

VICTORY ENERGY CORP
Form 10-Q
August 15, 2016

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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

For the transition period from _____ to _____.

Commission file number 002-76219-NY
VICTORY ENERGY CORPORATION
(Exact Name of Company as Specified in its Charter)

Nevada 87-0564472
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

3355 Bee Caves Road Ste 608, Austin, Texas 78746
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

(Do not check if a
smaller reporting
company)

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

As of August 15, 2016, there were 31,220,326 shares of common stock, par value \$0.001, issued and outstanding.

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VICTORY ENERGY CORPORATION
 QUARTERLY REPORT ON
 FORM 10-Q
 FOR THE SIX MONTHS ENDED JUNE 30, 2016

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Cautionary Notice Regarding Forward Looking Statements

We desire to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. This report contains a number of forward-looking statements that reflect management's current views and expectations with respect to business, strategies, future results and events and financial performance. All statements made in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements that address operating performance, events or developments that management expects or anticipates will or may occur in the future, including statements related to revenues, cash flow, profitability, adequacy of funds from operations, statements expressing general optimism about future operating results and non-historical information, are forward looking statements. In particular, the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “may,” “will,” variations of such words and similar expressions identify forward-looking statements, but are not the exclusive means of identifying such statements and their absence does not mean that the statement is not forward-looking.

Readers should not place undue reliance on these forward-looking statements, which are based on management's current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions and apply only as of the date of this report. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. In particular, our business, including our financial condition and results of operations and our ability to continue as a going concern may be impacted by a number of factors, including, but not limited to, the following:

- continued operating losses;
- our ability to continue as a going concern;
- our dependence on external sources of financing to operate our business and meet our debt service obligations;
- difficulties in raising additional capital;
- our inability to pay our accounts payable or our expenses as they arise;
- our inability to meet the required financial covenants of our lender;
- our inability to pay a preferred return to The Navitus Energy Group for new capital contributions to Aurora Energy Partners;
- challenges in growing our business;
- designation of our common stock as a “penny stock” under Securities and Exchange Commission, which we refer to as the SEC, regulations;
- FINRA requirements that may limit the ability to buy and sell our common stock;
- illiquidity and price volatility of our common stock;
- the highly speculative nature of an investment in our common stock;
- climate change and greenhouse gas regulations;
- global economic conditions;
- the substantial amount of capital required by our operations;
- the volatility of oil and natural gas prices;
- the high level of risk associated with drilling for and producing oil and natural gas;
- assumptions associated with reserve estimates;
- the potential that drilling activities will not yield oil or natural gas in commercial quantities;

- potential exploration, production and acquisitions may not maintain revenue levels in the future;
- our acquisition of additional oil and natural gas assets in the Permian Basin and other future acquisitions may yield revenues or production that differ significantly from our projections;
- we may expend significant resources on potential acquisitions or other projects that fail to consummate;
- difficulties associated with managing a small and growing enterprise;
- strong competition from other oil and natural gas companies;
- the unavailability or high cost of drilling rigs and related equipment;
- our inability to control properties that we do not operate;
- our dependence on third parties for the marketing of our crude oil and natural gas production;
- our dependence on key management personnel and technical experts;
- our inability to keep pace with technological advancements in our industry;
- the potential for write-downs in the carrying values of our oil and natural gas properties;
- our compliance with complex laws governing our business;
- our failure to comply with environmental laws and regulations;
- the demand for oil and natural gas and our ability to transport our production;
- the financial condition of the operators of the properties in which we own an interest;
- the dilutive effect of additional issuances of our common stock, options or warrants;
- any impairments of our oil and natural gas properties; and
- the results of pending litigation.

Part I – Financial Information

Item 1. Financial Statements

VICTORY ENERGY CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$56,765	\$2,384
Accounts receivable - less allowance for doubtful accounts of \$0, and \$200,000 for June 30, 2016 and December 31, 2015, respectively	57,964	37,690
Accounts receivable - affiliates	134,225	131,584
Prepaid expenses	5,242	8,734
Total current assets	254,196	180,392
Fixed Assets		
Furniture and equipment	46,883	46,883
Accumulated depreciation	(27,661)	(24,429)
Total furniture and fixtures, net	19,222	22,454
Oil gas properties, net of impairment (successful efforts method)	2,787,986	3,033,279
Accumulated depletion, depreciation and amortization	(2,112,224)	(2,274,188)
Total oil and gas properties, net	675,762	759,091
Other Assets		
Deferred debt financing costs	26,648	47,060
Total Assets	\$975,828	\$1,008,997
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$1,548,369	\$1,591,764
Accrued liabilities	394,300	534,619
Accrued liabilities - related parties	1,020,862	805,179
Liability for unauthorized preferred stock issued	9,283	9,283
Note payable	680,000	680,000
Asset retirement obligation	54,826	14,403
Total current liabilities	3,707,640	3,635,248
Other Liabilities		
Asset retirement obligations	28,092	94,768
Total long term liabilities	28,092	94,768
Total Liabilities	3,735,732	3,730,016
Stockholders' Equity (Deficit)		
Common stock, \$0.001 par value, 47,500,000 shares authorized, 31,220,326 shares and 31,220,326 shares issued and outstanding for June 30, 2016 and December 31, 2015, respectively	31,220	31,220
Additional paid-in capital	35,766,155	35,708,746
Accumulated deficit	(45,274,224)	(44,289,126)
Total Victory Energy Corporation stockholders' deficit	(9,476,849)	(8,549,160)
Non-controlling interest	6,716,945	5,828,141
Total stockholders' equity (deficit)	(2,759,904)	(2,721,019)

Total Liabilities and Stockholders' Equity	\$975,828	\$ 1,008,997
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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VICTORY ENERGY CORPORATION AND SUBSIDIARY
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Oil and gas sales	\$79,185	\$269,631	\$145,178	\$398,199
Gain on settlement and sale of oil and gas properties	64,824	—	64,824	—
Total revenues	144,009	269,631	210,002	398,199
Operating Expenses:				
Lease operating costs	25,774	42,504	63,127	77,017
Exploration and dry hole cost	—	—	—	3,491
Production taxes	3,782	12,842	7,055	19,541
General and administrative	623,995	1,070,830	1,068,156	2,715,194
Impairment of oil and natural gas properties	—	300,891	—	306,387
Depreciation, depletion, amortization, and accretion	28,267	175,815	76,286	251,014
Total operating expenses	681,818	1,602,882	1,214,624	3,372,644
Loss from operations	(537,809)	(1,333,251)	(1,004,622)	(2,974,445)
Other Income (Expense):				
Management fee income	1,305	1,176	2,641	2,675
Interest expense	(33,124)	(28,480)	(66,313)	(47,186)
Total other income and expense	(31,819)	(27,304)	(63,672)	(44,511)
Loss before Tax Benefit	(569,628)	(1,360,555)	(1,068,294)	(3,018,956)
Tax benefit	—	—	—	—
Net loss	(569,628)	\$(1,360,555)	(1,068,294)	(3,018,956)
Less: Net loss attributable to non-controlling interest	(26,154)	(113,097)	(83,196)	(224,925)
Net loss attributable to Victory Energy Corporation	\$(543,474)	\$(1,247,458)	\$(985,098)	\$(2,794,031)
Weighted average shares, basic and diluted	31,220,326	29,302,826	31,220,326	29,253,937
Net loss per share, basic and diluted	\$(0.02)	\$(0.04)	\$(0.03)	\$(0.10)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

	For the Six Months Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(1,068,294)	\$(3,018,956)
Adjustments to reconcile net loss to net cash used in operating activities		
Amortization of debt discount and financing warrants	20,412	20,412
Accretion of asset retirement obligations	1,597	3,828
Depletion, depreciation, and amortization	74,689	247,186
Gain on settlement and sale of oil and gas properties	(64,824)) —
Impairment of oil and natural gas properties	—	306,387
Stock based compensation	57,409	47,239
Stock grants in exchange for services	—	143,505
Change in operating assets and liabilities		
Accounts receivable	(20,274)) 6,966
Accounts receivable - affiliate	(2,641)) (1,865)
Prepaid expense	3,492	14,585
Accounts payable	15,599	220,016
Accrued liabilities - related parties	215,683	96,226
Accrued liabilities	(140,319)) 267,320
Net cash used in operating activities	(907,471)) (1,647,151)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Lease purchases, drilling capital expenditures	(18,442)) (517,776)
Proceeds from the sale of assets	8,294	—
Net cash used in investing activities	(10,148)) (517,776)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Non-controlling interest contributions	972,000	2,175,000
Principal payments of debt financing	—	(10,000)
Net cash provided by financing activities	972,000	2,165,000
Net Change in Cash and Cash Equivalents	54,381	73
Beginning Cash and Cash Equivalents	2,384	2,941
Ending Cash and Cash Equivalents	\$56,765	\$3,014
Supplemental cash flow information:		
Cash paid for:		
Interest	\$22,412	\$20,525
Non-cash investing and financing activities:		
Asset retirement obligation	\$—	\$2,506
Accrued capital expenditures	\$305,983	\$663,896

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

Note 1 – Organization and Summary of Significant Accounting Policies

Victory Energy Corporation ("Victory" or "the Company") is an independent, growth oriented oil and natural gas company engaged in the acquisition, exploration and production of oil and natural gas properties, through its partnership with Aurora Energy Partners ("Aurora"). In this report, "the Company" refers to the consolidated accounts and presentation of Victory and Aurora, with the equity of non-controlling interests stated separately. Current operations are primarily located onshore in Texas and New Mexico. The Company was organized under the laws of the State of Nevada on January 7, 1982. The Company is authorized to issue 47,500,000 shares of \$0.001 par value common stock, and has 31,220,326 shares of common stock outstanding as of June 30, 2016. Our corporate headquarters are located at 3355 Bee Caves Rd. Ste. 608, Austin, Texas.

A summary of significant accounting policies followed in the preparation of the accompanying consolidated financial statements is set forth below.

Basis of Presentation and Consolidation:

Victory is the managing partner of Aurora, and holds a 50% partnership interest in Aurora. Aurora, a subsidiary of the Company, is consolidated with Victory for financial statement reporting purposes, as the terms of the partnership agreement that govern the operations of Aurora give Victory effective control of the partnership. The consolidated financial statements include the accounts of Victory and the accounts of Aurora. The Company's management, in considering accounting policies pertaining to consolidation, has reviewed the relevant accounting literature. The Company follows that literature, in assessing whether the rights of the non-controlling interests should overcome the presumption of consolidation when a majority voting or controlling interest in its investee "is a matter of judgment that depends on facts and circumstances". In applying the circumstances and contractual provisions of the partnership agreement, management determined that the non-controlling rights do not, individually or in the aggregate, provide for the non-controlling interest to "effectively participate in significant decisions that would be expected to be made in the ordinary course of business." The rights of the non-controlling interest are protective in nature. All intercompany balances have been eliminated in consolidation.

The accompanying condensed consolidated balance sheet as of December 31, 2015, which has been derived from audited consolidated financial statements, and the accompanying interim condensed consolidated financial statements as of June 30, 2016, and for three and six month periods ended June 30, 2016 and June 30, 2015, have been prepared by management pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial reporting. These interim condensed consolidated financial statements are unaudited and, in the opinion of management, all adjustments, including normal recurring adjustments necessary to present fairly the consolidated financial condition, results of operations and cash flows of Victory and Aurora as of and for the periods presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), have been included.

Operating results for the six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 or for any other interim period during such year. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been omitted in accordance with the rules and regulations of the SEC. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the

SEC on April 8, 2016.

Non-controlling Interests:

The Navitus Energy Group ("Navitus") is a partner with Victory in Aurora. The two partners each own a 50% interest in Aurora. Victory is the Managing partner and has contractual authority to manage the business affairs of Aurora. The Navitus Energy Group currently has four partners. They are James Capital Consulting, LLC ("JCC"), James Capital Energy, LLC ("JCE"), Rodinia Partners, LLC and Navitus Partners, LLC. Although this partnership has been in place since January 2008, its members and other elements have changed since that time.

The non-controlling interest in Aurora is held by Navitus, a Texas general partnership. As of June 30, 2016, \$6,716,945 was recorded as the equity of the non-controlling interest in our consolidated balance sheets representing the third-party investment in Aurora, with losses attributable to non-controlling interests of \$26,154 and \$113,097 for the three months ended June 30, 2016 and 2015, respectively, and \$83,196 and \$224,925 for the six months ended June 30, 2016, and 2015, respectively. As of

December 31, 2015, \$5,828,141 was recorded as the equity of the non-controlling interest in our consolidated balance sheets representing the third-party investment in Aurora.

Use of Estimates:

The preparation of our consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”) requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used primarily when accounting for depreciation, depletion, and amortization (“DD&A”) expense, property costs, estimated future net cash flows from proved reserves, assumptions related to abandonments and impairments of oil and natural gas properties, taxes, accruals of capitalized costs, operating costs and production revenue, general and administrative costs and interest, purchase price allocation on properties acquired, various common stock, warrants and option transactions, and loss contingencies.

Oil and Natural Gas Properties:

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

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

For unproved property costs, management reviews for impairment on a property-by-property basis if a triggering event should occur that may suggest that impairment may be required.

Capitalized acquisition costs attributable to proved oil and gas properties are depleted by field using the unit-of-production method based on proved reserves. Capitalized exploration well costs and development costs, including asset retirement obligations, are amortized similarly by field, based on proved developed reserves.

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

The Company recorded impairment expense of \$0 and \$300,891 for the three months ended June 30, 2016 and 2015, respectively, and \$0 and \$306,387 for the six months ended June 30, 2016 and 2015, respectively.

Asset Retirement Obligations:

The Company records the estimate of the fair value of liabilities related to future asset retirement obligations (“ARO”) in the period the obligation is incurred. Asset retirement obligations relate to the removal of facilities and tangible equipment at the end of an oil and natural gas property’s useful life. The application of this rule the use of management’s estimates with respect to future abandonment costs, inflation, market risk premiums, useful life and cost of capital and required government regulations. U.S. GAAP requires that the estimate of our asset retirement obligations does not give consideration to the value the related assets could have to other parties.

Earnings (Losses) per Share:

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

Income Taxes:

The Company accounts for income taxes in accordance with ASC 740 “Income Taxes” which requires an asset and liability approach for financial accounting and reporting of income taxes. Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. Deferred tax assets include tax loss and credit carry forwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The realization of future tax benefits is dependent on our ability to generate taxable income within the carry forward period. Given the Company’s history of net operating losses, management has determined that it is likely that the Company will not be able to realize the tax benefit of the carry forwards. ASC 740 requires that a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized.

Accordingly, the Company has a full valuation allowance against its net deferred tax assets at June 30, 2016 and December 31, 2015. Upon the attainment of taxable income by the Company, management will assess the likelihood of realizing the deferred tax benefit associated with the use of the net operating loss carry forwards and will recognize a deferred tax asset at that time.

Stock-Based Compensation:

The Company applies ASC 718, “Compensation-Stock Compensation” to account for the issuance of options and warrants to employees, key partners, directors, officers and Navitus investors. The standard requires all share-based payments, including employee stock options, warrants and restricted stock, be measured at the fair value of the award and expensed over the requisite service period (generally the vesting period). The fair value of options and warrants granted to employees, directors and officers is estimated at the date of grant using the Black-Scholes option pricing model by using the historical volatility of the Company’s stock price. The calculation also takes into account the common stock fair market value at the grant date, the exercise price, the expected term of the common stock option or warrant, the dividend yield and the risk-free interest rate.

The Company from time to time may issue stock options, warrants and restricted stock to acquire goods or services from third parties. Restricted stock, options or warrants issued to third parties are recorded on the basis of their fair value, which is measured as of the date issued. The options or warrants are valued using the Black-Scholes option pricing model on the basis of the market price of the underlying equity instrument on the “valuation date,” which for options and warrants related to contracts that have substantial disincentives to non-performance, is the date of the contract, and for all other contracts is the vesting date. Expense related to the options and warrants is recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period and is included in general and administrative expenses in the accompanying consolidated statements of operations.

The Company recognized stock-based compensation expense from stock awards granted to directors, officers, and employees for services of \$33,994 and \$9,212 and \$57,409 and \$47,239 for the three and six months ended June 30, 2016 and 2015, respectively.

The Company also recognized stock-based general and administrative expense of \$0 and \$84,605 and \$0 and \$143,505 from restricted stock and stock options issued to consultants for the three and six months ended June 30, 2016 and 2015, respectively.

Recently Adopted Accounting Standards:

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-02, "Consolidation (Topic 810): Amendments to the Consolidated Analysis." ASU 2015-02 amended the consolidation guidance by modifying the evaluation criteria for whether limited partnerships and similar legal entities are variable interest entities, eliminating the presumption that a general partner should consolidate a limited partnership, and affecting the consolidated analysis of reporting entities that are involved with variable interest entities. The adoption of ASU 2015-02, effective January 1, 2016, did not have a material impact on our consolidated balance sheets, statements of operations or statements of cash flows.

Recently Issued Accounting Standards:

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605, "Revenue Recognition," and most industry-specific guidance. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB ASC. The new guidance is effective for annual reporting periods beginning after December 15, 2017 for public companies. Entities have the option of using either a full retrospective or modified approach to adopt ASU 2014-09. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements or decided upon the method of adoption.

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 prospectively changes the criteria for reporting discontinued operations while enhancing disclosures around disposals of assets whether or not the disposal meets the definition of a discontinued operation. ASU 2014-08 is effective for annual and interim periods beginning after December 31, 2014 with early adoption permitted but only for disposals that have not been reported in financial statements previously issued. The impact of this guidance on the Company's consolidated financial statements will depend on the size and nature of the Company's disposal transactions in the future, which the Company cannot accurately predict. Several of the Company's past dispositions that were treated as discontinued operations may not have been classified as such had the new guidance been in effect.

Going Concern:

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. As presented in the consolidated financial statements, the Company has incurred a net loss of \$543,474 and \$1,247,458 for the three months ended June 30, 2016 and 2015, respectively and net losses of \$985,098 and \$2,794,031 for the six months ended June 30, 2016 and 2015, respectively.

Our total cash and cash equivalents were \$56,765 at June 30, 2016. We have been, and anticipate that we will continue to be, limited in terms of our capital resources. We generally have not had enough cash or sources of capital to pay our accounts payable and expenses as they arise. We will be required to raise substantial additional capital to meet our existing payment obligations and to expand our operations.

The Company has invested \$18,442 and \$517,776, respectively, in leases, and drilling and completion costs, for the six months ended June 30, 2016 and 2015, respectively.

New contributions to the Aurora partnership by Navitus, and loans from affiliates have allowed the Company to continue operations and invest in new oil and natural gas properties. Management anticipates that operating losses will continue in the near term until new wells are drilled, successfully completed and incremental production increases revenue. The Company remains in active discussions with Navitus and others related to longer term financing required for our capital expenditures planned for 2016. Without additional outside investment from the sale of equity securities and/or debt financing, our capital expenditures and overhead expenses must be reduced to a level commensurate with available cash flows.

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

Note 2 - Acquisitions

During February of 2015, Victory entered into a letter of intent ("LOI") and subsequently into (a) the Pre-Merger Collaboration Agreement (the "Collaboration Agreement") by and among Victory, Lucas Energy Inc. ("Lucas"), Navitus and AEP Assets, LLC ("AEP"), a wholly-owned subsidiary of Aurora; and (b) the Pre-Merger Loan and Funding Agreement (the "Loan Agreement") between Victory and Lucas. During March of 2015 the parties entered into Amendment No. 1 to the Pre-Merger Collaboration which amendments affected thereby are included in the discussion of the Collaboration Agreement below. Payments of \$195,928 and \$317,027 were made by Aurora, on behalf of Victory, to Earthstone Energy/Oak Valley Resources and Penn Virginia, respectively, for costs related to the two Earthstone Energy/ Oak Valley Resources and the five Penn Virginia operated Eagle Ford wells, respectively.

The initial draw, and additional amounts borrowed by Lucas under the Loan Agreement were evidenced by a Secured Subordinated Delayed Draw Term Note issued by Lucas in favor of Victory, which was in an initial amount of \$250,000 (the "Draw Note"). Borrowings evidenced by the Draw Note accrued interest at 0.5% per annum, with accrued interest payable in one lump sum on maturity. The maturity date of the Draw Note was February 26, 2015. A total of \$600,000 was paid to Lucas under the Draw Note.

Subsequent to March 31, 2015, the Company terminated the LOI and notified Lucas pursuant to the Loan Agreement, that it would not extend any further credit to Lucas under the Loan Agreement. Merger related direct costs, as well as cost related to reserving amounts receivable on advances made under the Collaboration Agreement totaled approximately \$957,000 and are included in General and Administrative expense for the three-month period ended March 31, 2015. There were zero associated costs incurred during the six-month period ended June 30, 2016.

Further, the Company entered into (1) a Settlement Agreement and Mutual Release (the "Lucas Settlement Agreement") with Lucas, (2) a Settlement Agreement and Mutual Release (the "Rogers Settlement Agreement") with Louise H. Rogers, ("Rogers"), and (3) a Compromise Settlement Agreement and Mutual General Release, effective as of June 25, 2015 (the "Earthstone Settlement Agreement", and, together with the Lucas Settlement Agreement and the Rogers Settlement Agreement, the "Settlement Agreements") with Earthstone Operating, LLC, Earthstone Energy, Inc., Oak Valley Resources, LLC, Oak Valley Operating LLC and Sabine River Energy, LLC (collectively, "Earthstone"), Lucas, AEP, and Aurora.

Lucas Settlement Agreement

The Company and Lucas agreed to terminate any and all obligations between the parties arising under the LOI and the Collaboration Agreement. The Company and Lucas further agreed that the Company would retain ownership and control over five Penn Virginia well-bores previously assigned by Lucas to the Company (the "Penn Virginia Well-Bores"), as well as the obligations to pay the expenses associated with such Penn Virginia Well-Bores effective after August 1, 2014. Under the terms of the Lucas Settlement Agreement, Lucas agreed to assign to the Company all of Lucas' rights in a certain oil and gas property located in the same field as the Penn Virginia Well-Bores (the "Additional Penn Virginia Property"), including the rights to all revenues from all wells on some properties.

Rogers Settlement and Amended Rogers Settlement Agreements

The Company and Rogers agreed, among other things, (i) to terminate the contingent promissory note in the principal amount of \$250,000 payable to Rogers that was issued by Victory in connection with the entry by Lucas and the

Company into the Collaboration Agreement, (ii) that the Company would pay Rogers, on or before July 15, 2015, \$258,125, and (iii) that Rogers' legal counsel will hold the assignment of the Additional Penn Virginia Property and the Settlement Shares in escrow until such time as the payment of \$258,125 is made by the Company to the Rogers. Failure of the Company to make the payment of \$258,125 on or before July 15, 2015, would result in the Company being in default under the Rogers Settlement Agreement and default interest on the amount due would begin to accrue at a per diem rate of \$129.0625. Additionally, the Company acknowledged in the Amendment its obligation to pay Rogers' attorney's fees in the amount of \$22,500. The Company has not made any payments to Rogers pursuant to the Rogers Settlement Agreement and as a result the additional Penn Virginia Property was returned to Lucas in September 2015. The full amount due under the Roger's obligation including accrued interest at June 30, 2016 totals approximately \$323,700 and is included in accrued liabilities on the consolidated balance sheet.

Earthstone Settlement Agreement

The Company assigned to Earthstone certain oil and gas interests in the wells which were previously transferred to the Company by Lucas in February 2015. The Company and Earthstone agreed to release each other from any and all claims, demands and causes of action which either party had against the other prior to the effective date of the Earthstone Settlement Agreement, whether known or unknown, except in connection with the breach, enforcement or interpretation of the Earthstone Settlement Agreement. Lucas and Earthstone similarly agreed to release each other from such claims pursuant to the terms of the Earthstone Settlement Agreement. The Company charged \$195,928 related to the Earthstone Settlement Agreement to general and administrative expenses as a cost of the merger termination during the six-month period ended June 30, 2015.

Note 3 – Oil and natural gas properties, net of accumulated impairment (under successful efforts accounting)

Oil and natural gas properties are comprised of the following:

	June 30, 2016	December 31, 2015
Proved property	\$9,695,367	\$9,940,660
Unproved property	\$1,375,940	\$1,375,940
Total oil and natural gas properties, at cost	\$11,071,307	\$11,316,600
Less: accumulated impairment	\$(8,283,321)	\$(8,283,321)
Oil and natural gas properties, net of impairment	\$2,787,986	\$3,033,279
Less: accumulated depletion	(2,112,224)	(2,274,188)
Oil and natural gas properties, net	\$675,762	\$759,091

Depletion, depreciation, amortization and accretion expense for the three months ended June 30, 2016 and 2015 was \$28,267 and \$175,815, respectively, and \$76,286 and \$251,014 for the six months ended June 30, 2016, and 2015, respectively. During the six months ended June 30, 2016 and 2015, the Company recorded impairment losses of \$0 and \$306,387, respectively.

During April 2016, as part of the legal settlement of the Trilogy suit, the Company assigned its interest in seven wells. Additionally, the Company sold its interest in the Morgan #1 well. As a result, a gain was recorded in the amount of \$0.

Note 4 – Asset Retirement Obligations

The following table is a reconciliation of the ARO liability as of and for the six months ended June 30, 2016 and the twelve months ended December 31, 2015.

	June 30, 2016	December 31, 2015
Asset retirement obligation at beginning of period	\$109,171	\$44,214
Liabilities incurred on properties acquired and developed	—	2,506
Revisions to previous estimates	—	60,832
Liabilities on properties sold or settled	(27,850)	(3,721)
Accretion expense	1,597	5,340
Asset retirement obligation at end of period	\$82,918	\$109,171

Note 5 – Revolving Credit Agreement

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

The Credit Agreement contains various affirmative and negative covenants. These covenants, among other things, limit additional indebtedness, additional liens and transactions with affiliates. Among the covenants contained in the Credit Agreement are financial covenants that Aurora will maintain a minimum EBITDAX to Cash Interest Ratio of 3.5 to 1.0 and a minimum Current Ratio of not less than 1.0 to 1.0. The Current Ratio is defined under the covenants to include, as a current asset, the revolving credit availability.

On April 13, 2015, the Company received the annual Borrowing Base Adjustment called for under the terms of the Credit Agreement, which called for a decrease in the borrowing base of \$300,000 payable by May 13, 2015, and an increase in the monthly reduction amount to \$10,000 commencing as of June 1, 2015. Additionally, the Lender notified Aurora that, based on the Lender's redetermination of Aurora's borrowing base, the monthly reduction amount under the Credit Agreement will be increased, commencing on June 1, 2015, from \$0 to \$10,000. Pursuant to this increase in the monthly reduction amount, Aurora's borrowing base will be automatically reduced by \$10,000 on the first day of each calendar month beginning in June 2015 until the Lender's next periodic borrowing base redetermination. The Company has made one payment in the amount of \$10,000 in June 2015.

On May 13, 2015, Aurora informed the Lender it would not make the required \$300,000 payment but was submitting the newly acquired five Eagle Ford wells as additional collateral to be considered and its willingness to execute mortgages regarding the properties to meet the Deficiency.

On August 21, 2015, the Company executed a Forbearance Agreement whereby the Lender would forbear all existing events of default which includes all payments under the previously mentioned Borrowing Base Deficiency payments not yet paid under the April 13, 2015 Redetermination Date notification, as well as the late interest payments for June, July and August 2015, violations of Aurora financial covenants for the three months ended March 31, 2015, and June 30, 2015, and default notice for the late filing of March 31, 2015 financial reports. On August 26, 2015, the Company

paid the Lender \$76,081 to cover a portion of the deficiency payment, as well as a Forbearance document fee and Lender's legal expenses, as required by the Forbearance Agreement, and the aforementioned Forbearance Agreement went into effect for the \$260,000 remaining borrowing base deficiency payment. On August 31, 2015, the Forbearance Agreement terminated pursuant to its terms. The Company did not make the above payment and has been in continuous contact with its lender regarding its plan of payment of the \$260,000 as well as the remaining credit facility balance. The Company made a \$50,000 principle payment to the Lender on October 14, 2015 as part of that plan.

As of December 31, 2015 and June 30, 2016, the Company was out of compliance with the Current Ratio and with the EBITDAX to Cash Interest Ratio due to its reduced revenue streams from price and production declines and continued high general and administrative expenses. Therefore, the Company is in technical default of the Credit Agreement and related agreements. The Company has not yet been advised by the Lender of any additional actions the Lender plans to take.

Amortization of debt financing costs on this debt was \$20,412 and \$20,412 for the six months ended June 30, 2016 and 2015, respectively. Interest expense was \$22,412 and \$20,525 for the six months ended June 30, 2016, and 2015, respectively.

Note 6 – Related Party Transactions

During the six months ended June 30, 2016, we incurred a total of \$104,883 in legal fees with The McCall Firm. David McCall, our general counsel and a director, is a partner in The McCall Firm. The fees are attributable to litigation involving the Company's oil and natural gas operations in Texas. As of June 30, 2016, the Company owed The McCall Firm \$462,682 for these professional services.

During the six months ended June 30, 2016, a member of management made a \$3,984 temporary advance to the Company, and temporary capital advances totaling \$130,000 had been made by Navitus Energy Group Partnership. All the above amounts are recorded in Accrued Liabilities - related parties.

Note 7 – Shareholders' Equity

Common stock

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

During the six months ended June 30, 2016 and in consideration of capital contributions by Aurora of \$972,000 pursuant to the capital contribution agreement with Aurora, the Company issued 972,000 warrants to Navitus with an exercise price ranging from \$0.15 - \$0.21.

The warrants vest immediately and the Company valued the common stock warrants using the Black Scholes Option Pricing Model. The values for the three month periods ended June 30, 2016 and 2015, were \$98,540 and \$68,507, respectively, and were \$154,374 and \$492,487 for the six month periods ended June 30, 2016 and 2015, respectively.

Note 8 - Commitments and Contingencies

Contingencies

Liabilities and other contingencies are recognized upon determination of an exposure, which when analyzed indicates that it is both probable that an asset has been impaired or that a liability has been incurred and that the amount of such loss is reasonably estimable.

Volatility of Oil and Natural Gas Prices

Our revenues, future rate of growth, results of operations, financial condition and ability to borrow funds or obtain additional capital, as well as the carrying value of our properties, are substantially dependent upon prevailing prices of oil and natural gas.

Litigation

Legal Cases Settled

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Cause No. 08-04-07047-CV; Oz Gas Corporation v. Remuda Operating Company, et al. v. Victory Energy Corporation.; In the 112th District Court of Crockett County, Texas.

Plaintiff Oz Gas Corporation ("Oz") filed a lawsuit in April 2008 against various parties for bad faith trespass, among other claims, regarding the drilling of two wells on lands that Oz claims title to. On November 18, 2009, Victory Energy Corporation intervened in the lawsuit to protect its 50% interest in one of the named wells in the lawsuit (that being the 155-2 well located on the Adams Baggett Ranch in Crockett County, Texas).

This case was mediated, with no settlement reached. It went to trial February 8-9, 2012. The Court found in favor of Oz and rendered verdict against Victory and the other Defendants, jointly and severally. Victory appealed this case to the 8th Court of Appeals in El Paso, Texas where the Court of Appeals affirmed the verdict of the District Court and Victory filed a Motion for Rehearing, which was denied. Victory filed a Petition for Review in the Supreme Court of Texas on December 15, 2014 which

was denied. Victory filed a Motion for Rehearing with the Supreme Court which was denied. Oz then filed Interrogatories and Request for Production in Aid of Judgment which were answered by Victory.

A Settlement and Forbearance Agreement was entered into on March 22, 2016, between the parties wherein no further post-judgment discovery or collection efforts will be made by Oz, for \$140,000 net of a \$14,000 payment received by the Oz receiver (see next following Cause No. C-1-CV-16-001610), with monthly payments of \$7,500 commencing April 15, 2016. This amount is included in Accrued Liabilities on the balance sheet as of June 30, 2016.

Cause No. C-1-CV-16-001610; Oz Gas Corporation v. Victory Energy Corporation; In the County Court at Law No. 1 of Travis County, Texas.

Plaintiff Oz Gas Corporation (“Oz”) filed an Application for Turnover Relief in Travis County, Texas on February 19, 2016. This order was granted and Thomas L. Kolker was appointed as Receiver to assist in the collection of non-exempt assets. Victory itself has not been placed into Receivership. Victory filed its Motion to Vacate the Turnover that was heard and denied by the trial court. Oz has since filed an Amended Application for Turnover Relief and Appointment of a Receiver to be heard March 10, 2016. Victory filed its Notice of Appeal March 4, 2016.

A Settlement and Forbearance Agreement was entered into on March 22, 2016, between the parties wherein no further post-judgment discovery or collection efforts will be made by Oz, for \$140,000 net of a \$14,000 payment received by the Oz receiver, with monthly payments of \$7,500 commencing April 15, 2016, and an Agreed Motion Vacating Turnover Order was filed and the Court signed an Order Vacating Appointment of Receiver on March 21, 2016.

Cause No. D-1-GN-13-000044; Aurora Energy Partners and Victory Energy Corporation v. Crooked Oaks, LLC; In the 261st District Court of Travis County, Texas.

Victory Energy Corporation sued Crooked Oaks, LLC a/k/a Crooked Oak, LLC for breach of a purchase and sale agreement dated May 7, 2012 in which Victory sold certain assets to Crooked Oaks, LLC for \$400,000 of which only \$200,000 has been paid as of December 31, 2014. The lawsuit seeks to recover the remaining balance owed of \$200,000 from Crooked Oaks, LLC in addition to attorney’s fees and all costs of court. Crooked Oaks, LLC has asserted a counterclaim for rescission of the underlying contract.

Victory and Crooked Oaks attended a mediation on February 10, 2016 where it was determined that Crooked Oaks was insolvent and since that date the case has been dismissed with prejudice.

Cause No. 50198; Trilogy Operating, Inc. v. Aurora Energy Partners; In the 118th Judicial District Court of Howard County, Texas.

This lawsuit was filed on January 9, 2015. This lawsuit alleges causes of action for declaratory judgment, breach of contract, and suit to quiet title regarding the drilling and completion of four wells. On or about February 12, 2015, the parties met at an informal settlement conference. At the adjournment of the meeting, Trilogy was to provide Aurora with a detailed accounting before proceeding forward. The accounting provided by Trilogy was not helpful and Aurora asked for an audit under the terms set out in the Joint Operating Agreement.

The parties entered into a Settlement Agreement and Release on November 20, 2015 and an Agreed Order to Dismiss with Prejudice was granted on November 24, 2015.

Cause No. 50916; Trilogy Operating Inc. v. Aurora Energy Partners; In the 118th Judicial District Court of Howard County, Texas.

This lawsuit was filed on January 6, 2016. This lawsuit alleges causes of action for a suit on a sworn account, breach of contract and a suit to foreclose on liens regarding the drilling and completion of seven wells. Aurora filed an answer on January 29, 2016. Trilogy filed a Motion for Partial Summary Judgment on March 23, 2016.

The parties entered into a Settlement Agreement and Release on April 26, 2016, effective April 1, 2016 to dismiss the lawsuit with prejudices. The Joint Motion to Dismiss with Prejudice was granted by the court May 2, 2016. In conjunction with the Joint Motion to Dismiss, Aurora assigned Trilogy all of its interests in the seven wells and related oil and gas leases.

Legal Cases Pending

Cause No. CV-47230; James Capital Energy, LLC and Victory Energy Corporation v. Jim Dial, et al.; In the 142nd District Court of Midland County, Texas.

This is a lawsuit filed on or about January 19, 2010, by James Capital Energy, LLC and Victory Energy Corporation against numerous parties for fraud, fraudulent inducement, negligent misrepresentation, breach of contract, breach of fiduciary duty, trespass, conversion and a few other related causes of action. This lawsuit stems from an investment Victory entered into for the purchase of six wells on the Adams Baggett Ranch with the right of first refusal on option acreage.

On December 9, 2010, Victory was granted an interlocutory Default Judgment against Defendants Jim Dial, 1st Texas Natural Gas Company, Inc., Universal Energy Resources, Inc., Grifco International, Inc., and Precision Drilling & Exploration, Inc. The total judgment amounted to approximately \$17,183,987.

Victory has added a few more parties to this lawsuit. Discovery is ongoing in this case and no trial date has been set at this time.

Victory believes they will be victorious against all the remaining Defendants in this case.

On October 20, 2011 Defendant Remuda filed a Motion to Consolidate and a Counterclaim against Victory. Remuda is seeking to consolidate this case with two other cases wherein Remuda is the named Defendant. An objection to this motion was filed and the cases have not been consolidated. Additionally, we do not believe that the counterclaim made by Remuda has any legal merit.

Cause No. 10-09-07213; Perry Howell, et al. v. Charles Gary Garlitz, et al.; In the 112th District Court of Crockett County, Texas.

The above referenced lawsuit was filed on or about September 6, 2010. This lawsuit alleges that Cambrian Management, Ltd. and Victory were trespassers on their land, and that they, along with other Defendants, drilled a well (115 #8) on land belonging to Plaintiffs. Plaintiffs claim trespass and unjust enrichment by certain Defendants because of the drilling of the 115 #8 well.

Discovery is ongoing in this case and no trial date has been set. Victory believes that the claims made by Plaintiffs have no merit and that they will prevail at trial. Mediation began on August 8, 2013 and was adjourned to a later date which has not been set yet.

Cause No. 2015-05280; TELA Garwood Limited, LP. v. Aurora Energy Partners, Victory Energy Corporation, Kenneth Hill, David McCall, Robert Miranda, Robert Grenley, Ronald Zamber, and Patrick Barry; In the 164th District Court of Harris County, Texas.

This lawsuit was filed on January 30, 2015 and supplemented on March 4, 2015. This lawsuit alleges breach of contract, fraud, fraudulent inducement, and conspiracy related to a Purchase and Sale Agreement that TELA Garwood Limited, LP and Aurora Energy Partners entered into on June 30, 2014. A first closing was held on June 30, 2014 and a purchase price adjustment payment was made on July 31, 2014. Between these two dates Aurora paid TELA approximately \$3,050,133. A second closing was to take place in September, however several title defects were found to exist. The title defects could not be cured and a purchase price reduction could not be agreed upon by the parties in relation to the title defects, therefore, the second closing never took place. Aurora and Victory have filed an answer and counterclaim in this case. Both parties filed opposing motions for summary judgment which were heard on April 14, 2016. The Court granted Aurora's partial motion for summary judgment dismissing claims against Aurora/Victory's officers and directors, including Kenny Hill, David McCall, Robert Grenley, Ronald Zamber, Patrick Barry and Fred Smith. The Court denied the remaining summary judgment issues of both parties. On June 2, 2016 Aurora/Victory filed a second Motion for Partial Summary Judgment on some discrete contract interpretation issues. The Court has set this motion for hearing on September 2, 2016. Both parties have filed their expert designations and TELA has made a jury demand. Trial is set for February 27, 2017.

Note 9 - Subsequent Events

During July 2016, the Company made a \$5,000 principal payment to its Lender, Texas Capital Bank.

During the period of July 1, 2016 through August 12, 2016, additional capital contributions from noncontrolling interest of \$150,000 were received. This resulted in the issuance of an additional 150,000 common stock warrants.

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

The following discussion is intended to assist you in understanding our business and results of operations together with our present financial condition. This section should be read in conjunction with (i) our condensed consolidated financial statements and the accompanying notes included elsewhere in this Quarterly Report on Form 10-Q and (ii) our Annual Report on Form 10-K for the year ended December 31, 2015 ("2015 Form 10-K"). Statements in our discussion may be forward-looking statements. These forward-looking statements involve risks and uncertainties. We caution that a number of factors discussed in "Cautionary Notice Regarding Forward Looking Statements and "Risk Factors" in this Quarterly Report on Form 10-Q and in our 2015 Form 10-K could cause future production, revenues and expenses to differ materially from our expectations.

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

General Overview

We are independent growth-oriented oil and gas exploration and production company based in Austin, Texas, with additional resources located in Midland, Texas. The Company has historically been focused on the acquisition and development of unconventional resource play opportunities in the Permian Basin, the Eagle Ford shale of South Texas and other strategically important areas that offer predictable economic outcomes and long-lived reserve characteristics, however we will also pursue opportunistic acquisitions in other areas of the country. The current Company asset portfolio includes both vertical and horizontal wells in prominent formations such as the Eagle Ford, Austin Chalk, Woodbine, Spraberry, Wolfcamp, Wolfberry, Mississippian, Cline, Fusselman and Ellenberger. We are focused on creating shareholder value by growing conventional oil and liquids-rich natural gas reserves and cash-flow via continued low-risk vertical well development on existing properties, as well as through the acquisition of new economically strong producing properties. This focus on returns is achieved by targeting predictable conventional and resources plays that provide favorable operating environments and lifting costs.

We have carefully assembled a management team with more than 130 years of direct and relevant oil and gas experience, who also hold extensive industry relationships to help grow the company. We also utilize a team of third-party professionals on an as-needed basis. This team includes geologists for prospect evaluation and assessment and reservoir engineering resources for the analysis of current and new properties. Reserve reporting is performed by a third-party engineer located in Midland, Texas. Each independent operator utilized by the Company also has their own array of experts tailored for the specific formations and well completion techniques of each property the Company holds an interest in. We strategically utilize both internal capabilities and industry relationships to acquire non-operated, high-grade working interest positions in predictable, low-to-moderate risk oil and gas prospects. To help grow the Company and lower field level operating expenses, we also plan to build-out an internal operating team in the near-future.

At the end of June 30, 2016, we held a working interest in 30 completed wells located in Texas and New Mexico, predominantly in the Permian Basin of West Texas and the Eagle Ford area of south Texas.

Moving forward, we plan to utilize all available capital sources to complete strategic acquisition targets that hold proved producing assets and future proven undeveloped drilling locations, with competitive economics in today's market. Although we are currently a non-operator, we do anticipate building-out internal operating capabilities in 2016. As has been previously disclosed, we are actively reviewing prospects for acquisition.

We have a focus on oil and liquids rich gas.

Our Relationship with Aurora Energy Partners

We are the managing partner of Aurora Energy Partners, a Texas general partnership, which we refer to as Aurora, and we hold a 50% partnership interest in Aurora. Aurora is a consolidated subsidiary with Victory Energy Corporation for financial statement purposes. The Second Amended Partnership Agreement of Aurora, which we refer to as the Aurora Partnership Agreement, gives us control of Aurora. Article XI of the Aurora Partnership Agreement cannot be modified without the approval of all (100%) of the partners of Aurora, therefore we cannot be removed as a managing member of Aurora regardless of the partnership interest held by the other partners of Aurora. Accordingly, consolidation is appropriate for all reporting periods. We currently conduct all of our oil and natural gas operations through, and hold some of our oil and natural gas assets through, Aurora. Aurora is the record title holder to substantially all of the oil and natural gas properties, wells and reserves referred to in this quarterly report. Through our partnership interest in Aurora, we are the beneficial owner of 50% of the oil and gas properties, wells and reserves held of record by Aurora.

Going Concern

As presented in the consolidated financial statements, we have incurred a net loss of \$543,474 and \$1,247,458 during the three months ended June 30, 2016 and 2015, respectively, and net losses of \$985,098 and \$2,794,031 during the six months ended June 30, 2016 and 2015, respectively and losses are expected to continue in the near term. The accumulated deficit at June 30, 2016 was \$45,274,224. We have been funding our operations from contributions made by Aurora, the Aurora bank credit facility, and advances from affiliated parties. Management anticipates that significant additional capital expenditures will be necessary to develop our oil and natural gas properties, which consist of proved and unproved reserves, some of which may be non-producing, before significant positive operating cash flows will be achieved.

Management is pursuing business partnering arrangements for the acquisition and development of its properties as well as debt and equity funding through private placements and other sources. Without outside investment from the sale of equity securities, debt financing or partnering with other oil and natural gas companies, operating activities and overhead expenses will be reduced to a pace that will match available operating cash flows.

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

Factors affecting financial reporting of our general and administrative expenses

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

Growth-in-business related general expenses

As part of our stated growth through acquisitions and development business plan, the Company incurred costs associated with one key acquisition, during the quarter ended June 30, 2016. Among other things, these additional general and administrative expenses include legal, and geological analysis costs associated with title examination of properties, contractual purchase and sale agreements and third party reservoir engineering and geologic assessments for reserve calculations. Additionally, as part of the Aurora's credit facility agreement, we also pay related legal expenses for property review and assessment. All of these expenses help us protect the assets of the Company and secure bank funding. These specific expenses are not quarterly recurring per se, however they will occur again when additional opportunities to increase reserves and future development opportunities present themselves. These expenses were significant, but enabled these key business growth transactions to be prudently managed. We estimate the acquisition related costs to be significant as we continue the execution of our strategy.

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

We have incurred non-recurring costs associated with investor and public relations which are critical to operate and expand in the public company arena. These include our engagement of an SEC registered investment broker dealer as our market maker, and their services to help the Company move its trading platform from the OTCQB exchange. This move will help us in our next intended platform transition to a larger exchange in the future. Additionally, the Company engaged an investor relations and corporate communications firm to help improve investor communications, capital markets development and awareness.

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

Volume and Price Trends

The following tables summarize the volumes and prices realized by the Company for the three and six month periods ended June 30, 2016, compared to the three and six months period ended June 30, 2015.

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Overall Barrel of Oil Equivalent or BOE production decreased 54% and 41%, for the three and six month periods ended June 30, 2016. The decline in BOE production is largely associated with the natural decline of the wells primarily in the Adams Baggett Ranch.

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Period Production						
Oil (Bbl)	1,622	4,181	(61)%	3,862	6,678	(42)%
Gas (Mcf)	5,899	8,981	(34)%	11,878	19,826	(40)%
BOE	2,605	5,678	(54)%	5,842	9,982	(41)%
Daily Production						
Oil (Bbl/d)	18	46	(61)%	21	37	(43)%
Gas (Mcf/d)	65	99	(34)%	65	109	(40)%
BOE/d	29	62	(53)%	32	55	(42)%

During the three and six month periods ended June 30, 2016 and 2015, the price per barrel realized by the Company decreased from \$57.39 to \$42.56 or 26% and from \$51.47 to \$31.95 or 38%, respectively. For the three months ended June 30, 2016 the price per Mcf realized by the Company decreased from \$3.30 to \$1.72 or 48%, and for the six months ended June 30, 2016 the price per Mcf realized by the Company increased from \$2.75 to \$1.83 or 33%.

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Realized Prices						
Oil (\$/bbl)	\$42.56	\$57.39	(26)%	\$31.95	\$51.47	(38)%
Gas (\$/Mcf)	1.72	3.30	(48)%	1.83	2.75	(33)%
Value per BOE	\$30.39	\$47.49	(36)%	\$24.85	\$39.89	(38)%

The volume and price changes in the tables above caused the following changes to our oil, gas and NGL sales between the three and six months ended June 30, 2016 and 2015.

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	Oil	Gas	Total	Oil	Gas	Total
2015 Sales	\$239,951	\$29,680	\$269,631	\$343,702	\$54,497	\$398,199
Change due to Volumes	(146,863)	(10,185)	(157,048)	(144,933)	(21,847)	(166,780)
Change due to Prices	(24,057)	(9,341)	(33,398)	(75,375)	(10,866)	(86,241)
2016 Sales	\$69,031	\$10,154	\$79,185	\$123,394	\$21,784	\$145,178

The Company's oil and gas revenue fluctuations are directly related to the volumes produced and the commodity prices paid over the respective periods presented.

Oil and gas sales decreased \$157,048 and \$166,780 due to volumes in the three and six month period ended June 30, 2016, respectively. The decrease was primarily driven by lower gas production due to the natural decline of the assets.

Oil and gas sales decreased \$33,398 and \$86,241 due to prices in the three and six month period ended June 30, 2016, respectively, as a result of continued declines in commodity prices.

Public Company Expenses

We incur direct, incremental general and administrative expenses as a result of being a publicly traded company, including but not limited to, increased scope of operations as we evaluate potential acquisitions, corporate structure planning, implementation of stock based compensation programs to attract and retain talent, periodic public reporting to shareholders, tax consulting, independent auditor fees, investor relations activities, registrar and transfer fees, director and officer liability insurance, and director compensation. In some cases, our small reporting company status will make key acquisitions and divestitures fall into “significant” status. This requires the Company to perform a series of financial accounting and reporting processes and filings. As we grow, these transactions will become a smaller part of our overall size, and may no longer be required.

Three Months Ended June 30, 2016 compared to the Three Months Ended June 30, 2015

The condensed consolidated operating statements of our revenue, operating expenses, and net income for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 were as follows:

	(Unaudited)			Percentage	
	Three Months Ended		Change	Change	
	June 30,	June 30,			
	2016	2015			
Revenues					
Oil and gas sales	\$79,185	\$269,631	\$(190,446)	(71)	%
Total revenues	79,185	269,631	(190,446)		
Operating Expenses:					
Lease operating costs	25,774	42,504	(16,730)	(39)	%
Production taxes	3,782	12,842	(9,060)	(71)	%
General and administrative	623,995	1,070,830	(446,835)	(42)	%
Impairment of oil and natural gas properties	—	300,891	(300,891)	100	%
Depreciation, depletion, amortization and accretion	28,267	175,815	(147,548)	(84)	%
Total operating expenses	681,818	1,602,882	(921,064)		
Loss from operations	(602,633)	(1,333,251)	730,618		
Other Income (Expense):					
Management fee income	1,305	1,176	129	11	%
Interest expense	(33,124)	(28,480)	(4,644)	16	%
Gain on settlement and sale of oil and gas properties	64,824	—	64,824	100	%
Total other income and expense	(31,819)	(27,304)	(4,515)		
Loss before Tax Benefit	(569,628)	(1,360,555)	790,927		
Tax benefit	—	—			
Net loss	(569,628)	(1,360,555)	790,927		
Less: Net income (loss) attributable to non-controlling interest	(26,154)	(113,097)	86,943	(77)	%
Net Loss Attributable To Victory Energy Corporation	\$(543,474)	\$(1,247,458)	\$703,984	56	%

Revenues: Our revenues decreased \$190,446 or 71% to \$79,185 for the three months ended June 30, 2016 from \$269,631 for the three months ended June 30, 2015. The decline is primarily the result of a decrease in the total aggregate working interests held by the Company during June 30, 2016, as well as with the decline in oil and natural gas commodity prices received by the Company for the respective periods.

Lease Operating Costs: Lease operating expenses decreased \$16,730 to \$25,774 or 39% from \$42,504 for the three months ended June 30, 2016. The decline is primarily the result of a decrease in the total aggregate working interests

held by the Company during June 30, 2016.

Production Taxes: Production taxes are charged at the well head on the value of production of oil and natural gas. Production taxes decreased \$9,060 or 71% to \$3,782 for the three months ended June 30, 2016 from \$12,842 for the three months ended June 30, 2015. The decline in production taxes is associated lower oil and gas revenues.

General and Administrative Expense: General and administrative expenses decreased \$446,835 or 42% to \$623,995 for the three months ended June 30, 2016 from \$1,070,830 for the three months ended June 30, 2015. The decrease is primarily due to merger and merger termination costs, as well as significant litigation and stock compensation expenses that were incurred in the prior year that are not recurring in 2016.

Impairment of Oil and Natural Gas Properties: Asset impairments decreased \$300,891 or 100% for the three months ended June 30, 2016 compared to the three months ended June 30, 2015. This decrease is the result of the Company's impairment of oil and gas properties associated with costs related to a 2015 acquisition disputed well.

Depletion, Depreciation, Amortization, and Accretion: Depletion, depreciation, amortization, and accretion decreased \$147,548 or 84% to \$28,267 for the three months ended June 30, 2016 from \$175,815 for the three months ended June 30, 2015. The decrease is primarily due to lower production volumes and proved reserve revisions that occurred in the fourth quarter of 2015 as a result of lower sustained commodity prices.

Management Fee Income: Management fee income decreased \$129 or 11% to \$1,305 for the three months ended June 30, 2016. This decline resulted from lower management fee billings to the Navitus Energy Group.

Interest Expense: Interest expense increased \$4,644 for the three months ended June 30, 2016 from \$28,480 of interest income for the three months ended June 30, 2015. This is primarily due to accrued interest expense related to amounts owed with the Rogers Settlement.

Gain on Settlement and Sale of Oil and Natural Gas Properties: The \$64,824 increase in the gain on settlement and sale of oil and natural gas properties is due the conveyance of seven wells to the operator as part of a legal settlement as well as the sale of working interests in one well. No properties were sold or legally settled for the three months ended June 30, 2015.

Income Taxes: There is no provision for income tax expenses recorded for either the three months ended June 30, 2016 or for the three months ended June 30, 2015 due to the expected net operating losses, which we refer to as NOL, of both years.

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Six Months Ended June 30, 2016 compared to the Six Months Ended June 30, 2015

	(Unaudited)			Percentage
	Six Months Ended June		Change	Change
	2016	2015		Inc (Dec)
REVENUE	\$145,178	\$398,199	\$(253,021)	(64)%
COSTS AND EXPENSES				
Lease operating expense	63,127	77,017	(13,890)	(18)%
Exploration and abandonment costs	—	3,491	(3,491)	(100)%
Production Taxes	7,055	19,541	(12,486)	(64)%
General and administrative expense	1,068,156	2,715,194	(1,647,038)	(61)%
Impairment	—	306,387	(306,387)	(100)%
Depletion, depreciation and amortization	76,286	251,014	(174,728)	(70)%
Total expenses	1,214,624	3,372,644	(2,158,020)	(64)%
LOSS FROM OPERATIONS	(1,004,622)	(2,974,445)	1,969,823	(66)%
OTHER INCOME AND EXPENSE				
Management fee income	2,641	2,675	(34)	(1)%
Interest expense	(66,313)	(47,186)	(19,127)	41 %
Gain on settlement and sale of oil and gas properties	—	—	64,824	100 %
Total net other income and expense	(63,672)	(44,511)	(19,161)	
INCOME (LOSS) BEFORE TAX BENEFIT	(1,068,294)	(3,018,956)	1,950,662	
TAX BENEFIT	—	—	—	
NET INCOME (LOSS)	(1,068,294)	(3,018,956)	1,950,662	
Less: Net income (loss) attributable to non-controlling interest	(83,196)	(224,925)	141,729	(63)%
NET LOSS ATTRIBUTABLE TO VICTORY ENERGY CORPORATION	\$(985,098)	\$(2,794,031)	\$1,808,933	(65)%

Revenues: Our revenues decreased \$253,021 or 64% to \$145,178 for the six months ended June 30, 2016 from \$398,199 for the six months ended June 30, 2015. The decline is primarily the result of a decrease in the total aggregate working interests held by the Company during June 30, 2016, as well as with the decline in oil and natural gas commodity prices received by the Company for the respective periods.

Lease Operating Expense: Lease operating expenses decreased \$13,890 to \$63,127 or 18% for the six months ended June 30, 2016 from \$77,017 for the six months ended 2015. The decline is primarily the result of a decrease in the total aggregate working interests held by the Company during June 30, 2016, as well as lower operating costs of the new property portfolio in 2015.

Production Taxes: Production taxes are charged at the well head on the value of production of oil and natural gas. Production taxes decreased \$12,486 or 64% to \$7,055 for the six months ended June 30, 2016 from \$19,541 for the six months ended June 30, 2015. The decline in production taxes is associated lower oil and gas revenues.

Exploration and Abandonment Expense: Exploration expense decreased \$3,491 or 100% to \$0 from \$3,491 for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The decrease in exploration expense is primarily the result of a decline in geological and geophysical (G&G) costs associated with the services related to acquisition and divestiture work, as well as a credit for settled asset retirement obligation.

General and Administrative Expense: General and administrative expenses decreased \$1,647,038 or 61% to \$1,068,156 for the six months ended June 30, 2016 from \$2,715,194 for the six months ended June 30, 2015. The

decrease is primarily due to merger and merger termination costs, as well as significant litigation and stock compensation expenses that were incurred in the prior year that are not recurring in 2016.

Impairment of Assets: Asset impairments decreased \$306,387 or 100% for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. This increase is the result of the Company's impairment of oil and gas properties as the industry experiences more sustained lower oil and natural gas commodity prices.

Depletion, Depreciation and Amortization: Depletion, depreciation and amortization decreased \$174,728 or 70% to \$76,286 for the six months ended June 30, 2016 from \$251,014 for the six months ended June 30, 2015. The decrease is primarily due to lower production volumes and proved reserve revisions that occurred in the fourth quarter of 2015 as a result of lower sustained commodity prices.

Management Fee Income: Management fee income decreased \$34 or 1% to \$2,641 for the six months ended June 30, 2016. Victory charges a 2% management fee to Navitus Energy Group, a 50% partner of Aurora, on gross revenues which are attributable to Aurora.

Interest Expense: Amortization of debt financing costs and interest expense increased \$19,127 for the six months ended June 30, 2016 from \$47,186 of interest income (net) for the six months ended June 30, 2015. This is primarily due to accrued interest expense related to amounts owed with the Rogers Settlement.

Gain on Settlement and Sale of Oil and Natural Gas Properties: The \$0 increase in the gain on settlement and sale of oil and natural gas properties is due the conveyance of seven wells to the operator as part of a legal settlement as well as the sale of working interests in one well. No properties were sold or legally settled for the six months ended June 30, 2015.

Income Taxes: There is no provision for income tax recorded for either the six months ended June 30, 2016 or for the six months ended June 30, 2015 due to the net operating loss carry forwards ("NOLs") up through the period ending June 30, 2016. Accordingly, the Company has recorded a full valuation allowance against its net deferred tax assets. Our NOLs generally begin to expire in 2025.

Liquidity and Capital Resources

Our cash, total current assets, total assets, total current liabilities, and total liabilities as of June 30, 2016 as compared to December 31, 2015, are as follows:

	June 30, 2016	December 31, 2015
Cash	\$56,765	\$ 2,384
Total current assets	\$254,196	\$ 180,392
Total assets	\$975,828	\$ 1,008,997
Total current liabilities	\$3,707,640	\$ 3,635,248
Total liabilities	\$3,735,732	\$ 3,730,016

At June 30, 2016, the Company had a working capital deficit of \$3,453,444 compared to a working capital deficit of \$3,454,856 at December 31, 2015. Current liabilities increased to \$3,707,640 at June 30, 2016 from \$3,635,248 at December 31, 2015 primarily due to related party short term advances and fees associated with the year end audit of the Company.

Net cash used in operating activities for the six months ended June 30, 2016 was \$907,471 after the net loss of \$1,068,294 was decreased by \$89,283 in non-cash charges and offset by \$71,540 in changes to the other operating

assets and liabilities. This compares to cash used in operating activities for the six months ended June 30, 2015 of \$1,647,151 after the net loss for that period of \$3,018,956 was decreased by \$772,385 in non-cash charges and \$599,420 in changes to other operating assets and liabilities.

Net cash used in investing activities for the six months ended June 30, 2016 was \$10,148, which was used for acquisitions, leases, drilling, and related costs. This compares to \$517,776 all of which was used for acquisitions, leases, drilling and related costs.

Net cash provided by financing activities for six months ended June 30, 2016 was \$972,000 which relates to contributions from Navitus. This compares to \$2,175,000 of contributions from Navitus, offset by \$10,000 in payments of bank financing for the six months ended June 30, 2015.

Item 3. Qualitative and Quantitative Discussions about Market Risk

As a smaller reporting company we are not required to provide the information required by this Item. However, we did include market risk factors in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on April 8, 2016.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Pursuant to Rule 13a-15(e) under the Exchange Act, we carried out an evaluation, with the participation of our management, including the Chief Executive Officer, or CEO (our principal executive officer, and Chief Financial Officer, or CFO (our principal financial officer), of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of June 30, 2016. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were ineffective as of June 30, 2016.

Management's Report on Internal Control over Financial Reporting

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. Our management assessed the effectiveness of our internal control over financial reporting as of June 30, 2016. Based on this assessment, our management concluded that our disclosure controls and procedures may not be effective as of June 30, 2016.

We lack sufficient segregation of duties within accounting functions, which is a basic internal control. Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, the initiation of transactions, the custody of assets and the recording of transactions should be performed by separate individuals. Management evaluated the impact of our failure to have segregation of duties on our assessment of our disclosure controls and procedures and has concluded that the control deficiency represents a material weakness. To address this material weakness, management performs additional analysis and other procedures to ensure that the consolidated financial statements included herein, fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented.

This Quarterly Report on Form 10-Q does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only our management's report in this Quarterly Report on Form 10-Q.

Changes in Internal Controls

There have been no changes in our internal controls over financial reporting (or deferred in Rule 13a-15(f) under the Securities Exchange Act) that occurred during the three months ended June 30, 2016 that materially affected, or are reasonably likely to materially affect, our internal controls over financial re