

VICTORY ENERGY CORP
Form 10KSB/A
November 21, 2008

United States Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-KSB/A

Amendment No. 1

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

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

Commission File No. 002-76219NY

VICTORY ENERGY CORPORATION
(Name of Small Business Issuer in its Charter)

NEVADA
(State or other jurisdiction of
incorporation or organization)

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

112 N. Curry Street
Carson City, Nevada 89703-4934
(Address of Principal Executive Offices)

Issuer's Telephone Number:(702) 989-9735

Securities Registered under Section 12(b) of the Exchange Act: None.

Securities Registered under Section 12(g) of the Exchange Act: None.

Check whether the Issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

State Issuer's revenues for its most recent fiscal year: \$- 0 -

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common

Edgar Filing: VICTORY ENERGY CORP - Form 10KSB/A

equity, as of a specified date within the past 60 days: On December 31, 2007, \$2,605,704. There are 27,142,750 shares of common voting stock of the Registrant held by non-affiliates. During the past year, there has been a limited “public market” for shares of common stock of the Registrant, so the Registrant has arbitrarily valued these shares on the basis of the closing bid price on this date.

State the number of shares outstanding of each of the Issuer’s classes of common equity, as of the latest practicable date: On December 31, 2007 there were 42,395,366 shares of common stock issued and outstanding

A description of “Documents Incorporated by Reference” is contained in Part III, Item 14.

Transitional Small Business Issuer Format Yes No

-1-

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Forward-Looking Statements

This annual report on Form 10-KSB and other statements issued or made from time to time by Victory Energy Corporation, a Nevada corporation, contain statements which may constitute “Forward-Looking Statements” within the meaning of the Securities Act of 1933, as amended (the “Act”) and the Securities Exchange Act of 1934 (the “Exchange Act”) by the Private Securities Litigation Reform Act of 1995, 15 U.S.C.A. Sections 77Z-2 and 78U-5 (SUPP. 1996). Those statements include statements regarding the intent, belief or current expectations of Victory Energy Corporation and its officers/directors as well as the assumptions on which such statements are based. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Victory Energy Corporation is sometimes referred to herein as “we”, “us”, “our” and the “Company.”

General Background

Victory Energy Corporation (the “Company”) was organized under the laws of the State of Nevada on January 7, 1982. The Company is authorized to issue 200,000,000 shares of common stock, par value \$.001.

Historical Information about our Business

From inception to 2004, the Company had conducted no material business operations. In 2004, our Company began the search for the acquisition of assets, property or businesses that could benefit the Company and its shareholders. Our goal has been to bring value to the Company and to its shareholders through such acquisitions. Each merger and acquisition we approach is done with the intention to position the Company into markets and sectors where excellent growth potential is anticipated.

Current Business of the Company

Management determined that the Company should focus on projects in the oil and gas industry. This is based upon a belief that this industry is 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 who joined Victory as the Company's president and CEO in January of 2005 has a great deal of experience in the oil and gas industry and has already recruited additional experience with new directors and advisory board members.

The Corporation has established a financial facility with institutional investors providing drilling funds to the Company for the further development of oil and gas properties. This facility provides for direct participation by the investors in the production of the completed wells. The Corporation receives a 15% carried interest in the wells and shares in the same value of the production revenue on a monthly basis. Once the investment amount to drill each well is earned back to the financial facility, the Corporations participation will increase to 25%. The Corporation will receive the same level of participation in the revenues on a monthly basis at that time.

In December of 2007, the Corporation negotiated purchase, through the financial facility with institutional investors, 50% working interest and 50% of 74% net revenue interest in six existing and producing gas wells in the Canyon Sandstone gas zone from Universal Energy Resources, Inc., a whole owned subsidiary of 1st Texas Natural Gas Company Inc. The recording of these wells, to the wholly owned subsidiary of Victory Energy Corporation,

Production Resources Incorporated through the State of Texas, will take place during the second quarter of 2008.

The Corporation has targeted the prolific Canyon Sandstone gas field in the Texas Permian Basin, with the intent to focus on the drilling and completion of natural gas wells in this existing field. The opportunity is of reduced risk due to the extensive historical information available from this specific natural gas field.

The Canyon Sandstone gas play is located in the Texas Permian Basin as part of the large prolific Adams-Baggett Canyon Sandstone gas field. The Canyon Sandstone formation is found at a depth of 4,300 feet to 4,900 feet.

-2-

Natural gas from the Canyon Sandstone gas zone receives a 20% premium in price above the standard price due to its higher BTU content per cubic foot of natural gas.

Within this existing gas field are two deeper zones, Strawn Limestone and the Ellenburger Dolomite. The Strawn zone is usually found at 9,000 to 9,800 feet, while the depth of the Ellenburger zone is between 10,500 and 11,500 feet.

To reduce risk in the field, each well drilled has the opportunity to have the Canyon Sandstone gas zone available to produce from. For each of the deeper gas wells drilled in this field, the Corporation will always have the Canyon Sandstone zone available as a fall back opportunity to produce from and recover any additional drilling expenses incurred from drilling a deeper well.

The underlying opportunity in drilling a deeper gas well is to first produce the deepest zone, Ellenburger Dolomite, until it is depleted. The next step is then to produce the shallower Strawn Limestone until depletion and finally to produce the Canyon Sandstone zone to depletion.

The Corporation received its first revenue from production sales from this field in March of 2008.

We also hold an interest as a joint venture partner in the Mesa Gas Prospect located in Roosevelt County New Mexico. Additionally, the Company had held 1,960 acres in a prospective oilfield identified as N.E. Glasgow Prospect, the property was allowed to lapse back to the state. 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.

Other than our President, we have no other employees at this time and we 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. With our established revenue base with cash flow, we will seek opportunities more aggressive in nature.

Marketing Considerations of our Product

The marketing of our prospects' oil and gas production, if any, are affected by numerous factors beyond our control such as the availability and proximity of adequate pipelines or other transportation facilities, local, state and federal regulations affecting production, and fluctuations of supply and demand. Our production may be competing with crude oil imports and other energy sources such as coal and nuclear energy. Crude oil and natural gas must compete on a free market basis. Potential proposed legislation could decrease the demand for oil and gas in the future, however, management believes we are well poised to compete effectively in today's market.

Competition

The oil and gas industry is highly competitive. We will be competing with other oil and gas companies with financial resources and staffs greater than those available to us, not only in the acquisition of oil and gas leases having potential for development, but also in the securing of funds to finance such operations. The production and sale of oil and gas are subject to the availability of a ready market, the proximity to pipelines, and to the regulation of production, transportation and marketing by governmental authorities. There can also be competition among operators for drilling equipment, tubular goods, and drilling crews. Such competition may affect our ability to expeditiously develop our prospects.

Effect of Existing Governmental Regulations

The Company's prospects are located on federal lands in various states. The U.S. Government and various states have statutory provisions regulating the exploration, production and sale of oil and/or gas. Such statutes and the regulations promulgated in connection thereto, protect correlative rights and opportunities to produce oil and gas as between owners of a common reservoir. The U.S. Government and various states may or may not regulate the amount of oil and gas produced by limiting the rate of allowable production from oil and/or gas wells or the spacing of wells. Local, State and Federal environmental controls can affect the Operator and its operations through regulations enacted to protect against waste, conserve natural resources, and prevent pollution. This could necessitate the Company spending money on environmental protection measures, in addition to drilling operations. Penalties or prohibitions imposed on operators for violating such regulations could seriously inhibit operations. Limits on production allowable by the state law could materially affect the income of the Company; no projections on allowables will be made until the wells are tested. State agencies often set allowables in order to maximize oil and gas recovery over time. The Company is not aware of any production limits in the various states at this time.

-3-

Additionally, the United States Bureau of Land Management and the various states impose certain restrictions such as terrain and archaeological restraints, habitat mating, non-drilling periods and other restrictions, which could prohibit or hamper the Operator's right to drill. Normally these restrictions can be satisfied and the proposed wells can be drilled; nevertheless, the granting of a drilling permit is at the sole discretion of the governmental authority.

Sarbanes-Oxley Act

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). The Sarbanes-Oxley Act imposes a wide variety of new regulatory requirements on publicly-held companies and their insiders. Many of these requirements will affect us. For example:

- Our chief executive officer and chief financial officer must now certify the accuracy of all of our periodic reports that contain financial statements;
- Our periodic reports must disclose our conclusions about the effectiveness of our disclosure controls and procedures; and
- We may not make any loan to any director or executive officer and we may not materially modify any existing loans.

The Sarbanes-Oxley Act has required us to review our current procedures and policies to determine whether they comply with the Sarbanes-Oxley Act and the new regulations promulgated thereunder. We will continue to monitor our compliance with all future regulations that are adopted under the Sarbanes-Oxley Act and will take whatever actions are necessary to ensure that we are in compliance.

Penny Stock

Our common stock is "penny stock" as defined in Rule 3a51-1 of the Securities and Exchange Commission. Penny stocks are stocks:

- with a price of less than five dollars per share;
- that are not traded on a "recognized" national exchange;
- whose prices are not quoted on the NASDAQ automated quotation system; or
- in issuers with net tangible assets less than \$2,000,000, if the issuer has been in continuous operation for at least three years, or \$5,000,000, if in continuous operation for less than three years, or with average revenues of less than \$6,000,000 for the last three years.

Section 15(g) of the Exchange Act and Rule 15g-2 of the Securities and Exchange Commission require broker/dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before making any transaction in a penny stock for the investor's account. You are urged to obtain and read this disclosure carefully before purchasing any of our shares.

Rule 15g-9 of the Securities and Exchange Commission requires broker/dealers in penny stocks to approve the account of any investor for transactions in these stocks before selling any penny stock to that investor.

This procedure requires the broker/dealer to:

- get information about the investor's financial situation, investment experience and investment goals;
- reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor can evaluate the risks of penny stock transactions;
- provide the investor with a written statement setting forth the basis on which the broker/dealer made his or her determination; and
- receive a signed and dated copy of the statement from the investor, confirming that it accurately reflects the investors' financial situation, investment experience and investment goals.

Compliance with these requirements may make it harder for our stockholders to resell their shares.

Reporting Obligations

Section 14(a) of the Exchange Act requires all companies with securities registered pursuant to Section 12(g) of the Exchange Act to comply with the rules and regulations of the Securities and Exchange Commission regarding proxy solicitations, as outlined in Regulation 14A. Matters submitted to stockholders of our Company at a special or annual meeting thereof or pursuant to a written consent will require our Company to provide our stockholders with the information outlined in Schedules 14A or 14C of Regulation 14; preliminary copies of this information must be submitted to the Securities and Exchange Commission at least 10 days prior to the date that definitive copies of this information are forwarded to our stockholders. As of the date of this report, we have not registered any class of our equity securities pursuant to Section 12 of the Exchange Act of 1934, as amended.

We are required to file annual reports on Form 10-KSB and quarterly reports on Form 10-QSB with the Securities Exchange Commission on a regular basis, and will be required to timely disclose certain material events (e.g., changes in corporate control; acquisitions or dispositions of a significant amount of assets other than in the ordinary course of business; and bankruptcy) in a current report on Form 8-K.

Employees

The Company presently has one employee who is an officer and director of the Company. Additional staffing levels will be determined based on the Company's growth. The board of directors will determine the compensation of all new employees based upon job description.

ITEM 2. DESCRIPTION OF PROPERTY

The Company through the establishment of an investment fund of institutional investors has negotiated purchase of 50% working interest in six existing producing wells in Crockett County Texas, from Universal Energy Resources Inc., a wholly owned subsidiary of 1st Texas Natural Gas Company Inc. The ownership of the wells will be recorded through our wholly owned subsidiary, Production Resources Incorporated, with the State of Texas during the second quarter of 2008 per contractual conditions of the purchase agreement with 1st Texas Natural Gas Company Inc.

ITEM 3. LEGAL PROCEEDINGS

The Company is currently not involved in any material pending or threatened litigation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During 2007, there were no matters submitted to a vote of our shareholders.

-5-

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES.

A. Market Information

The Company's common stock is traded on the OTCBB under the symbol "VYEEY." The Company's common stock consists of 200,000,000 shares authorized of which, as of December 31, 2007, there are 42,395,366 shares issued and outstanding. The following is the high and low prices of our stock for the last two fiscal years.

Quarterly Common Stock Price Ranges

| 2006 | High | Low |
|----------------|---------|---------|
| First Quarter | \$ 0.15 | \$ 0.03 |
| Second Quarter | 0.10 | 0.03 |
| Third Quarter | 0.04 | 0.03 |
| Fourth Quarter | 0.50 | 0.02 |
| | | |
| 2007 | High | Low |
| First Quarter | \$.95 | \$.22 |
| Second Quarter | .46 | .12 |
| Third Quarter | .14 | .05 |
| Fourth Quarter | .09 | .03 |

B. Holders of Common Stock

As of December 31, 2007, there were approximately 897 holders of the Company's common stock.

C. Dividends

We currently intend to retain any future earnings for use in the expansion of the business, and therefore do not intend to pay shareholder dividends in the near future. The declaration and payment of cash dividends, if any, will be at the discretion of the Board of Directors of the Company and will depend, among other things, upon our earnings, capital requirements and financial condition.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Introduction

The following discussion of our financial condition and results of our operations should be read in conjunction with the Financial Statements and Notes thereto. Our fiscal year ends December 31. This document contains certain forward-looking statements including, among others, anticipated trends in our financial condition and results of operations and our business strategy. These forward-looking statements are based largely on our current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Important factors to consider in evaluating such forward-looking statements include (i) changes in external factors or in our internal budgeting process which might impact trends in our results of operations; (ii) unanticipated working capital or other cash requirements; (iii) changes in our business strategy or an inability to

execute our strategy due to unanticipated changes in the industries in which we operate; and (iv) various competitive market factors that may prevent us from competing successfully in the marketplace.

-6-

Results of Operations for Period Ended December 31, 2007

As of December 31, 2007, the Company has not earned any revenues and has incurred a net loss to date of \$3,896,827. 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 year ended December 31, 2007, we incurred operating expenses in the amount of \$3,890,308. These operating expenses included due diligence expenses, consulting fees, professional fees and office and general expenses.

Results of Operation Subsequent to December 31, 2007

Based upon our efforts in seeking business opportunities in the oil and gas industry, we have agreed to move forward on all prospects.

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 raise from \$3 million to \$8 million to finance the prospects in their entirety.

Off Balance Sheet Arrangements

The Company has no off balance sheet arrangements for the year ended December 31, 2007.

Impact of Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment." This statement replaces FASB Statement No. 123 and supersedes APB Opinion No. 25. Statement No. 123(R) will require the fair value of all stock option awards issued to employees to be recorded as an expense over the related vesting period. The statement also requires the recognition of compensation expense for the fair value of any unvested stock option awards outstanding at the date of adoption. We do not expect the adoption of this statement to have a material impact on our financial condition or results of operations.

-7-

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs, an amendment of ARB No. 43, Chapter 4. The amendments made by Statement 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. The Company has evaluated the impact of the adoption of SFAS 151, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No.152, "Accounting for Real Estate Time-Sharing Transactions--an amendment of FASB Statements No. 66 and 67" ("SFAS 152) The amendments made by Statement 152 This Statement amends FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions. This Statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. The Company has evaluated the impact of the adoption of SFAS 152, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No.153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions." The amendments made by Statement 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. Opinion 29 provided an exception to its basic measurement principle (fair value) for exchanges of similar productive assets. The Board believes that exception required that some nonmonetary exchanges, although commercially substantive, be recorded on a carryover basis. By focusing the exception on exchanges that lack commercial substance, the Board believes this Statement produces financial reporting that more faithfully represents the economics of the transactions. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of this Statement shall be applied prospectively. The Company has evaluated the impact of the adoption of SFAS 153, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

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 December 2004, the Financial Accounting Standards Board issued two FASB Staff Positions - FSP FAS 109-1, Application of FASB Statement 109 "Accounting for Income Taxes" to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004, and FSP FAS 109-2 Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004. Neither of these affected the Company as it does not participate in the related activities.

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 is currently evaluating the impact SAB 107 will have on our consolidated financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). FIN 47 provides guidance relating to the identification of and financial reporting for legal obligations to perform an asset retirement activity. The Interpretation requires recognition of a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 also defines when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The provision is effective no later than the end of fiscal years ending after December 15, 2005. The Company will adopt FIN 47 beginning the first quarter of fiscal year 2006 and does not believe the adoption will have a material impact on its consolidated financial position or results of operations or cash flows.

-8-

In May 2005, the FASB issued FASB Statement No. 154, "Accounting Changes and Error Corrections." This new standard replaces APB Opinion No. 20, "Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements," and represents another step in the FASB's goal to converge its standards with those issued by the IASB. Among other changes, Statement 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. Statement 154 also provides that (1) a change in method of depreciating or amortizing a long-lived non-financial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a "restatement." The new standard is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. Early adoption of this standard is permitted for accounting changes and correction of errors made in fiscal years beginning after June 1, 2005. The Company has evaluated the impact of the adoption of Statement 154 and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In February of 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments", which is intended to simplify the accounting and improve the financial reporting of certain hybrid financial instruments (i.e., derivatives embedded in other financial instruments). The statement amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities--a replacement of FASB Statement No. 125." SFAS No. 155 is effective for all financial instruments issued or acquired after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company is currently evaluating the impact SFAS No. 155 will have on its consolidated financial statements, if any.

ITEM 7. FINANCIAL STATEMENTS

Our audited financial statements for the year ended December 31, 2007 with notes are filed herewith following the signature page to this report beginning with page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no disagreements with accountants on accounting and financial disclosure.

ITEM 8A. CONTROLS AND PROCEDURES

The Company has set up disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Act of 1934, as amended, is recorded, processed, summarized, and reported within the specified time period. At the end of the period covered by this report, the Company's CEO and CFO have evaluated the effectiveness of the Company's disclosure controls and procedures. Based on the evaluation, which disclosed a material weakness due to management's failure to provide a report on internal control over financial reporting, the Company's CEO and CFO concluded that the Company's controls and procedures are not effective as of the end of the period covered by this report.

There were no changes in the Company's internal controls and financial reporting that occurred in the Company's most recent fiscal quarter, that had materially affected or was reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 8B. OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

Executive Officers and Directors

The following table sets forth the information regarding our executive officers and directors as of the date of this filing:

| Name | Age | Title |
|----------------|-----|---|
| Jon Fullenkamp | 53 | President, CEO and Chairman of the Board of Directors |
| Rick May | 62 | Director |
| Perry Mansell | 60 | Director |

Biography of Officers and Directors

Jon Fullenkamp - CEO, President and Chairman of the Board - since January 2005

Mr. Fullenkamp is a petroleum industry executive with over 25 years of experience. From 1990 to present, he has established a consistent track record of promotion and leadership with a proven ability to assimilate new technology across industry segments, and has developed new markets and new revenue streams. Mr. Fullenkamp possesses a track record of effectively and consistently reducing costs of doing business, reducing employee turnover, producing superior profit margins, and personally re-negotiated numerous supplier agreements. Mr. Fullenkamp joined Victory Energy Corporation in 2004 and became the Chairman and CEO in January 2005. He brings with him the vision to expand the Company into the energy market segments due to his background, focused on the petroleum industry. He has a broad knowledge of the oil and gas industry, having completed wells in the shallow reserves in the Appalachian Mountains to the deepest wells in the world located in the Anadarko basin.

Rick May - Board Member

Mr. May's extensive professional career began following his undergraduate degree in Finance from California Polytechnic State University, and where later he attended the MBA program while working for Data General Corporation. Mr. May's initial success started when he founded Profit Systems Incorporated, a company that created software packages for route accounting and inventory control companies. Later he became the Chief Financial Officer and the Chief Operations Officer for a national retail chain where he instituted on-line transactions, automation, and centralized inventory.

Mr. May then joined other key industry individuals to become a founding member of SCS Corporation, a major technology supplier. SCS Corporation specialized in automation solutions, with projects in operation at several major airports.

Following early retirement from SCS, Mr. May became a principal in Service Industries Systems, an integrated solutions provider, and partnered with Gemplus of France to bring new products to the industrialized countries. Mr. May's partners in SIS included German, English, and French integrators.

Mr. May was appointed to the Board of Directors of HoloTag, a technology company in Cambridge, England. Mr. May returned to his California office to found RJI in 2001.

In 2004, Mr. May joined SecureSTAR Corporation as a partner. SecureSTAR produces technology products for commercial and government use. Also in 2004, Mr. May joined TrustView Partners to provide solutions in China. In 2006, Mr. May joined Knights Technologies as an advisor.

-10-

Today, Mr. May operates as a partner in SecureSTAR, RJI, Knights Technologies, and TrustView Partners.

Perry Mansell – Board Member

Mr. Mansell's experience includes a professional career at North American Rockwell - Space Division heading up the Testing Team. This involved working with NASA in the areas of reaction control, environmental control and waste management systems for the Apollo Command and Service Modules.

In 1970 Mansell Construction was founded focusing on commercial and industrial projects; the company continues to flourish today. Specific projects to the petroleum industry include the construction of fuel depots and refurbishment of refineries and pipelines. Mr. Mansell is well known in his industry and is called upon to present as an expert his opinion in situations where an outside expert is required.

Mr. Mansell's experience in serving in and knowledge of local government is an asset to the Company. His stand on environmentally favorable projects that affect the local economy is positive and visionary. This will serve the Company well as it moves forward on a national level.

Advisory Board

Charles Laser - Advisory Board Member

Charles Laser is an oil and gas "wildcatter" with ownership of wells in Michigan and principal operations and discoveries in Wyoming. Mr. Laser has had operations in Texas, Indiana, Illinois, Colorado, Montana, Wyoming, and Nevada and he has acquired over 400,000 acres of oil and gas leases in various states. Mr. Laser was an Executive Vice President at GeoSpectra Corporation from 1976-1984. Geo-Spectra Corporation has been one of the leading firms in geological remote sensing serving the major oil and mining firms worldwide. Clients included such firms Exxon, Chevron, AMOCO, ARCO, DeBeers, Texaco, Mobil, and others. While with GeoSpectra, although under his own company, Mr. Laser directed ten financially successful oil and gas lease projects that were co-ventured with industry partners. Investors typically received all of their invested funds back within eight or so months and made anywhere from 50 to 150 percent return on their investment. Additionally, Mr. Laser has been involved in four discoveries plus numerous consulting positions for other companies. He negotiated a seven million dollar oil project with a Canadian company involving fifteen oil wells, which still provides income after twenty-five years to Laser.

The directors hold office until the next annual meeting of the shareholders and until their successor(s) have been duly elected or qualified.

None of the officers or directors have been subject to bankruptcy, receivership or convicted in any criminal proceedings subject to any criminal proceedings, have been subject to an order, judgment or decree that would otherwise limit their involvement in any type of business, securities or banking activities, and has never been found by a court of competent jurisdiction, or any regulatory agency, to have violated any securities or commodity laws.

Section 16(a) Beneficial Owner Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires that the Company's directors, executive officers, and persons who own more than 10% percent of a registered class of the Company's equity securities, or file with the Securities and Exchange Commission ("SEC"), initial reports of ownership and report of changes in ownership of common stock and other equity securities of the Company. Officers, directors, and greater than 10% beneficial owners are required by SEC regulation to furnish the Company with copies of all Section 16(a) reports they file. As of the date of this report, the Company has not registered any class of our equity securities pursuant to Section 12 of the Exchange Act of 1934, as amended.

Code of Ethics

The Company has adopted a code of ethics for all of the employees, directors and officers, which is attached to this Annual Report as Exhibit 14.1.

-11-

ITEM 10. EXECUTIVE COMPENSATION

Summary of Cash and Certain Other Compensation

Summary Compensation Table.

The following table reflects all forms of compensation for the fiscal year ended December 31, 2007:

| Name and Principle Position | Year | Annual Compensation | | | Long Term Compensation Awards | | | All other compensation (\$) |
|---|------|---------------------|---------------|---------------------------------|--|---|------------------------------------|--------------------------------------|
| | | Salary (\$) | Bonus (\$) | Other Annual Compensation | Restricted Stock Award(s) (\$)(1) | Securities Underlying Options/SARs (#) | Payouts LTIP Payouts (\$) | |
| Jon Fullenkamp, CEO, President & Director | 2007 | \$ 0 | n/a | n/a | 8,750,000(1) | 0 | 0 | 0 |
| Perry Mansell, Director | 2007 | \$ 0 | n/a | n/a | 500,000 | 0 | 0 | 0 |
| Rick May, Director | 2007 | \$ 0 | n/a | n/a | 500,000 | 0 | 0 | 0 |

(1) Represents an accrued and deferred compensation through December 31, 2007, which was taken in the form of restricted stock.

Options granted in the last fiscal year

At the end of fiscal year ending December 31, 2007, no executive officer or director was granted option to purchase shares of common stock.

Fiscal year-end option values

During the fiscal year ending December 31, 2007, no executive officer or director exercised any options to purchase shares of common stock, and as of December 31, 2007, no executive officer or director possessed any options to purchase shares of common stock.

Directors Remuneration

As of December 31, 2007, directors were paid in restricted stock for serving on the board.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth as of December 31, 2007, information with respect to (a) each person, (including “group”) as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, whose known to the Company to be a beneficial owner of more than 5% of outstanding common stock of the Company, and (b) the number or percentage of the Company’s common stock owned by (a) each of the directors and the executive officers named in the Summary Compensation Table above, and (b) all of the directors and executive officers of the Company as a group. The Company believes that unless otherwise indicated, each of the shareholders has sole voting and investment power with respect to the shares beneficially owned. The following table sets forth certain information regarding the beneficial ownership of the Company’s common stock as of the date of this Report by (i) each person known to the Company of having beneficial ownership of more than 5% of the Company’s common stock (ii) existing shareholders, (iii) and all others as a group.

| Title of Class | Name and Address of Beneficial Owner | Amount and Nature of Beneficial Owners | Percent of Ownership |
|----------------|--|--|----------------------|
| Common | Jon Fullenkamp 112 N Curry Street, Carson City, NV 89703-4934 | 14,172,616(1) | 34% |
| Common | Rick May 112 N Curry Street, Carson City, NV 89703-4934 | 540,000 | 0% |
| Common | Perry Mansell 112 N Curry Street, Carson City, NV 89703-4934 | 540,000 | 0% |

(1) Includes shares held by Virgin Family Trust LLP of which Mr. Fullenkamp is the trustee.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Other than as set forth in Note 3 to the Financial Statements, there were no related party transactions for the period ended December 31, 2007.

ITEM 13. EXHIBITS

a) The exhibits included in this report are indicated below.

| Exhibit No. | Description of Exhibit |
|-------------|---|
| 3.1 | Articles of incorporation and amendments (1) |
| 3.2 | Certificate of Amendment, dated April 28, 2003 (2) |
| 3.3 | Bylaws (2) |
| 3.4 | Certificate of Amendment, dated May 3, 2006 (3) |
| 3.5 | Certificate of Amendment, dated August 22, 2006 (3) |
| 14 | <u>Code of Ethics</u> |
| 31 | <u>Rule 13a-14(a)/15d-14a(a) Certification</u> |
| 32 | <u>Section 1350 Certification</u> |

1. Incorporated by reference to Form 10-KSB filed on January 12, 2001.
2. Incorporated by reference to Form 10-KSB filed on April 17, 2006.
3. Incorporated by reference to Form 10-KSB filed on April 17, 2007.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

1. Audit Fees - the aggregate fees billed for the year ended December 31, 2007 and 2006 the audit of the Company's financial statements, review of the interim financial statements and services provided in connection with regulatory filings totaled \$7,500 and \$6,700 respectively.

3. Tax Fees - there were no tax fees billed during the year ended December 31, 2007 and 2006.

4. All Other Fees - there were no other fees billed during the year ended December 31, 2007 and for 2006.

There is no audit committee at present.

-14-

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

VICTORY ENERGY CORPORATION

Date: November 20, 2008

By: /s/ Jon Fullenkamp
Jon Fullenkamp
CEO, President and Director

In accordance with the Exchange Act, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

VICTORY ENERGY CORPORATION

Date: November 20, 2008

By: /s/ Jon Fullenkamp
Jon Fullenkamp
CEO, President and Director
(Principal Executive Officer and
Principal Financial and
Accounting Officer)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To: the Board of Directors and Shareholders
Victory Energy Corporation
112 North Curry Street
Carson City, Nevada 89703

I have audited the accompanying consolidated balance sheet of Victory Energy Corporation as of December 31, 2007 and 2006 and the related consolidated statements of operations and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses and has not yet commenced operations. This raises substantive doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In my opinion, based on my audit, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Victory Energy Corporation as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years ended December 31, 2007 and 2006, in conformity with United States generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses and has not yet commenced operations. This raises substantive doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company has determined that it is not required to have, nor was I engaged to perform, an audit of the effectiveness of its documented internal controls over financial reporting.

/s/ John Kinross-Kennedy
John Kinross-Kennedy
Certified Public Accountant
Irvine, California
April 5, 2008
F-1

Consolidated Balance Sheets
(A Development Stage Company)
Consolidated Balance Sheets

ASSETS

| | December 31, 2007 | December 31, 2006 |
|--|-------------------------|-------------------------|
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 3,251 | \$ - |
| Subscriptions Receivable | 160,000 | - |
| Total Current Assets | 163,251 | - |
| FIXED ASSETS, NET | | |
| | - | - |
| OTHER ASSETS | | |
| Investment in Joint Venture | 50,000 | 50,000 |
| TOTAL ASSETS | \$ 213,251 | \$ 50,000 |
| CURRENT LIABILITIES | | |
| LIABILITIES & STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Bank Overdraft | \$ - | \$ 79 |
| Accounts Payable | 34,803 | 19,142 |
| Credit Line - WFB Business Line | 81,860 | 56,961 |
| Prepaid Subscriptions | 203,500 | 203,500 |
| Total Current Liabilities | 320,163 | 279,682 |
| OTHER LIABILITIES | | |
| Loan from Officer | 1,377,879 | 690,085 |
| Total Other Liabilities | 1,377,879 | 690,085 |
| Total Liabilities | 1,698,042 | 969,767 |
| Commitments and contingencies (Note 6) | | |
| STOCKHOLDERS' DEFICIT | | |
| Preferred Stock, \$0.001 par value, 10,000,000 shares authorized, 630,517 issued and outstanding | 631 | 716 |
| Common Stock, \$0.001 par value, 200,000,000 shares authorized, 42,395,366 issued and outstanding | 42,395 | 4,518 |
| Additional paid-in capital | 7,860,331 | 4,566,320 |
| Deficit accumulated in the development stage | (9,388,148) | (5,491,321) |
| Total Stockholders' Deficit | (1,484,791) | (919,767) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 213,251 | \$ 50,000 |

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

| | For the | | For the | | For the |
|--|---------------------|---------------------|-----------------------|-----------------------|-----------------------|
| | Three Months Ended | | Year Ended | | period |
| | December 31, | | December 31, | | of |
| | 2007 | 2006 | 2007 | 2006 | Inception, |
| | | | | | from |
| | | | | | January 7, |
| | | | | | 1982 |
| | | | | | through |
| | | | | | December |
| | | | | | 31, |
| | | | | | 2007 |
| | | | | | Unaudited |
| Revenues | \$ - | \$ - | \$ - | \$ - | \$ 20,207 |
| Costs and Expenses | | | | | |
| Consulting Expense | 636,966 | 58,284 | 3,644,468 | 1,252,923 | 7,633,821 |
| Professional Fees | 1,400 | 3,121 | 14,138 | 47,444 | 158,146 |
| Land Leases | - | - | 1,680 | 24,040 | 25,720 |
| Wages and Salaries | - | - | - | 22,500 | 270,500 |
| Other General & Administrative | 31,234 | 63,169 | 230,022 | 398,457 | 1,217,457 |
| Total Expenses | 669,600 | 124,574 | 3,890,308 | 1,745,364 | 9,305,644 |
| Operating Loss | (669,600) | (124,574) | (3,890,308) | (1,745,364) | (9,285,437) |
| Other Income and (expenses) | | | | | |
| Loss on abandonment of subsidiary | | | | | (50,900) |
| Loss from reduction in debt | | | | | (48,363) |
| Interest Expense | (5,664) | | (6,639) | | (5,664) |
| Other Income | 120 | | 120 | | 2,216 |
| Total Other Income and (expenses) | (5,544) | - | (6,519) | - | (102,711) |
| Net Loss | \$ (675,144) | \$ (124,574) | \$ (3,896,827) | \$ (1,745,364) | \$ (9,388,148) |
| Basic and Dilutive net loss per share | \$ (0.02) | \$ (0.03) | \$ (0.16) | \$ (0.56) | |
| Weighted average number of shares | | | | | |
| outstanding, basic and diluted | 31,347,323 | 4,310,806 | 23,953,149 | 3,096,472 | |
| Dilutive effect of preferred stock, | \$ - | \$ - | \$ - | \$ - | - |
| (Note 2) | | | | | |

F-3

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 | | |
| | | | | | | Development | | |
| | | | | | | Stage | | |
| Balances at January 7, 1982 | - | \$ - | - | \$ - | \$ - | \$ - | \$ - | - |
| Common stock for cash at \$7.50/sh | 6,000 | 6 | | | 45,000 | | | 45,006 |
| Common stock for cash at \$0.39/sh. | 168,503 | 169 | | | 65,819 | | | 65,988 |
| Net loss from inception to Dec. 31,'82 | | | | | | (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 | | | | | | (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 | | | | 1,425 | | | 1,425 |
| Common stock for cash at \$25.00/sh. per share | 3 | | | | 75 | | | 75 |
| Common stock for cash at \$0.025/sh. per share | 1,580,000 | 1,580 | | | 38,373 | | | 39,953 |
| Net loss - year ended Dec. 31, 1984 | | | | | | | | - |
| 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 | | | | | | | | - |
| Balances at Dec. 31, 1985 | 458,431 | 458 | | | 150,692 | (110,994) | | 40,156 |

Edgar Filing: VICTORY ENERGY CORP - Form 10KSB/A

| | | | | | |
|-------------------------------------|-----------|-------|---------|-----------|---------|
| Net loss - year ended Dec. 31, 1986 | | | | | |
| Balances at Dec. 31, 1986 | 458,431 | 458 | 150,692 | (110,994) | 40,156 |
| Net loss - year ended Dec. 31, 1987 | | | | | - |
| Balances at Dec. 31, 1987 | 458,431 | 458 | 150,692 | (110,994) | 40,156 |
| Net loss - year ended Dec. 31, 1988 | | | | | - |
| Balances at Dec. 31, 1988 | 458,431 | 458 | 150,692 | (110,994) | 40,156 |
| Net loss - year ended Dec. 31, 1989 | | | | | - |
| Balances at Dec. 31, 1989 | 458,431 | 458 | 150,692 | (110,994) | 40,156 |
| Net loss - year ended Dec. 31, 1990 | | | | | - |
| Balances at Dec. 31, 1990 | 458,431 | 458 | 150,692 | (110,994) | 40,156 |
| Net loss - year ended Dec. 31, 1991 | | | | | - |
| Balances at Dec. 31, 1991 | 458,431 | 458 | 150,692 | (110,994) | 40,156 |
| Net loss - year ended Dec. 31, 1992 | | | | | - |
| Balances at Dec. 31, 1992 | 458,431 | 458 | 150,692 | (110,994) | 40,156 |
| Net loss - year ended Dec. 31, 1993 | | | | | - |
| Balances at Dec. 31, 1993 | 458,431 | 458 | 150,692 | (110,994) | 40,156 |
| Cancellation of common stock | (316,000) | (316) | | (6,656) | (316) |
| | | | | (6,656) | (6,656) |

Edgar Filing: VICTORY ENERGY CORP - Form 10KSB/A

| | | | | | |
|--------------------------------------|-----------|-------|---------|-----------|----------|
| Net loss - year ended Dec. 31, 1994 | | | | | |
| 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 | | | 2,359 |
| Net loss - year ended Dec. 31, 1995 | | | | (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 | | | 120 |
| Net loss - year ended Dec. 31, 1996 | 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 | | | | (3,517) | (3,517) |
| Balances at Dec. 31, 1997 | 2,620,326 | 2,620 | 150,692 | (171,945) | (18,633) |
| Net loss - year ended Dec. 31, 1998 | | | | (2,479) | (2,479) |
| Balances at Dec. 31, 1998 | 2,620,326 | 2,620 | 150,692 | (174,424) | (21,112) |
| Net loss - year ended Dec. 31, 1999 | | | | (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 | | | | (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 | | | | (19,461) | (19,461) |
| Balances at Dec. 31, 2001 | 2,620,326 | 2,620 | 150,692 | (209,203) | (55,891) |

Edgar Filing: VICTORY ENERGY CORP - Form 10KSB/A

| | | | | | |
|---|------------|--------|---------|-----------|-----------|
| Contributed capital for rent and other compensation | | | 1,950 | | 1,950 |
| Net loss - year ended Dec. 31, 2002 | | | | (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 | | | 488 | | 488 |
| Capital contributed by shareholders via accounts payable and interest | | | 77,415 | | 77,415 |
| Stock issued for services \$0.025/sh. | 13,389,932 | 13,390 | 321,358 | | 334,748 |
| Stock issued for services at \$0.61/sh. | 100,000 | 100 | 60,900 | | 61,000 |
| Stock for consulting at \$0.47/share | 10,000 | 10 | 4,690 | | 4,700 |
| Net loss - year ended Dec. 31, 2003 | | | | (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 |
| | 300,000 | 300 | 119,700 | 0 | 120,000 |

Edgar Filing: VICTORY ENERGY CORP - Form 10KSB/A

| | | | | | |
|--|------------|--------|-----------|-------------|-------------|
| Stock issued for services at \$0.40/sh | | | | | |
| 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 | 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 | 10,000,000 | 10,000 | 70,000 | | 80,000 |

Edgar Filing: VICTORY ENERGY CORP - Form 10KSB/A

| | | | | | | | |
|--|---------------|-----------|---------|-----|-----------|-------------|-------------|
| \$0.008/sh. 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 |
| 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 | | | 4,187,554 | (3,745,957) | 550,407 |
| Reverse split 25 to 1, Oct.26, 2006 | (104,457,849) | (104,458) | | | 104,458 | | - |
| New Stock issued for rounding | 890 | 1 | | | (1) | | - |
| Balances after reverse split | 4,353,300 | 4,353 | | | 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 | | | | | | - |
| Common stock for services \$0.20/sh | 5,200 | 5 | | | 1,035 | | 1,040 |
| Common stock for rounding \$0.20/sh. | 14 | | | | | | - |
| 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) |

Edgar Filing: VICTORY ENERGY CORP - Form 10KSB/A

| | | | | | | | |
|---|------------|-----------|----------|--------|--------------|----------------|----------------|
| Common stock for services \$0.15/sh | 6,277,251 | 6,277 | | | 935,310 | | 941,587 |
| 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 |
| Common stock for services \$0.21/sh | 2,787,600 | 2,788 | | | 582,608 | | 585,396 |
| Common stock subscribed, issued \$0.21 | 3,500,000 | 3,500 | | | 731,500 | | 735,000 |
| Preferred Stock converted to common | 8,500,000 | 8,500 | (85,000) | (85) | (8,415) | | - |
| Common stock for services \$0.05/sh | 300,000 | 300 | | | 14,700 | | 15,000 |
| Common stock for services \$0.04/sh | 10,310,000 | 10,310 | | | 402,090 | | 412,400 |
| Common stock for services \$0.04/sh | 500,000 | 500 | | | 19,500 | | 20,000 |
| Revaluation of subscriptions receivable | | | | | (575,000) | | (575,000) |
| Net loss - year ended Dec. 31, 2007 | | | | | | (3,896,827) | (3,896,827) |
| Balances at December 31, 2007 | 42,395,366 | \$ 42,395 | 630,517 | \$ 631 | \$ 7,860,331 | \$ (9,388,148) | \$ (1,484,791) |

F-4

VICTORY ENERGY CORPORATION AND SUBSIDIARIES
(A Development Stage Company)
Consolidated Statements of Cash Flows

| | For the Three Months Ended December 31, | | For the Year Ended December 31, | | From Inception Jan. 7, 1982 through Dec. 31, 2007 |
|---|---|--------------|---------------------------------------|----------------|--|
| | 2007 | 2006 | 2007 | 2006 | Unaudited |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Net Loss | \$ (675,144) | \$ (124,574) | \$ (3,896,827) | \$ (1,745,364) | \$ (9,388,148) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | | | | |
| Depreciation | | 198 | | 1,096 | 2,294 |
| Loss on extinguishment of debt | | | | | 48,363 |
| Loss on abandonment of subsidiary | | | | | 50,900 |
| Issuance of common stock for services rendered | 447,400 | 560,710 | 447,400 | 1,261,805 | 6,625,415 |
| Increase in Short Term Receivables | | | | 210,984 | |
| Decrease (Increase) in Prepaid Expenses | | | | | |
| Increase (Decrease) in Deposits | | | | | |
| Increase (Decrease) in Prepaid Subscriptions | | (43,450) | | 203,500 | 203,500 |
| (Increase) Decrease in Subscriptions Receivable | 575,000 | | (160,000) | | (575,000) |
| Increase (Decrease) in accounts payable | 202 | 9,966 | 15,661 | (311,828) | 34,803 |
| Increase (Decrease) in accrued liabilities | 1,020 | (16,006) | | (11,416) | |
| Increase (Decrease) in Accrued Payroll, P'roll Taxes | | (750,970) | | (240,000) | |
| Increase (Decrease) in Short Term Receivables | | | | | |
| Repayment of long term debt | | | | (146,431) | |
| Increase (decrease) in Accrued Liabilities-Related | 229,644 | (125,500) | | (172,179) | |
| Non-cash contributed capital | | (169,679) | | (121,000) | |
| Net Cash provided by (used by) Operating Activities | 578,122 | (659,305) | (3,593,766) | (1,070,833) | (2,997,873) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Purchase of Fixed Assets | | | | | (2,294) |
| Purchase / Sale of Marketable Securities | | | | | |
| Investment in Joint Venture | | | | (50,000) | (50,000) |
| Net Cash (used by) Investing Activities | - | - | - | (50,000) | (52,294) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds of Note Payable | | | | 122,684 | |
| Proceeds (Repayment) of Loans | | (149,458) | | | |
| Increase (decrease) in Credit Line | | (4,167) | 24,899 | 56,961 | 81,860 |
| Proceeds (Repayment) of Loan from Officer | | 565,054 | 687,794 | 690,085 | 1,377,879 |
| Proceeds (Repayment) of Note Payable-Related Party | | | | | |
| Increase (Decrease) in Other Loans Payable | | (19,000) | | | |
| Contributed capital for rent and officers' compensation | | | 2,270,383 | | 2,438 |
| Proceeds from the sale of Preferred Stock | | 246,950 | | 246,950 | |

Edgar Filing: VICTORY ENERGY CORP - Form 10KSB/A

| | | | | | |
|--|-----------|----------|-----------|-----------|------------|
| Proceeds from the sale/conversion of Common Stock | | | 1,189,020 | | 1,504,291 |
| Commons stock subscribed, revalued | (575,000) | | (575,000) | | |
| Proceeds from the sale/conversion of Preferred Stock | | | | | 246,950 |
| Contributed Capital by shareholders | | | | | |
| Net Cash provided by Financing Activities | (575,000) | 639,379 | 3,597,096 | 1,116,680 | 3,213,418 |
| NET INCREASE IN CASH | 3,122 | (19,926) | 3,330 | (4,153) | 163,251 |
| CASH AT BEGINNING OF PERIOD | 129 | 19,847 | (79) | 4,074 | - |
| CASH AT END OF PERIOD | \$ 3,251 | \$ (79) | \$ 3,251 | \$ (79) | \$ 163,251 |
| CASH PAID FOR: | | | | | |
| Interest | \$ - | \$ - | \$ - | \$ - | \$ - |
| Income Taxes | \$ - | \$ - | \$ - | \$ - | \$ - |

F-5

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. While the information presented in the accompanying interim nine months financial statements is unaudited, it includes all adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in accordance with the accounting principles generally accepted in the United States of America. All adjustments are of a normal recurring nature.

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 November 27, 2006 the company incorporated a Nevada subsidiary, Victory Energy Resources, Inc. The name of the subsidiary was changed to Victory Carbon Solutions, Inc. There has been no activity in this company.

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 acreage in Montana, subject to overriding royalties. The Company also secured other mineral rights in Montana and Texas, as well as a joint venture in New Mexico.

In December 2006 the Corporation negotiated purchase, with institutional investors, through a financial facility, a working interest in six existing and producing gas wells in Crockett County, Texas. The recording of the wells will take place in the following period.

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

Fair Value of Financial Instruments

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (“SFAS”) No. 107, “Disclosures About Fair Value of Financial Instruments.” SFAS No. 107 requires disclosure of fair value information about financial instruments when it is practicable to estimate that value. The carrying amounts of the Company’s financial instruments as of December 31, 2007 and 2006 approximate their respective fair values because of the short-term nature of these instruments. Such instruments consist of cash, accounts payable and accrued expenses. The fair value of related party payables is not determinable.

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 carry forwards. 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 suffered recurring losses. The Company incurred a net loss of \$3,896,827 and a negative cash flow from operations of \$4,168,766 for the year ended December 31, 2007, and has a shareholders’ deficiency of \$909,791 at December 31, 2007. 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 \$9,388,148, 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.

F-7

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 fiscal years 2007 and 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 year ended December 31, 2007 because the Company incurred a loss in the period, and thus their effect would have been anti-dilutive. At December 31, 2007, potentially dilutive securities consisted of 630,517 shares of preferred stock, convertible at the rate of 1 preferred share to 100 common shares.

On October 26, 2006 a reverse stock split of Common Stock occurred on a 25 to 1 basis.

The loss per share for the year ended December 31, 2006 was calculated accordingly, giving retroactive effect to the reverse stock split at the beginning of the year.

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

| | 2007 | 2006 |
|---|----------------|---------------|
| Numerator: | | |
| Basic and diluted net loss per share: | | |
| Net Loss | \$(3,896,827) | \$(1,745,364) |
| Denominator | | |
| Basic and diluted weighted average number of shares outstanding | 23,953,149 | 3,096,472 |
| Basic and Diluted Net Loss Per Share | \$ (0.16) | \$ (0.56) |
| Dilutive effect of Preferred Stock | Nil | Nil |

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.

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 \$1,377,879 at December 31, 2007. 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 \$0.001 per share. In practice, in prior years, funds due to him were converted at a discounted market value.

In the Year ended December 31, 2007 and 2006 the President/CEO incurred \$687,794 and \$313,539 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.

On December 31, 2007 the Company issued restricted common stock to Company officials as compensation for consulting as follows:

| | | |
|----------------|-----------|-----------|
| Jon Fullenkamp | President | 8,750,000 |
| Rick May | Director | 500,000 |
| Perry Mansell | Director | 500,000 |

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 year ended December 31, 2007.

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.

2007

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

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

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

On May 7, 2007, 1,710,000 shares of common stock were issued for services at \$0.21 per share, reflecting market value. \$359,100 was recorded as consulting fees.

On June 5, 2007, 1,077,600 shares of common stock were issued for services at \$0.21 per share reflecting market value. \$226,296 was recorded as consulting fees.

On June 13, 2007, 850,000 shares of common stock were issued to preferred stockholders in a conversion of 85,000 shares of preferred stock to common, converted at the rate of one share of preferred stock to 100 shares of common stock.

F-10

On June 15, 3,500,000 shares of common stock were issued at \$0.21 per share reflecting market value, for subscriptions receivable of \$735,000.

On December 12, 2007, 300,000 shares of common stock were issued for services at \$0.05 per share reflecting market value. \$15,000 was recorded as consulting fees.

On December 31, 2007, 10,310,000 shares of common stock were issued for services at \$0.04 per share reflecting market value. \$412,400 was recorded as consulting fees.

On December 31, 2007, 500,000 shares of common stock were issued for services at \$0.04 per share reflecting market value. \$20,000 was recorded as consulting fees.

On December 31, subscriptions receivable was reduced by \$575,000 to \$160,000 attendant upon a decline in the market price of the common stock and an agreement with the subscribers concerned. Additional paid-in capital was reduced accordingly.

The total of issued and outstanding common shares at December 31, 2007 and 2006 was 42,395,366 and 4,518,515 respectively,

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.

On June 13, 2007 85,000 shares of preferred stock were converted, at the rate of one share of preferred stock to 100 shares of common stock, to 8,500,000 shares common stock.

The total of issued and outstanding preferred shares at December 31, 2007 and 2006 was 630,517 and 715,517, respectively.

NOTE 7 – LITIGATION

During the second quarter of 2007, a former consultant solicited the courts for the shortfall between the original settlement amount and the amount realized in a court action. On June 6, 2007, the Corporation delivered final settlement and the issue is completely resolved.

Neither the Company nor any of its 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.

