenced in this paragraph shall be subject to an appropriate revision in the event of recapitalizations (spin offs, stock splits and reverse splits) or mergers.

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 unreasonably withheld..

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; provided, however, should the Company terminate Employee for any reason other than cause, upon and after such termination, all obligations of the Company under this Agreement shall continue for the term of this Agreement. Should the Company terminate Employee for cause, the Company's obligation to Employee is as set forth in 7.3 hereof.

(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 or 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.

Confidential Information and Competitive Activity.

8.0 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 trace 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. A single arbitrator shall decide all disputes involving Arbitrable Claims. 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 December 28, 2011.

COMPANY

Victory Energy Corporation,
A Nevada corporation

By: /s/
Robert J Miranda

Its: Chief Executive Officer

EMPLOYEE

Mark Biggers

By: /s/
Mark Biggers

Exhibit 10.1

SECOND AMENDED PARTNERSHIP AGREEMENT

This Second Amendment to the Partnership Agreement is made and entered into effective this 1st day of October, 2011, by and between VICTORY ENERGY CORPORATION (“Victory”), and THE NAVITUS ENERGY GROUP, a Texas General Partnership (“Navitus”), composed of JAMES CAPITAL CONSULTING, LLC (“JCC”) JAMES CAPITAL ENERGY, LLC (“JCE”), RODINIA PARTNERS, LLC (“RP”), and NAVITUS PARTNERS, LLC, (NC), hereinafter collectively referred to as the “Partners”.

RECITAL

WHEREAS, effective January 1st, 2008 Victory, JCC and JCE formalized their Partnership Agreement under the name of The Victory Energy/James Capital Energy, LLC, Joint Venture, a Texas General Partnership; and,

WHEREAS, by an Amendment dated April 2, 2010, but effective as of January 1, 2008, JCC, JCE and VICTORY entered into a First Amended Partnership Agreement, re-naming the Partnership as Aurora Energy Partners, a Texas General Partnership; and,

WHEREAS, since the execution of the First Amended Partnership Agreement, JCC, JCE, RP and NC have entered into a General Partnership Agreement, which partnership is known as The Navitus Energy Group (Navitus), whom each of the parties hereto have agreed to substitute as a Partner to this Second Amended Partnership Agreement, in lieu of JCC and JCE on an individual basis; and,

WHEREAS, Navitus has agreed, at its option, to provide funding to Victory and/or Aurora for the purposes of acquiring and developing oil and gas properties, minerals and royalties, or such other purposes as are consistent with the purposes of the Partnership, in such amounts as may be determined appropriate by Navitus, and under those terms and conditions hereinafter specified; and,

WHEREAS, in consideration of the foregoing, Navitus and Victory have agreed to amend the First Amended Partnership Agreement to reflect the substitution of Navitus as a partner in Aurora, and to provide for the more specific allocation of partnership assets, funding agreements, ownership percentages and partnership obligations as hereinafter described;

NOW THEREFORE, for and in consideration of the mutual covenants herein contained, the Partners hereby amend the First Amended Partnership Agreement of Aurora Energy Partners, a Texas General Partnership, under and pursuant to the Texas Revised Partnership Act [Art. 6132(b) of the Revised Civil Statutes of the State of Texas] in the manner and for the purposes as hereinafter set forth:

ARTICLE I - NAME AND PLACE OF BUSINESS

1.01 The activities and business of the Partnership shall be conducted under the name of Aurora Energy Partners, a Texas General Partnership (“Aurora”) in Texas, and under such variations of this name as may be necessary to comply with the laws of other states within which the Partnership may do business or make investments.

1.02 The principal place of business of the Partnership shall be Aurora Energy Partners, a Texas General Partnership, 3355 Bee Caves Road, Suite 608 Austin, Texas 78746, but additional places of business may be located elsewhere.

1.03 The mailing address of the Partnership shall be Aurora Energy Partners, a Texas General Partnership, 3355 Bee Caves Road, Suite 608, Austin, Texas 78746.

ARTICLE II – PURPOSES OF THE PARTNERSHIP

The purpose of the Partnership shall be as follows:

2.01 The purposes of the Partnership shall be to enter into and conduct any and every lawful business and investment activity that the Partners may agree upon from time to time. Initially, the purposes of the Partnership shall be to acquire, own and dispose of oil, gas and other mineral properties including permits, licenses, leases and all other types of rights of every nature and character in connection therewith and incident thereto, and to explore, develop and operate such properties in accordance with such rights for the production of oil, gas and other minerals and, in connection therewith, to save, store, treat, transport and market oil, gas and other minerals and the products derived therefrom. The purposes aforesaid shall be accomplished by:

(a) Acquiring Partnership properties.

(b) Acquiring like properties and rights, or contractual rights to acquire the same, either alone or in conjunction with others which, in the opinion of the Managing Partner, are related in any way to the Partnership Properties.

(c) Conducting geological and geophysical investigations on the Partnership Properties or on areas related thereto, including without limitation the exploration thereof through means and methods of exploration deemed appropriate by the Managing Partner.

(d) Drilling, equipping, reworking, plugging back or deepening, either alone or in conjunction with others, such wells on the Partnership properties as the Managing Partner may determine.

(e) Plugging and abandoning any well which on being drilled results in a dry hole, or which, having once produced, is no longer capable in the judgment of the Managing Partner of producing oil, gas and other minerals in commercial quantities.

(f) Completing any well that in the judgment of the Managing Partner is prospectively capable of producing oil, gas and other minerals in commercial quantities and furnishing equipment therefore.

(g) Establishing such facilities at such places as in the judgment of the Managing Partner may be appropriate in the conduct of the affairs and business of the Partnership.

(h) Employing personnel, agents and representatives with such powers and duties, upon such terms and conditions, at such places, and for such compensation as in the judgment of the Managing Partner may be necessary or advisable in carrying on the business of the Partnership.

(i) Making contracts with independent contractors for such work and upon such terms and conditions as in the judgment of the Managing Partner may be necessary or advisable in connection with the business of the Partnership.

(j) Employment of such legal, accounting, geological, geophysical and engineering services and advice as in the judgment of the Managing Partner may be appropriate in the conduct of the affairs of the Partnership.

(k) Entering into any operating agreement with others with respect to the Partnership properties containing such terms, provisions and conditions as the Managing Partner may approve and the amendment, revision and termination thereof.

(l) Purchasing and maintaining a supply of equipment and materials of all kinds for use in the business of the Partnership.

(m) Payment of royalties, overriding royalties and other sums payable or reserved in connection with oil, gas and other minerals produced from the Partnership properties, or any part thereof, and payment of rents, rentals, fees and other sums applicable to the lands, permits, licenses, leases and rights comprising the Partnership properties, or any part thereof.

(n) Making contributions, either of interests in Partnership properties or of money, to encourage drilling by others in areas near or adjacent to Partnership properties and farm out agreements or other agreements with respect to Partnership properties in order to secure exploration or testing of the Partnership properties. It is expressly understood that the Managing Partner shall have the' power and authority to assign interests in Partnership properties (whether such interests are mineral, royalty, overriding royalty, working, net profits, or of any other kind and whether presently possessable and enjoyable when assigned or becoming possessable and enjoyable in the future upon the happening of an event or the passing of time) to employees, consultants and independent contractors of the Partnership when in the judgment of the Managing Partner such assignments of interests are justified as compensation or are contracted for as compensation and whether or not such contracts are verbal or in writing.

(o) Making agreements relating to unitization, pressure maintenance, recycling, spacing of wells, rates of production and other arrangements relating to the conservation and recovery of oil, gas and other minerals.

(p) Treating, storing, transporting and marketing oil, gas and other minerals and acquiring or constructing facilities and plants therefore, including, by way of illustration and not by way of limitation, terminals, storage depots, pipelines and other means of transportation, and facilities for the extraction, separation, recovery, manufacture, storage, processing, transportation and marketing of natural gasoline, liquefied petroleum gas, sulphur, and hydrocarbons in any form.

(q) Borrowing money from banks and other lending institutions for all of the purposes of the Partnership, and pledging, mortgaging and otherwise encumbering Partnership properties, the production of oil, gas and other minerals therefrom and other assets of the Partnership, to secure repayment of the sums so borrowed.

(r) The sale, disposition, farm out, or release of any part or portion or all of the Partnership properties and any other assets of the Partnership, and the undivided interests therein, as well as the sale for cash or services or supplies or other consideration of interests in production from the Partnership properties in the form of overriding royalty interests, production payment interests and like interests of every kind.

(s) Carrying insurance in such amounts and with such coverage as in the judgment' of the Managing Partner may be necessary or advisable with respect to the Partnership properties and other assets of the Partnership and the risks and the business of the Partnership.

(t) Engaging in any and all acts or activities appropriate, advisable or necessary in the judgment of the Managing Partner in conducting the affairs of the Partnership and in furtherance of its objectives.

(u) Manage, acquire, sell, and exchange oil and gas working interests, mineral interests, overriding royalty interests, non-participating royalty interests, and royalty interests.

ARTICLE III - TERM OF PARTNERSHIP

The Partnership began on December 29, 2007, and will end on January 1, 2017, and thereafter from year to year unless sooner terminated as specifically provided in Article IV of this Agreement, or any other applicable provision of this Partnership Agreement. Notwithstanding anything to the contrary herein contained, however, this Partnership Agreement shall remain in force and effect until such time as the MEMORANDUM TRACKING ACCOUNT established in Article IV has been eliminated.

ARTICLE IV - CONTRIBUTIONS TO PARTNERSHIP, FUNDING AGREEMENT AND MEMORANDUM ACCOUNT

4.01 The partners acknowledge that each Partner shall be obligated to contribute and will, upon demand, contribute to the Partnership the amount of cash or property of agreed fair market value set out opposite the name of each on **Exhibit "A"** as their initial capital contributions.

4.02 In addition to the foregoing, Navitus has agreed to provide at its option, and from time to time during the term of this Agreement, additional funding to Aurora which will not exceed in the aggregate $15,000,000.00. This is exclusive of any monies previously provided from any other sources. Any such amounts contributed by Navitus to Aurora shall be allocated to Victory for purposes of this Partnership Agreement, notwithstanding anything in this Agreement to the contrary, and may be used by Victory for any permissible purpose.

4.03 With regard to any such advance made by Navitus to Aurora that is then used by Victory to acquire or develop oil and gas prospects or related enterprises on behalf of Aurora, Victory agrees to pay Navitus a ten percent (10%) preferred annual return on each such investment tranche for a period of five (5) years from the date of any such advance, which amount shall be paid out to Navitus prior to any other partnership disbursements or distributions of partnership proceeds under the terms hereof. Navitus shall be responsible for allocating any payments made to it among its partners or investors in accordance with the terms of the General Partnership Agreement of Navitus Energy Group or an agreement with an investor. Any preferred return payments made by Victory to Navitus under the terms of this paragraph shall not constitute part of, or be credited against Navitus's fifty percent interest (50%) interest in those partnership proceeds remaining after payment of the preferred annual return, but shall be in addition thereto. As additional consideration for the advancement of funds, all deductible intangible drilling costs associated with Victory's use of funds for Partnership purposes advanced shall be allocated by Aurora to Navitus under the special allocation procedures of this Agreement and the Tax Partnership Agreement attached hereto as **Exhibit "B"**.

4.03(1) Subject to the terms hereof, and as additional consideration for the advancement of funds from Navitus from time to time, Victory shall issue common stock warrants to Navitus in an amount equal to one warrant for each dollar investment made by Navitus, and used by Victory in oil and gas operations, acquisitions or related enterprises on behalf of Aurora. Victory shall have fifteen (15) business days to issue the warrants to Navitus. The warrants shall be exercisable within a period of five (5) years of the date of the issuance of the warrants, at a price equivalent to one hundred percent (100%) of the closing price of Victory's stock on the day such funds were initially advanced. Navitus shall be responsible for allocating these warrants among its partners or investors in accordance with the terms of the General Partnership Agreement of Navitus, or any other applicable investor agreement. Any shares obtained by the exercise of the referenced warrants by Navitus, or any of its partners or other investors, shall be restricted by a "leak out" restriction whereby Navitus, or the applicable partner or investor, cannot sell more than five percent (5%) of any such shares during any calendar month following the exercise date or dates of the warrants. If the exercise of any such warrants renders Navitus, its partners or an investors an "insider," as defined by applicable securities regulations, then Navitus, or any such partner or investor shall be subject to such other and further trading limitations as may be required to be in compliance with any such laws or regulations. Navitus and Victory recognize that the common stock warrants provided for herein may be issued with restrictions under SEC Rule 144 and Navitus agrees to comply with any such restriction.

4.03(2) With regard to any such advance made by Navitus to Aurora that is not used by Victory in a manner directly attributable to the acquisition or development of a specific well or asset, those funds shall be treated as a five (5) year ten percent (10%) convertible debenture to Victory. With respect to these funds, Victory agrees to pay Navitus a ten percent (10%) interest rate on the unpaid portion of any such Navitus investment not used for Partnership purposes, for a period not to exceed five (5) years from the date of any such advance, or until the debenture is converted to equity, whichever is the first to occur. Further, for any funds not utilized by Victory for Partnership purposes, Victory shall issue Convertible Debentures to Navitus in an amount which, if converted into Victory common stock under the terms hereof, will entitle Navitus to that number of Victory shares equivalent to the funds advanced by Navitus, and used by Victory for purposes other than oil and gas exploration or acquisition of or development of Partnership assets, divided by the closing price of Victory's common stock on the day such funds are advanced. The Convertible Debenture, the terms of which will be in a Convertible Debenture Agreement to be executed by Navitus and Victory, shall also provide Navitus with an equivalent amount of common stock warrants, exercisable within five (5) years of the date of issuance of any such Convertible Debenture, at a price equivalent to one hundred and twenty-five percent (125%) of the closing price of Victory's stock on the day such funds were initially advanced.

At any time during the five (5) year term of any such loan, the Convertible Debenture shall provide Navitus with the option to convert any proportion of the Debenture into Victory common stock at any time in lieu of the repayment of principal and interest, and any such conversion shall be in complete satisfaction of all outstanding indebtedness associated with that proportion of the Convertible Debenture. Navitus agrees to provide Victory with written notice of such conversion no less than fifteen (15) days prior to any such conversion.

4.03(3) Any Convertible Debenture issued by Victory hereunder shall be subject to a "forced" or "automatic" conversion into Victory common stock during any period in which the share price of Victory common stock is equal to or exceeds two hundred percent (200%) of the share price on the day the funds were advanced, for twenty (20) consecutive trading days, and Navitus shall receive that number of shares which is equivalent to the funds used by Victory for non-Partnership purposes, divided by a price equal to one hundred percent (100%) of the closing price of Victory stock on the day funds were advanced by Navitus. In the event of a conversion of a Convertible Debenture under the terms of this Paragraph, the Navitus loan for which the Convertible Debenture was issued shall be satisfied and fully extinguished, and any security agreement or other instrument that served as security for such loan shall be released. Victory agrees to pay all reasonable costs and expenses, including attorney's fees and legal expenses, in connection with the documentation of the Debenture, the Warrants, the security Agreement and other documents to be delivered hereunder.

4.03(4) Upon conversion of a Convertible Debenture, either forced or voluntary, the common shares obtained by such conversion shall be restricted shares and cannot be traded for a term of six (6) months from the date of the conversion, or for such longer periods of time as may be required by applicable securities laws or any regulatory body having jurisdiction in the premises. Further, any such shares shall be restricted by a "leak out" provision whereby Navitus cannot sell more than five percent (5%) of any such converted shares during any calendar month following the date such shares become free trading and unrestricted shares. If the conversion of any such Convertible Debenture renders Navitus an "insider" as defined by applicable securities regulations, then Navitus shall be subject to such other and further trading limitations as may be required to be in compliance with any such laws or regulations.

4.03(5) Any loan made by Navitus hereunder can be repaid by Victory from its share of Partnership income, from funds raised through third parties or capital markets, or by the conversion of any Convertible Debenture as described above, at any time during the five (5) year term of the loan; provided, however, should Victory tender a cash payment to Navitus in repayment of any such loan, Navitus shall have the option to accept this payment in satisfaction of any such loan, or to decline the payment and elect to convert the Convertible Debenture associated with such loan if a conversion has not otherwise occurred as of the date a cash payment is tendered. The election to convert upon tender of a cash payment shall be made not later than the end of the first business day following the date of any such cash tender.

4.03(6) The Conversion Price and the number of shares of common stock shall be subject to adjustment from time to time due to the subdivision or combination of stock. If at any time or time after the Debenture date Victory shall subdivide its outstanding shares of Debenture Stock, the conversion price in effect immediately prior to such issuance shall be proportionately reduced. If the outstanding Debenture Shares are combined into a smaller number of shares, the conversion price in effect immediately in effect prior to such combination or reverse split shall be proportionately increased.

4.04 The parties hereto recognize that since 2007, JCE and JCC have provided funding to Victory for oil and gas drilling and exploration, and for general and administrative expenses, in the amount of $11,700,000.00 and have allowed Victory to retain and use all of the Partnership income for general operational expenses and oil and gas operations. In consideration of this initial funding the parties hereby establish a MEMORANDUM TRACKING ACCOUNT, the purpose of which is to provide a "benchmark", or date certain, for the partition in kind of Partnership Assets, and to provide a mechanism through which Victory can provide funds for Partnership activities up to $11,700,000.00, and such other amounts as are equal to any investment tranches advanced by Navitus under Paragraph 4.02 above.

4.05 The initial MEMORANDUM TRACKING ACCOUNT balance shall be $11,280,000.00, as of October 1, 2011. The MEMORANDUM TRACKING ACCOUNT balance will be increased by the amount of any funds advanced by Navitus under the provisions of Paragraph 4.02 above, up to and including the amount of $15,000,000.00. Any asset acquisition made by Victory on behalf of Aurora from funds acquired by Victory from a source or sources other than Navitus shall serve to reduce the MEMORANDUM TRACKING ACCOUNT BALANCE by an amount equal to the investment made by Victory on Aurora's behalf.

4.06 At such time as Victory has made investments on behalf of Aurora, either through the use of Victory Energy profits or funds advanced by third parties in an amount equal to the then MEMORANDUM TRACKING ACCOUNT balance, the MEMORANDUM TRACKING ACCOUNT shall be extinguished. Within fifteen (15) business days from the date of elimination of the MEMORANDUM TRACKING ACCOUNT, Victory and Navitus agree to partition and segregate all Aurora assets, including any pending acquisitions, into two (2) equal shares. Fifty Percent (50%) of all existing Aurora Assets shall then be conveyed in fee to Victory, and the remaining Fifty Percent (50%) of all existing Aurora Assets shall be conveyed in fee to Navitus, notwithstanding any language to the contrary contained in this Partnership Agreement.

4.07 Upon the distribution of Aurora assets to Victory and to Navitus, the parties shall make an election in writing, within an additional fifteen (15) business days from the date of conveyance of Partnership Assets, to continue Aurora as a Texas General Partnership or to dissolve same under the terms hereof and applicable partnership law. The failure of either party to consent to the continuation of Aurora as on ongoing entity will result in the dissolution of Aurora as stated.

4.08 Should the parties elect to continue the partnership activities of Aurora under the provisions of this Article and Article III, a new MEMORANDUM TRACKING ACCOUNT shall be established under the terms hereof, and the provisions of this Article IV shall govern such other operations and funds as may be advanced by Victory or Navitus from time to time during the remaining term of the Partnership; provided, however, as to those assets which were distributed to Victory upon elimination of the MEMORANDUM ACCOUNT, and which are no longer partnership assets, Navitus and Victory shall have the right to participate in each new drilling operation or acquisition made or conducted by the other on any such property, or on any property subsequently acquired by either party within a one (1) square mile area of a distributed property, by making one (1) of the following elections: (1) by electing to participate for up to a fifty percent (50%) of Victory's or Navitus's working interest on every new drilling activity, or property acquisition, including mineral or royalty rights or leases in the referenced area or, (2) by electing to receive a fifteen percent (15%) carried working interest in all such activities on the referenced area, or (3) by electing to receive a three percent (3%) overriding royalty interest in any such new operations or acquisitions, proportionately reduced, in lieu of all other options. Navitus or Victory will make the applicable election in writing, on an asset by asset basis, within five (5) business days of its receipt of written notice from the other that additional drilling operations or acquisitions are going to be conducted on any such properties. The parties hereto agree to execute such other and further documents as may be required to effectuate the provisions of this Article 4.08, including operating agreements, exploration agreements and area of mutual interest agreements.

4.09 Should the parties elect to terminate this Partnership in accordance with the provisions of Paragraph 4.07, or upon the termination of this Partnership at any other time in accordance with its terms, the parties hereto agree that Navitus shall have the right and option for a period of ten (10) years from the date of termination of this Partnership to participate in each new drilling operation, property or lease acquisition, or mineral or royalty acquisition made or conducted by Victory anywhere, whether in the United States or any foreign country, by making one (1) of the following optional elections: (1) by electing to participate for up to a fifty percent (50%) of Victory's working interest on every new drilling activity or property acquisition, including mineral or royalty rights or leases in the referenced area or, (2) by electing to receive a fifteen percent (15%) carried working interest in all such activities on the referenced area, or (3) by electing to receive a three percent (3%) overriding royalty interest in any such new operations or acquisitions, or leases, proportionately reduced, in lieu of all other options. Should it decide to exercise its options under the terms of this paragraph, Navitus will make the applicable election in writing, on an asset by asset basis, within five (5) business days of its receipt of written notice from Victory that additional drilling operations or acquisitions are going to be conducted. The parties hereto agree to execute such other and further documents as may be required to effectuate the provisions of this Article 4.09, including operating agreements, exploration agreements and area of mutual interest agreements.

4.10 The partners further acknowledge that as of October 1, 2011, since the formation of the Partnership on January 1, 2008, funds have been loaned by the partnership to Victory Energy Corporation and these loans have been repaid by Victory Energy Corporation to the partnership. These loans have been recorded in the books of Victory and Aurora as "inter-company loans". The balances of these inter-company loans as of October 1, 2011, are $429,583 which is represented by a loan receivable on Victory's books and a loan payable on Aurora's books.

Victory and Aurora hereby agree that as of October 1, 2011, the amount of $417,567 will be removed from the loan receivable account on Victory's books and recorded as an additional partnership investment in Aurora by Victory. The amount of $417,567 will be removed from the loan payable account on Aurora's books and recorded as an additional partnership investment in Aurora by Victory in the form of a "Capital Contribution." Future payments by Victory toward investments in oil & gas projects that qualify as a reduction of the Memorandum Tracking Account will be recorded on the books as an additional partnership investment by Victory on Victory's books and an additional partner Capital Contribution by Victory on Aurora's books. All other transfers of funds between Victory and Aurora will continue to be recorded as inter-company loans subject to repayment by the party who is the beneficiary of the loaned funds.

ARTICLE V – PROFITS, LOSSES, LIABILITIES

5.01 The interest of each partner in and to any net profits of the Partnership and the obligation and liability of each Partner as among themselves with respect to any and all liabilities and losses in connection with the business of the Partnership shall be the percentage set opposite each Partner's name in **Exhibit "A"**, which interest is allocated fifty percent (50%) to Victory and fifty percent (50%) to Navitus; provided, however, during the term of this Agreement one hundred percent (100%) of any tax benefits or deductions which might accrue in the pursuit of Partnership Activities shall be allocated to Navitus to the extent permissible under applicable special allocation rules, and as set forth in the Tax Partnership Agreement attached as **Exhibit "B"** hereto, and any tax benefits or deductions which might accrue to any investments made by Navitus under Article IV hereof shall be allocated by Victory to Navitus. Navitus shall be responsible for the distribution or allocation of any such tax benefits or deductions among its partners or investors in accordance with the terms of the Partnership Agreement of Navitus Energy Group.

5.02 In the event of a default hereunder by a Partner, the defaulting Partner does hereby indemnify the other Partners against any loss or liability exceeding the percentages set forth in **Exhibit "A"**. In the event of a default hereunder by a Partner, the defaulting Partner does hereby indemnify the other Partners against any loss or liability exceeding the percentages set forth in **Exhibit "A"** by reason of any liability or loss resulting from such default. No Partner shall have any right to compensation solely by reason of his contribution to the Partnership, except to share in the net profits in the percentage set opposite each Partner's name in **Exhibit "A"** unless other wise provided herein. Any Partner may, however, loan to the Partnership such additional funds as the Partners may agree upon and interest at the prevailing rate per annum shall be paid thereon and charged as an expense of the partnership business.

5.03 Distributions from the Partnership to the respective Partners shall be made at such times and in such amounts as may be determined by a vote 100% in interest, not in numbers, of the Partners; however, any distribution from the Partnership shall be made proportionately to all Partners in the percentage set opposite each Partner's name in **Exhibit "A"**, unless otherwise agreed, or unless otherwise specified herein.

5.04 The Partners agree that Victory shall be the tax-reporting manager for the Partnership and further agree to the provisions of the Tax Partnership Agreement attached hereto as **Exhibit "B"**.

ARTICLE VI – OWNERSHIP OF PARTNERSHIP PROPERTY

6.01 All real or personal property, including all improvements placed or located thereon, acquired by the Partnership shall be owned by the Partnership, such ownership being subject to the other terms and provisions of this Agreement. Subject to the provisions of Paragraphs 4.06 and 4.07 above, each Partner hereby expressly waives the right to require partition of any Partnership Property or any part thereof prior to the termination of the MEMORANDUM TRACKING ACCOUNT.

6.02 It is also expressly agreed and understood by the Partners hereto that any contribution to the Partnership and any acceptance of property into the Partnership shall be property that constitutes the sole and separate property of each individual Partner. Any cash or monies held by the Partnership in Partnership accounts shall be the sole and separate property of each Partner to this Agreement.

ARTICLE VII - FISCAL MATTERS

7.01 The fiscal year of the Partnership shall be the calendar year.

7.02 Proper books and records shall be kept with reference to all Partnership transactions, and each Partner shall at all reasonable times during business hours have access thereto. The books shall be kept upon such method of accounting as shall be agreed upon by the Partners. The books and records shall include the designation and identification of any property in which the Partnership owns a beneficial interest; such records shall include, but shall not be limited to, the ownership of property (real, personal and mixed), as well as any property in which the Partnership owns an interest and the title to such property has been recorded or is maintained, in the name of one or more designated Partners without designation of the Partnership. The books and records of the Partnership shall be reviewed annually at the expense of the Partners by a Certified Public Accountant selected by the Partners. The appropriate Federal Partnership Income Tax Return shall also be prepared by a Certified Public Accountant.

7.03 All funds of the Partnership shall be deposited in its name (or in the name of a nominee as provided in Paragraph 8.02) in an account or accounts maintained at a national or state bank designated by the Partners. Checks shall be drawn upon the Partnership and shall be signed by any one of the Partners of the Partnership or by an officer of authorized agent of the Partnership.

ARTICLE VIII - MANAGEMENT OF PARTNERSHIP AFFAIRS

8.01 The Partners do hereby appoint Victory to act as Managing Partner of the Partnership.

8.02 The Managing Partner shall have full power and authority to transact the business of the Partnership and to deal with and in the Partnership properties for the use and benefit of the Partnership, and the individual partners, and, for these purposes shall have sole, complete, and plenary power and authority to manage and carry on the business thereof, and to do any and all acts and things required in connection therewith, including, by way of amplification and not by way of limitation, to borrow money and to execute any mortgages, bonds or other encumbrances, and to sell, exchange or convey title to all or any part of the Partnership properties, both real and personal, wheresoever situated, and shall have full, complete and plenary power and authority to act on behalf of and to bind the Partnership and to execute all documents and instruments incident to the conduct of the business and affairs thereof, and shall have all powers and authority, whether or not expressly set forth herein, reasonable and necessary to conduct and carry on the business of the Partnership.

8.03 The Managing Partner shall deposit Partnership funds in an account or accounts to be established at such time or times in such financial institutions (including any state or federally chartered bank or savings and loan association), and authorize withdrawals of such funds by such persons, at such times, and in such amounts, as the Managing Partner may designate.

8.04 The Managing Partner shall be reimbursed for all Navitus expenses incurred in conducting the Partnership business, all Navitus taxes paid by the Managing Partner in connection with the Partnership business, and all Navitus costs associated with the development, organization and operation of the Partnership, and shall be entitled to a reasonable management fee for providing such services on behalf of the Partnership. Further, the Managing Partner shall be paid a monthly management fee, at the end of each calendar month, in an amount equal to two percent (2%) of the gross receipts of the partnership during any such calendar month.

8.05 No person, firm or corporation dealing with the Partnership shall be required to inquire into, or obtain any consents or other documents as to, the authority of the Managing Partner to take any such action or to exercise any such rights or powers, including, but not limited to the execution of division orders, transfer orders, gas purchase contracts, or any other documents required by a purchaser of production necessary to get any interest owned by the Partnership in a pay status with such purchaser.

8.06 The Managing Partner shall have full power to appoint by written instrument an agent or agents or act for him upon such terms and conditions and subject to such limitations as he may specify in the instrument appointing such agents, and such agents shall thereupon have the power and authority to carry out such duties as may be specified in the instrument appointing them.

8.07 The enumeration of specific powers and authority herein shall not limit the generality or the extent of the full power and authority hereby vested in the Managing Partner to do any and all things necessary, requisite or desirable in furtherance of the purposes of the Partnership, and the only limitations upon the power and authorities of the Managing Partner to carry on the Partnership business and to deal with and in the Partnership properties for the use and benefit of the Partnership shall be the limitations expressly provided for herein.

8.08 Control of the Partnership and all of its affairs shall be in the Partners, who shall have equal rights in the management and conduct of the Partnership investments and activities.

8.09 All Partners recognize that sometimes there are practical difficulties in doing business as a Partnership, occasioned by outsiders seeking to satisfy themselves relative to the capacity of the Partner to act for and on behalf of the Partnership, or for other reasons. Therefore, each Partner hereby specifically authorizes the other Partners to acquire all real and personal property, arrange all financing, enter contracts and complete all other arrangements needed to effectuate the purposes set forth in Article II hereof, either in his or its own name or in the name of a nominee, without having to disclose the existence of this Partnership. If a Partner decides to carry on the business of the Partnership in his or its own name or in the name of a nominee, such Partner shall place a written declaration of trust in the Partnership books and records that acknowledges the nominee's capacity in which it acts and the name of the true or equitable owner, namely, the Partnership.

8.10 The acquisition of Partnership Property or the creation of indebtedness of the Partnership in the name of a Partner acting as such a nominee shall not give such Partner an interest in Partnership Property or cause him to be liable for a Partnership debt in excess of his percentage of interest in the Partnership as is set opposite its name in **Exhibit "A"** attached hereto; provided, however, anything to the contrary contained hereinabove notwithstanding, no note or other obligation executed by such Partner as maker, the nature of which imposes no personal liability on the Partnership for the payment of such note or performance of such obligation.

The individual Partners shall not have any authority with respect to the Partnership and this Agreement to:

(1) Do any act in contravention of this Agreement;

(2) Do any act which would make it impossible to carry on the business of the Partnership;

(3) Possess Partnership Property or assign the right of the Partnership or its Partners in specific Partnership Property for other than a Partnership purpose;

(4) Make, execute, or deliver any general assignments for the benefit of creditors, or any bond, guaranty, indemnity bond or surety bond;

(5) Assign, transfer, pledge, compromise, or release any claim of the Partnership except for full payment, or arbitrate, or consent to the arbitration of any of its disputes or controversies;

(6) Do any of the following without the unanimous consent of all of the Partners:

(a) Confess a judgment;

(b) Make, execute, or deliver for the Partnership any bond, mortgage, deed of trust, guarantee, indemnity bond, surety bond, or accommodation paper or accommodation endorsement;

(c) Amend or otherwise change this Agreement so as to modify the rights or obligations of the Partners as set forth herein; or

(d) Create any personal liability for any Partner other than that personal liability to which any Partner may have agreed to in writing.

8.11 The Partners shall hold regular quarterly meetings at times and places to be selected by the Partners. In addition, 50% in interest, not in numbers, of said Partners may call a special meeting to be held in Midland County, Texas, or at any other place upon agreement of the Partners, at any time after the giving of ten (10) days notice to all of the Partners. Any Partner may waive notice of or attendance at any meeting of the Partners, and may attend by telephone or any other electronic communication device or may execute a signed written consent. At such meeting, the Partners shall transact such business as may properly be brought before the meeting.

8.12 Any action required by statute or by this Agreement to be taken at a meeting of the Partnership, or any action which may be taken at a meeting of the Partners, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the Partners entitled to vote with respect to the subject matter thereof and such consent shall have the same force and effect as a unanimous vote of the Partners. Any such signed consent, or a signed copy thereof, shall be placed in the minute book of the Partnership.

ARTICLE IX – RESTRICTION ON TRANSFERS

9.01 Except as otherwise herein, and only during the term of this Partnership Agreement, no Partner may sell, assign, transfer, encumber, or otherwise dispose of any interest in the Partnership, Partnership Property, or assets of the Partnership without the prior written consent of 100% in interest, not in numbers, of all other Partners, and shall not pass title to said interest or property in the absence of such consent, and any such prohibited transfer, if made, shall be void and without force or effect and any attempt by any Partner to dispose of his interest in violation of this prohibition shall constitute a material default hereunder.

ARTICLE X - DEFAULT BY PARTNER

10.01 The following events shall be deemed to be events of default by a Partner:

(1) Failure of a Partner to make when due any contributions or advance required -to be made under the terms of this Agreement and the continuance of such failure for a period of ten (10) days after written notice thereof from the Manager of the Partnership to such Partner.

(2) Violation of any of the other provisions of this Agreement and failure to remedy or cure such violation within ten (10) days after written notice of such violation from the Manager of the Partnership or the other Partners.

(3) The making of an assignment for benefit of creditors or the filing of a petition under any section or chapter of the National Bankruptcy Act, as amended, or under any similar law or statute of the United States or any state thereof.

(4) Adjudication of Partner as a bankrupt or insolvent in proceedings filed against the Partner under any section or chapter of the National Bankruptcy Act, as amended, or under any similar law or statute of the United States, or any state thereof without further possibility of appeal or review.

(5) The appointment of a receiver for all or substantially all of the assets of a Partner and the failure to have such receiver discharged within thirty (30) days after appointment.

(6) The bringing of any legal action against a Partner by his creditor on a liquidated debt of the Partner, resulting in litigation which, in the opinion of 100% in interest, not in numbers of the other Partners, creates a real and substantial risk of involvement of the Partnership Property which will probably:

(a) Act to their financial detriment; or

(b) Result in such creditor, or his assigns, succeeding in or to all or a part of the interest of such Partner in the Partnership.

(7) The failure of the Distributees to appoint, in the manner and within the time prescribed, the agent required under Paragraph 9.02.

10.02 Upon the Occurrence of an event of default by a Partner, 100% in interest, not in numbers, or more of the other Partners shall have the right, at their election, which election may be made at any time within one (l) year from the date of such default, upon giving the defaulting Partner ten (10) days written notice of such election (and provided such default is continuing on the date such notice is given) to terminate the interest of the defaulting Partner without affecting a termination of the Partnership. In the event of such termination each and every non-defaulting Partner (hereinafter referred to as the Purchasing Partners) who voted to elect such option shall be required to purchase, pro rata, in the proportion that his interest in the Partnership bears to the aggregate of all interests in the Partnership of all non-defaulting Partners who voted to elect such option, the interest of the defaulting Partner.

The purchase price to be paid to the defaulting Partner shall be paid in cash, or, at the option of the Purchasing Partners, by the execution and delivery of each Purchasing Partner's note payable to the order of the defaulting Partner, in the amount of the purchase price. Said note shall bear interest at the rate of ten per cent (10%) per annum and shall be payable in ten (10) equal annual installments of principal and interest, the first such payment to be made one (1) year from the date of execution and delivery of such note, and with such note containing full prepayment privileges', without penalty. In the event the Purchasing Partners elect to exercise the option contained in this Paragraph 10.02, the purchase price to be paid to the defaulting Partner shall be the fair market value of the defaulting Partner's interest. Said purchase price shall be reduced by the aggregate amount of any outstanding debts to the Partnership and also any and all damages caused by the default of the defaulting Partner. Fair market value shall be determined in the manner set forth in Article XII hereof.

Upon receipt of the aforesaid purchase price (cash or note), if any, by the defaulting Partner, the defaulting Partner shall have no further interest in the Partnership or its business or assets and the defaulting Partner shall execute and deliver such assignments and other instruments as may be reasonable to evidence and fully and effectively transfer the interest of the defaulting Partner to the non-defaulting Partners. In the event the appropriate instruments are not delivered, after notice by the non-defaulting Partners of the Partnership that the consideration is available to the defaulting Partner, the non-defaulting Partners of the Partnership may deliver such consideration to the defaulting Partner and execute as the defaulting Partner's irrevocable agent, any such legal instruments to the appropriate continuing Partners.

No assignment or transfer of a defaulting Partner's interest as provided herein, shall relieve the defaulting Partner from any personal liability for outstanding indebtedness, liabilities, liens, and obligations relating to the partnership which may exist on the date of the assignment or transfer. The default of any Partner hereunder shall not relieve any other Partner from his or its agreements, liabilities, and obligations hereunder. A defaulting Partner's interest in the Partnership shall not be considered in any Partnership voting requirement.

10.03 Any Partner may agree to assist any other Partner in the event of default and said agreement or any advancement or payment made thereunder shall be secured by a lien upon the interest of the defaulting Partner in the Partnership which lien may be foreclosed, at the option of the assisting Partner.

10.04 If any Partner shall default in the performance or observance of any covenant, condition, or other provision of this Partnership Agreement to be performed or observed, any other Partner may, without waiving any claim for breach of this Partnership Agreement, and after written notice which is reasonable under the circumstances, cure such default for the account of the defaulting Partner, and the defaulting Partner shall reimburse or repay any reasonable amount paid and any reasonable expense or contractual liability so incurred, with interest at the highest lawful rate; and said obligation to reimburse and repay shall be secured by a lien upon the interest of the defaulting Partner in the Partnership, which lien may be foreclosed, at the option of the Partner exercising this option to cure default, by the non-defaulting Partners of the Partnership.

10.05 In the event a Partner is in default under the terms of this Partnership Agreement, the lien provided for in Paragraph 4.03 hereof, at the option of 100% of the non-defaulting Partners, if they so elect, may be foreclosed by the non-defaulting Partners.

10.06 Each Partner hereby makes, constitutes, and appoints the non-defaulting Partners of the Partnership as his or its attorney in fact in the event he becomes a defaulting Partner whose interest in the Partnership has been foreclosed in the manner prescribed above and upon such foreclosure, the non-defaulting Partners of the Partnership are authorized and allowed to execute and deliver a full assignment or other transfer of the defaulting Partner's interest in the Partnership and the non-defaulting Partners of the Partnership shall have no liability to any person in making such assignment or transfer.

10.07 Pursuit of any of the foregoing remedies shall not preclude pursuit of any of the other remedies provided by law, nor shall pursuit of any remedy herein provided constitute a forfeiture or waiver of any amount due to the remaining Partners hereunder or of any damages accruing, to them by reason of the violation of any of the terms, pro visions, and covenants herein contained. No waiver by the remaining Partners of any violation or breach shall be deemed or construed to constitute a waiver of any other violation or breach of any of the terms, provisions, and covenants herein contained and forbearance by them to enforce one or more of the remedies herein provided upon an event of default shall not be deemed or construed to constitute a waiver of such default.

ARTICLE XI - AMENDMENT

11.01 Subject to the provisions of Article VIII, this Agreement may be amended or modified by the Partners from time to time but only by a written instrument executed by Partners owning collectively at least 100% in interest, not in numbers, in the Partnership.

ARTICLE XII - PROCEDURE FOR APPRAISEMENT

12.02 Within ten (10) days after an appraisal is required under any provisions hereof, each group or individual, as the case may be, shall select an appraiser who is a member of the American Institute of Real Estate Appraisers. If either party fails to name an appraiser within the specified time, the other party may select the second appraiser.

12.03 The two appraisers so selected shall proceed to promptly determine the fair market value of the Partnership interest, including therein a fair market valuation of the interest and equity in the Partnership of the Partner in question taking into consideration any outstanding indebtedness, liabilities, liens, and obligations relating to the Partnership Property. The determination of such fair market value by the two appraisers, selected-as hereinabove provided, shall be final and binding upon all parties and if the two appraisers so selected are unable to agree upon such fair market value, said two appraisers shall select a third appraiser (who shall also be a member of the American Institute of Real Estate Appraisers) whose determination as to such fair market value shall be averaged with the appraisals of the other two appraisers, and the average of the three appraisals shall be conclusive evidence as to such fair market value and shall be final and binding upon all parties. The appraisers shall deliver a written report of their appraisal to the Partners of the Partnership who shall provide copies thereof to all interested parties.

12.04 Each party shall pay the fee and expense of the appraiser selected by such party, and, if a third appraiser is selected, the fee of the third appraiser shall be borne equally by the parties appointing the other two appraisers.

ARTICLE XIII - TERMINATION OF THE PARTNERSHIP

13.01 In addition to the termination methods set forth in Article III and Article IV of this Agreement, the Partnership may be terminated at any time at a specially called meeting upon the affirmative vote of 100% in interest, not in numbers, of the Partners. Upon such termination, the assets of the Partnership shall be applied as follows: to payment of the outstanding Partnership liabilities, although an appropriate reserve may be maintained and the amount determined by the Partners of the Partnership for any contingent liability until said contingent liability is satisfied, and the balance of such reserve, if any, shall be distributed together with any other sums remaining after payment of the outstanding Partnership liabilities to the Partners as their interest appears on **Exhibit "A"** unless otherwise provided herein.

ARTICLE XIV - PRIOR AGREEMENTS

14.01 The Partners have heretofore entered into various agreements in an attempt to form a partnership, and have operated under these agreements since the effective date of this Agreement. While the Partners intended to form a partnership under these agreements, these agreements are not cohesive. The prior Agreements which the Partners entered into are a "Fund Agreement" between Victory Energy Corporation and James Capital Energy, LLC, dated December 29, 2007, a "Consulting Agreement" between Victory Energy Corporation and James Capital Consulting, LLC dated October 7, 2007, a "Memorandum of Agreement" between Victory Energy Corporation and James Capital Energy, LLC, setting out the ownership of the Partners in the Partnership assets, and a "Letter Agreement" between Victory Energy Corporation and Ronald W. Zamber, dated September 27th, 2007, in which Ronald W. Zamber acquired an interest in the partnership assets, which interest is now owned by James Capital Consulting, LLC.

14.02 To effectuate the purposes hereof, the Partners do hereby revoke all prior agreements between them relating to the Partnership or the Partnership assets and do hereby declare all such agreements null and void. Further, each of the Partners hereto do hereby convey to the other sufficient partnership interests necessary to result in each Partner's ownership interest as set forth in **Exhibit "A"** hereto, it being the intent of the Partners hereto that the Partnership interests be owned as set forth in **Exhibit "A"** and not as set forth in any prior agreement which has been revoked and cancelled herein.

ARTICLE XV - MISCELLANEOUS PROVISIONS

15.01 Except as may be otherwise specifically provided in this Agreement, all notices required or permitted hereunder shall be in writing and shall be deemed to be delivered when deposited in the United States mail, postage prepaid, registered or certified mail, return receipt requested, addressed to the parties at the respective addresses set forth on **Exhibit "A"** or at such other addresses as may have been theretofore specified by written notice delivered in accordance herewith.

15.02 This Agreement shall be construed under and in accordance with laws of the State of Texas.

15.03 The parties hereto covenant and agree that they will execute such other and further instruments and documents as are or may become necessary or convenient to effectuate and carry out the Partnership created by this Agreement.

15.04 The headings used in this Agreement are used for administrative purposes only and do not constitute substantive matter to be considered in construing the terms of this Agreement.

15.05 This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, legal representatives, successors, and assigns where permitted by this Agreement.

15.06 In case any one or more of the provisions contained in this Partnership Agreement shall, for any reason, be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision thereof and this Partnership Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

15.07 This partnership Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original.

15.08 Wherever the context shall so require, all words herein in the male gender shall be deemed to include the female or neuter gender, all singular words shall include the plural, and all plural words shall include the singular.

15.08 IN THE EVENT OF ANY DISPUTE, ARISING OUT OF OR RELATING TO THIS CONTRACT, OR THE BREACH THEREOF, THE PARTIES FIRST AGREE TO PARTICIPATE IN AT LEAST EIGHT (8) HOURS OF MEDIATION IN ACCORDANCE WITH THE COMMERCIAL MEDIATION RULES OF THE AMERICAN ARBITRATION ASSOCIATION, BEFORE HAVING RECOURSE TO ARBITRATION.

If the mediation procedure provided for herein does not resolve any such dispute, the parties agree that all disputes between the parties shall be resolved by binding arbitration administered by the American Arbitration Association in accordance with its commercial arbitration rules and pursuant to the Federal Arbitration Act, 9 U.S.C Sections 1-14. Judgment upon the award rendered by the arbitrator may be entered in any Court having Jurisdiction. The term “disputes” shall include, but is not limited to, all claims, demands and causes of action of any nature, whether in contract or in tort, at law or in equity, or arising under or by virtue of any statute or regulation or judicial reason, that are now recognized by law or that may be created or recognized in the future, for resulting past, present, and future personal injuries, contract damages, intentional and/or malicious conduct, actual and/or constructive fraud, statutory and/or common law fraud, class action suit, misinterpretations of any kind and/or character, liable, slander, negligence, gross negligence, and/or deceptive trade practices/consumer protection act damages, and for all other losses, damages and/or remedies of any kind and/or character, including without limitation, all actual damages, exemplary and punitive damages, all attorneys’ fees, all penalties of any kind, prejudgment interest and costs of court by virtue of the matters alleged and/or matters arising between the parties. The award of the arbitrator issued pursuant hereto shall be final, binding and non-appealable.

15.09 This Agreement supersedes any prior understandings or written or oral agreements between the parties respecting the within subject matter.

EXECUTED by the Parties on the dates set forth below, but effective as of the day and year above first written.

/s/ VICTOR ENERGY CORPORATION

/s/ THE NAVITUS ENERGY GROUP,
(a Texas General Partnership)

/s/ JAMES CAPITAL CONSULTING, LLC

/s/ JAMES CAPITAL ENERGY, LLC

EXHIBIT "A"

PARTNERSHIP INTERESTS

AURORA ENERY PARTNERS,
A Texas General Partnership

Partnership Interest	The Navitus Energy Group	Victory Energy Corporation		Totals
	50%	50%		100%

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER REQUIRED BY RULE 13(a)-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, Kenneth Hill, 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-(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 subsidiary, 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: November 14, 2012

/s/ KENNETH HILL
Kenneth Hill
Chief Executive Officer (principal executive officer)

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER REQUIRED BY RULE 13(a)-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, Mark Biggers, 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-(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 combined subsidiary, 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: November 14, 2012

/s/ MARK BIGGERS
Mark Biggers
Chief Financial Officer (principal financial officer)

EXHIBIT 32.1

**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 September 30, 2012, (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: November 14, 2012

By: /s/ KENNETH HILL
Kenneth Hill
Chief Executive Officer (principal executive officer)

Dated: November 14, 2012

By: /s/ MARK BIGGERS
Mark Biggers
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.