

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

**Form 10-KSB/A**  
**Amendment No. 1**

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934. For the fiscal year ended April 30, 2004

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

Commission file number 0-22661

**VTEX ENERGY, INC.**  
(Name of small business issuer in its charter)

**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**76-0582614**  
(I.R.S. Employer  
Identification No.)

**8303 Southwest Freeway, Suite 950, Houston, Texas**  
(Address of principal executive offices)

**77074**  
(Zip Code)

Registrant's telephone number, including area code: (713) 773-3284

**Securities registered pursuant to Section 12(b) of the Exchange Act:**

NONE

**Securities registered pursuant to Section 12(g) of the Exchange Act:**

<u>Title of Each Class</u>	<u>Name of Each Exchange On Which registered</u>
Common Stock, \$0.001 par value	None

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

Check if there is no disclosure of delinquent filers in response to item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.   .

The issuer's revenues for its most recent fiscal year were \$1,366,532.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the issuer was \$2,557,715 as of July 31, 2004, based upon the average bid and asked price of \$0.52 per share of such common equity as of that date.

As of July 31, 2004, there were 6,464,240 shares of common stock, \$0.001 par value, outstanding. Such outstanding shares include 122,282 shares issuable in exchange for the remaining 3,664,220 shares of Vector Energy Corporation, which shares will be issued.

**Documents Incorporated by Reference:** None

Transitional Small Business Disclosure Format (Check one). Yes    No X.

## EXPLANATORY NOTE

We are filing this amendment to our annual report for the year ended April 30, 2004 to update and expand upon Item I – Description of Business section and Item 2 – Description of Property in Part I and to correct an omission of a shareholder on the beneficial ownership table set forth in Item 11—Security Ownership of Certain Beneficial Owners and Management in Part III..

Management discovered after year end an error resulting in the failure to record an asset retirement obligation in accordance with SFAS No. 143 as of April 30, 2004. Accordingly, the 2004 financial statements have been restated to record the liability, and an adjustment has been made to retained earnings as of May 1, 2003 to recognize the adoption of SFAS No. 143, which is treated as a change in accounting principle. The effect of the restatement was to increase loss (before cumulative effect of a change in accounting principle) by \$65,288, or \$0.01 per share. Additional effects of this change are more fully described in Note 7 to the financial statements.

For convenience and ease of reference we are filing our annual report in its entirety with the applicable changes. Unless otherwise stated, all information contained in this amended report is as of August 13, 2004, the original filing date of our annual report for the year ended April 30, 2004.

<b>PART I</b>	2
<b>ITEM 1. DESCRIPTION OF BUSINESS</b>	2
<i>General</i>	2
<i>Company Background</i>	3
<i>Business Strategy</i>	3
<i>Going Concern Risk</i>	4
<i>Implementation of Business Strategy Dependent on Additional Financing</i>	5
<i>Competitive Conditions</i>	5
<i>Risks of the Oil and Gas Industry</i>	5
<i>Dependence upon One or a Few Major Customers</i>	6
<i>Governmental and Environmental Regulations</i>	7
<i>Employees and Consultants</i>	7
<b>ITEM 2. DESCRIPTION OF PROPERTY</b>	8
<i>Properties Acquired</i>	8
<i>Other Assets</i>	10
<i>Production Information</i>	11
<i>Reserve Information</i>	11
<i>Oil and Gas Wells</i>	12
<i>Oil and gas leaseholds</i>	13
<i>Office Facilities</i>	13
<b>ITEM 3. LEGAL PROCEEDINGS</b>	13
<b>ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</b>	13
<b>PART II</b>	13
<b>ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS</b>	13
<b>ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	14
<i>Results of Operations</i>	14
<i>Liquidity and Capital Resources</i>	15
<b>ITEM 7. FINANCIAL STATEMENTS</b>	19
<i>Annual Financial Statements</i>	19
<b>ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</b>	20
<b>PART III</b>	20
<b>ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT</b>	20
<b>SECTION 16(A) BENEFICIAL OWNERSHIP COMPLIANCE</b>	21
<b>ITEM 10. EXECUTIVE COMPENSATION</b>	21
<i>Summary Compensation Table</i>	21
<i>Options Granted in 2004 and 2003</i>	21
<i>Options Exercised During 2004 and 2003 and Year End Option Values (1)</i>	22
<b>ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</b>	22
<b>ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</b>	23
<b>ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K</b>	24
<b>ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES</b>	25

This Form 10-KSB includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Form 10-KSB, including without limitation the statements under “Business”, “Properties” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” regarding the nature of the Company’s oil and gas reserves, productive wells, acreage, and drilling activities, the adequacy of the Company’s financial resources, current and future industry conditions and the potential effects of such matters on the Company’s business strategy, results of operations and financial position, are forward-looking statements. Although the Company believes that the expectations reflected in the forward-looking statements contained herein are reasonable, no assurance can be given that such expectations will prove to have been correct. Certain important factors that could cause actual results to differ materially from expectations (“Cautionary Statements”), including without limitation fluctuations of the prices received for the Company’s oil and natural gas, uncertainty of drilling results and reserve estimate, competition from other exploration, development and production companies, operating hazards, abandonment costs, the effects of governmental regulation and the leveraged nature of the Company, are stated herein in conjunction with the forward-looking statements or are included elsewhere in this Form 10-KSB. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements. The Company assumes no duty to update or revise our forward-looking statements based on changes in internal estimates or expectations or otherwise.

## PART I

### Item 1. Description of Business

#### General

VTEX Energy, Inc., a Nevada corporation (the “Company”), is an independent oil and natural gas company engaged in acquiring, exploiting, developing and operating oil and natural gas properties, with a focus on Texas and Louisiana. The Company has one wholly owned subsidiary, Vector Exploration, Inc., and is headquartered in Houston, Texas. The estimated proved oil and natural gas reserves of the Company at April 30, 2004 were 84,000 barrels of crude oil and condensate and 15,516,000 MCF (thousand cubic feet) of natural gas. These reserves have an estimated \$44 million in future net cash flow, discounted at 10%, and are all considered to be proved developed. The Company’s reserves are located in two fields, Bateman Lake and Mustang Island 818-L.

Field	Location	Percent of April 30, 2004 Estimated Future Net Cash Flows Discounted at 10%	Percent of Fiscal 2004 Revenue
Bateman Lake	St. Mary Parish, Louisiana	66.62%	19.17%
Mustang Island 818-L	State Waters Offshore Texas	33.38%	65.92%

## **Company Background**

The Company was incorporated under the laws of the State of Texas on June 18, 1998 as Vector Energy Corporation (“Vector”) which was a wholly owned subsidiary of Sunburst Acquisitions II, Inc. (“Sunburst”). Vector was formed for the purpose of completing a reverse merger with Sunburst in order to change Sunburst's name to Vector Energy Corporation and its state of incorporation from Colorado to Texas. This merger was completed on June 19, 1998. Effective November 15, 2002, the Company was reincorporated into Nevada. The reincorporation was effected by the merger of Vector with and into a newly created, wholly owned subsidiary, VTEX Energy, Inc., a Nevada Corporation, which became the surviving entity (the “Company”)

Sunburst was incorporated under the laws of the State of Colorado on March 17, 1997 as a “shell” company. Sunburst’s business plan was to seek, investigate, and if warranted, acquire one or more properties or businesses, and to pursue other related activities intended to enhance shareholder value. Sunburst elected to voluntarily file a registration statement on Form 10-SB in order to become a reporting company under the Securities Exchange Act of 1934 and continued to file periodic reports required under the Exchange Act.

From its inception through March 2000, the Company consummated a series of oil and gas property acquisitions in Texas, Louisiana and Oklahoma. These acquisitions were funded primarily through the issuance of the Company’s stock and the assumption, by the Company, of debt and other liabilities. The properties acquired were a mixture of currently producing properties and properties considered to have future development potential.

A lack of working capital and the service requirements of the debt assumed by the Company in its acquisitions prevented the Company from fully developing the properties it had acquired. Accordingly, the Company identified those properties that had the most potential for future development, and beginning in July 2002 the Company began selling the rest of its producing oil and gas properties. The proceeds from the property sales allowed the Company to reduce and restructure its debt, while retaining enough capital to begin development of the properties retained.

## **Business Strategy**

VTEX Energy, Inc. is an independent energy company focused on the acquisition, exploitation, development and operation of oil and natural gas reserves in the United States, primarily in Texas, Louisiana and the Gulf Coast region. The Company has crafted a business model specifically designed to exploit the unique opportunities currently available to small companies in the domestic oil and gas industry. The Company’s basic philosophy is that it will maximize potential success by focusing on shallow, less expensive prospects with quality data.

The Company’s projects are focused on low risk development type drilling, recompletions and workovers. Each project is screened looking a depth, seismic data available, surrounding production from similar wells, and proximity to infrastructure. The Company seeks to hold a majority operating interest in the projects, and thus is able to bring its experience and operating philosophy into the project.

The Company utilizes a risk based economic evaluation that compares high, most likely, and low production and price scenarios to rank projects for investment. The Company’s overall business plan employs the same technique for price and production.

To date, the Company has chosen to focus its acquisition, exploitation, and development activities primarily in the Gulf Coast region. This region is characterized by long-lived reserves with predictable and relatively low production depletion rates, multiple geologic targets that decrease risk, strong natural gas prices, lower service costs than in more competitive or remote areas, a favorable regulatory environment that encourages drilling efforts, and virtually no federal land or land access impediments. Management believes that by continuing to identify projects that fit the Company's investment and production criteria that it has a strategy that will enhance production and cash flow and optimize the use of the Company's investment capital.

The Company is managed by a small highly experienced team focused on finding and structuring attractive oil and gas investment opportunities and then extracting the maximum value from them. The Company's goal is to create long-term value for our investors by building a significant oil and natural gas reserve base.

In summary, the Company seeks to acquire and exploit properties with the following characteristics:

- primarily Gulf Coast region locations;
- an established production history and infrastructure;
- multiple productive sands and reservoirs;
- low current production levels with significant identified proven and potential reserve opportunities;
- the opportunity to obtain a majority operating interest.

### **Going Concern Risk**

The Company has had, and could have, losses, deficits and deficiencies in liquidity, which could impair its ability to continue as a going concern. In Note #7 to its consolidated financial statements, the Company's independent auditors have indicated that certain factors raise substantial doubt about the Company's ability to continue as a going concern. Since its inception, the Company has suffered recurring losses from operations and has been dependent on existing stockholders and new investors to provide the cash resources to sustain its operations. During the years ended April 30, 2004 and 2003, the Company reported losses of \$1,519,790 and \$2,015,885, respectively. The Company's continuing negative operating results have produced a working capital deficit of \$5,222,094 at April 30, 2004. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's long-term viability as a going concern is dependent on certain factors as follows:

- The Company's ability to obtain sources of outside financing to support near term operations and to allow the Company to make strategic investments in new oil and gas prospects;
- The Company's ability to locate attractive development prospects, and coordinate with timely funding that will allow the Company to continue to increase oil and gas reserves and production;
- The Company's ability to increase profitability and sustain a cash flow level that will ensure support for continuing operations.

## **Implementation of Business Strategy Dependent on Additional Financing**

The Company must obtain financing to fund the expansion of operations and to meet obligations as they become due. Such outside financing must be provided from the sale of equity or third party financing. Further, the sale of equity securities will dilute our existing shareholders' interests, and borrowings from third parties could result in restrictions on the Company's operations if loan terms increase the Company's debt service requirements. There is no assurance that the Company can obtain financing on favorable terms.

## **Competitive Conditions**

The exploration, development and production of oil and gas is subject to intense competition. The principal methods of competition in the industry for the acquisition of oil and gas leases and producing properties are the payment of cash bonus payments at the time of acquisition of leases, delay rentals, location damage supplement payments, and stipulations requiring exploration and production commitments by the lessee. Producing properties are frequently offered for sale through an open competitive bidding process. Companies with greater financial resources, existing staff and labor forces, equipment for exploration, and vast experience are in a better position than the Company to compete for such leases and producing properties. In addition, the ability of the Company to market any oil and gas which it might produce could be severely limited by its inability to compete with larger companies operating in the same area, that may be drilling or able to offer any oil and gas produced at a price lower than that of the Company.

The availability of a ready market for oil and gas depends upon numerous factors beyond the Company's control, including the extent of domestic production and imports of oil and gas, proximity and capacity of pipelines, and the effect of federal and state regulation of oil and gas sales, as well as environmental restrictions on the exploration and usage of oil and gas prospects which will become even more intense in the future. The Company has a minimal competitive position in the oil and gas industry.

Supplies requisite to the transaction of the Company's business include such items as drilling rigs and other equipment, casing pipe, drilling mud and other supplies. Such items are commonly available from a number of sources and the Company foresees no shortage or difficulty in acquiring any raw materials relevant to the conduct of its business that do not affect the oil and gas industry as a whole.

## **Risks of the Oil and Gas Industry**

The current market for oil and gas is characterized by instability. This instability has caused fluctuations in domestic and international world oil and gas prices in recent years and there is no assurance of any price stability in the future. The price the Company receives for its oil and gas production in the future may not be sufficient to generate revenues in excess of our costs of production or provide sufficient cash flow to meet our working capital requirements.

The Company is uncertain about the prices at which it will be able to sell oil that it produces. The Company's estimated future oil and gas revenues are highly dependent on the price of oil and gas, as well as the amount of oil and gas produced. The volatility of the energy market makes it difficult to estimate future prices of oil and gas. Various factors beyond the Company's control affect these prices. These factors include:

- domestic and worldwide supplies of oil;
- the ability of the members of the Organization of Petroleum Exporting Countries, or OPEC, to agree to and maintain oil price and production controls;
- political instability or armed conflict in oil-producing regions;
- the price of foreign imports;
- the level of consumer demand;
- the price and availability of alternative fuels;
- the availability of pipeline capacity; and
- changes in existing federal regulation and price controls.

It is likely that oil and gas prices will continue to fluctuate as they have in the past. Current oil and gas prices are not representative of oil and prices in either the near or long-term. The Company does not expect oil and gas prices to maintain current price levels and does not base its capital spending decisions on current market prices.

The development of oil and gas reserves is a high risk endeavor and is frequently marked by unprofitable efforts, such as:

- drilling unproductive wells;
- drilling productive wells which do not produce sufficient amounts of oil and gas to return a profit; and
- production of developed oil and gas reserves which cannot be marketed or cannot be sold for adequate market prices.

There are many additional risks incident to drilling for and producing oil and gas. These risks include blowouts, cratering, fires, equipment failure and accidents. Any of these events could result in personal injury, loss of life and environmental and/or property damage. If such an event does occur, the Company may be held liable for properties it operates and may not be fully insured against these risks. In fact, many of these risks are not insurable. The occurrence of such events that are not fully covered by insurance may require the Company to pay damages, which would reduce the Company's profits. As of April 30, 2004, we have not experienced any material losses due to these types of events.

### **Dependence upon One or a Few Major Customers**

The Company currently markets the oil and gas production from its properties to four customers, three of which represent sales in excess of 10% of the Company's total oil and gas revenues. These three customers represent approximately 64%, 16% and 15% of the Company's total oil and gas revenues, respectively. During the year ended April 30, 2003 the Company marketed the oil and gas production from its properties to 11 customers, two of which represented sales in excess of 10% of the Company's total oil and gas revenues. These two customers represented approximately 39% and 14% of the Company's total oil and gas revenues, respectively. The availability of oil and gas purchasers, with respect to onshore production, is such, however, that any customer discontinuing purchases from the Company will normally be replaced by another buyer.

Approximately \$22,000,000, or 31%, of estimated future cash flows from the Company's proved reserves is expected to be generated from offshore production from the Company's Mustang Island Block. Available purchasers and transportation facilities are much more limited for offshore production.

## **Governmental and Environmental Regulations**

### *Governmental Regulations*

Domestic development, production and sale of oil and gas are extensively regulated at both the federal and state levels. Legislation affecting the oil and gas industry is under constant review for amendment or expansion, frequently increasing the regulatory burden. Also, numerous departments and agencies, both federal and state, have issued rules and regulations binding on the oil and gas industry and its individual members, compliance with which is often difficult and costly and some of which carry substantial penalties for failure to comply. State statutes and regulations require permits for drilling operations, drilling bonds and reports concerning wells. Texas and other states in which the Company conducts operations also have statutes and regulations governing conservation matters, including the unitization or pooling of oil and gas properties and establishment of maximum rates of production from oil and gas wells.

### *Environmental Regulations*

The Company's operations are subject to extensive and developing federal, state and local laws and regulations relating to environmental, health and safety matters; petroleum; chemical products and materials; and waste management. Permits, registrations or other authorizations are required for the operation of certain of the Company's facilities and for its oil and gas exploration and production activities. These permits, registrations or authorizations are subject to revocation, modification and renewal. Governmental authorities have the power to enforce compliance with these regulatory requirements, the provisions of required permits, registrations or other authorizations, and lease conditions, and violators are subject to civil and criminal penalties, including fines, injunctions or both. Failure to obtain or maintain a required permit may also result in the imposition of civil and criminal penalties. Third parties may have the right to sue to enforce compliance.

Some risk of costs and liabilities related to environmental, health and safety matters is inherent in the Company's operations, as it is with other companies engaged in similar businesses, and there can be no assurance that material costs or liabilities will not be incurred. In addition, it is possible that future developments, such as stricter requirements of environmental or health and safety laws and regulations affecting the Company's business or more stringent interpretations of, or enforcement policies with respect to, such laws and regulations, could adversely affect the Company. To meet changing permitting and operational standards, the Company may be required, over time, to make site or operational modifications at the Company's facilities, some of which might be significant and could involve substantial expenditures. There can be no assurance that material costs or liabilities will not arise from these or additional environmental matters that may be discovered or otherwise may arise from future requirements of law.

## **Employees and Consultants**

The Company has three full time employees and two part-time employees including the officers of the Company. The Company may hire additional personnel as required by its operations and may also engage the services of geological and engineering consultants from time to time to assist in its operations. The Company has recently employed engineering consultants on a part time basis.



## Item 2. Description of Property

### Properties Acquired

#### *Bateman Lake*

The Bateman Lake Field is located seven miles south of Morgan City in St. Mary Parish, Louisiana. In 1937, Texaco discovered the field in a widened portion of the Atachafalaya River. By 1950, Sun completed its first well, the Bateman Isle Unit No. 1. As the field was developed, it was determined that hydrocarbon entrapment was due to radial faulting on the flanks of the deep-seated Bateman Lake/Sweet Bay Lake salt dome, along with anticlinal closure on top of the dome. Bateman Lake Field has cumulative production to date of 2.7 trillion cubic feet of natural gas and 58 million barrels of oil and condensate from 272 wells.

There have been five main productive horizons within the Bateman Lake Field; the G, J, N, W, and X Sands. The N and X Sands are further subdivided into several identifiable zones. All of these are Miocene in age and were formed by various depositional stages of the Mississippi River delta system. Listed below are the average depths and thickness of the aforementioned productive sands in Bateman Lake:

<u>Sand</u>	<u>Depth, Ft.</u>	<u>Thickness, Ft.</u>
G	10,200	20
J	10,400	10
N	10,600	43
W	11,600	31
X	11,650	37

The production mechanism varies with each reservoir. The X Sands produce by water drive, while the J, N, and W Sands produce by depletion drive. The G Sand has produced both by water drive and depletion drive, depending on the fault block.

VTEX Energy, Inc. currently owns Louisiana State Lease No. 1337 covering approximately 3,000 acres of Bateman Lake Field. The Company has conducted an initial review of all well bores located upon its acreage and has identified several viable recompletions and developmental drilling opportunities.

The Company believes that its Bateman Lake acreage has significant potential reserves in addition to its proved reserves. There are 14 wells located upon its lease and a dozen separate pay zones in the field. A number of the wells located on this acreage have not yet been adequately evaluated.

Since its acquisition in November 1998, the Company has produced from four different wells in Bateman Lake. The following shows the Company's production history from Bateman Lake:

<u>Fiscal Year</u>	<u>Natural Gas Production (MCF)</u>	<u>Oil/Condensate Production (BBL)</u>	<u>Gross Revenue</u>
1999	140,469	710	\$276,100
2000	210,833	2,195	\$617,167
2001	163,270	2,807	\$970,540
2002	141,062	2,229	\$501,794
2003	9,102	552	\$ 48,596
2004	36,503	2,312	\$260,376

The Company has recently reached an agreement with WesternGeco, LLC to obtain a license to the 3D seismic data covering State Lease No. 1337. Integrating an interpretation of this data with the field study should greatly enhance the Company's ability to identify opportunities to drill new wells in the established field plays. An offset operator has recently drilled and completed a deep test well on acreage within 8,000 feet of State Lease No. 1337. There is great potential that large reserves are trapped in sands deeper than the X Series Sands. The 3D seismic data will allow the Company to determine if a deep structure exists.

In May 2004, the Company began a three well workover program at Bateman Lake. All of the workovers have not yet been completed, and the Company is still in the process of evaluating the data obtained. However, the initial well in the program was tested at a production rate of 800 MCF per day, and has been producing at rates varying from 500 MCF per day to 1,300 MCF per day.

### *Mustang Island 818-L*

On March 7, 2000, the Company closed a purchase and sale agreement with a company that was a debtor in possession in Chapter 11 Bankruptcy. Under the agreement, the Company acquired the Bankrupt Debtor's interest in Block 818-L located in the Offshore Texas, Mustang Island Area less and except a 7.5% net profits interest retained by the Debtor. Since that time, the Company has transferred certain interest in certain wells to third parties and the Company now owns 100% of the leasehold interest and between 85% and 100% of each existing well.

The Mustang Island Block 818-L consists of 2 leases covering 2170 acres located approximately four miles offshore Kleberg County, Texas in State waters. There are 15 wells located on three 4-pile platforms and one individual well caisson. The field was discovered in 1977 and has produced over 124 billion cubic feet of natural gas. The producing intervals are Frio sands located from 8,500 to 11,900 feet deep. The property was originally produced using a number of techniques that resulted in significant reserves being prematurely abandoned or not fully produced. The company is currently producing five wells from one platform. The Company currently estimates at least 6 Billion cubic feet of remaining recoverable reserves.

Included in the assets acquired was a 15 mile 20 inch pipeline from the Mustang Island 818-L block to onshore facilities. Subsequent to the acquisition, the Company transferred the pipeline to a Texas limited liability company for cash and an interest in the LLC.

Shortly after completing the acquisition, the Company performed through the tubing workovers on five of the wells. However, the Company experienced a significant delay in production from these wells because of a refusal by a pipeline to purchase its production, or allow its transportation through their facilities. In December 2002, the Company finally reached an agreement with the pipeline and began production from Mustang Island 818-L. The following shows the Company's production history from the property:

<u>Fiscal Year</u>	<u>Natural Gas Production (MCF)</u>	<u>Oil/Condensate Production (BBL)</u>	<u>Gross Revenue</u>
2003	37,731	-	\$234,270
2004	128,367	7,651	\$895,436

The Company is currently seeking an investor to provide \$3 million for the reworking of three wells. This will allow for the conversion of approximately 4 Billion cubic feet of reserves from proved developed non-producing to proved developed producing  
*New Properties*

On July 13, 2004, the Company entered into an option with CLK Energy, Inc. (“CLK”). Under the option, the Company will purchase from CLK 50% of CLK’s interest in the Bayou Choctaw Field, located in the Iberville and West Baton Rouge Parishes. Upon completion of the purchase, the Company has agreed to reimburse CLK for its acquisition costs, as adjusted for intervening operations, and will deliver a commitment to fund future well workover and field development drilling. Under the terms of the option, CLK will be issued warrants to purchase 500,000 shares of the Company’s common stock at an exercise price of \$ 0.50 per share.

At the exercise of the option in August 2004, the Company will further issue to CLK benefit, warrants to purchase 1,500,000 shares of additional common stock in the Company at an exercise price of \$ 0.50 per share. CLK has agreed to combine operations, technical and executive staff within the Company’s expanded future operations. In further consideration, the Company will cause to be issued 10% of its then fully diluted common shares to CLK. The Company will expand its Board of Directors to accommodate nomination of certain members of CLK’s executive management.

The Company has engaged the services of a broker dealer in order to conduct a private placement in the range of five to seven million dollars. The proceeds from such a private placement would be utilized for general corporate working capital and transaction costs, exercise of the Bayou Choctaw option, drilling and rework costs, and repayment of debt.

### **Other Assets**

On November 22, 2000, the Company exchanged pipeline, meter stations, and related equipment acquired in the Mustang Island transaction for a cash payment of \$150,000 and a 20% interest in Mustang Island Gathering, LLC, a Texas limited liability company and pipeline operator (the “LLC”). As part of the transaction, the Company entered into a five-year natural gas purchase agreement with the LLC. As a member of the LLC, the Company has been required to guarantee a portion of the LLC’s bank debt, which is approximately \$1.1 million in the aggregate. In addition, any member of the LLC has the right, but not the obligation, to transfer all of its membership units in the LLC to the Company in exchange for shares of its common stock. At April 30, 2004, the Company’s percentage ownership in the LLC was approximately 15%.

## Production Information

The table below sets forth the net quantities of oil and gas production (net of all royalties, overriding royalties, and production due to others), the average sales prices, and the average production costs attributable to the Company's properties for the years ended April 30, 2004 and 2003.

	Year Ended April 30, 2004	Year Ended April 30, 2003
<u>Net Production</u>		
Oil (BBLs)	9,963	2,465
Gas (MCF)	202,626	99,871
<u>Average Sales Prices</u>		
Oil (per BBL)	\$ 30.13	\$ 22.60
Gas (per MCF)	\$ 5.22	\$ 4.89
<u>Average Production Cost (1)</u>		
Per Equivalent MCF of Gas (2)	\$ 2.86	\$ 6.14

(1) Production costs include lease operating expenses, severance taxes, transportation, treatment, marketing, and other direct expenses

(2) Oil production is converted to MCF using its estimated energy equivalent of six MCF per BBL

## Reserve Information

Oil and gas reserve information for the properties owned by the Company have been prepared by D. Raymond Perry, Jr., a registered petroleum engineer for the year ended April 30, 2004.

RESERVE CALCULATIONS BY PETROLEUM ENGINEERS INVOLVE THE ESTIMATION OF FUTURE NET RECOVERABLE RESERVES OF OIL AND GAS AND THE TIMING AND AMOUNT OF FUTURE NET REVENUES TO BE RECEIVED THEREFROM. THOSE ESTIMATES ARE BASED ON NUMEROUS FACTORS, MANY OF WHICH ARE VARIABLE AND UNCERTAIN. RESERVE ESTIMATORS ARE REQUIRED TO MAKE NUMEROUS JUDGEMENTS BASED UPON PROFESSIONAL TRAINING, EXPERIENCE, AND EDUCATIONAL BACKGROUND. THE EXTENT AND SIGNIFICANCE OF THE JUDGEMENTS IN THEMSELVES ARE SUFFICIENT TO RENDER RESERVE ESTIMATES INHERENTLY IMPRECISE. SINCE RESERVE DETERMINATIONS INVOLVE ESTIMATES OF FUTURE EVENTS, ACTUAL PRODUCTION, REVENUES AND OPERATING EXPENSES MAY NOT OCCUR AS ESTIMATED. ACCORDINGLY, IT IS COMMON FOR THE ACTUAL PRODUCTION AND REVENUES LATER RECEIVED TO VARY FROM EARLIER ESTIMATES. ESTIMATES MADE IN THE FIRST FEW YEARS OF PRODUCTION FROM A PROPERTY ARE GENERALLY NOT AS RELIABLE AS LATER ESTIMATES BASED ON LONGER PRODUCTION HISTORY. RESERVE ESTIMATES BASED UPON VOLUMETRIC ANALYSIS ARE INHERENTLY LESS RELIABLE THAN THOSE BASED ON LENGTHY PRODUCTION HISTORY. ALSO, POTENTIALLY PRODUCTIVE GAS WELLS MAY NOT GENERATE REVENUE IMMEDIATELY DUE TO LACK OF PIPELINE CONNECTIONS AND POTENTIAL DEVELOPMENT WELLS MAY HAVE TO BE ABANDONED DUE TO UNSUCCESSFUL COMPLETION TECHNIQUES. HENCE, RESERVE ESTIMATES MAY VARY FROM YEAR TO YEAR.

Proved oil and gas reserves are the estimated quantities of crude oil, condensate, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

Proved developed oil and gas reserves are those reserves expected to be recovered through existing wells with existing equipment and operating methods.

The tables below set forth the estimated proved and proved developed reserves of crude oil (including condensate) and natural gas, all of which are located within the continental United States, associated with the properties owned by the Company for the years ended April 30, 2004 and 2003.

*Proved Reserves at Year End*

	Developed	Undeveloped	Total
<u>Oil (BBLs) (in thousands)</u>			
April 30, 2004	85	0	85
April 30, 2003	180	51	231
<u>Gas (MCF) (in thousands)</u>			
April 30, 2004	15,516	0	15,516
April 30, 2003	20,986	4,423	25,409

*Changes in Proved Reserves*

	MCF	BBLs
	(In Thousands)	
Estimated Quantity, April 30, 2002	17,077	294
Sales of Reserves in Place	( 973 )	( 66 )
Production	( 100 )	( 2 )
Changes in Estimates	9,405	5
Estimated Quantity, April 30, 2003	25,409	231
Sales of Reserves in Place	( 294 )	( 0 )
Production	( 203 )	( 10 )
Changes in Estimates	( 9,396 )	( 136 )
Estimated Quantity, April 30, 2004	15,516	85

**Oil and Gas Wells**

The Company owns interests in productive oil and gas wells (including producing wells and wells capable of production), as follows:

	April 30, 2004		April 30, 2003	
	Gross (1) Wells	Net Wells	Gross (1) Wells	Net Wells
Oil Wells	70	3.08	70	3.08
Gas Wells	38	4.30	40	5.74
Total	108	7.38	110	8.82

(1) One or more completions in the same well are counted as one well

## Oil and gas leaseholds

The table below sets forth the Company's ownership interest in leasehold acreage. The oil and gas leases in which the Company has an interest are generally held by production. The leases may be surrendered at any time by the cessation of production.

	April 30, 2004				April 30, 2003			
	Developed (1)		Undeveloped		Developed(1)		Undeveloped	
	Acreage		Acreage		Acreage		Acreage	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Louisiana	4,603	2,211	0	0	5,243	2,705	640	494
Texas	4,856	1,495	980	463	5,569	2,050	2,480	1,551
Kansas	4,037	52	0	0	4,037	52	0	0
Oklahoma	0	0	0	0	14,135	707	200	100
Total	13,496	3,758	980	463	28,984	5,514	3,120	2,145

(1) Acres spaced or assigned to productive wells

## Office Facilities

The Company's Houston, Texas office consists of approximately 5,025 square feet and has been leased through July of 2006 for \$5,427 per month

## Item 3. Legal Proceedings

The Company is involved from time to time in various claims, lawsuits and administrative proceedings incidental to its business. In the opinion of management, the ultimate liability thereunder, if any, will not have a materially adverse effect on the financial condition or results of operations of the Company. The Company currently has accounts payable in the amount of \$681,744. A significant portion of these accounts are now past due and are subject to becoming matters for litigation at any time. Certain of these accounts have been converted into judgments and the Company is continuing to try and work out payment arrangements with the judgment creditors.

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

No matters were submitted to a vote of security holders during the fourth quarter.

## PART II

## Item 5. Market for Common Equity and Related Stockholder Matters

On June 29, 1998, the Company began trading its common stock on the NASDAQ OTC Electronic Bulletin Board under the symbol VECT. On November 19, 2002, in conjunction with its name change and a one for thirty reverse stock split, the Company's common stock began trading under the symbol VXEN. The following table shows, for the period indicated, the high and low closing bid prices of the Company common stock as reported by NASDAQ. Any market for the common stock should be considered sporadic, illiquid and highly volatile. Prices reflect inter-dealer quotations, without adjustment for retail markup, markdowns or commissions, and may not represent actual transactions.

The stock's trading range for the last two years is as follows:

	High	Low
<u>2003 Fiscal Year</u>		
1 <sup>st</sup> Quarter	\$ 0.06	\$ 0.02
2 <sup>nd</sup> Quarter	0.03	0.01
3 <sup>rd</sup> Quarter	0.05	0.01
4 <sup>th</sup> Quarter	0.03	0.14
<u>2004 Fiscal Year</u>		
1 <sup>st</sup> Quarter	\$ 0.92	\$ 0.11
2 <sup>nd</sup> Quarter	0.81	0.35
3 <sup>rd</sup> Quarter	0.75	0.23
4 <sup>th</sup> Quarter	0.70	0.40
<u>2005 Fiscal Year</u>		
1 <sup>st</sup> Quarter	\$ 0.68	\$ 0.40

As of July 31, 2004, there were approximately 1,258 holders of record of the Company's common stock. The Company has not paid any dividends on its common stock and no dividends are anticipated in the foreseeable future. In addition, the ability of the Company to declare or pay dividends on its common stock is currently subject to certain restrictions contained in its credit facility with a bank and its Class AA-1 Preferred Stock.

#### **Item 6. Management's Discussion and Analysis**

The following discussion should be read in conjunction with the financial statements and notes thereto included elsewhere herein.

#### **Results of Operations**

Net loss decreased by \$496,095, from \$2,015,885 in fiscal 2003 to \$1,519,790 in fiscal 2004. The primary cause for this decrease was an increase in oil and gas sales.

Crude oil sales increased by \$244,462 (439%) in fiscal 2004, due to a combination of increased production and increased sales prices. The average sales price per barrel increased 33% from \$22.60 in fiscal 2003 to \$30.13 in fiscal 2004. Production increased 304% from 2,465 barrels in fiscal 2003 to 9,963 barrels in fiscal 2004. The Company's Mustang Island property and an additional producing well on its Bateman Lake property, both of which began producing late in fiscal 2003, accounted for the increase in production.

Natural gas sales increased by \$570,153 (117%) in fiscal 2004, due to a combination of increased production and increased sales prices. The average sales price per Mcf increased 33% from \$4.89 in fiscal 2003 to \$5.22 in fiscal 2004. Production increased 103% from 99,871 Mcf in fiscal 2003 to 202,626 Mcf in fiscal 2004. The Company's Mustang Island property and a recompleted well on its Bateman Lake property, both of which began producing late in fiscal 2003, accounted for the increase in production.

Lease operating expense decreased by \$104,387 (15%) in fiscal 2004, primarily due to the sale of producing and nonproducing properties during fiscal 2004 and fiscal 2003. However, the Company also incurred substantial expenses related to certain nonproducing properties

Depletion expense increased by \$193,307 (280%) in fiscal 2004. The carrying value of the Company's proved oil and gas properties are amortized on a unit-of-production basis using estimated proved oil and gas reserve quantities. Downward revisions in the Company's estimated proved reserve quantities combined with increased production, caused the amortization rate to increase to 1.6% in fiscal 2004 from 0.4% in fiscal 2003.

Interest expense and amortization of loan costs increased by \$132,325 (65%) in fiscal 2004, primarily due amortization, in the amount of \$126,750, of loan costs incurred in fiscal 2004.

During fiscal 2004, the Company sold a producing gas well for total proceeds of \$389,409, most of which was used to fund work on its Bateman Lake property. The well that was sold generated \$202,576 in total gas sales during fiscal 2004 prior to its sale and \$34,376 in fiscal 2003. Such amounts represented 15% and 6% of the Company's total oil and gas sales during fiscal 2004 and fiscal 2003, respectively.

## **Liquidity and Capital Resources**

On October 19, 2000, the Company sold 18,107 shares of common stock together with a warrant to purchase 18,107 shares of common stock at \$15.00 per share and an undivided 2.2% working interest in two nonproducing oil and gas wells to a private investor for a total consideration of \$100,000.00 in cash. The investor is also entitled to recoup his investment out of future production from these two wells, if any. On October 19, 2000, the closing price of the common stock was \$0.24 per share. On November 24, 2000, the Company sold an undivided 1.85% interest in a nonproducing oil and gas well to the same investor for a total cash consideration of \$25,000. The investor is entitled to recoup his investment out of 50% of the future production from the well, if any. The proceeds of these transactions were used to fund development of the Mustang Island Properties.

On October 27, 2000, the Company sold 13,580 shares of common stock together with a warrant to purchase 13,580 shares of common stock at \$15.00 per share and an undivided 2.2% working interest in two nonproducing oil and gas wells to another private investor for a total consideration of \$100,000.00 in cash. The investor is also entitled to recoup his investment out of future production from these two wells, if any. On October 27, 2000, the closing price of the common stock was \$0.155 per share. On November 24, 2000, the Company sold an undivided 1.85% interest in a nonproducing oil and gas well to the same investor for a total cash consideration of \$25,000. The investor is entitled to recoup his investment out of 50% of the future production from the well, if any. The proceeds of these transactions were also used to fund development of the Mustang Island Properties.

Both of the transactions in October 2000 and November 2000 were treated, by the Company, as loans repayable out of production for accounting purposes. Such production loans began accruing interest on January 1, 2001 at a variable rate equal to the rate on the Company's bank debt. At both April 30, 2004 and 2003 the variable interest rate was 5.25%. Accrued interest on the loans totaled \$43,808 and \$34,647 at April 30, 2004 and 2003, respectively. The stock issued was booked at its fair market value and treated as a loan cost which was amortized over six months. In January and February of 2004, the Company issued the holders of the production payments 100,000 shares of the Company's common stock in return for their forbearance under the production payments until the earlier of the first month following the month in which the Company has positive cash flow or August 1, 2004. The stock issued was booked at its fair market value of \$57,500 and the consideration was treated as a loan cost, which is being amortized over six months.



On December 27, 2000, the Company sold certain interest in 5 wells located in McClain, Oklahoma and undivided 10% interest in 6 wells located on the Mustang Island Property to Old Jersey Oil Ventures, LLC. for \$1,000,000.00. The brother of the President of the Company is a principal in Old Jersey Oil Ventures, LLC. At the same time Old Jersey Oil Ventures LLC, as holder of \$591,849.41 in indebtedness owed by the Company, agreed to exchange such indebtedness for 131,522 shares of the Company's common stock. This represented a price of \$4.50 per share. On December 27, 2000, the closing price of the common stock was \$0.125. Old Jersey Oil Ventures, LLC also exercised warrants to purchase 13,333 shares of the Company's common stock at \$3.00 per share. All shares issued to Old Jersey Oil Ventures, LLC. were issued in a private transaction and may only be transferred in a registered transaction or pursuant to an applicable exemption to the registration requirements. The Company is under no obligation to register such shares. The proceeds of this transaction were used as follows: \$250,000.00 to make payments to general creditors; \$300,000.00 to make a principal payment to the lender under the Company's secured indebtedness as a condition to the lender's agreement to enter into the fifth amendment to the credit agreement described below; \$50,000 for capital investment on properties owned by the Company in St. Mary's Parish, Louisiana; and \$400,000.00 to pay principal and interest due under the Company's credit agreement.

The transaction in December 2000 was treated, by the Company, as a loan repayable out of production for accounting purposes. Such production loan began accruing interest on January 1, 2001 at a variable rate equal to the rate on the Company's bank debt. At April 30, 2004 and 2003 the rate was 5.25%. Accrued interest on the loan totaled \$191,376 and \$144,180 at April 30, 2004 and 2003, respectively. In March, 2004, the Company issued the holder of the production payment 400,000 shares of the Company's common stock in return for forbearance under the production payment until the earlier of the first month following the month in which the Company has positive cash flow or August 1, 2004. The stock issued was booked at its fair market value of \$176,000 and the consideration was treated as a loan cost which is being amortized over five months.

On December 2, 2002, the Company sold a 12.5% interest in a nonproducing well to a private investor for \$20,000. The funds were used to perform a workover on the well. The investor is also entitled to recoup his investment out of future production from the well.

On December 6, 2002, the Company received \$4,000 from a private investor to fund contract lease work on a well necessary to vest title to the Company. The investor is also entitled to recoup his investment out of future production, if any, from the well.

On February 19, 2003, the Company sold a 12.5% interest in two nonproducing wells to a private investor. The funds were used to perform workovers on the wells. The investor is also entitled to recoup his investment out of future production from the wells.

All three of the transactions in December 2002 and February 2003 were treated, by the Company, as loans repayable out of production for accounting purposes. Such production loans accrue interest at a variable rate equal to the rate on the Company's bank debt. At April 30, 2004 and 2003 the rate was 5.25%. Accrued interest on the loans totaled \$295 and \$873 at April 30, 2004 and 2003, respectively. On February 23, 2004, the Company repurchased the 12.5% interest in the nonproducing wells for \$6,846 in cash and 25,000 shares of the Company's common stock valued at \$14,250. In addition the Company paid the \$55,000 due under the production payments and \$3,154 in accrued interest. On March 22, 2004, the Company sold the property, which had been covered by the production payments, for \$175,000 in cash, a note receivable for \$100,000, and the assumption by the purchaser of \$114,409 of the Company's accounts payable.

The Company had a \$10 million revolving credit agreement with Wachovia Bank, National Association (the “Bank”), which was modified to become a term loan on November 15, 2002. Interest on the note was payable monthly at a floating rate. The borrowing base under the note was determined periodically based upon the collateral value assigned to the mortgaged properties.

On December 27, 2000, the Company amended its credit agreement to reduce its indebtedness by \$3,000,000, reschedule principle payments, and remove all financial covenants. Under the terms of the amended credit agreement, the indebtedness was payable in three monthly installments of \$31,250 beginning on January 15, 2001, seven monthly installments of \$125,000 beginning on April 15, 2001, and a final installment of \$2,400,846 due on November 14, 2001. No further borrowings are available. As part of the amended credit agreement, the Company issued 3,000 shares of Class A-1 Cumulative Convertible Preferred Stock to the Bank in exchange for \$3,000,000 in outstanding indebtedness and pledged its interest in the Mustang Island properties as additional collateral under the loan.

On November 15, 2001, the Company amended its credit agreement to change the repayment schedule to \$125,000 due on December 15, 2001 and the balance of principal and accrued but unpaid interest due on January 15, 2002.

On January 1, 2002, the Company amended its credit agreement to change the repayment schedule to \$25,000 per month in principal and interest beginning on January 31, 2002 with the balance of principal and accrued but unpaid interest due on April 15, 2002. In addition, the Company agreed to either sell, or have entered into binding agreements to sell, certain of its oil and gas properties by February 20, 2002 or to enter into a binding agreement with a nationally recognized oil and gas auction house by March 28, 2002 for the sale of such properties. All of the proceeds from the sale of such properties would be used to reduce the Company’s indebtedness.

On April 1, 2002, the Company amended its credit agreement to extend the final due date of principal and accrued but unpaid interest to June 24, 2002. In addition, the date by which the Company had to enter into a binding contract with an auction house was extended to April 30, 2002.

On June 24, 2002, the Company amended its credit agreement to extend the final due date of principal and accrued but unpaid interest to July 24, 2002.

On July 24, 2002, the Company amended its credit agreement to remove the \$25,000 per month payment and to extend the final due date of principal and accrued but unpaid interest to August 24, 2002.

In accordance with the terms of the credit agreement, as amended, the Company entered into a binding contract with an auction house on two separate occasions for the sale of certain of its producing properties. On June 6, 2002, the Company closed a sale of certain of its producing properties for total cash consideration of \$600,100. Net proceeds received from the sale, which totaled \$481,027, were used to pay down the Company’s bank debt

On September 10, 2002, the Company renegotiated the terms of its indebtedness. Under the terms of the new agreement, the Company was to pay \$300,000 to its lender by September 30, 2002. The Company would then be relieved of all payments until December 2, 2002. The Company had the option on or before December 2, 2002 to pay the lender either an additional \$300,000 in cash or \$150,000 in cash and \$200,000 in production payments in exchange for the forgiveness of the remainder of its indebtedness amounting to approximately \$1.6 million. In addition, the lender agreed to convert all of its \$3 million preferred stock and accrued dividends into common stock equivalent to a 45% ownership position in the Company.

On August 30, 2002, the Company closed a sale of certain of its producing oil and gas properties for total cash consideration of \$301,600. Net proceeds received from the sale, which totaled \$276,697, were paid to the Company's lender as part of the \$300,000 payment due by September 30, 2002. The balance of the \$300,000 payment was made by the due date.

On November 25, 2002, the Company closed a sale of certain of its producing oil and gas properties for total cash consideration of \$95,000. Net proceeds received from the sale, which totaled \$82,660, were paid to the Company's lender as part of the payment due by December 2, 2002.

The Company failed to make the remaining \$67,340 payment due to the lender by December 2, 2002. However, the Company reached a verbal agreement with the lender to accept an additional payment of \$17,340 in cash and \$250,000 in production payments. Such cash payment was made on December 13, 2002.

At April 30, 2002 the line of credit had an outstanding balance of \$2,776,400. During the first seven months of fiscal 2003, the Company completed sales of producing properties whose proceeds totaled \$982,695. Of such proceeds, \$917,000 was paid against the line of credit, reducing the principal balance to \$1,876,482 on December 1, 2002.

Effective December 1, 2002, the Company's line of credit was partially assigned to Old Jersey Oil Ventures, L.L.C. ("Old Jersey"), an entity controlled by the brother of the President of the Company. The Bank retained the rights to \$250,000 of the line of credit, payable out of 50% of the net profits from specified oil and gas properties owned by the Company and which are pledged against the line of credit. The Bank's rights in the retained debt are senior to those of Old Jersey in the remaining debt.

On February 11, 2003 the Company amended and restated the terms of its credit agreement with Old Jersey. The amended and restated agreement changed the interest rate on the line of credit to a fixed rate of 7.50%, increased the borrowing base to \$2,500,000, and extended the maturity date to January 31, 2005. Under the terms of the amended and restated agreement, the borrowing base will decrease by \$10,000 per month beginning April 30, 2003. If at any time the amount outstanding under the line of credit exceeds the borrowing base, the Company must make a mandatory principal prepayment in an amount equal to the excess. The amended and restated agreement did not affect the \$250,000 interest retained by the Bank.

On August 8, 2003, the Company completed a transaction with Wachovia Bank whereby the Company acquired all of the bank's holdings in VTEX Energy, Inc. securities, which consisted of 2,369,033 shares of the Company's common stock, and received cancellation of the \$250,000 note payable to the bank in return for a payment of \$50,000 and warrants to purchase up to 250,000 shares of the Company's common stock at \$0.10 per share until August 8, 2006.

Under the currently scheduled reductions in the borrowing base, the principal balance outstanding under the line of credit at April 30, 2004 of \$1,839,143 will be due at maturity on January 31, 2005.

On April 8, 2004, the Company entered into a \$250,000 revolving credit agreement with Hibernia Bank. Interest on the note is payable monthly at a floating rate of Prime plus 1.097%, and was 5.097% at April 30, 2004. The outstanding balance under the note, which was \$100,000 at April 30, 2004, is due upon demand.

On July 13, 2004, the Company entered into an option with CLK Energy, Inc. ("CLK"). Under the option, the Company will purchase from CLK 50% of CLK's interest in the Bayou Choctaw Field, located in the Iberville and West Baton Rouge Parishes. Upon completion of the purchase, the Company has agreed to reimburse CLK for its acquisition costs, as adjusted for intervening operations, and will deliver a commitment to fund future well workover and field development drilling. Under the terms of the option, CLK will be issued warrants to purchase 500,000 shares of the Company's common stock at an exercise price of \$ 0.50 per share.

At the exercise of the option in August 2004, the Company will further issue to CLK benefit, warrants to purchase 1,500,000 shares of additional common stock in the Company at an exercise price of \$ 0.50 per share. CLK has agreed to combine operations, technical and executive staff within the Company's expanded future operations. In further consideration, the Company will cause to be issued 10% of its then fully diluted common shares to CLK. The Company will expand its Board of Directors to accommodate nomination of certain members of CLK's executive management.

The Company has engaged the services of a broker dealer in order to conduct a private placement in the range of five to seven million dollars. The proceeds from such a private placement would be utilized for general corporate working capital and transaction costs, exercise of the Bayou Choctaw option, drilling and rework costs, and repayment of debt.

For the past twelve months, the Company's oil and gas revenues have not been sufficient to satisfy its oil and gas operating expenses and interest payments. The Company's general and administrative expenses, development costs, debt principal payments and a portion of its oil and gas operating expenses and interest payments have been funded primarily from the proceeds from the sale of producing properties, stock and advances from related parties. Additional equity funding will be required to meet the current needs of the Company. Any inability of the Company to raise additional capital under such circumstances will limit the development of most of its oil and gas properties and may prevent the Company from meeting its cash requirements. It will be necessary for the Company to obtain additional financing. If the wells currently being brought into production perform as expected such financing should be available; however, there is no assurance that such financing will in fact be available or that the wells will, in fact, perform as expected. In the absence of such well performance or additional financing, the Company will not be able to meet its financial obligations

The Company is currently negotiating with many of the vendors for which accounts payable were assumed in the asset acquisition transactions, and believes that a significant portion of these payables can be satisfied through the issuance of common or preferred stock.

The Company is aggressively seeking additional property acquisitions with near term revenue generating capability and future development potential. The Company is currently evaluating several potential acquisitions, which would utilize a combination of the issuance of its equity securities and additional debt financing.

## **Item 7. Financial Statements**

### **Annual Financial Statements**

The Report of the Independent Registered Public Accounting Firm appearing at page F-3 and the Consolidated Financial Statements and Notes to Consolidated Financial Statements appearing at pages F-4 through F-25 hereof are incorporated herein by reference.

**Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

**PART III**

**Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act**

The Directors and Executive Officers of the Company are as follows:

Name	Age	Position	Tenure
Stephen F. Noser	58	Director President Secretary Assistant Treasurer	May 8, 1998
Randal B. McDonald, Jr.	46	Director Chief Financial Officer Treasurer Assistant Secretary	May 8, 1998

All Directors of the Company will hold office until the next annual meeting of shareholders. The Executive Officers of the Company, who are appointed by the Board of Directors, hold office until their successors are chosen and qualified, or until their death, resignation or removal. The Company presently has no audit, nominating or executive committee or committees performing substantially similar functions, although the Company is considering establishing these or similar committees in the future. The Company does not presently have a financial expert serving on a audit committee or similar body, but will consider appointing one in the event an audit committee is established. There are no family relationships among the Directors and Officers of the Company. The Company currently has no employment agreement with any of the Officers or Directors.

**Stephen Noser, President.** Mr. Noser has been President or Managing Director of Vector Energy since 1991. Prior to that time, he served in various management and legal capacities within the oil and gas industry. He was Vice President and General Counsel of MCO Resources, Inc. (\$60 million in assets and listed on the American Stock Exchange) from 1987 to 1988. He was Associate General Counsel and then General Counsel of Inexco Oil Company (\$500 million in assets and listed on the New York Stock Exchange) from 1983 to 1986. He also served on Inexco's Board of Directors and as a member of the company's operating committee. Both at Inexco and MCO, Mr. Noser had primary responsibility for all SEC reporting requirements and preparation of all registration statements. From 1977 to 1983, he served in various legal capacities within the American Natural Resources System. From 1974 to 1977, he served as an attorney for Mitchell Energy & Development Corp. Mr. Noser holds a B.A. from the University of St. Thomas and a J.D. degree from the University of Houston. He is a member of the Texas and Houston Bar Associations.

**Randal McDonald, Chief Financial Officer.** Mr. McDonald has twenty-five years experience in the field of public accounting. Since 1993, he has provided general financial consulting and litigation support services to a variety of companies. Such services have included preparation and review of public and private offering documents, preparation of pro forma financial statements utilized in raising capital, and services as interim chief financial officer. From 1979 to 1985, he was with KPMG Peat Marwick's Houston office, specializing in public oil and gas

companies. During 1986, he served a one year rotational assignment in KPMG Peat Marwick's world headquarters developing their audit software. During 1987, he served as Chief Financial Officer for IBS Technologies, Ltd., a publicly traded computer software company. From 1988 to 1992, he was with Arthur Andersen's Denver office, specializing in public oil and gas companies. Mr. McDonald holds a B.B.A. in accounting from the University of Texas at Austin and is a licensed CPA.

## **Section 16(a) Beneficial Ownership Compliance**

Section 16(a) of the Securities Exchange Act requires the executive officers and directors, and persons who own more than 10% of our common stock of the Company, to file reports regarding ownership of, and transactions in, the securities of the Company with the Securities and Exchange Commission and to provide the Company with copies of those filings.

Based solely on the review of the copies of such forms received by us, or written representations from certain reporting persons, the Company believes that during fiscal year 2004, all filing requirements applicable to the Company's officers, directors and greater than ten percent beneficial owners were complied with.

## **Code of Ethics**

The Company has not adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. We are in the process of preparing and adopting a code of ethics.

## **Item 10. Executive Compensation**

The aggregate amount of compensation paid by the Company or its subsidiaries during the fiscal year ended April 30, 2004 to officers and directors, as a group, for services in all capacities was \$185,000.

The following table sets out the compensation received by the President of the Company for the last three fiscal years ended April 30, 2004.

### **Summary Compensation Table**

Name and Principal Position	Year End	Annual Compensation (1)			Long Term Compensation Awards		
		Salary(\$)	Bonus(\$)	Other(\$)	Restricted Stock Awards(\$)	Options(#)	All Other(\$)
Stephen F. Noser President	2004	95,000	-	-	-	-	-
	2003	95,000	-	-	-	-	-
	2002	95,000	-	-	-	-	-
Randal B. McDonald, Jr. Chief Financial Officer	2004	90,000	-	-	-	-	-
	2003	90,000	-	-	-	-	-
	2002	90,000	-	-	-	-	-

## **Options Granted in 2004 and 2003**

No options were granted during the fiscal years ended April 30, 2004 and April 30, 2003.

## Options Exercised During 2004 and 2003 and Year End Option Values (1)

Name	Number of Securities Underlying Unexercised Options At Fiscal Year End (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options At Fiscal Year End (\$) Exercisable/ Unexercisable
Stephen F. Noser	25,000	-
	-	-
Randal B. McDonald, Jr.	5,000	-
	-	-

(1) Since no options were exercised, no shares were acquired or value realized upon the exercise of options

At the present time, the Company has no retirement, pension or profit sharing programs for the benefit of its Directors or employees. However, at its discretion, the Company may adopt one or more of such programs in the future. The Company has not entered into any employment agreements with its executive officers.

Pursuant to its bylaws and the Texas Business Corporation Act, the Company shall indemnify each Director and Officer against expenses, judgments, fines, and amounts paid in settlement actually and reasonably incurred by him in connection with any action, suit or proceeding which he may be made a party by reason of his being or having been made a Director or Officer of the Company, unless he failed to meet certain standards of conduct.

## Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding beneficial ownership of outstanding shares as of July 31, 2004 by each person who is known by the Company to own beneficially five percent or more of the outstanding shares, the Company's Directors and Executive Officers, and all Directors and Executive Officers as a group.

Name and Address Of Beneficial Owner	Title of Class	Position or Title	Amount and Nature Of Beneficial Ownership	% of Class
Stephen F. Noser 8303 Southwest Freeway, Suite 950 Houston, Texas 77074	Common Stock	Director, President Secretary	(1)(2) 36,667	0.57%
	Class B Preferred Stock	Assistant Treasurer	250,000	50.00%
Randal B. McDonald, Jr. 8303 Southwest Freeway, Suite 950 Houston, Texas 77074	Common Stock	Director, CFO Treasurer Assistant Secretary	(3) 10,000	0.15%
Eugene A. Noser, Jr. 90 Broad Street New York, New York 10004	Common Stock	N/A	(1)(4) 664,858	10.29%
Ronald E. Reese, M.D. 1441 Liberty St., Suite 206 Redding, CA 96001	Common Stock	N/A	(5) 864,033	13.37%
WDR Capital, Inc. 19607 Piney Place Houston, Texas 77094	Class B Preferred Stock	N/A	250,000	50.00%
All Officers And Directors	Common Stock	N/A	(1)(6) 46,667	0.72%
	Class B Preferred Stock		250,000	50.00%

(1) Includes 1,667 shares of common stock indirectly owned by Mr. Noser because of his 50% ownership in Old Vector Corporation, which owns 3,334 shares of common stock.

(2) Includes 25,000 shares of common stock issuable upon the exercise of stock options.

(3) Includes 5,000 shares of common stock issuable upon the exercise of stock options.

(4) Includes 663,191 shares of common stock indirectly owned by Mr. Noser because of his control of Old Jersey Oil Ventures, L.L.C

(5) Shares included as Trustee and beneficiary of the Ronald E. Reese Retirement Trust, dated 01/01/87 and the Ronald E. Reese Revocable Trust, dated 06/30/00

(6) Includes 30,000 shares of common stock issuable upon the exercise of stock options

## **Item 12. Certain Relationships and Related Transactions**

During the years ended April 30, 2004 and 2003, officers, directors and shareholders of the Company made unsecured advances totaling \$7,500 and \$412,863, respectively, to the Company. In addition, the Company repaid advances in the amount of \$41,963 and \$18,000 during the years ended April 30, 2004 and 2003, respectively. The balance due under such advances was \$242,406 and \$673,961 at April 30, 2004 and 2003, respectively.

On December 5, 2003, the Company granted stock appreciation rights on 1,000,000 shares of the Company's common stock to a former officer and director of the Company in exchange for the cancellation of \$503,975 in debt. Such debt consisted of \$397,092 in advances made to the Company and \$106,883 in accrued salary. The stock appreciation rights are fully vested, have a grant price of \$0.10 per share and expire on December 5, 2013. The exercise price of the stock appreciation rights is equal to the average of the means between the high and low trading prices of the Company's common stock for the ten consecutive trading days immediately preceding the date of exercise. Upon the exercise of the stock appreciation rights, the grantee is due the difference between the exercise price and the grant price multiplied by the number of shares being exercised. The Company, at its sole option, may elect to pay the grantee in shares of the Company's common stock valued at the exercise price. The stock appreciation rights were valued at \$240,000, on the date of grant, using a Black-Scholes option pricing model. The difference between the value of the stock appreciation rights and the debt cancelled has been recorded as a contribution of capital. As of April 30, 2004, the grantee has exercised stock appreciation rights on 347,167 shares of the Company's common stock. The Company has elected to pay all of the stock appreciation rights with the issuance of 271,234 shares of the Company's common stock.

The Company is obligated under a line of credit to an entity whose principal is the brother of the Company's president. At April 30, 2004 and 2003 the balance due under line of credit was \$1,839,143 and \$1,814,143, respectively. The line of credit bears interest at the rate of 7.5% and is due on January 31, 2005. Accrued interest on the loan totaled \$248,767 and \$106,359 at April 30, 2004 and April 30, 2003, respectively.

The Company is obligated under a production payment to an entity whose principal is the brother of the Company's president. At April 30, 2004 and 2003 the balance due under such production payment was \$934,518. Such production loan began accruing interest on January 1, 2001 at a variable rate equal to the rate on the Company's bank debt. At April 30, 2004 and 2003 the rate was 5.25%. Accrued interest on the loan totaled \$191,376 and \$144,180 at April 30, 2004 and April 30, 2003, respectively.

In March, 2004, the Company issued a \$150,000 note payable to Mustang Island Gathering, LLC for indemnification of litigation settlement costs. Mustang Island Gathering, LLC purchases the natural gas produced from the Company's Mustang Island property, and the Company is an approximate 15% owner in the LLC. The note is payable in monthly installments, with interest at 4.5%, at the rate of \$0.03 per MCF of gas purchased, beginning with April 2004 production.

In March 2004, the Company sold a producing property to a Company controlled by a former officer and director of the Company. Net proceeds from the sale totaled \$389,409 and consisted of \$175,000 in cash, \$100,000 in a note receivable, and \$114,409 in assumption of the Company's accounts payable. The note receivable had a balance of \$67,000 at April 30, 2004.



### **Item 13. Exhibits and Reports on Form 8-K**

Exhibits not incorporated herein by reference to a prior filing are designated by an asterisk (\*) and are filed herewith.

Exhibit 2.01 Asset Purchase Agreement between Registrant and Vector

Exhibit 2.02 Lisbon Agreement

Exhibit 2.03 Taurus Agreement

Exhibit 2.04 Agreement and Plan of Merger Between Sunburst Acquisitions II, Inc. and Vector Energy Corporation

Exhibit 2.05 Option Agreement Between CLK Energy, Inc. and VTEX Energy, Inc.

Exhibit 3.01 Articles of Incorporation of Vector Energy Corporation

Exhibit 3.02 By-Laws of Vector Energy Corporation

Exhibit 4.01 Certificate of Designation, Preferences, Rights and Limitations of Class AA 6% Cumulative Convertible Preferred Stock and Class B Preferred Stock of Vector Energy Corporation

Exhibit 4.02 Certificate of Designation, Preferences, Rights and Limitations of Class C 5% Cumulative Convertible Preferred Stock of Vector Energy Corporation

Exhibit 21 Subsidiaries of the Registrant

Exhibit 23 Consent of Comiskey & Company\*

Exhibit 23.1 Consent of D. Raymond Perry, Jr., Registered Petroleum Engineer\*

Exhibit 31.1 Certification pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended\*

Exhibit 32.1 Certification of Chief Executive Officer and President of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*

No reports were filed on Form 8-K during the Company's fourth fiscal quarter ended April 30, 2004.

## **Item 14. Principal Accountant Fees and Services**

The Company's board of directors reviews and approves audit and permissible non-audit services performed by the authorized independent public accountants as well as the fees charged by the authorized independent public accountants for such services. In its review of non-audit service fees and its appointment of the authorized independent public accountants as the Company's independent accountants, the board of directors considered whether the provision of such services is compatible with maintaining the authorized independent public accountants independence. All of the services provided and fees charged by the authorized independent public accountants in fiscal 2004 were pre-approved by the board of directors.

### **Audit Fees**

The aggregate fees billed by the authorized independent public accountants for professional services for the audit of the annual financial statements of the Company and the reviews of the financial statements included in the Company's quarterly reports on Form 10-QSB for fiscal 2004 and Fiscal 2003 were \$9,030 and \$6,695 respectively, net of expenses.

### **Audit Related Fees**

There were no other fees billed by the authorized independent public accountants during the last two fiscal years for assurance and related services that were reasonably related to the performance of the audit or review of the Company's financial statements and not reported under "Audit Fees" above.

### **Tax Fees**

There were no fees billed by the authorized independent public accountants during the last two fiscal years for tax compliance.

### **All Other Fees**

There were no other fees billed by the authorized independent public accountants.

## SIGNATURES

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

VTEX ENERGY, INC.  
(Registrant)

By /S/ Stephen F. Noser  
Stephen F. Noser.  
Chairman of the Board

Date: September 21, 2004

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

By /S/ Stephen F. Noser  
Stephen F. Noser.  
President and Director

Date: September 21, 2004

By /S/ Randal B. McDonald, Jr.  
Randal B. McDonald, Jr.  
Chief Financial Officer and Director  
Principal Accounting and Financial Officer

Date: September 21, 2004

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**

**FINANCIAL STATEMENTS**

**April 30, 2004 and 2003**

## CONTENTS

	<b><u>Page</u></b>
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	F-3
CONSOLIDATED BALANCE SHEETS	F-4 to F-5
CONSOLIDATED STATEMENTS OF INCOME	F-6
CONSOLIDATED STATEMENTS OF CASH FLOW	F-7
STATEMENTS OF STOCKHOLDERS' EQUITY	F-8 to F-10
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	F-11 to F-25

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of  
VTEX Energy, Inc.

We have audited the accompanying consolidated balance sheets of VTEX Energy, Inc. as of April 30, 2004 and 2003, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of VTEX Energy, Inc. as of April 30, 2004 and 2003, and the consolidated results of its operations, its cash flows and changes in its shareholders' equity for the years then ended in conformity with U. S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As more fully described in Note 13, the Company has incurred substantial losses leading to a significant working capital deficit. These and other conditions have created substantial doubt about the Company's ability to continue as a going concern. Management's assessment of these conditions and its plans to alleviate them are also described in Note 13. The accompanying financial statements do not include any adjustments which might be necessary if the Company is unable to continue.

As discussed in Footnote 3 to the financial statements, management discovered after year end an error resulting in the failure to record an asset retirement obligation in accordance with SFAS No. 143 as of April 30, 2004. Accordingly, the 2004 financial statements have been restated to record the liability, and an adjustment has been made to retained earnings as of May 1, 2003 to recognize the adoption of SFAS No. 143, which is treated as a change in accounting principle.

Denver, Colorado

July 13, 2004  
(Except for notes 3 and 7, for which  
the date is September 16, 2004)

/s/ Comiskey & Company  
**PROFESIONAL CORPORATION**

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**CONSOLIDATED BALANCE SHEETS**  
**April 30, 2004 and 2003**

	<u>April 30, 2004</u>	<u>April 30, 2003</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 156,575	\$ 14,542
Certificates of deposit	75,000	75,000
Revenue accounts receivable	165,262	186,591
JIB accounts receivable	25,865	57,613
Note receivable	67,000	-
Other current assets	82,051	-
	<hr/>	<hr/>
<b>Total current assets</b>	<b>571,753</b>	<b>333,746</b>
	<hr/>	<hr/>
<b>PROVED OIL AND GAS PROPERTIES, USING THE FULL COST METHOD OF ACCOUNTING</b>	<b>16,763,114</b>	<b>16,629,967</b>
	<hr/>	<hr/>
Less accumulated depreciation, depletion, Amortization, and impairment	1,341,067	1,031,680
	<hr/>	<hr/>
<b>Net oil and gas properties</b>	<b>15,422,047</b>	<b>15,598,287</b>
	<hr/>	<hr/>
<b>OTHER ASSETS</b>		
Other property and equipment, less accumulated Depreciation of \$91,720 and \$77,514 at April 30, 2004 and 2003, respectively	34,941	29,147
Long term accounts receivable (net of allowance for Doubtful accounts of \$135,119 and \$109,969 at April 30, 2004 and 2003, respectively)	148,000	148,000
Deferred loan costs - net	134,350	-
Other assets	19,277	19,277
	<hr/>	<hr/>
<b>Total other assets</b>	<b>336,568</b>	<b>196,424</b>
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 16,330,368</b>	<b>\$ 16,128,457</b>
	<hr/>	<hr/>

**The accompanying notes are an integral part of the financial statements**

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**CONSOLIDATED BALANCE SHEETS**  
**April 30, 2004 and 2003**

	<u>April 30, 2004</u>	<u>April, 30, 2003</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Line of credit - related party	\$ 1,839,143	\$ -
Line of credit - bank	100,000	-
Notes payable	306,092	161,537
Production payments payable to related party	934,518	934,518
Production payments payable	254,000	309,000
Accounts payable - trade	681,744	1,519,408
Royalties payable	654,191	492,750
Working interest revenues payable	94,232	152,272
Taxes payable	201,478	181,858
Advances from related parties	242,406	673,961
Accrued payroll	-	106,883
Accrued interest	486,043	290,447
	<hr/>	<hr/>
<b>Total current liabilities</b>	5,793,847	4,822,634
	<hr/>	<hr/>
<b>NONCURRENT LIABILITIES</b>		
Line of credit	-	2,064,143
Asset retirement obligations	940,337	-
	<hr/>	<hr/>
<b>Total noncurrent liabilities</b>	940,337	2,064,143
	<hr/>	<hr/>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock class AA-1, cumulative convertible; \$0.01 par value per share, 500,000 shares authorized; 395,879 shares issued and outstanding at April 30, 2004	3,959	-
Preferred stock class B, noncumulative nonconvertible; \$1 par value per share, 500,000 shares authorized; 500,000 shares issued and outstanding	50,000	50,000
Common stock, \$0.001 par value per share; 150,000,000 shares authorized; 5,848,681 and 5,792,646 shares issued and Outstanding at April 30, 2004 and 2003, respectively	5,849	5,793
Additional paid-in capital	29,844,623	27,723,542
Retained earnings	( 20,308,247)	( 18,537,655)
	<hr/>	<hr/>
<b>Total stockholders' equity</b>	9,596,184	9,241,680
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 16,330,368</u>	<u>\$ 16,128,457</u>

The accompanying notes are an integral part of the financial statements



**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Years Ended April 30, 2004 and 2003**

	<u>Year Ended April 30, 2004</u>	<u>Year Ended April 30, 2003</u>
<b>REVENUES</b>		
Oil Sales	\$ 300,162	\$ 55,700
Gas Sales	1,058,228	488,075
Production byproducts	-	9,010
Other income	7,000	-
Interest Income	<u>1,142</u>	<u>2,846</u>
<b>Total Revenues</b>	<u>1,366,532</u>	<u>555,631</u>
<b>EXPENSES</b>		
Production taxes	151,853	67,218
Lease operating expense	599,615	704,002
Depletion of oil and gas properties	274,528	69,160
Accretion expense	53,227	-
Interest expense and amortization of loan costs	336,653	204,328
General and administrative expense	<u>1,535,734</u>	<u>1,526,808</u>
<b>Total expenses</b>	<u>2,951,610</u>	<u>2,571,516</u>
<b>Net Loss Before Cumulative Effect of Change In Accounting Principle</b>	( 1,585,078)	( 2,015,885)
<b>Cumulative Effect on Prior Years (to April 30, 2003) of a Change in Accounting Principle</b>	<u>( 185,514)</u>	<u>-</u>
<b>Net Loss Before Preferred Dividend</b>	( 1,770,592)	( 2,015,885)
<b>Preferred Stock Dividend</b>	<u>-</u>	<u>170,000</u>
<b>NET LOSS AVAILABLE TO COMMON SHAREHOLDERS</b>	<u>\$ ( 1,770,592)</u>	<u>\$ ( 2,185,885)</u>
<b>NET LOSS PER SHARE - BASIC</b>		
Net Loss Before Cumulative Effect of Change In Accounting Principle	<u>\$ ( 0.31)</u>	<u>\$ ( 0.64)</u>
Cumulative Effect on Prior Years (to April 30, 2003) of a Change in Accounting Principle	<u>\$ ( 0.04)</u>	<u>\$ -</u>
Net Loss Available to Common Shareholders	<u><u>\$ ( 0.35)</u></u>	<u><u>\$ ( 0.64)</u></u>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<u>5,040,289</u>	<u>3,391,933</u>

The accompanying notes are an integral part of the financial statements

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**Years Ended April 30, 2004 and 2003**

	<u>Year Ended</u> <u>April 30, 2004</u>	<u>Year Ended</u> <u>April 30, 2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$ ( 1,770,592)	\$ ( 2,015,885)
Adjustments to reconcile net loss to net cash		
Used by operating activities		
Cumulative effect of change in accounting principle	185,514	-
Depletion of oil and gas properties	274,528	69,160
Amortization expense	126,750	-
Depreciation expense	14,206	14,981
Accretion expense	53,227	-
Stock issued for consulting fees	642,142	845,500
Stock issued for accounts payable settlement	103,778	-
Stock issued for employee bonus	-	11,000
Note payable issued for litigation settlement	150,000	-
Decrease in certificates of deposit	-	25,000
(Increase) decrease in accounts receivable	53,077	( 116,238)
Increase in other assets	( 82,051)	( 9,924)
Increase in accounts payable	16,215	78,525
Increase in royalties and revenues payable	161,410	149,635
Increase in other current liabilities	215,216	163,184
Net cash (used by) provided from operating activities	<u>143,420</u>	<u>( 785,062)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Development costs incurred	( 236,383)	( 218,094)
Sale of oil and gas properties	185,000	982,695
Purchase of oil and gas properties	( 6,846)	-
Property and equipment, other	( 20,000)	-
Net cash (used by) provided from investing activities	<u>( 78,229)</u>	<u>764,601</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments received on note receivable	33,000	-
Issuance of notes payable	184,356	325,956
Note repayments	( 189,801)	( 217,095)
Borrowings under production payments	-	59,000
Repayment of production payments	( 55,000)	-
Borrowings on lines of credit	125,000	205,000
Payment on lines of credit	( 50,000)	( 917,261)
Advances from related parties	7,500	430,863
Repayments of advances to related parties	( 41,963)	( 18,000)
Issuance of common stock	63,750	64,999
Net cash (used by) provided from financing activities	<u>76,842</u>	<u>( 66,538)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	142,033	( 86,999)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>14,542</u>	<u>101,541</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 156,575</u>	<u>\$ 14,542</u>

The accompanying notes are an integral part of the financial statements

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**STATEMENTS OF STOCKHOLDERS' EQUITY**  
**Years Ended April 30, 2004 and 2003**

	Price Per share	Preferred Stock		Common Stock		Retained Earnings	Paid In capital	Total Stockholders' Equity
		Number Of shares	Amount	Number Of shares	Amount			
Balances as of April 30, 2002		503,000	\$ 3,050,000	1,626,040	\$ 1,626 \$ ( 16,351,770 )	\$ 23,247,710	\$ 9,947,566	
Issued in settlement of Accounts payable In May, 2002	1.50			12,667	13		18,987	19,000
Issued for consulting services In May, 2002	1.20			86,667	87		103,913	104,000
Issued in settlement of Accounts payable In June, 2002	1.20			16,667	17		19,983	20,000
Issued for consulting services In June, 2002	1.20			236,667	237		283,763	284,000
Issued for consulting services In July, 2002	0.99			108,333	108		107,392	107,500
Issued for consulting services In August, 2002	0.89			207,500	208		184,292	184,500
Issued in settlement of Accounts payable In September, 2002	0.30			23,333	23		6,977	7,000
Issued for consulting services In September, 2002	0.30			163,333	163		48,837	49,000
Issued for employee bonus In September, 2002	0.30			36,667	37		10,963	11,000
Issued in settlement of Accounts payable In October, 2002	0.30			8,333	8		2,492	2,500
Issued for consulting services In October, 2002	0.40			100,000	100		39,900	40,000
Issued for consulting services In November, 2002	0.30			255,000	255		76,245	76,500
Sales of common stock for Cash in December, 2002	0.12			550,000	550		64,449	64,999
Issuance of common stock For Class A-1 Preferred And accrued dividends	1.49	(3,000 )	( 3,000,000 )	2,361,439	2,361		3,507,639	510,000

**The accompanying notes are an integral part of the financial statements**

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**STATEMENTS OF STOCKHOLDERS' EQUITY**  
**Years Ended April 30, 2004 and 2003**

	Price <u>Per share</u>	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Retained</u> <u>Earnings</u>	<u>Paid</u> <u>In capital</u>	<u>Total</u> <u>Stockholders'</u> <u>Equity</u>
		<u>Number</u> <u>Of shares</u>	<u>Amount</u>	<u>Number</u> <u>Of shares</u>	<u>Amount</u>			
Preferred Stock Dividend						( 170,000 )		( 170,000 )
Net loss						( 2,015,885 )		( 2,015,885 )
Balances as of April 30, 2003		500,000	\$ 50,000	5,792,646	\$ 5,793	\$ ( 18,537,655 )	\$ 27,723,542	\$ 9,241,680
Issued for consulting services In June, 2003	0.20			100,000	100		19,900	20,000
Issued for consulting services In July, 2003	0.52			446,000	446		230,494	230,940
Sales of common stock for Cash in July, 2003	0.32			125,000	125		39,875	40,000
Issued for consulting services In August, 2003	0.65			15,000	15		9,735	9,750
Sales of common stock for Cash in August, 2003	0.24			100,000	100		23,650	23,750
Cancellation of stock owned By lender in August, 2003				( 2,369,033 )	(2,369 )		202,369	200,000
Issued for consulting services In September, 2003	0.58			125,334	125		73,102	73,227
Issued for consulting services In October, 2003	0.36			60,000	60		21,540	21,600
Issued for consulting services In December, 2003	0.40			15,000	15		5,985	6,000
Stock appreciation rights Granted in December, 2003							503,975	503,975
Issued for consulting services In January, 2004	0.35			15,000	15		5,235	5,250
Issued for deferred loan costs In January, 2004	0.55			50,000	50		27,450	27,500
Stock issued under stock Appreciation rights in January, 2004				71,234	71	( 71 )		-
Issued for consulting services In February, 2004	0.65			142,500	143		92,582	92,725
Issued for deferred loan costs In February, 2004	0.64			90,000	90		57,510	57,600

**The accompanying notes are an integral part of the financial statements**

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**STATEMENTS OF STOCKHOLDERS' EQUITY**  
**Years Ended April 30, 2004 and 2003**

	Price	Preferred Stock		Common Stock		Retained	Paid	Total
	<u>Per share</u>	<u>Number</u>	<u>Amount</u>	<u>Of shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>In capital</u>	<u>Stockholders'</u>
		<u>Of shares</u>						<u>Equity</u>
Consideration for the Acquisition of oil and gas Properties, February, 2004	0.57			25,000	25		14,225	14,250
Stock issued under stock Appreciation rights in February, 2004				100,000	100	(	100 )	-
Issued for consulting services In March, 2004	0.50			140,000	140		69,760	69,900
Issued for deferred loan costs In March, 2004	0.44			400,000	400		175,600	176,000
Consideration for the Acquisition of oil and gas Properties, March, 2004	0.44			100,000	100		43,900	44,000
Issued for consulting services In April, 2004	0.55			205,000	205		112,545	112,750
Stock issued under stock Appreciation rights in April, 2004				100,000	100	(	100 )	-
Preferred stock issued in Settlement of accounts Payable in April, 2004	1.00	395,879	3,959				391,920	395,879
Net loss						(	1,770,592 )	( 1,770,592 )
Balances as of April 30, 2004		895,879	\$ 53,959	5,848,681	\$ 5,849	( 20,308,247 )	\$ 29,844,623	\$ 9,596,184

**The accompanying notes are an integral part of the financial statements**

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**Notes to Consolidated Financial Statements**  
**April 30, 2004 and 2003**

## **1. Business and Organization**

VTEX Energy, Inc. (Formerly Vector Energy Corporation), a Nevada corporation (together with its subsidiary, Vector Exploration, Inc., collectively, "the Company") was formed on June 18, 1998 as a result of an agreement and plan of reorganization more fully described in Note 3. The Company is primarily engaged in the acquisition, development, production and exploration of oil and natural gas properties in the United States.

## **2. Summary of Significant Accounting Policies**

### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Certain prior year amounts have been reclassified to conform with the current year presentation.

### **Reverse Stock Split**

On November 15, 2002, the Board of Directors authorized a 1-for-30 reverse stock split, thereby decreasing the number of issued and outstanding shares to 2,881,207. In addition, the Company's common stock was redesignated from no par value to \$0.001 par value per share. All references in the accompanying financial statements to the number of common shares and per-share amounts for dates prior to November 15, 2002 have been restated to reflect these changes.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Concentrations of Credit Risk**

Although the Company's accounts receivable are exposed to credit loss, the Company does not believe such risk to be significant. Most of the Company's accounts receivable are a broad and diverse group of oil and gas companies, and accordingly, do not represent a significant credit risk. In addition, the Company has accounts receivable from parties holding working interests in the Company's properties, and as such, may be collected via offset from future obligations to the parties.

The Company periodically maintains cash balances in excess of FDIC insured limits. The amount in excess at April 30, 2004 totaled \$160,138 and there was no excess at April 30, 2003.

### **Oil and Gas Properties**

The Company follows the full cost method of accounting for its oil and gas properties. All costs associated with property acquisition, exploration, and development activities are capitalized in a single, United States cost center. Internal costs directly identified with the acquisition, exploration and development activities of the Company are also capitalized. Capitalized costs are amortized on the unit-of-production basis using proved oil and gas reserves. Capitalized costs are limited to the present value of estimated future net revenues less estimated future expenditures using a discount factor of ten percent. Sales and abandonments of oil and gas properties are treated as reductions of the capitalized cost pool. At April 30, 2004 and 2003, there were no costs of unproved properties or major development projects included in the capitalized cost pool.

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**Notes to Consolidated Financial Statements (Continued)**  
**April 30, 2004 and 2003**

In accordance with Statement of Financial Accounting Standards No. 121 ("SFAS 121") - Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of, the Company assesses the need for an impairment of capitalized costs of oil and gas properties on a combined basis, with separate consideration given to unproved properties and major development projects, of which there were none at April 30, 2004 and 2003. If impairment is indicated based upon undiscounted future cash flows, then an impairment is recognized to the extent that net capitalized costs exceed discounted expected future cash flows. No impairment was considered necessary for the years ended April 30, 2004 and 2003.

**Other Property and Equipment**

Other property and equipment of the Company consists primarily of computer equipment, vehicles and furniture and fixtures, which are depreciated over estimated useful lives, ranging from three to seven years, on a straight-line basis.

**Income Taxes**

Deferred income taxes are provided to reflect the future tax consequences of differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, using enacted tax rates.

**Loss Per Share**

Loss per share has been calculated using the weighted average number of shares outstanding. Outstanding warrants and other potentially dilutive securities have been excluded from the calculation of loss per share, as their effect would be anti-dilutive.

**Transactions in the Company's Stock**

Transactions in the Company's common stock are recorded at the fair value of the stock issued in the transaction, or at the value of the goods and services received, whichever is the more readily determinable amount.

**Statement of Cash Flows**

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

The following is a summary of all significant noncash investing and financing activities and payments made for interest and income taxes for the years ended April 30, 2004 and 2003.

	<b><u>Year Ended</u></b> <b><u>April 30, 2004</u></b>	<b><u>Year Ended</u></b> <b><u>April 30, 2003</u></b>
<b><u>Noncash activities:</u></b>		
Common stock issued for compensation	\$ -	\$ 11,000
Common stock issued for consulting fees	\$ 642,142	\$ 845,500
Common stock issued for deferred loan costs	\$ 261,100	\$ -
Properties acquired for common stock	\$ 58,250	\$ -
Properties sold for the assumption of accounts payable	\$ 619,687	\$ -
Stock issued in settlement of accounts payable	\$ 395,879	\$ 48,500
Stock appreciation rights granted for accrued payroll and Advances from related party	\$ 240,000	\$ -
Common stock issued upon the conversion of preferred Stock and accrued dividends	\$ -	\$ 3,510,000
<b><u>Cash Payments:</u></b>		
Interest	\$ 14,307	\$ 49,300
Income Taxes	\$ 0	\$ 0

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**Notes to Consolidated Financial Statements (Continued)**  
**April 30, 2004 and 2003**

**3. Restatement of Financial Statements**

Management discovered after year end an error resulting in the failure to record an asset retirement obligation in accordance with SFAS No. 143 as of April 30, 2004. Accordingly, the 2004 financial statements have been restated to record the liability, and an adjustment has been made to retained earnings as of May 1, 2003 to recognize the adoption of SFAS No. 143, which is treated as a change in accounting principle. The effect of the restatement was to increase loss (before cumulative effect of a change in accounting principle) by \$65,288, or \$0.01 per share. Additional effects of this change are more fully described in Note 7 to the financial statements.

**4. Acquisitions of Oil and Gas Properties**

On May 8, 1998, the Company acquired various working and royalty interests in wells located in Texas, Louisiana and Oklahoma. To effect the transaction, the Company issued 30,000 shares of class AA preferred stock, valued at \$3,000,000, and 10,437 shares of common stock, valued at \$939,372. In addition, the Company assumed \$6,100,000 in bank debt and \$511,465 in accounts payable, net of accounts receivable and cash acquired. The Company capitalized \$251,704 in expenses incurred in conjunction with this transaction. Subsequently, the Company issued 3,867 shares of common stock, valued at \$163,065, for additional working interests in certain of the properties acquired.

On November 4, 1998, the Company acquired various working interests in wells located in Louisiana, Texas and Oklahoma. To effect the transaction, the Company issued 40,889 shares of common stock, valued at \$1,840,000, and a \$120,000 non-interest bearing note payable to the sellers. In addition, the Company assumed \$690,522 in bank debt and \$600,954 in accounts payable. The Company capitalized \$15,145 in expenses incurred in conjunction with this transaction. The Company was also required to expend a minimum of \$500,000 in capital investment on the properties acquired within nine months or the sellers would be entitled to receive an additional 16,667 shares of common stock. Subsequently, the Company exchanged the working interests acquired in certain properties in Texas and \$30,000 for additional working interests in the properties acquired in Louisiana. On August 23, 1999, the Company issued 16,667 shares of common stock valued at \$1,187,500 to the sellers under the terms of the purchase and sale agreement.

On March 7, 2000, the Company closed a purchase and sale agreement with a company, which was a debtor in possession in a Chapter 11 Bankruptcy. Under the agreement, the Company acquired all of the Bankrupt Debtor's interest in a block located in the Offshore Texas, Mustang Island Area for 18,333 shares of common stock valued at \$550,000. In accordance with the agreement, the Company immediately repurchased 556 shares of common stock at \$90.00 per share, for a total of \$50,000, for payment of administrative expenses in the Bankruptcy proceeding. Under the terms of the agreement, in the event that the daily rate of production from the properties acquired averages at least 5,000 Mcf per day over a complete calendar month the seller has the right to put 5,000 shares of common stock to the Company at \$90.00 per share. If the seller fails to exercise such right, the Company has the right to call 5,000 shares of common stock at \$90.00 per share. In addition, the Company purchased \$120,000 in secured debt from three of the seller's secured creditors for face value.

On November 22, 2000, the Company exchanged pipeline, meter stations, and related equipment acquired in the Mustang Island transaction for a cash payment of \$150,000 and a 20% interest in Mustang Island Gathering, LLC ("the LLC") a Texas limited liability company and pipeline operator. As part of the transaction, the Company entered into a five year natural gas purchase agreement with the LLC. As a member of the LLC, the Company has been required to guarantee a portion of the LLC's bank debt, which is approximately \$1.1 million in the aggregate. At April 30, 2004, the Company's percentage ownership in the LLC was approximately 15%. In addition, any member of the LLC has the right, but not the obligation, to transfer all of its membership units in the LLC to the Company in exchange for shares of its common stock. Under the purchase and sale agreement to the LLC, the Company indemnified the LLC against claims of title. In March, 2004, the LLC settled litigation relating to a claim of title. The Company has agreed to pay the LLC a total of \$192,000 for reimbursement of legal and settlement costs. Such costs were paid through the issuance of a \$150,000 note payable. The note is payable in monthly installments, with interest at 4.5%, at the rate of \$0.03 per MCF of gas purchased, beginning with April, 2004 production. In addition, the Company began paying \$42,000, which has been included in accrued liabilities, at the rate of \$0.035 per MCF of gas purchased, beginning with March, 2004 production.



**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**Notes to Consolidated Financial Statements (Continued)**  
**April 30, 2004 and 2003**

**5. Oil and Gas Producing Activities**

Set forth below is certain information regarding the aggregate capitalized costs of oil and gas properties, as of April 30, 2004 and 2003, and costs incurred in oil and gas property acquisition, development and exploration activities for the years ended April 30, 2004 and 2003.

	<u><b>April 30, 2004</b></u>	<u><b>April 30, 2003</b></u>
<u><b>Capitalized Costs</b></u>		
Proved properties	\$ 16,026,659	\$ 16,629,967
Unproved properties	0	0
Accumulated depreciation, depletion and amortization	( 1,294,147)	( 1,031,680)
	<u>\$ 14,732,512</u>	<u>\$ 15,598,287</u>
	<u><b>Year Ended</b></u>	<u><b>Year Ended</b></u>
	<u><b>April 30, 2004</b></u>	<u><b>April 30, 2003</b></u>
<u><b>Cost Incurred</b></u>		
Property acquisitions:		
Proved properties	\$ 65,096	\$ 0
Unproved properties	0	0
Development costs	236,383	218,094
Exploration costs	0	0
	<u>\$ 301,479</u>	<u>\$ 218,094</u>

The following presents the results of operations of oil and gas producing activities for the years ended April 30, 2004 and 2003:

	<u><b>Year Ended</b></u>	<u><b>Year Ended</b></u>
	<u><b>April 30, 2004</b></u>	<u><b>April 30, 2003</b></u>
Oil and gas sales	\$ 1,358,390	\$ 552,785
Production costs	( 751,468)	( 771,220)
Exploration	0	0
Depreciation, depletion and amortization	( 262,467)	( 69,160)
Impairment of oil and gas properties	0	0
Operating Income (loss)	<u>344,455</u>	<u>( 287,595)</u>
Income tax	0	0
Net Income (loss)	<u>\$ 344,455</u>	<u>\$ ( 287,595)</u>

**6. Notes Payable**

Total debt at April 30, 2004 and 2003 consists of the following:

	<u><b>April 30, 2004</b></u>	<u><b>April 30, 2003</b></u>
Lines-of-credit	\$ 1,939,143	\$ 2,064,143
Production payments payable	1,188,518	1,243,518
Other	306,092	161,537
	<u>3,433,753</u>	<u>1,405,055</u>
Less current portion	<u>\$ -</u>	<u>\$ 2,064,143</u>

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**Notes to Consolidated Financial Statements (Continued)**  
**April 30, 2004 and 2003**

**Lines of Credit**

The Company had a \$10 million revolving credit note with Wachovia Bank, National Association (the "Bank"), which terminated on November 15, 2002. Interest on the note was payable monthly at a floating rate. The borrowing base under the note was determined periodically based upon the collateral value assigned to the mortgaged properties.

On December 27, 2000, the Company amended its credit agreement to reduce its indebtedness by \$3,000,000, reschedule principle payments, and remove all financial covenants. Under the terms of the amended credit agreement, the indebtedness was payable in three monthly installments of \$31,250 beginning on January 15, 2001, seven monthly installments of \$125,000 beginning on April 15, 2001, and a final installment of \$2,400,846 due on November 14, 2001. No further borrowings are available. As part of the amended credit agreement, the Company issued 3,000 shares of Class A-1 Cumulative Convertible Preferred Stock to the bank in exchange for \$3,000,000 in outstanding indebtedness and pledged its interest in the Mustang Island properties as additional collateral under the loan.

On November 15, 2001, the Company amended its credit agreement to change the repayment schedule to \$125,000 due on December 15, 2001 and the balance of principal and accrued but unpaid interest due on January 15, 2002.

On January 1, 2002, the Company amended its credit agreement to change the repayment schedule to \$25,000 per month in principal and interest beginning on January 31, 2002 with the balance of principal and accrued but unpaid interest due on April 15, 2002. In addition, the Company agreed to either sell, or have entered into binding agreements to sell, certain of its oil and gas properties by February 20, 2002 or to enter into a binding agreement with a nationally recognized oil and gas auction house by March 28, 2002 for the sale of such properties. All of the proceeds from the sale of such properties would be used to reduce the Company's indebtedness.

On April 1, 2002, the Company amended its credit agreement to extend the final due date of principal and accrued but unpaid interest to June 24, 2002. In addition, the date by which the Company had to enter into a binding contract with an auction house was extended to April 30, 2002.

On June 24, 2002, the Company amended its credit agreement to extend the final due date of principal and accrued but unpaid interest to July 24, 2002.

On July 24, 2002, the Company amended its credit agreement to remove the \$25,000 per month payment and to extend the final due date of principal and accrued but unpaid interest to August 24, 2002.

In accordance with the terms of the credit agreement, as amended, the Company entered into a binding contract with an auction house on two separate occasions for the sale of certain of its producing properties. On June 6, 2002, the Company closed a sale of certain of its producing properties for total cash consideration of \$600,100. Net proceeds received from the sale, which totaled \$481,027, were used to pay down the Company's bank debt.

On September 10, 2002, the Company renegotiated the terms of its indebtedness. Under the terms of the new agreement, the Company was to pay \$300,000 to its lender by September 30, 2002. The Company would then be relieved of all payments until December 2, 2002. The Company had the option on or before December 2, 2002 to pay the lender either an additional \$300,000 in cash or \$150,000 in cash and \$200,000 in production payments in exchange for the forgiveness of the remainder of its indebtedness amounting to approximately \$1.6 million. In addition, the lender agreed to convert all of its \$3 million preferred stock and accrued dividends into common stock equivalent to a 45% ownership position in the Company.

On August 30, 2002, the Company closed a sale of certain of its producing oil and gas properties for total cash consideration of \$301,600. Net proceeds received from the sale, which totaled \$276,697, were paid to the Company's lender as part of the \$300,000 payment due by September 30, 2002. The balance of the \$300,000 payment was made by the due date.

On November 25, 2002, the Company closed a sale of certain of its producing oil and gas properties for total cash consideration of \$95,000. Net proceeds received from the sale, which totaled \$82,660, were paid to the Company's lender as part of the payment due by December 2, 2002.

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**Notes to Consolidated Financial Statements (Continued)**  
**April 30, 2004 and 2003**

The Company failed to make the remaining \$67,340 payment due to the lender by December 2, 2002. However, the Company reached a verbal agreement with the lender to accept an additional payment of \$17,340 in cash and \$250,000 in production payments. Such cash payment was made on December 13, 2002.

At April 30, 2002 the line of credit had an outstanding balance of \$2,776,400. During the first seven months of fiscal 2003, the Company completed sales of producing properties whose proceeds totaled \$982,695. Of such proceeds, \$917,000 was paid against the line of credit, reducing the principal balance to \$1,876,482 on December 1, 2002.

Effective December 1, 2002, the Company's line of credit was partially assigned to Old Jersey Oil Ventures, L.L.C. ("Old Jersey"), an entity controlled by the brother of the President of the Company. The Bank retained the rights to \$250,000 of the line of credit, payable out of 50% of the net profits from specified oil and gas properties owned by the Company and which were pledged against the line of credit. The Bank's rights in the retained debt was senior to those of Old Jersey in the remaining debt.

On February 11, 2003 the Company amended and restated the terms of its' credit agreement with Old Jersey. The amended and restated agreement changed the interest rate on the line of credit to a fixed rate of 7.50%, increased the borrowing base to \$2,500,000, and extended the maturity date to January 31, 2005. Under the terms of the amended and restated agreement, the borrowing base will decrease by \$10,000 per month beginning April 30, 2003. If at any time the amount outstanding under the line of credit exceeds the borrowing base, the Company must make a mandatory principal prepayment in an amount equal to the excess. The amended and restated agreement did not affect the \$250,000 interest retained by the Bank.

On August 8, 2003, the Company completed a transaction with Wachovia Bank whereby the Company acquired all of the bank's holdings in VTEX Energy, Inc. securities, which consisted of 2,369,033 shares of the Company's common stock, and received cancellation of the \$250,000 note payable to the bank in return for a payment of \$50,000 and warrants to purchase up to 250,000 shares of the Company's common stock at \$0.10 per share until August 8, 2006. The options were valued at \$200,000, which approximates their value using a Black-Scholes option pricing model. Such value was included in additional paid in capital.

Under the currently scheduled reductions in the borrowing base, the principal balance outstanding under the line of credit at April 30, 2004 of \$1,839,143 will be due at maturity on January 31, 2005.

On April 8, 2004, the Company entered into a \$250,000 revolving credit agreement with Hibernia Bank. Interest on the note is payable monthly at a floating rate of Prime plus 1.097%, and was 5.097% at April 30, 2004. The outstanding balance under the note, which was \$100,000 at April 30, 2004, is due upon demand.

#### **Certificates of Deposit**

At April 30, 2004 and 2003, the Company had certificates of deposit totaling \$75,000. Such certificates bore interest at 1.1% at April 30, 2004 and 1.1% at April 30, 2003. The maturity dates of the certificates ranged from June 13, 2004 to March 20, 2005 at April 30, 2004 and from October 17, 2003 to March 20, 2004 at April 30, 2003. The certificates of deposit are collateral for letters of credit, with expiration dates corresponding to the maturity dates of the certificates, issued in favor of governmental agencies in states in which the Company operates wells. It is anticipated that such certificates of deposit and the corresponding letters of credit will be renewed at maturity.

#### **Production Payments Payable**

On October 19, 2000, the Company sold 18,107 shares of common stock together with a warrant to purchase 18,107 shares of common stock at \$15.00 per share and an undivided 2.2% working interest in two nonproducing oil and gas wells to a private investor for a total consideration of \$100,000.00 in cash. The investor is also entitled to recoup his investment out of future production from the wells, if any. On October 19, 2000, the closing price of the common stock was \$0.24 per share. On November 24, 2000, the Company sold an undivided 1.85% interest in a nonproducing oil and gas well to the same investor for a total cash consideration of \$25,000. The investor is entitled to recoup his investment out of 50% of the future production from the well, if any. The proceeds of these transactions were used to fund development of the Mustang Island Properties.

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**Notes to Consolidated Financial Statements (Continued)**  
**April 30, 2004 and 2003**

On October 27, 2000, the Company sold 13,580 shares of common stock together with a warrant to purchase 13,580 shares of common stock at \$15.00 per share and an undivided 2.2% working interest in two nonproducing oil and gas wells to a private investor for a total consideration of \$100,000.00 in cash. The investor is also entitled to recoup his investment out of future production from the wells, if any. On October 27, closing price of the common stock was \$0.155 per share. On November 24, 2000, the Company sold an undivided 1.85% interest in a nonproducing oil and gas well to the same investor for a total cash consideration of \$25,000. The investor is entitled to recoup his investment out of 50% of the future production from the well, if any. The proceeds of these transactions were used to fund development of the Mustang Island Properties.

Both of the transactions in October 2000 and November 2000 were treated, by the Company, as loans repayable out of production for accounting purposes. Such production loans began accruing interest on January 1, 2001 at a variable rate equal to the rate on the Company's bank debt. At April 30, 2004 and 2003 the rate was 5.25%. Accrued interest on the loans totaled \$43,808 and \$34,647 at April 30, 2004 and 2003, respectively. The stock issued was booked at its fair market value and treated as a loan cost which was amortized over six months. In January and February of 2004, the Company issued the holders of the production payments 100,000 shares of the Company's common stock in return for their forbearance under the production payments until the earlier of the first month following the month in which the Company has positive cash flow or August 1, 2004. The stock issued was booked at its fair market value of \$57,500 and treated as a loan cost which is being amortized over six months.

On December 27, 2000, the Company sold certain interest in 5 wells located in McClain County, Oklahoma and undivided 10% interest in 6 wells located on the Mustang Island Property to Old Jersey Oil Ventures, LLC. for \$1,000,000.00. The brother of the President of the Company is a principal in Old Jersey Oil Ventures, LLC. At the same time Old Jersey Oil Ventures LLC, as holder of \$591,849.41 in indebtedness owed by the Company, agreed to exchange such indebtedness for 131,522 shares of the Company's common stock. This represented a price of \$4.50 per share. On December 27, 2000, the closing price of the common stock was \$0.125. Old Jersey Oil Ventures, LLC also exercised warrants to purchase 13,333 shares of the Company's common stock at \$3.00 per share. All shares issued to Old Jersey Oil Ventures, LLC. were issued in a private transaction and may only be transferred in a private transaction or pursuant to an applicable exemption to the registration requirements. The Company is under no obligation to register such shares. The proceeds of this transaction were used as follows: \$250,000.00 to make payments to general creditors; \$300,000.00 to make a principal payment to the lender under the Company's secured indebtedness as a condition to the lender's agreement to enter into the fifth amendment to the credit agreement described above; \$50,000 for capital investment on properties owned by the Company in St. Mary's Parish, Louisiana; and \$400,000.00 to pay principal and interest due under the Company's credit agreement. Old Jersey Oil Ventures, LLC was entitled to recoup its investment out of future production from the wells in McClain County, Oklahoma and on the Mustang Island Property.

The transaction in December 2000 was treated, by the Company, as a loan repayable out of production for accounting purposes. Such production loan began accruing interest on January 1, 2001 at a variable rate equal to the rate on the Company's bank debt. At April 30, 2004 and 2003 the rate was 5.25%. Accrued interest on the loan totaled \$191,376 and \$144,180 at April 30, 2004 and 2003, respectively. In March, 2004, the Company issued the holder of the production payment 400,000 shares of the Company's common stock in return for forbearance under the production payment until the earlier of the first month following the month in which the Company has positive cash flow or August 1, 2004. The stock issued was booked at its fair market value of \$176,000 and treated as a loan cost which is being amortized over five months.

On December 2, 2002, the Company sold a 12.5% interest in a nonproducing well to a private investor for \$20,000. The funds were used to perform a workover on the well. The investor was also entitled to recoup his investment out of future production from the well.

On December 6, 2002, the Company received \$4,000 from a private investor to fund contract lease work on the well necessary to vest title to the Company. The investor is also entitled to recoup his investment out of future production, if any, from the well.

On February 19, 2003, the Company sold a 12.5% interest in two nonproducing wells to a private investor. The funds were used to perform workovers on the wells. The investor was also entitled to recoup his investment out of future production from the wells.

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**Notes to Consolidated Financial Statements (Continued)**  
**April 30, 2004 and 2003**

All three of the transactions in December 2002 and February 2003 were treated, by the Company, as loans repayable out of production for accounting purposes. Such production loans accrue interest at a variable rate equal to the rate on the Company's bank debt. At April 30, 2004 and 2003 the rate was 5.25%. Accrued interest on the loans totaled \$295 and \$873 at April 30, 2004 and 2003, respectively. On February 23, 2004, the Company repurchased the 12.5% interest in the nonproducing wells for \$6,846 in cash and 25,000 shares of the Company's common stock valued at \$14,250. In addition the Company paid the \$55,000 due under the production payments and \$3,154 in accrued interest. On March 22, 2004, the Company sold the property, which had been covered by the production payments, for \$175,000 in cash, a note receivable for \$100,000 and the assumption of \$114,409 of the Company's accounts payable.

**Other notes payable**

Included in other notes are unsecured 10% to 13.6% notes issued to vendors in settlement of accounts payable. Certain of the notes are past their due dates and are due on demand. Such notes had balances totaling \$42,850 and \$104,608 at April 30, 2004 and 2003, respectively.

Also included is a financing obligation for insurance premiums, payable in monthly installments, with interest at 5.57% and 6.5% at April 30, 2004 and 2003, respectively, through October 2004. Such obligation had a balance of \$63,242 and 56,929 at April 30, 2004 and 2003, respectively.

In November, 2003, the Company issued a note payable for the purchase of seismic data. The note is payable in monthly installments, with interest at 6%, and is due August 21, 2004. Such note had a balance of \$10,000 at April 30, 2004.

During October and November of 2003, the Company issued a series of 12% notes totaling \$40,000 to investors for working capital loans. The Company also issued the investors 40,000 shares of its common stock. The stock issued was recorded at its fair market value of \$27,600 and treated as a loan cost which is being amortized over six months. The notes were due on dates ranging from April 29, 2004 to May 26, 2004.

In March, 2004, the Company issued a \$150,000 note payable to Mustang Island Gathering, LLC for indemnification of litigation settlement costs. Mustang Island Gathering, LLC purchases the natural gas produced from the Company's Mustang Island property, and the Company is an approximate 15% owner in the LLC. The note is payable in monthly installments, with interest at 4.5%, at the rate of \$0.03 per MCF of gas purchased, beginning with April, 2004 production.

**7. Asset Retirement Obligations**

Beginning in fiscal 2004, Statement of Financial Accounting Standards No. 143, "Asset Retirement Obligations" ("SFAS 143") requires the Company to recognize an estimated liability for the plugging and abandonment of its oil and gas wells and associated pipelines, platforms, and equipment. Consistent with industry practice, historically the Company had assumed the cost of plugging and abandonment would be offset by salvage value received. This statement requires the Company to record a liability in the period in which its asset retirement obligation ("ARO") is incurred. After initial recognition of the liability, the Company must capitalize an additional asset cost equal to the amount of the liability. In addition to any obligation that arises after the effective date of SFAS 143, upon initial adoption the Company must recognize (1) a liability for any existing ARO's, (2) capitalized cost related to the liability, and (3) accumulated depreciation, depletion and amortization on that capitalized cost adjusting for the salvage value of related equipment.

The estimated liability is based on historical experience in plugging and abandoning wells and associated pipelines, platforms, and equipment, estimated remaining lives of those wells based on reserve estimates and federal and state regulatory requirements. The liability is discounted using an assumed credit-adjusted risk-free rate of 7.5%. Revisions to the liability could occur due to changes in estimates of plugging and abandonment costs, changes in the risk-free rate or remaining lives of the wells, or if federal or state regulators enact new plugging and abandonment requirements. At the time of abandonment, the Company will be required to recognize a gain or loss on abandonment if the actual costs do not equal the estimated costs.

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**Notes to Consolidated Financial Statements (Continued)**  
**April 30, 2004 and 2003**

The adoption of SFAS 143 resulted in a May 1, 2003 cumulative effect adjustment to record (1) a \$736,455 increase in the carrying value of proved properties, (2) a \$34,859 increase in accumulated depletion, (3) a \$887,110 increase in noncurrent liabilities, and (4) a \$185,514 one-time cumulative effect loss.

A reconciliation of the Company's liability for the year ended April 30, 2004, is as follows:

Beginning asset retirement obligations	\$ -
Liability from SFAS 143 adoption	887,110
Accretion expense	53,227
Ending asset retirement obligations	<u>\$ 940,337</u>

The following tables illustrate the effect on the asset retirement obligations liability, net loss and earnings per share if the Company had adopted the provisions of SFAS No. 143 on May 1, 2002. The pro forma amounts are calculated using current information, assumptions and interest rates as of May 1, 2003

	<u>April 30, 2003</u>
Asset retirement obligations	\$ 836,896
	<u>Year Ended</u> <u>April 30, 2003</u>
Net Loss	
As reported	\$ (2,185,885)
Pro forma	\$ (2,239,162)
Basic EPS	
As reported	\$ (0.64)
Pro forma	\$ (0.66)

## 8. Income Taxes

The Company has available at April 30, 2004 an approximate \$15,000,000 unused operating loss carryforward that may be applied against future taxable income, and that expires in the years 2013 and 2019 through 2024. Temporary deductible tax differences exist between depletion for financial statement purposes and depletion for tax purposes. The tax benefit of unused operating loss carryforwards and deductible temporary differences of approximately \$5,000,000 has been offset by a full valuation allowance. The valuation allowance increased by approximately \$300,000 for the year ended April 30, 2004.

## 9. Stockholder's Equity

### Preferred Stock

The Company is authorized to issue 3,000 shares of Class A-1 Cumulative Convertible Preferred Stock (Class A-1 Preferred Stock). Class A-1 Preferred Stock was issued for \$1,000 per share and is entitled to receive cumulative cash dividends at the annual rate of 8% payable annually in arrears commencing December 1, 2001 when and as declared by the Board of Directors. All shares of Class A-1 Preferred Stock were issued to the Company's secured lender on December 27, 2000 as consideration for the reduction in the Company's secured indebtedness by \$3,000,000.00. On January 16, 2003 all shares of the Class A-1 Preferred Stock, and accrued and unpaid dividends in the amount of \$510,000 were converted into 2,361,439 shares of the Company's common stock. On August 8, 2003, the Company completed a transaction with Wachovia Bank whereby the Company acquired all of the bank's holdings in VTEX Energy, Inc. securities, which consisted of 2,369,033 shares of the Company's common stock, and received cancellation of the \$250,000 note payable to the bank in return for a payment of \$50,000 and warrants to purchase up to 250,000 shares of the Company's common stock at \$0.10 per share until August 8, 2006. The options were valued at \$200,000, which approximates their value using a Black-Scholes option pricing model. Such value was included in additional paid in capital.

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**Notes to Consolidated Financial Statements (Continued)**  
**April 30, 2004 and 2003**

The Company is authorized to issue 500,000 shares of Class AA-1 Cumulative Convertible Preferred Stock (Class AA-1 Preferred Stock). Class AA-1 Preferred Stock a par value Of \$0.01 per share and is entitled to receive cumulative dividends at the rate of 10% payable annually in shares of Class AA-1 Preferred Stock when and as declared by the Board of Directors. All shares of Class AA-1 Preferred Stock were issued to holders of judgment liens against the Company, in the amount of \$395,879, on April 15, 2004 and remain outstanding. The holders of the Class AA-1 Preferred Stock are, upon the liquidation of the Company, entitled to receive \$1.00 per share. Alternatively, and at the sole option of the holders, the holders of the Class AA-1 Preferred Stock, upon the liquidation of the Company, may retain the rights provided under the original judgment liens. The Class AA-1 Preferred Stock is redeemable in whole or in part at any time, at the option of the Company, at \$1.00 per share. The holders of the Class AA-1 Preferred Stock are entitled to a twenty day written notice of the Company's intent to redeem and the opportunity to convert the Class AA-1 Preferred Stock into common stock of the Company. The Class AA-1 Preferred Stock is convertible into common stock of the Company at any time. Each share of Class AA-1 Preferred Stock is convertible into one share of the Company's common stock, adjusted for stock dividends and stock splits. The Holders of Class AA-1 Preferred Stock have no voting rights except as expressly required by Nevada law. The Class AA-1 Preferred Stock is senior to all other series of preferred stock and all of the Company's common stock.

The Company is authorized to issue 500,000 shares of Class B Preferred Stock, par value \$1.00 per share. The holders of Class B Preferred Stock are not entitled to receive any dividends. As of April 30, 2004 and 2003, 500,000 shares of the Class B Preferred Stock were issued and outstanding. The Class B Preferred Stock is redeemable in whole, but not in part, at the option of the Corporation by resolution of the Corporation's Board of Directors at anytime at \$1.00 per share. Each share of Class B Preferred Stock has the voting rights equal to 100 shares of the Company's common stock. The holders of Class B shares are entitled to elect at least two directors to the Board of Directors of the Corporation. The holders of Class B Preferred Stock voting as a class will have the right to remove without cause at any time and replace any director such holders have elected.

#### **Common Stock**

The Company has 150,000,000 shares of authorized \$0.001 par value common stock, of which 5,848,681 and 5,792,646 shares were issued and outstanding at April 30, 2004 and 2003, respectively.

Effective November 15, 2002, Vector Energy Corporation reincorporated into Nevada and changed its name to VTEX Energy, Inc. The reincorporation and name change were accomplished by a merger of Vector Energy Corporation into a new wholly owned subsidiary, VTEX Energy, Inc. One new share of VTEX Energy, Inc. was issued for each 30 shares of Vector Energy Corporation held on November 15, 2002, the effective date for the reincorporation. At the effective date, 2,886,203 shares of VTEX Energy, Inc. were issuable in exchange for the outstanding common stock of Vector Energy Corporation. At April 30, 2004, 3,864,220 shares of common stock of Vector Energy Corporation remain unexchanged. The 128,949 shares of common stock of VTEX Energy, Inc. issuable in exchange for these shares of Vector Energy Corporation have been included in the outstanding common stock of VTEX Energy, Inc. VTEX Energy, Inc. may seek to enforce the mandatory exchange by cancellation of any unexchanged shares.

#### **Stock Options and Warrants**

The Company has granted options to certain key employees to purchase 69,336 shares of the Company's common stock at purchase prices ranging from \$4.50 to \$6.90 per share. These options expire on dates ranging from August 25, 2005 to March 1, 2006 and are non-transferable. The options, which were issued at a price equal to or exceeding the market value of the underlying stock on the date of the grant, are not intended to qualify as incentive stock options under Internal Revenue Code Section 422. The Company follows the provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation (SFAS No. 123) using a Black Scholes option pricing model.

In October 2000, the Company sold warrants to two investors to purchase 31,687 shares of the Company's common stock at the purchase price of \$15.00 per share. These warrants expired in October 2003. In August 2003 the Company issued warrants to the former holder of its line of credit to purchase 250,000 shares of the Company's common stock at a purchase price of \$0.10 per share. The warrants expire on August 8, 2006 and are transferable.

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**Notes to Consolidated Financial Statements (Continued)**  
**April 30, 2004 and 2003**

The following is a summary of option activity for the years ended April 30, 2004 and 2003.

	Weighted Shares Under Option	Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Options outstanding at April 30, 2002	69,336	\$ 6.67	69,336	\$ 6.67
Options granted	-	-	-	-
Options outstanding at April 30, 2003	69,336	6.67	69,336	6.67
Options granted	-	-	-	-
Options outstanding at April 30, 2004	69,336	\$ 6.67	69,336	\$ 6.67

All of the above options are fully vested, and expire during the year ended April 30, 2006.. The options, which were issued at a price equal to or exceeding the market value of the underlying stock on the date of the grant, are not intended to qualify as incentive stock options under Internal Revenue Code Section 422.

### **Stock Appreciation Rights**

On December 5, 2003, the Company granted stock appreciation rights on 1,000,000 shares of the Company's common stock to a former officer and director of the Company in exchange for the cancellation of \$503,975 in debt. Such debt consisted of \$397,092 in advances made to the Company and \$106,883 in accrued salary. The stock appreciation rights are fully vested, have a grant price of \$0.10 per share and expire on December 5, 2013. The exercise price of the stock appreciation rights is equal to the average of the means between the high and low trading prices of the Company's common stock for the ten consecutive trading days immediately preceding the date of exercise. Upon the exercise of the stock appreciation rights, the grantee is due the difference between the exercise price and the grant price multiplied by the number of shares being exercised. The Company, at its sole option, may elect to pay the grantee in shares of the Company's common stock valued at the exercise price. The stock appreciation rights were valued at \$240,000, on the date of grant, using a Black-Scholes option pricing model. The difference between the value of the stock appreciation rights and the debt cancelled has been recorded as a contribution of capital. As of April 30, 2004, the grantee has exercised stock appreciation rights on 347,167 shares of the Company's common stock. The Company has elected to pay all of the stock appreciation rights with the issuance of 271,234 shares of the Company's common stock.

### **10. Concentrations**

The Company currently markets the oil and gas production from its properties to four customers, three of which represent sales in excess of 10% of the Company's total oil and gas revenues. These three customers represent approximately 64%, 16% and 15% of the Company's total oil and gas revenues, respectively. During the year ended April 30, 2003 the Company marketed the oil and gas production from its properties to eleven customers, two of which represented sales in excess of 10% of the Company's total oil and gas revenues. These two customers represented approximately 39% and 14% of the Company's total oil and gas revenues, respectively. The availability of oil and gas purchasers, with respect to onshore production, is such, however, that any customer discontinuing purchases from the Company could almost assuredly be replaced by another buyer.

Approximately \$37,000,000, or 36%, of estimated future cash flows from proved reserves is related to offshore production from the Company's Mustang Island Block. Available purchasers and transportation facilities are much more limited with respect to this production. The Company has experienced significant delays in the production of its Mustang Island Block because of refusal by a pipeline to purchase its production, or allow its transportation through their facilities. The Company signed a contract with the pipeline for the purchase of its production from the Mustang Island Block and began production in December, 2002.



**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**Notes to Consolidated Financial Statements (Continued)**  
**April 30, 2004 and 2003**

**11. Related Party Transactions**

During the years ended April 30, 2004 and 2003, officers, directors and shareholders of the Company made unsecured advances totaling \$7,500 and \$412,863, respectively, to the Company. In addition, the Company repaid advances in the amount of \$41,963 and \$18,000 during the years ended April 30, 2004 and 2003, respectively. The balance due under such advances was \$242,406 and \$673,961 at April 30, 2004 and 2003, respectively.

On December 5, 2003, the Company granted stock appreciation rights on 1,000,000 shares of the Company's common stock to a former officer and director of the Company in exchange for the cancellation of \$503,975 in debt. Such debt consisted of \$397,092 in advances made to the Company and \$106,883 in accrued salary. The stock appreciation rights are fully vested, have a grant price of \$0.10 per share and expire on December 5, 2013. The exercise price of the stock appreciation rights is equal to the average of the means between the high and low trading prices of the Company's common stock for the ten consecutive trading days immediately preceding the date of exercise. Upon the exercise of the stock appreciation rights, the grantee is due the difference between the exercise price and the grant price multiplied by the number of shares being exercised. The Company, at its sole option, may elect to pay the grantee in shares of the Company's common stock valued at the exercise price. The stock appreciation rights were valued at \$240,000, on the date of grant, using a Black-Scholes option pricing model. The difference between the value of the stock appreciation rights and the debt cancelled has been recorded as a contribution of capital. As of April 30, 2004, the grantee has exercised stock appreciation rights on 347,167 shares of the Company's common stock. The Company has elected to pay all of the stock appreciation rights with the issuance of 271,234 shares of the Company's common stock.

The Company is obligated under a line of credit to an entity whose principal is the brother of the Company's president. At April 30, 2004 and 2003 the balance due under line of credit was \$1,839,143 and \$1,814,143, respectively. The line of credit bears interest at the rate of 7.5% and is due on January 31, 2005. Accrued interest on the loan totaled \$248,767 and \$106,359 at April 30, 2004 and April 30, 2003, respectively.

The Company is obligated under a production payment to an entity whose principal is the brother of the Company's president. At April 30, 2004 and 2003 the balance due under such production payment was \$934,518. Such production loan began accruing interest on January 1, 2001 at a variable rate equal to the rate on the Company's bank debt. At April 30, 2004 and 2003 the rate was 5.25%. Accrued interest on the loan totaled \$191,376 and \$144,180 at April 30, 2004 and April 30, 2003, respectively.

In March, 2004, the Company issued a \$150,000 note payable to Mustang Island Gathering, LLC for indemnification of litigation settlement costs. Mustang Island Gathering, LLC purchases the natural gas produced from the Company's Mustang Island property, and the Company is an approximate 15% owner in the LLC. The note is payable in monthly installments, with interest at 4.5%, at the rate of \$0.03 per MCF of gas purchased, beginning with April 2004 production.

In March 2004, the Company sold a producing property to a Company controlled by a former officer and director of the Company. Net proceeds from the sale totaled \$389,409 and consisted of \$175,000 in cash, \$100,000 in a note receivable, and \$114,409 in assumption of the Company's accounts payable. The note receivable had a balance of \$67,000 at April 30, 2004.

**12. Commitments and Contingencies**

Rent expense for the years ended April 30, 2004 and 2003 was \$65,124. In June 2001, the Company entered into a long-term lease for office space at an annual rent of \$65,124. As of April 30, 2004, future minimum lease payments under this lease were as follows:

2005	\$	65,124
2006		65,124
2007		21,708
Total	\$	<u>151,956</u>

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**Notes to Consolidated Financial Statements (Continued)**  
**April 30, 2004 and 2003**

As a member of Mustang Island Gathering, LLC( the "LLC"), a Texas limited liability company and pipeline operator, the Company has been required to guarantee a portion of the LLC's bank debt, which is approximately \$1.1 million in the aggregate.

### **13. Going Concern**

As shown in the financial statements, the Company incurred net losses of approximately \$1,000,000 and \$2,000,000 for the years ended April 30, 2004 and 2003, respectively. Current liabilities exceeded current assets by approximately \$5,222,000 and \$4,489,000 at April 30, 2004 and 2003, respectively. Amounts outstanding and payable to creditors are in arrears and the Company is in negotiations with creditors to obtain extensions and settlements of outstanding amounts. Of the \$9,877,954 and \$9,241,680 in shareholders' equity at April 30, 2004 and 2003, respectively, \$14,763,477 and \$15,598,287, respectively, is attributable to the Company's investment in oil and gas properties. Management anticipates that significant additional expenditures will be necessary to develop the properties, which consist of only proved reserves, before significant positive operating cash flows will be achieved. These factors are an indication that the Company may be unable to continue in existence.

Management's plans to alleviate these conditions include the renegotiation of certain trade payables, settlements of debt amounts with stock, deferral of certain time payments, and sales of properties, as considered necessary by management. In addition, management is pursuing business partnering arrangements for the acquisition and development of additional properties as well as debt and equity funding through private placements

The accompanying financial statements are prepared as if the Company will continue as a going concern. They contain none of the adjustments, including adjustments to recorded assets and liabilities, which might be necessary if the Company were unable to continue.

### **14. Oil and Gas Reserve Information (Unaudited)**

The estimates of proved oil and gas reserves utilized in the preparation of the financial statements for the year ended April 30, 2004 were estimated by D. Raymond Perry, Jr., a registered petroleum engineer in accordance with guidelines established by the Securities and Exchange Commission and the Financial Accounting Standards Board, which require that reserve reports be prepared under existing economic and operating conditions with no provision for price and cost escalation except by contractual agreement. All of the Company's reserves are located in the continental United States.

Future prices received for production and future production costs may vary, perhaps significantly, from the prices and costs assumed for purposes of these estimates. There can be no assurance that the proved reserves will be developed within the periods indicated or that prices and costs will remain constant. There can be no assurance that actual production will equal the estimated amounts used in the preparation of reserve projections. In accordance with the Securities and Exchange Commission's guidelines, the Company's internal petroleum engineers' estimates of future net cash flows from the Company's proved properties and the present value thereof are made using oil and natural gas sales prices in effect as of the dates of such estimates and are held constant throughout the life of the properties. Average prices used in estimating the future net cash flows were \$32.57 per barrel of oil and \$5.50 per Mcf of gas and \$29.03 per barrel of oil and \$4.43 per Mcf of natural gas at April 30, 2004 and 2003, respectively.

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures. Oil and gas reserve engineering must be recognized as a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact way, and estimates of other engineers might differ materially from those shown below. The accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. Results of drilling, testing and production after the date of the estimate may justify revisions. Accordingly, reserve estimates are often materially different from the quantities of oil and gas that are ultimately recovered. Reserve estimates are integral in management's analysis of impairments of oil and gas properties and the calculation of depreciation, depletion and amortization on those properties.

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**Notes to Consolidated Financial Statements (Continued)**  
**April 30, 2004 and 2003**

	Oil (Bbls)	Gas (Mcf)
	(in thousands)	
<u>Proved Reserves</u>		
Estimated Quantities – April 30, 2002	294	17,077
Sales of Reserves in Place	( 66)	( 973)
Production	( 2)	( 100)
Revisions	5	9,405
Estimated Quantities – April 30, 2003	231	25,409
Sales of Reserves in Place	-	( 294)
Production	( 10)	( 203)
Revisions	( 136)	( 9,396)
Estimated Quantities – April 30, 2004	<u>85</u>	<u>15,516</u>
<u>Proved Developed Reserves</u>		
April 30, 2003	180	20,986
April 30, 2004	85	15,516

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves:

	As of April 30,	
	2004	2003
	(in thousands)	
Future cash inflows	\$ 88,139	\$ 119,091
Future production costs	( 11,752)	( 6,980)
Future development costs	( 4,315)	( 7,712)
Future net cash flows	72,072	104,399
10% annual discount for estimating Timing of cash flows	( 28,294)	( 33,090)
Standardized measure of discounted Future net cash flows	\$ <u>43,778</u>	\$ <u>71,309</u>

Changes in Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves:

	Year Ended of April 30,	
	2004	2003
	(in thousands)	
Standardized measure of discounted Future net cash flows, beginning of year	\$ 71,309	\$ 29,399
Changes due to operations:		
Sales, net of production costs	( 607)	218
Net change in prices, net of production costs	11,666	9,853
Development costs incurred	236	218
Change in future development costs	( 482)	( 1,635)
Revisions of quantity estimates	( 28,334)	33,609
Sales of Reserves	( 1,047)	( 2,792)
Changes in production rates, timing and other	( 16,094)	( 501)
Accretion of discount	7,131	2,940
Standardized measure of discounted Future net cash flows, end of year	\$ <u>43,778</u>	\$ <u>71,309</u>

**VTEX Energy, Inc.**  
**(Formerly Vector Energy Corporation)**  
**Notes to Consolidated Financial Statements (Continued)**  
**April 30, 2004 and 2003**

**15. Subsequent Event**

On July 13, 2004, the Company entered into an option with CLK Energy, Inc. ("CLK"). Under the option, the Company will purchase from CLK 50% of CLK's interest in the Bayou Choctaw Field, located in the Iberville and West Baton Rouge Parishes. Upon completion of the purchase, the Company has agreed to reimburse CLK for its acquisition costs, as adjusted for intervening operations, and will deliver a commitment to fund future well workover and field development drilling. Under the terms of the option, CLK will be issued warrants to purchase 500,000 shares of the Company's common stock at an exercise price of \$ 0.50 per share.

At the exercise of the option in August 2004, the Company will further issue to CLK benefit, warrants to purchase 1,500,000 shares of additional common stock in the Company at an exercise price of \$ 0.50 per share. CLK has agreed to combine operations, technical and executive staff within the Company's expanded future operations. In further consideration, the Company will cause to be issued 10% of its then fully diluted common shares to CLK. The Company will expand its Board of Directors to accommodate nomination of certain members of CLK's executive management.

The Company has engaged the services of a broker dealer in order to conduct a private placement in the range of five to seven million dollars. The proceeds from such a private placement would be utilized for general corporate working capital and transaction costs, exercise of the Bayou Choctaw option, drilling and rework costs, and repayment of debt.