

VICTORY ENERGY CORP  
Form 10QSB  
May 21, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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FORM 10-QSB

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Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended: **March 31, 2007**

Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **2-76219-NY**

**VICTORY ENERGY CORPORATION**

(Exact name of small business issuer as specified in its charter)

**NEVADA**

(State or other jurisdiction of  
incorporation or organization)

**87-0564472**

(I.R.S. Employer I.D. Number)

**112 N Curry Street, Carson City, Nevada 89703-4934**

(Address of principal executive offices)

**(866) 279-9257**

(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of May 3, 2007, there were 16,497,766 shares of our common stock outstanding.

Transitional Small Business Disclosure Format. YES  NO



**INDEX**

Page  
No.

**PART 1. FINANCIAL INFORMATION**

Item 1. Financial Statements

Consolidated Balance Sheet, March 31, 2007<sup>2</sup>  
(unaudited) and  
December 31, 2006 (audited)

Consolidated Statement of Operations, for the<sup>3</sup>  
three months ended March 31, 2007  
and 2006, and cumulative from inception to  
March 31, 2007 (unaudited)

Consolidated Statement of Stockholders' Equity<sup>4</sup>  
(Deficit) for the period from  
January 7, 1982 (inception) through March 31,  
2007 (unaudited)

Consolidated Statements of Cash Flows, for<sup>5</sup>  
the three months ended  
March 31, 2007 and 2006, and cumulative  
from inception (Jan. 7, 1982)  
to March 31, 2007 (unaudited)

Notes to Condensed Financial Statements<sup>7</sup>  
(unaudited)

Item 2. Management's Discussion and Analysis<sup>8</sup>  
or Plan of Operation

Item 3. Controls and Procedures 15

**PART II. OTHER INFORMATION**

Item 1. Legal Proceedings 16

Item 2. Unregistered Sales of Equity Securities<sup>16</sup>  
and Use of Proceeds

Item 3. Defaults Upon Senior Securities 16

Item 4. Submission of Matters to a Vote of<sup>16</sup>  
Security Holders

Item 5. Other Information 16

Item 6. Exhibits and Reports on Form 8-K 16

-2-

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VICTORY ENERGY CORPORATION AND SUBSIDIARIES  
(A Development Stage Company)  
Consolidated Balance Sheets

<b>ASSETS</b>	<b>March 31, 2007 Unaudited</b>	<b>December 31, 2006</b>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 592	\$ -
Subscriptions Receivable	1,189,020	-
Total Current Assets	1,189,612	-
<b>FIXED ASSETS, NET</b>	-	-
<b>OTHER ASSETS</b>		
Investment in Joint Venture	50,000	50,000
<b>TOTAL ASSETS</b>	<b>\$ 1,239,612</b>	<b>\$ 50,000</b>
<b>LIABILITIES &amp; STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITES</b>		
Bank Overdraft	\$ -	\$ 79
Accounts Payable	32,418	19,142
Credit Line - WFB Business Line	79,847	56,961
Prepaid Subscriptions	203,500	203,500
Total Current Liabilities	315,765	279,682
<b>OTHER LIABILITIES</b>		
Loan from Officer	873,581	690,085
Total Other Liabilities	873,581	690,085
<b>Total Liabilities</b>	<b>1,189,346</b>	<b>969,767</b>
Commitments and contingencies (Note 6)		
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred Stock, \$0.001 par value, 10,000,000 shares authorized, 715,517 issued and outstanding	716	716
Common Stock, \$0.001 par value, 200,000,000 shares authorized, 16,497,766 issued and outstanding	16,498	4,518
Additional paid-in capital	6,693,348	4,566,320
Deficit accumulated in the development stage	(6,660,296)	(5,491,321)
<b>Total Stockholders' Deficit</b>	<b>50,266</b>	<b>(919,767)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 1,239,612</b>	<b>\$ 50,000</b>



VICTORY ENERGY CORPORATION AND SUBSIDIARIES  
(A Development Stage Company)  
Consolidated Statement of Operations

	<b>For the Three Months Ended March 31, 2007 Unaudited</b>	<b>2006 Unaudited</b>	<b>For the period of Inception, from January 2, 1982 through December 31, 2006 Unaudited</b>
Revenues	\$ -	\$ -	\$ 20,207
<b>Costs and Expenses</b>			
Consulting Expense	1,042,988	600,240	3,989,354
Land Leases	4,500	25,000	
Wages and Salaries	-	22,500	270,500
General & Administrative	121,487	128,138	1,154,507
Total Expenses	1,168,975	775,878	5,414,361
Operating Loss	(1,168,975)	(775,878)	(5,394,154)
<b>Other Income and (expenses)</b>			
Loss on abandonment of subsidiary			(50,900)
Loss from reduction in debt			(48,363)
Interest Expense			0
Other Income			2,096
Total Other Income and (expenses)	0	0	(97,167)
Net Loss	\$ (1,168,975)	\$ (775,878)	\$ (5,491,321)
Basic and Dilutive net loss per share	(\$0.09)	(\$0.02)	
Weighted average number of shares outstanding, basic and diluted	12,923,505	42,085,258	
Dilutive effect of preferred stock (Note 2)	0		





## VICTORY ENERGY CORPORATION AND SUBSIDIARIES

(A Development Stage Company)

## Consolidated Statements of Cash Flows

	<b>For the Three Months Ended March 31, 2007</b>	<b>2006</b>	<b>Inception from Jan. 7, 1982 through Dec. 31, 2006</b>
	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Loss	\$ (1,168,975)	\$ (775,878)	\$ (6,660,296)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation			2,294
Loss on extinguishment of debt			48,363
Loss on abandonment of subsidiary			50,900
Issuance of common stock for services rendered	2,139,008	527,500	5,593,144
Increase in Short Term Receivables			
Decrease (Increase) in Prepaid Expenses			
Increase (Decrease) in Deposits			
Increase (Decrease) in Prepaid Subscriptions			203,500
(Increase) Decrease in Subscriptions Receivable	(1,189,020)		(1,189,020)
Increase (Decrease) in accounts payable	13,276		32,148
Increase (Decrease) in accounts payable -related			
Increase (Decrease) in accrued liabilities		(11,416)	
Increase ( ) in Accrued Payroll and Payroll Taxes		76,006	
Repayment of long term debt			
Increase (decrease) in Accrued Liabilities - Related			
Non-cash contributed capital			(524)
Net Cash provided by (used by)			
Operating Activities	(205,711)	(183,788)	(1,919,491)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Fixed Assets			(2,294)
Purchase and Sale of Marketable Securities			
Investment in Joint Venture			(50,000)
Net Cash (used by) Investing Activities	0	0	(52,294)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds of Note Payable			
Proceeds (Repayment) of Loans			
Increase (decrease) in Credit Line	22,886		79,147
Proceeds (Repayment) of Loan from Officer	183,496	58,354	873,581
Proceeds (Repayment) of Note Payable-Related Party			
Increase (Decrease) in Other Loans Payable			
Contributed capital for rent and officers' compensation			2,438
Proceeds from the sale of Preferred Stock			
Issuance of Common Stock for Cash		149,458	41,960
Proceeds from the sale of Common Stock			300,231
Proceeds from the sale of Preferred Stock			246,950
Contributed Capital by shareholders			428,070

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Net Cash provided by Financing Activities	206,382	207,812	1,972,377
NET INCREASE IN CASH	671	24,024	592
CASH AT BEGINNING OF PERIOD	(79)	4,074	-
CASH AT END OF PERIOD	\$ 592	\$ 28,098	\$ 592
<b>CASH PAID FOR:</b>			
Interest	\$ -	\$ -	\$ -
Income Taxes	\$ -	\$ -	\$ -

-5-

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VICTORY ENERGY CORPORATION  
AND SUBSIDIARIES  
(A Development Stage Company)  
Consolidated Statement of Stockholders'  
Equity (Deficit)  
Unaudited

	Common Stock		Preferred Stock		Additional	Accumulated	
	Shares	Amount	Shares	Amount	Paid-in	Deficit	Total
					Capital	During	
						Stage	
Balances at January 7, 1982	0	\$ -	0	0	\$ -	\$ -	-
Common stock for cash at \$7.50/sh	6,000	6			45,000	0	45,006
Common stock for cash at \$0.39/sh.	168,503	169			65,819	0	65,988
Net loss from inception Jan 7, 1982 to Dec. 31, 1982	0	0			0	(39,597)	(39,597)
Balances at Dec. 31, 1982	174,503	175			110,819	(39,597)	71,397
Net loss, year ended Dec. 31, 1983	0	0			0	(71,397)	(71,397)
Balances at Dec. 31, 1983	174,503	175			110,819	(110,994)	(0)
Common stock for cash at \$25.00/sh.	57	0			1,425	0	1,425
Common stock for cash at \$25.00/sh. per share	3	0			75	0	75
Common stock for cash at \$0.025/sh. per share	1,580,000	1,580			38,373	0	39,953
Net loss - year ended Dec. 31, 1984	0	0			0	0	0
Balances at Dec. 31, 1984	1,754,563	1,755			150,692	(110,994)	41,453
Cancellation of common stock	(1,296,132)	(1,297)					(1,297)
Net loss - year ended Dec. 31, 1985	0	0			0	0	0
Balances at Dec. 31, 1985	458,431	458			150,692	(110,994)	40,156
Net loss - year ended Dec. 31, 1986	0	0			0	0	0
Balances at Dec. 31, 1986	458,431	458			150,692	(110,994)	40,156

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Net loss - year ended Dec. 31, 1987	0	0	0	0	0
Balances at Dec. 31, 1987	458,431	458	150,692	(110,994)	40,156
Net loss - year ended Dec. 31, 1988	0	0	0	0	0
Balances at Dec. 31, 1988	458,431	458	150,692	(110,994)	40,156
Net loss - year ended Dec. 31, 1989	0	0	0	0	0
Balances at Dec. 31, 1989	458,431	458	150,692	(110,994)	40,156
Net loss - year ended Dec. 31, 1990	0	0	0	0	0
Balances at Dec. 31, 1990	458,431	458	150,692	(110,994)	40,156
Net loss - year ended Dec. 31, 1991	0	0	0	0	0
Balances at Dec. 31, 1991	458,431	458	150,692	(110,994)	40,156
Net loss - year ended Dec. 31, 1992	0	0	0	0	0
Balances at Dec. 31, 1992	458,431	458	150,692	(110,994)	40,156
Net loss - year ended Dec. 31, 1993	0	0	0	0	0
Balances at Dec. 31, 1993	458,431	458	150,692	(110,994)	40,156
Cancellation of common stock	(316,000)	(316)			(316)
Net loss - year ended Dec. 31, 1994	0	0	0	(6,656)	(6,656)
Balances at Dec. 31, 1994	142,431	142	150,692	(117,650)	33,184
Common stock for cash at \$0.001/sh.	2,357,895	2,359	0	0	2,359
Net loss - year ended Dec. 31, 1995	0	0	0	(49,097)	(49,097)
Balances at Dec. 31, 1995	2,500,326	2,500	150,692	(166,747)	(13,555)
Common stock for cash at \$0.001/sh.	120,000	120	0	0	120
Net loss - year ended Dec. 31, 1996	0	0	0	(1,681)	(1,681)
Balances at Dec. 31, 1996	2,620,326	2,620	150,692	(168,428)	(15,116)
Net loss - year ended Dec. 31, 1997	0	0	0	(3,517)	(3,517)
Balances at Dec. 31, 1997	2,620,326	2,620	150,692	(171,945)	(18,633)
	0	0	0	(2,479)	(2,479)

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Net loss - year ended Dec. 31, 1998					
Balances at Dec. 31, 1998	2,620,326	2,620	150,692	(174,424)	(21,112)
Net loss - year ended Dec. 31, 1999					
	0	0	0	(6,307)	(6,307)
Balances at Dec. 31, 1999	2,620,326	2,620	150,692	(180,731)	(27,419)
Net loss - year ended Dec. 31, 2000					
	0	0	0	(9,011)	(9,011)
Balances at Dec. 31, 2000	2,620,326	2,620	150,692	(189,742)	(36,430)
Net loss - year ended Dec. 31, 2001					
	0	0	0	(19,461)	(19,461)
Balances at Dec. 31, 2001	2,620,326	2,620	150,692	(209,203)	(55,891)
Contributed capital for rent and other compensation					
	0	0	1,950	0	1,950
Net loss - year ended Dec. 31, 2002					
	0	0	0	(13,960)	(13,960)
Balances at Dec. 31, 2002	2,620,326	2,620	152,642	(223,163)	(67,901)
Contributed capital for rent and officer compensation					
	0	0	488	0	488
Capital contributed by shareholders via accounts payable and interest					
		0	77,415	0	77,415
Stock issued for services \$0.025/sh.					
	13,389,932	13,390	321,358	0	334,748
Stock issued for services at \$0.61/sh.					
	100,000	100	60,900	0	61,000
Stock for consulting at \$0.47/share					
	10,000	10	4,690	0	4,700
Net loss - year ended Dec. 31, 2003					
	0	0	0	(592,962)	(592,962)
Balances at Dec. 31, 2003	16,120,258	16,120	617,493	(816,125)	(182,512)
Stock issued for services at \$0.16/sh					
	1,000,000	1,000	159,000	0	160,000
Stock issued for services at \$0.17/sh.					
	1,800,000	1,800	304,200	0	306,000
Stock issued for services at \$0.165/sh					
	800,000	800	131,200	0	132,000
Stock issued for services at \$0.215/sh.					
	30,000	30	6,420	0	6,450
Stock issued for debt at \$0.45 per sh.					
	150,000	150	67,350	0	67,500
Stock issued for services at \$0.40/sh					
	300,000	300	119,700	0	120,000

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Stock issued for services at \$0.34/sh.	700,000	700			237,300	0	238,000
Stock issued for services at \$0.41/sh.	300,000	300			122,700	0	123,000
Stock issued for services at \$0.27/sh.	300,000	300			80,700	0	81,000
Stock issued for services at \$0.22/sh.	600,000	600			131,400	0	132,000
Net loss - year ended Dec. 31, 2004						(1,606,057)	(1,606,057)
Balances at Dec. 31, 2004	22,100,258	22,100			1,977,463	(2,422,182)	(422,619)
Contributed capital for general and administrative expenses					138,701		138,701
Stock issued for services at \$0.03/sh.	19,860,000	19,860			575,940		595,800
Net loss - year ended Dec. 31, 2005						(1,323,775)	(1,323,775)
Balances at December 31, 2005	41,960,258	41,960	0	0	2,692,104	(3,745,957)	(1,011,893)
Stock issued for services at \$0.027/sh.	17,583,334	17,583			459,917		477,500
Common stock issued in debt restructuring at \$0.06 and \$0.03	10,666,667	10,667			429,333		440,000
Stock issued for debt at \$0.06/ sh.	5,000,000	5,000			295,000		300,000
Stock issued for services at \$0.03/sh.	2,500,000	2,500			72,500		75,000
Stock issued for services at \$0.05/sh.	500,000	500			24,500		25,000
Stock issued for services at \$0.008/sh.	10,000,000	10,000			70,000		80,000
Stock for consulting at \$0.008/sh.	4,500,000	4,500			31,500		36,000
Stock for consulting at \$0.008/sh.	500,000	500			3,500		4,000
Stock for consulting at \$0.008/sh.	4,000,000	4,000			28,000		32,000
Stock for consulting at \$0.008/sh.	700,000	700			4,900		5,600
Stock for consulting at \$0.008/sh.	300,000	300			2,100		2,400
Stock for consulting at \$0.008/sh.	3,600,000	3,600			25,200		28,800
Stock for consulting at \$0.008/sh.	3,000,000	3,000			21,000		24,000

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Stock for consulting at \$0.008/sh.	4,000,000	4,000			28,000		32,000
Balances before reverse split	108,810,259	108,810	0	0	4,187,554	(3,745,957)	550,407
Reverse split 25 to 1	(104,457,849)	(104,458)	0	0	104,458		0
New Stock issued for rounding	890	1			(1)		0
Balances after reverse split	4,353,300	4,353	0	0	4,292,011	(3,745,957)	550,407
Preferred stock for cash at \$0.467/sh.			715,517	716	246,234		246,950
Common stock for rounding \$0.50/sh.	1	0			0		0
Common stock for services \$0.20/sh	5,200	5			1,035		1,040
Common stock for rounding \$0.20/sh.	14	0			0		0
Common stock for services \$0.17/sh.	160,000	160			27,040		27,200
Net loss - year ended Dec. 31, 2006						(1,745,364)	(1,745,364)
Balances at December 31, 2006	4,518,515	4,518	715,517	716	4,566,320	(5,491,321)	(919,767)
Common stock for services \$0.15/sh	6,277,251	6,278			935,310		941,588
Common stock sold @ \$0.21/sh	5,662,000	5,662			1,183,358		1,189,020
Common stock for services \$0.21/sh	40,000	40			8,360		8,400
Net loss - 3 mo ended Mar. 31, 2006						(1,168,975)	(1,168,975)
Balances at March 31, 2006	16,497,766	16,498	715,517	716	6,693,348	(6,660,296)	50,266

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 - BUSINESS AND CONTINUED OPERATIONS

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

The Company was formed for the purpose of engaging in all lawful businesses. The Company's initial authorized capital consisted of 100,000,000 shares of \$0.001 par value common voting stock and as of the date of this filing the authorized capital is 200,000,000 shares of \$.001 par value common stock.

The consolidated financial statements presented are those of Victory Energy Corporation and subsidiaries. These abridged notes should be read in conjunction with those of the Company's audited financial statements of December 31, 2006.

On October 3, 2001, the Company formed a wholly owned subsidiary named Papadog, Inc. Papadog has since changed its name to Global Card Services, Inc and then to Global Card Incorporated, ("Global"). As of the date of this report, there has been no activity for this subsidiary.

On November 12, 2003, the Company formed a wholly owned subsidiary named On Demand Communications, Inc., ("On Demand"). As of the date of this report, there has been no activity for this subsidiary.

On May 27, 2005 the Company purchased 100% of the outstanding stock of L & M Resources, Inc., a Nevada corporation. On October 3, 2005 the Company abandoned the subsidiary, recording a loss of investment in the subsidiary of \$50,900.

On November 27, 2006 the company incorporated a Nevada subsidiary, Victory Energy Resources, Inc. There was no activity in this company during 2006.

### **Current Business of the Company**

The Company had no material business operations from 1989 to 2003. In 2004, the Company began the search for the acquisition of assets, property or businesses. In 2005 management focused on projects in the oil and gas industry, intending to drill for oil and gas on leased land. In 2006 the company entered into a farm-out agreement with the owner of certain oil and gas leases for a 100% working interest in an acreage in Montana, subject to overriding royalties. The Company also secured mineral rights in Montana and Texas, as well as a joint venture in New Mexico. It is evaluating a prospect in Oklahoma, as noted in Management Discussion. Jon Fullenkamp, the President/C.E.O., is the sole employee and has a great deal of experience in the oil and gas industry. The Company retains independent contractors to assist in operating and managing the prospects and projects.



NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes

The Company utilizes SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the tax basis of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The Company generated deferred tax credits through net operating loss carryforwards. However, a valuation allowance of 100% has been established, as the realization of the deferred tax credits is not reasonably certain, based on going concern considerations outlined below.

Going Concern

The Company's financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has not yet established an ongoing source of revenues sufficient to cover its operating costs and to allow it to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. If the Company is unable to obtain adequate capital, it could be forced to cease development of operations.

In order to continue as a going concern, develop a reliable source of revenues, and achieve a profitable level of operations the Company will need, among other things, additional capital resources. Management's plans to continue as a going concern include raising additional capital through sales of common stock. In the interim, shareholders of the Company are committed to meeting its minimal operating expenses. However, management cannot provide any assurances that the Company will be successful in accomplishing any of its plans.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Development-Stage Company

The Company is considered a development-stage company, with no operating revenues during the periods presented, as defined by Statement of Financial Accounting Standards ("SFAS") No. 7. SFAS No. 7 requires companies to report their operations, shareholders deficit and cash flows since inception through the date that revenues are generated from management's intended operations, among other things. Management has defined inception as January 7, 1982. Since inception, the Company has incurred operating losses totaling \$6.66 million, much of which relates to stock-based compensation to officers, directors and consultants as a means to preserve working capital. The Company's working capital has been generated through the sales of common stock, loans made by officers of the Company and a bank line of credit. Management has provided financial data since January 7, 1982 "Inception" in the financial statements, as a means to provide readers of the Company's financial information to make informed investment decisions.

Use of Estimates

The preparation of the 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 liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include those of Victory Energy Corporation and its wholly owned subsidiaries, Global Card Incorporated, On Demand Communications, Inc. and Victory Energy Resources, Inc. All material inter-company items and transactions have been eliminated. There was no activity in the subsidiaries in the first quarter of 2007 and during 2006.

Loss Per Share

Statement of Financial Accounting Standards No. 128 "Earnings Per Share" requires presentation of basic earnings per share and diluted earnings per share. Basic income (loss) per share ("Basic EPS") is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share ("Diluted EPS") is similarly calculated using the treasury stock method except that the denominator is increased to reflect the potential dilution that would occur if preferred stock at the end of the applicable period were exercised. These potential dilutive securities were not included in the calculation of loss per share for the three months ended March 31, 2007 because the Company incurred a loss in the period, and thus their effect would have been anti-dilutive. At March 31, 2007, potentially dilutive securities consisted of 715,517 shares of preferred stock, convertible at the rate of 1 preferred share to 100 common shares.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the three months ended March 31, 2007 and 2006.

In 2006 a reverse stock split of Common Stock occurred on a 25 to 1 basis.

	<b>March 31, 2007</b>	<b>March 31, 2006</b>
Numerator:		
Basic and diluted net loss per share:		
Net Loss	\$ (1,168,975)	\$ (775,878)
Denominator		
Basic and diluted weighted average number of shares outstanding	12,923,505	42,085,258
Basic and Diluted Net Loss Per Share	\$ (0.09)	\$ (0.02)
2006 Loss per share giving retroactive effect to reverse stock split in 2006:		
Basic and diluted weighted average number of shares outstanding		1,683,410

Basic and Diluted Net Loss Per Share	\$	(0.46)
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Dilutive effect of Preferred Stock	Nil	N/A
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-9-

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Equipment and Fixtures

Equipment and fixtures are recorded at cost. Depreciation is provided using accelerated and straight-line methods over the estimated useful lives of the related assets as follows.

Description Years

Furniture and fixtures	7
Computer hardware and software	3-5

Equipment and fixtures have been fully depreciated.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No.123 (revised 2004), "Share-Based Payment". Statement 123(R) will provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Statement 123(R) replaces FASB Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. Statement 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Public entities (other than those filing as small business issuers) will be required to apply Statement 123(R) as of the first interim or annual reporting period that begins after June 15, 2005. The Company adopted Statement 123(R) in December of 2005.

In March 2005, the SEC released Staff Accounting Bulletin No. 107, "Share-Based Payment" ("SAB 107"), which provides interpretive guidance related to the interaction between SFAS 123(R) and certain SEC rules and regulations. It also provides the SEC staff's views regarding valuation of share-based payment arrangements. In April 2005, the SEC amended the compliance dates for SFAS 123(R), to allow companies to implement the standard at the beginning of their next fiscal year, instead of the next reporting period beginning after June 15, 2005. Management adopted Statement 123(R) in December of 2005.

Restricted stock is granted from time to time to company officers and consultants under Rule 144 (2). The fair value of restricted stock is measured by the closing stock price on the date of issue. This stock immediately vests and the compensation expense is recorded immediately.

### NOTE 3 - RELATED PARTY TRANSACTIONS

Five ledger accounts in the books of the Company relating to loans, salaries and out-of-pocket expenses payable to the President/C.E.O., Jon Fullenkamp, were combined into one account "Loan from Officer", which totaled \$690,085 at December 31, 2006. The loan is non-interest bearing and payable on demand. Under the terms of the employment agreement, the employee may at his election convert any and all funds due to him into shares of the Company's common stock at a conversion price of \$0.01 per share. In practice, in prior years, funds due to him were converted at a discounted market value.

The balance in Loan From Officer at March 31, 2007 was \$873,581, and at December 31, 2006, \$690,085.

In the three months ended March 31, 2007 and 2006 the President/CEO incurred \$41,578 and \$44,360 respectively in reimbursable expenses on behalf of the Company.

In March 2006 the company issued a promissory note to a group of stockholders for consideration of \$141,458 in cash. The terms were to be repayable in one year at an interest rate of 10%, payable quarterly. Interest was deferred. In December, 2006 the note was reclassified to prepaid subscriptions, reflecting an accommodation with the stockholders.

### NOTE 4 - INVESTMENT IN JOINT VENTURE

In May, 2006 the Company paid \$50,000 to Geosurveys, Inc, a geophysical survey company of oil and gas prospects. This was part of an agreement with Eldorado Exploration, Inc. whereby the Company obtained a 2 ½ percent working interest in a prospective oil well called the Mesa #1 well on leased land in New Mexico. The agreement provides for cost sharing of drilling costs.

### NOTE 5 - COMMITMENTS AND CONTINGENCIES

There were no additional commitments and contingencies in the three months ended March 31, 2006.

### NOTE 6 - CAPITAL STOCK TRANSACTIONS

#### Reverse Common Stock Split

The Common Stock issued and outstanding at October 26, 2006 was 108,810,259. On this date the Board of Directors declared a reverse stock split of the Company's Common Stock, converting the common stock on a 25 to 1 basis. Common shares outstanding were reduced by 104,457,849. New stock outstanding after the split and after issuing 890 shares for rounding was 4,353,300. The effect on the balance sheet was to increase Paid-in Capital by \$104,458 and to reduce Common Stock by \$104,458, a neutral effect on stockholders' equity.

On October 20, 2005 one share was issued at \$0.50, valued de minimus, for rounding following the reverse split.

On November 11, 2006 5,200 shares were issued for services valued at \$1,040 at market value of \$0.20 per share.

On December 5, 2006, 14 shares valued de minimus were issued for rounding.

On December 27, 2006, 160,000 shares were issued for services, valued at \$27,200, at market value of \$0.17.

#### First Quarter of 2007

On January 22, 2007, 6,277,251 shares of common stock were issued for services at \$0.15 per share. \$941,588 was recorded as consulting fees.

On February 1, 2007, 5,662,000 shares were issued at \$0.21 for subscriptions receivable of \$1,189,020.

On March 1, 2007, 40,000 shares were issued to a Director for services rendered at \$0.21 per share. \$8,400 was recorded as consulting fees.

The total of issued and outstanding common shares at March 31, 2007 was 16,497,766 and at December 31, 2006, 4,815,515.

#### Preferred Stock

On August 22, 2006 the Board of Directors resolved to amend the Articles of Incorporation, to authorize 10,000,000 shares of preferred stock, having a par value of \$0.001. The stock is convertible to common stock at will in a ratio of 1 preferred to 100 common. Preferred stockholders may vote as common stockholders on any matter on which common stockholders can vote, and in accordance with the underlying common stock held. Preferred stock dividends may be declared by the Board of Directors.

On October 20, 2006, 715,512.23 preferred shares were issued for cash at \$0.467 each pursuant to Regulation "S", realizing \$246,950.

The total of issued and outstanding preferred shares at March 31, 2007 and December 31, 2006 and 2005 was 715,512.

#### NOTE 7 - LITIGATION

Neither the Company nor any of the officers or directors is involved in any other litigation either as plaintiffs or defendants and have no knowledge of any threatened or pending litigation against them or any of the officers or directors.

## **Item 2. Management's Discussion and Analysis or Plan of Operation**

The following discussion includes certain forward-looking statements within the meaning of the safe harbor protections of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements that include words such as “believe,” “expect,” “should,” “intend,” “may,” “anticipate,” “contingent,” “could,” “may,” or other future-oriented statements, are forward-looking statements. Such forward-looking statements include, but are not limited to, statements regarding our business plans, strategies and objectives, and, in particular, statements referring to our expectations regarding our ability to continue as a going concern, generate increased market awareness of, and demand for, our current products, realize profitability and positive cash flow, and timely obtain required financing. These forward-looking statements involve risks and uncertainties that could cause actual results to differ from anticipated results. The forward-looking statements are based on our current expectations and what we believe are reasonable assumptions given our knowledge of the markets; however, our actual performance, results and achievements could differ materially from those expressed in, or implied by, these forward-looking statements. Factors within and beyond our control that could cause or contribute to such differences include, among others, the following: those associated with drilling and subsequent sale of oil and gas, our critical capital raising efforts in an uncertain and volatile economical environment, our ability to maintain relationship with strategic companies, our cash preservation and cost containment efforts, our ability to retain key management personnel, our relative inexperience with advertising, our competition and the potential impact of technological advancements thereon, the impact of changing economic, political, and geo-political environments on our business, as well as those factors discussed elsewhere in this Form 10-QSB and in “Item 1 - Our Business,” “Item 6 - Management’s Discussion and Analysis,” and elsewhere in our most recent Form 10-KSB, filed with the United States Securities and Exchange Commission.

Readers are urged to carefully review and consider the various disclosures made by us in this report and those detailed from time to time in our reports and filings with the United States Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that are likely to affect our business.

Our fiscal year ends on December 31. References to a fiscal year refer to the calendar year in which such fiscal year ends.

### **Our Business**

Victory Energy Corporation (OTC symbol VYFY), formerly known as Victory Capital Holdings Corporation (our “Company”) was organized under the laws of the State of Nevada on January 7, 1982, under the name All Things, Inc. On March 21, 1985, our Company’s name was changed to New Environmental Technologies Corporation; on April 28, 2003, our name was changed to Victory Capital Holdings Corporation and on May 3, 2006, it was changed to Victory Energy Corporation. Our Company was formed for the purpose of engaging in all lawful businesses. Our Company’s initial authorized capital consisted of 100,000,000 shares of \$0.001 par value common voting stock and as of the date of this filing our authorized capital is 200,000,000 shares of \$.001 par value common stock.

Our Company has had no material business operations since 1989. In 2004, we began the search for the acquisition of assets, property or businesses that may benefit our Company and our shareholders. Our goal has been to bring value to the Company and to our shareholders through such acquisitions. Each merger and acquisition we approach is done with the intention to position us in markets and sectors where excellent growth is anticipated. We plan to retain a percentage of stock ownership in each subsidiary while spinning them out as their own new public company if such transaction is economically feasible. The balance of the stock will be distributed to the Company’s shareholders at the time of spin out of the new public company. This is a non-dilutive method to increase shareholder value as we grow and maintain a position in the market segments selected.





## **Current Business of the Company**

Management has determined that the Company will focus on projects in the oil and gas industry. This is based upon a belief that this industry is becoming an economically viable sector in which to conduct business operations. We have targeted specific prospects and intend to engage in the drilling for oil and gas. Jon Fullenkamp, our President, has a great deal of experience in the oil and gas industry and has already recruited additional experience with the addition of new directors and advisory board member.

Management has determined that the Company should focus on projects in the oil and gas industry. This is based upon a belief that this industry is becoming an economically viable sector in which to conduct business operations. The Company has targeted specific prospects and intends to engage in the drilling for oil and gas. Jon Fullenkamp, the Company's President, has a great deal of experience in the oil and gas industry and has already recruited additional experience with the addition of new directors and advisory board member. Management has recently negotiated the mineral rights on a prospect for Victory in the Palo Duro Basin located in Floyd and Briscoe Counties Texas. Victory has established a letter of intent which sets out the substantive terms of a Formal Agreement ("Agreement") that Victory intends to complete and execute. Under the Agreement, we will be required to commit up to one hundred thousand dollars (\$100,000.00) for seismic evaluation to determine the first three drilling targets. In exchange, we will receive 50% of the mineral rights of all hydrocarbon deposits on the first eight sections, approximately 5,000 acres of land. During the evaluation of the drilling targets, and including the time to drill the first three wells, we will have the ability to exercise its irrevocable option to lease up to a total of 100,000 acres of mineral rights within the Palo Duro Basin.

We also hold an interest as a joint venture partner in the Mesa Gas Prospect located in Roosevelt County New Mexico. Additionally, the Company holds 1,960 acres in a prospective oilfield identified as N.E. Glasgow Prospect located in Montana which plans to be incorporated into the Company's developments in Valley County Montana. We had taken on the evaluation of a prospect in Oklahoma identified as the Skedee Prospect. As we progressed into the due diligence of these prospects and the potential production, management determined that the development of the prospect was not worth the required investment capital. Even with the potential reduction in investment dollars, the prospects had an unacceptable pay back time for the initial investment. Management felt the shareholders would be better served by seeking other prospects.

We have no other employees at this time and will seek to retain independent contractors to assist in operating and managing the prospects as well as to carry out the principal and necessary functions incidental to the oil and gas business. With the intended acquisition of oil and natural gas, we intend to establish ourselves as an industry partner within the industry. Once we can establish a revenue base with cash flow, we will seek opportunities more aggressive in nature.

## **Plan of Operation**

Our plan of operation for the next 12 months will be the continued acquisition of economically viable oil and gas prospects. Once acquired, we intend to develop and produce the prospects assuming they are commercially economical to produce based on a complete due diligence process. In that case, we can expect to derive revenues from operations. We intend to diversify our holdings in both oil and gas producing wells to take advantage of what we believe is a potentially strong window of opportunity that currently exists in the oil and gas industry for the next several years.

We completed due diligence on other projects which ultimately proved to be too expensive to pursue. We have continued to seek out other viable opportunities.



### **Results of Operations for Period Ended March 31, 2007**

As of March 31, 2007, the Company has not earned any revenues and has incurred a net loss to date of \$1,168,075. Operations have been primarily seeking potential opportunities in the oil and gas industry through the location of commercially economical prospects, and raising capital and developing revenue generating opportunities and strategic relationships.

During the three month period ended March 31, 2007, we incurred operating expenses in the amount of \$1,168,975. These operating expenses included due diligence expenses, consulting fees, professional fees, land leases, oil and gas leases, and office and general expenses.

### **Liquidity and Capital Resources**

To date, we have financed our operations from funds put into the Company by our CEO. We intend to raise future capital from the sale of a percentage of our prospects to fund development and production or through the sale of our common stock to finance the prospects in their entirety.

### **Item 3. Controls and Procedures**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Under the supervision and with the participation of our management, including the Principal Executive Officer and Principal Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15 as of the end of the period covered by this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer have concluded that these disclosure controls and procedures were effective such that the material information required to be filed in our SEC reports is recorded, processed, summarized and reported within the required time periods specified in the SEC rules and forms. There were no changes in our internal control over financial reporting during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. Potential investors should be aware that the design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any system of controls and procedures will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

On July 24, 2006, all litigation was settled between the Company and the former CEO. The Company settled the case for an estimated value of \$280,000 to be realized over a 10-month period ending in May of 2007.

In May 2006, we settled a past debt with Treetop Investments for 5,000,000 shares of our restricted common stock in a transaction combining settlement of debt and purchase of stock.

Neither the Company nor any of our officers or directors is involved in any other litigation either as plaintiffs or defendants and we have no knowledge of any threatened or pending litigation against us or any of our officers or directors.

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

During the three months ended March 31, 2007, we issued 12,144,466 shares of common stock.

### Item 3. Defaults Upon Senior Securities

During the three months ended March 31, 2007, we were not in default on any of our indebtedness.

### Item 4. Submission of Matters to a Vote of Security Holders

During the three months ended March 31, 2007, we did not submit any matters to a vote of our security holders.

### Item 5. Other Information.

None

### Item 6. Exhibits and Reports on Form 8-K

(a) Index to Exhibits

Exhibit No.	Description of Exhibit
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31	<u>Certification of Chief Executive/Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
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32	<u>Certification of Chief Executive/Financial Officer pursuant to Section 906</u>
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23.1 C o n s e n t o f  
Independent Registered  
Public Accountant

(b) A report on Form 8-K was filed January 8, 2007

-16-

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**SIGNATURE**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

**Victory Energy Corporation**

Date: May 21, 2007 /s/ *Jon Fullenkamp*  
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Jon Fullenkamp  
Principal Executive Officer  
Principal Financial Officer  
Principal Accounting Officer  
and Director

Date: May 21, 2007 /s/ *Rick May*  
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Rick May, Director

Date: May 21, 2007 /s/ *Perry Mansell*  
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Perry Mansell, Director

