VICTORY OILFIELD TECH, INC.
Form 10-Q
August 14, 2018

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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, 2018

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 OILFIELD TECH, INC.

(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 Suite 608, Austin, Texas	**78746**
(Address of principal executive offices)	**(Zip Code)**

(512)-347-7300

(Registrant's telephone number, including area code)

Victory Energy Corporation

(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, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act.

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 10, 2018, there were 28,037,713 shares of common stock, par value $0.001, issued and outstanding

VICTORY OILFIELD TECH, INC.

QUARTERLY REPORT ON

FORM 10-Q

FOR THE SIX MONTHS ENDED JUNE 30, 2018

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INTRODUCTORY NOTE

Use of Terms

In this report, unless otherwise specified or the context otherwise requires, references to “we,” “us,” “our,” and the "Company” refer to Victory Oilfield Tech, Inc., a Nevada corporation.

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 wo 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.

Potential investors 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, including, without limitation, the risks outlined under “Item 1A. Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2017 and matters described in this report generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this report will in fact occur.

As expressly required by the federal securities laws, there is no undertaking to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason. Potential investors should not make an investment decision based solely on our projections, estimates or expectations.

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;
- the competitive nature of our industry;
- downturns in the oil and gas industry, including the oilfield services business;
- hazards inherent in the oil and natural gas industry;
- our ability to realize the anticipated benefits of acquisitions or divestitures;
- our ability to successfully integrate and manage businesses that we plan to acquire in the future;
- our ability to grow our oilfield services business;
- our dependence on key management personnel and technical experts;
- the impact of severe weather;
- our compliance with complex laws governing our business;
- our failure to comply with environmental laws and regulations;
- the impact of oilfield anti-indemnity provisions enacted by many states;

- delays in obtaining permits by our future customers or acquisition targets for their operations;
- our ability to obtain patents, licenses and other intellectual property rights covering our services and products;
- our ability to develop or acquire new products;
- our dependence on third parties; and
- the results of pending litigation.

Stock Split

On December 19, 2017, we completed a 1-for-38 reverse stock split of our outstanding common stock. As a result of this stock split, our issued and outstanding common stock decreased from 197,769,460 to 5,206,150 shares. Accordingly, all share and per share information contained in this report has been restated to retroactively show the effect of this stock split. As of August 10, 2018 there were 28,037,713 shares of common stock outstanding.

Part I – Financial Information

Item 1. Financial Statements

The following unaudited condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. You should read these condensed financial statements in conjunction with the financial statements and the notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2017.

VICTORY OILFIELD TECH, INC.

BALANCE SHEETS

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 33,521	$ 24,383
Prepaid expenses	91,231	112,217
Total current assets	124,752	136,600
Fixed Assets		
Furniture and equipment	43,622	43,622
Accumulated depreciation	(43,445)	(43,133)
Total furniture and equipment, net	177	489
Intangible assets	17,630,000	17,630,000
Deposits	1,750	1,750
Total Assets	$ 17,756,679	$ 17,768,839
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 493,403	$ 590,870
Accrued liabilities	413,586	374,281
Liability for unauthorized preferred stock issued	9,283	9,283
Note payable (net of debt discount) - affiliate	572,000	896,500
Total current liabilities	1,488,272	1,870,934
Total Liabilities	1,488,272	1,870,934
Stockholders Equity		
Preferred Series B stock, $0.001 par value, 0 shares authorized and 0 shares issued and outstanding at June 30, 2018; 800,000 shares authorized and 800,000 shares issued and outstanding at December 31, 2017	—	800
Preferred Series C stock, $0.001 par value, 0 shares authorized and 0 shares issued and outstanding at June 30, 2018; 810,000 shares authorized and 180,000 shares issued and outstanding at December 31, 2017	—	180
Preferred Series D stock, $0.001 par value, 20,000 shares authorized, 8,333 shares and 18,333 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	8	18
Common stock, $0.001 par value, 300,000,000 shares authorized, 28,026,713 shares and 5,206,174 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	28,027	5,206
Receivable for stock subscription	(245,000)	(4,800,000)
Additional paid-in capital	95,582,545	87,552,737
Accumulated deficit	(79,097,173)	(66,861,036)
Total stockholders' equity	16,268,407	15,897,905
Total Liabilities and Stockholders' Equity	$ 17,756,679	$ 17,768,839

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

VICTORY OILFIELD TECH, INC.

STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Operating Expenses				
General and administrative	$ 11,771,825	$ 513,826	$ 12,199,212	$ 1,071,319
Depreciation and amortization	119	7,702	312	9,318
Total operating expenses	11,771,944	521,528	12,199,524	1,080,637
Loss from operations	(11,771,944)	(521,528)	(12,199,524)	(1,080,637)
Other Income (Expense)				
Interest expense	(63,744)	(98,633)	(122,060)	(187,991)
Total other income (expense)	(63,744)	(98,633)	(122,060)	(187,991)
Loss from before tax benefit	(11,835,688)	(620,161)	(12,321,584)	(1,268,628)
Tax benefit	—	—	—	—
Loss from continuing operations	(11,835,688)	(620,161)	(12,321,584)	(1,268,628)
Income (loss) from discontinued operations	36,361	5,988	85,447	(9,721)
Loss applicable to common stockholders	$ (11,799,327)	$ (614,173)	$ (12,236,137)	$ (1,278,349)
Income (loss) per share applicable to common stockholders				
Basic and diluted:				
Loss per share from continuing operations	$ (0.50)	$ (0.75)	$ (0.84)	$ (1.54)
Income (loss) per share from discontinued operations	0.00	0.01	0.01	(0.01)
Loss per share, basic and diluted	$ (0.50)	$ (0.74)	$ (0.83)	$ (1.55)
Weighted average shares, basic and diluted	23,479,779	823,278	14,756,246	823,278

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

VICTORY OILFIELD TECH, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended June 30,	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (12,236,137)	$ (1,278,349)
Adjustments to reconcile net loss to net cash used in operating activities		
Accretion of asset retirement obligations	—	1,655
Amortization of deferred financing costs	—	6,237
Amortization of debt discount	—	124,055
Depletion, accretion, depreciation and amortization	312	60,645
Stock based compensation	11,331,602	179,034
Change in operating assets and liabilities		
Accounts receivable	—	15,407
Management fee receivable - affiliate	—	(1,899)
Prepaid expenses	20,986	(16,764)
Accounts payable	(97,467)	150,107
Accrued liabilities - related parties	—	(216,357)
Accrued liabilities	39,305	(357,789)
Accrued interest on note payable - affiliate	98,700	15,719
Net cash used in operating activities	(842,699)	(1,318,299)
CASH FLOWS FROM FINANCING ACTIVITIES		
Non-controlling interest contributions	—	1,305,000
Debt financing proceeds - affiliate	987,000	320,000
Principal payments of debt financing	—	(316,000)
Contributions - affiliate	55,000	—
Redemption of preferred stock	(190,163)	—
Net cash provided by financing activities	851,837	1,309,000
Net change in cash and cash equivalents	9,138	(9,299)
Beginning cash and cash equivalents	24,383	56,456
Ending cash and cash equivalents	$ 33,521	$ 47,157
Supplemental cash flow information:		
Cash paid for:		
Interest	$ —	$ 18,362
Non-cash investing and financing activities:		
Accrued interest and amortization of debt discount	$ 122,061	$ 163,392
Accrued capital expenditures	$ —	$ 173,568
Revisions to asset retirement obligations	$ —	$ 7,570
Receivable for stock subscription	$ (4,555,000)	$ —

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

Victory Oilfield Tech, Inc.

Notes to the Financial Statements
(Unaudited)

Note 1 – Organization and Summary of Significant Accounting Policies:

Victory Oilfield Tech, Inc. ("Victory" or the "Company") is an Austin, Texas based publicly held company that is in the process of transitioning from an upstream oil and gas exploration and production company, into an oilfield energy-tech products company focused on improving well performance and extending the lifespan of the industry's most sophisticated and expensive equipment.

Prior to entering into the Transaction Agreement and Divestiture Agreement described below, the Company had 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. The Company's asset portfolio included both vertical and horizontal wells in prominent formations such as the Eagle Ford, Austin Chalk, Woodbine, Spraberry, Wolfcamp, Wolfberry, Mississippian, Cline, Fusselman and Ellenberger. As of August 21, 2017, the Company 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.

Prior to the divestiture of Aurora Energy Partners, a two-member Texas partnership (“Aurora”), described below, all of the Company's oil and natural gas operations were conducted through, and the Company held all of our oil and natural gas assets through, the Company's 50% partnership interest in Aurora. Aurora was a consolidated subsidiary for financial statement purposes. Through the Company's partnership interest in Aurora, the Company was the beneficial owner of fifty percent (50%) of the oil and gas properties, wells and reserves held of record by Aurora.

Following the Transaction Agreement and the divestiture of the Company's interests in Aurora, the Company has begun its transition into a technology driven oilfield services company offering patented oil and gas technology drilling products designed to improve oil and gas well drilling outcomes. The Company’s products can help achieve this goal by reducing drilling torque, friction, wear resistance, corrosion and other issues that occur during drilling and completion.

The Company was organized under the laws of the State of Nevada on January 7, 1982. The Company is authorized to issue 300,000,000 shares of $0.001 par value common stock. On December 19, 2017 the Company completed a 1-for-38 reverse stock split of the outstanding common stock. All information in this Quarterly Report on Form 10-Q reflects the effect of the reverse stock split. The Company has 28,026,713 shares of common stock outstanding as of June 30, 2018. 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 financial statements is set forth below.

Basis of Presentation and Consolidation:

For the quarter ended June 30, 2017 the financial statements were previously presented on a consolidated basis. Following the Divestiture of Aurora discussed above, which was completed on December 13, 2017, the Company does not have any subsidiaries. All operations are conducted by the Company.

Use of Estimates:

The preparation of our financial statements in conformity with GAAP requires 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 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, taxes, accruals of capitalized costs, operating costs, general and administrative costs, interest, various common stock, warrants and option transactions, and loss contingencies.

Cash and Cash Equivalents:

The Company considers all liquid investments with original maturities of three months or less from the date of purchase that are readily convertible into cash to be cash equivalents. The Company had no cash equivalents at June 30, 2018 and December 31, 2017.

Other Property and Equipment:

Our office equipment in Austin, Texas is being depreciated on the straight-line method over the estimated useful life of 3 to 7 years.

Intangible Assets:

Our intangible assets are comprised of contract-based and marketing-related intangible assets. Our contract-based intangible assets include a sublicense agreement and a trademark license. The contract-based intangible assets have useful lives of 11.1 years to 15 years. As of June 30, 2018, the Company has not begun to use the economic benefits of the sublicense agreement and the trademark license and, accordingly, they were not amortized. The Company will begin to amortize the contract-based intangible assets using the straight-line amortization method over their respective remaining useful lives once it has begun to use their economic benefits. Our marketing related intangible assets include three non-compete agreements all of which have useful lives of 15 years. As of June 30, 2018, the Company has not begun to use the economic benefits of the non-compete agreements and, accordingly, they were not amortized. The Company will begin to amortize the marketing-related intangible assets using the straight-line amortization method over their respective remaining useful lives once it has begun to use their economic benefits. The remaining useful lives of intangible assets will be evaluated each reporting period. Intangible assets will be tested for impairment at least annually and upon a triggering event. The following table shows intangible assets and related accumulated amortization as of June 30, 2018 and December 31, 2017:

	June 30, 2018	**December 31, 2017**
Sublicense agreement	$ 11,330,000	$ 11,330,000
Trademark license	6,030,000	6,030,000
Non-compete agreements	270,000	270,000
Accumulated amortization	—	—
Intangible assets, net	$ 17,630,000	$ 17,630,000

Fair Value:

At June 30, 2018 and 2017, the carrying value of our financial instruments such as prepaid expenses and payables approximated their fair values based on the short-term maturities of these instruments. The carrying value of other liabilities approximated their fair values because the underlying interest rates approximated market rates at the balance sheet dates. Management believes that due to our current credit worthiness, the fair value of debt could be less than the book value. Financial Accounting Standard Board ("FASB"), Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures*, established a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring fair value. This framework defined three levels of inputs to the fair value measurement process and requires that each fair value measurement be assigned to a level corresponding to the lowest level input that is significant to the fair value measurement in its entirety. The three broad levels of inputs defined by FASB ASC Topic 820 hierarchy are as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;

Leve1 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Leve1 2 input must be observable for substantially the full term of the asset or liability; and

Leve1 3 - unobservable inputs for the asset or liability. These unobservable inputs reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances (which might include the reporting entity's own data).

Unamortized Discount:

Unamortized discount consists of value attributed to free standing equity instruments issued to the holders of affiliate note payable (see Note 5) and are amortized over the life of the related loans using a method consistent with the interest method. There was no amortization of debt discount for the six months ended June 30, 2018. Amortization of debt discount totaled $124,055 for the six months ended June 30, 2017 and is included in interest expense in the statements of operations. The following table shows the discount and related accumulated amortization as of June 30, 2018 and December 31, 2017:

	June 30, 2018	**December 31, 2017**
Original issuance discount	$ —	$ 210,000
Accumulated amortization	—	(210,000)
Unamortized discount, net	$ —	$ —

Stock-Based Compensation:

The Company applies FASB ASC 718, *Compensation-Stock Compensation*, to account for the issuance of options and warrants to employees, key partners, directors, officers and Navitus Energy Group ("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 our 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 statements of operations.

The Company recognized stock-based compensation expense from stock awards, warrants, and stock options granted to directors, officers, employees and third parties of $11,331,602 and $8,337 for the three months ended June 30, 2018 and 2017, respectively and $11,331,602 and $179,034 for the six months ended June 30, 2018 and 2017, respectively.

Income Taxes:

The Company accounts for income taxes in accordance with FASB 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.

Earnings (loss) per Share:

Basic earnings (loss) per share are computed using the weighted average number of common shares outstanding at June 30, 2018 and 2017, respectively. Diluted earnings per share reflect the potential dilutive effects of common stock equivalents such as options, warrants and convertible securities. Given the historical and projected future losses of the Company, all potentially dilutive common stock equivalents are considered anti-dilutive. Basic and diluted weighted average number of common shares outstanding was 23,479,779 and 823,278 for the three months ended June 30, 2018 and 2017, respectively and 14,756,246and 823,278 for the six months ended June 30, 2018 and 2017, respectively.

Recently Adopted Accounting Standards

On May 17, 2017, FASB issued Accounting Standards Update ("ASU") 2017-09, *Scope of Modification Accounting (*clarifies Topic 718) *Compensation – Stock Compensation*, such that an entity must apply modification accounting to changes in the terms or conditions of a share-based payment award unless all of the following criteria are met: (1) the fair value of the modified award is the same as the fair value of the original award immediately before the modification and the ASU indicates that if the modification does not affect any of the inputs to the valuation technique used to value the award, the entity is not required to estimate the value immediately before and after the modification; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the modification; and (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the modification; the ASU is effective for all entities for fiscal years beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted, including adoption in an interim period. The Company adopted this ASU on January 1, 2018. The Company expects the adoption of this ASU will only impact financial statements if and when there is a modification to share-based award agreements.

In January 2017, FASB issued Accounting Standards Update 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is deemed to be a business. Determining whether a transferred set constitutes a business is important because the accounting for a business combination differs from that of an asset acquisition. The definition of a business also affects the accounting for dispositions. Under ASU 2017-01, when substantially all of the fair value of assets acquired is concentrated in a single asset, or a group of similar assets, the assets acquired would not represent a business and business combination accounting would not be required. ASU 2017-01 may result in more transactions being accounted for as asset acquisitions rather than business combinations. ASU 2017-01 is effective for interim and annual periods beginning after December 15, 2017 and shall be applied prospectively. Early adoption is permitted. The Company adopted ASU 2017-01 on January 1, 2017 and will apply the new guidance to applicable transactions going forward.

Recently Issued Accounting Standards

In February 2016, the FASB issued guidance regarding the accounting for leases. The guidance requires recognition of most leases on the balance sheet. The guidance requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The guidance is effective for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of this guidance on the financial statements.

In January 2016, the FASB issued guidance regarding several broad topics related to the recognition and measurement of financial assets and liabilities. The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company adopted the guidance on January 1, 2018 and will apply the guidance to applicable transactions going forward.

In May 2014, the FASB issued guidance regarding the accounting for revenue from contracts with customers. In April 2016, May 2016 and December 2016, FASB issued additional guidance, addressed implementation issues and provided technical corrections. The guidance may be applied retrospectively or using a modified retrospective approach to adjust retained earnings (deficit). The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company is currently evaluating the impact of this guidance on the financial statements. However, the Company currently has no revenue from contracts with customers.

Going Concern:

The accompanying 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 financial statements, the Company has incurred losses of $11,799,327 and $614,173 during the three months ended June 30, 2018 and 2017, respectively, and net losses of $12,236,137 and $1,278,349 for the six months ended June 30, 2018 and 2017, respectively. Non-cash expenses and allowances were significant during the six months ended June 30, 2018 and 2017, and the net cash used in operating activities, or negative cash flows from operating activities, were $842,699 and $1,318,299, respectively.

The cash proceeds from loans from affiliates and new contributions to the Aurora partnership by Navitus have allowed the Company to continue operations. Management anticipates that operating losses will continue in the near term until the Company begins to operate as a technology focused oilfield services company. For the six months ended June 30, 2018 and 2017, the Company had no significant capital expenditures.

On August 21, 2017, the Company entered into a transaction agreement (the “Transaction Agreement”) with Armacor Victory Ventures, LLC, a Delaware limited liability company (“AVV”), pursuant to which AVV (i) granted to the Company a worldwide, perpetual, royalty free, fully paid up and exclusive sublicense to all of AVV’s owned and licensed intellectual property for use in the Oilfield Services industry, except for a tubular solutions company headquartered in France, and (ii) agreed to contribute to the Company $5,000,000 (the “Cash Contribution”), in exchange for which the Company issued 800,000 shares of its newly designated Series B Convertible Preferred Stock. To date, AVV has contributed a total of $255,000 to the Company.

On April 10, 2018, the Company and AVV entered into a supplementary agreement (the “Supplementary Agreement”), pursuant to which the Series B Convertible Preferred Stock was canceled and, in lieu thereof, the Company issued to AVV 20,000,000 shares (the “AVV Shares”) of its common stock. Under the terms of the Supplementary Agreement, so long as AVV is an affiliate of the Company, it shall not transfer or sell any securities of the Company that it holds, including the AVV Shares, except in accordance with the Company’s insider trading policy and subject to the terms of a lock up agreement. AVV must obtain the prior written consent of the Company (which consent will not be unreasonably withheld or delayed) to any transfer, assignment, sale, loan, short sale, giftover, pledge, encumbrance, hypothecation, exchange or other disposition of the AVV Shares or any other securities of the Company held by AVV other than sales of such AVV Shares or other securities in market transactions through the over-the-counter market or any national securities exchange on which the Company’s common stock then trades that are effected through broker-dealers who receive no more than customary commissions for effecting such sales. The Supplementary Agreement contains certain covenants by AVV, including a covenant that AVV will use its best efforts to help facilitate approval of a proposed $7 million private placement of the Company’s common stock at a price per share of $0.75, which will include 50% warrant coverage at an exercise price of $0.75 per share (the “Proposed Private Placement”). AVV also covenants, among other things, to invest a minimum of $500,000 in the Proposed Private Placement.

On April 23, 2018, the Company filed a Certificate of Withdrawal with the Nevada Secretary of State to withdraw the designation of the Series B Convertible Preferred Stock and return such shares to undesignated preferred stock of the Company.

On August 21, 2017, the Company entered into a loan agreement (as amended, the “VPEG Loan Agreement”) with Visionary Private Equity Group I, LP, a Missouri limited partnership (“VPEG”), pursuant to which VPEG loaned $500,000 to the Company. Such loan is evidenced by a secured convertible original issue discount promissory note issued by us to VPEG on August 21, 2017 (the “VPEG Note”). The VPEG Note reflects an original issue discount of $50,000 such that the principal amount of the VPEG Note is $550,000, notwithstanding the fact that the loan is in the amount of $500,000. The VPEG Note does not bear any interest in addition to the original issue discount, matures on September 1, 2017, and is secured by a security interest in all of the Company’s assets. On October 11, 2017, the Company and

VPEG entered into an amendment to the VPEG Loan Agreement and VPEG Note, pursuant to which the parties agreed to (i) increase the loan amount to $565,000, (ii) increase the principal amount of the VPEG Note to $621,500, reflecting an original issue discount of $56,500 and (iii) extend the maturity date to November 30, 2017. On January 17, 2018, the Company and VPEG entered into a second amendment to the VPEG Loan Agreement and VPEG Note, pursuant to which the parties agreed (i) to extend the maturity date to a date that is five business days following VPEG’s written demand for payment on the VPEG Note; (ii) that VPEG will have the option but not the obligation to loan the Company additional amounts under the VPEG Note on the same terms upon the written request from the Company; and (iii) that, in the event that VPEG exercises its option to convert the note into shares of common stock at any time after the maturity date and prior to payment in full of the principal amount of the VPEG Note, the Company shall issue to VPEG a five year warrant to purchase a number of additional shares of common stock equal to the number of shares issuable upon such conversion, at an exercise price of $1.52 per share, and containing a cashless exercise feature and such other provisions as mutually agreed to by the Company and VPEG. This loan provided short-term financing required for operating and transaction expenses.

On April 10, 2018, Victory and VPEG entered into a settlement agreement and mutual release (the “Settlement Agreement”), pursuant to which (i) VPEG released and discharged the Company from its obligations under the VPEG Loan Agreement and VPEG Note (the “VPEG Loan Documents”), (ii) the VPEG Loan Documents were terminated, and (iii) the Company and VPEG agreed to enter into a new debt agreement (described below) to satisfy the Company’s working capital needs pending consummation the Proposed Private Placement. Pursuant to the Settlement Agreement, and in consideration and full satisfaction of the outstanding indebtedness of $1,410,200 under the VPEG Loan Documents, the Company issued to VPEG (i) 1,880,267 shares of common stock (the “VPEG Shares”) and (ii) a five year warrant to purchase 1,880,267 shares of common stock at an exercise price of $0.75 per share, which will contain a customary cashless exercise provision. If the actual price per share in the Proposed Private Placement is less than $0.75, the number of VPEG Shares will be adjusted upward proportionately, and the exercise price of the VPEG Warrants will be reduced, accordingly. The fair value of the shares of common stock issued was $5,640,801. The fair value of the warrants to purchase shares of common stock was $5,640,801.

On April 10, 2018, in connection with the Settlement Agreement, the Company and VPEG entered into a loan Agreement (the “New Debt Agreement”), pursuant to which VPEG may, in its sole discretion and upon written request from VPEG, loan to VPEG up to $2,000,000 upon the terms set forth therein. Any loan made pursuant to the New Debt Agreement will be evidenced by a secured convertible original issue discount promissory note (the “New Note”). The New Note will reflect a 10% original issue discount and will not bear any interest in addition to the original issue discount. The New Note will be secured by a security interest in all of the Company’s assets. Upon the occurrence of an event of default, interest upon the unpaid principal amount shall begin to accrue at a rate equal to the lesser of (i) eight percent (8%) per annum or (ii) the maximum interest rate allowed from time to time under applicable law, and shall continue at such default interest rate until the event of default is cured or full payment is made of the unpaid principal amount. Under the terms of the New Note, VPEG will have the right, exercisable at any time from and after the maturity date and prior to payment in full of the principal amount, to convert all or any portion of the principal amount then outstanding, plus all accrued but unpaid interest at the default interest rate into shares of common stock at a conversion price equal to $