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

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

**X** **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.** For the quarter ended January 31, 2004

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

**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 77074**

*(Address of principal executive office)*

**(713) 773-3284**

*(Issuer's telephone number)*

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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after distribution of securities under a plan confirmed by a court. Yes        No **X**.

**APPLICABLE ONLY TO CORPORATE ISSUERS**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

At February 29, 2003 there were 4,903,681 shares of \$0.001 par value common stock outstanding. Such outstanding shares include 140,550 shares issuable in exchange for the remaining 4,212,237 shares of Vector Energy Corporation.

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

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## **EXPLANATORY NOTE**

We are filing this amendment to our quarterly report for the quarter ended January 31, 2004 to correct an error resulting in the failure to record an asset retirement obligation in accordance with SFAS No. 143. Accordingly, the January 31, 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 \$47,466. Additional effects of this change are more fully described in the notes to the financial statements.

For convenience and ease of reference we are filing our quarterly report in its entirety with the applicable changes. Unless otherwise stated, all information contained in this amended report is as of March 20, 2004, the original filing date of our quarterly report for the quarter ended January 31, 2004.

### **PART I – FINANCIAL INFORMATION**

#### **Item 1. Financial Statements**

The unaudited financial statements of the Company appearing at page F-1 through F-13 hereof are incorporated by reference.

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

On January 31, 2004 and April 30, 2003, The Company had working capital deficits of \$3,815,513 and \$4,488,888, respectively. These were primarily due to net payables assumed in the acquisition of oil and gas properties, and the classification of the Company's production payments as current. The Company has begun to settle many of the assumed payables for a combination of cash and the Company's common stock. Management believes that they will be able to continue this.

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 313,124 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 has capitalized \$251,704 in expenses incurred in conjunction with this transaction. Subsequently, the Company issued 116,014 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 1,226,667 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 has 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. Because such capital investment was not made, the sellers were entitled to receive an additional 500,000 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 March 7, 2000, the Company closed a purchase and sale agreement with a company, which is 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 550,000 shares of common stock valued at \$550,000. In accordance with the agreement, the Company immediately repurchased 16,667 shares of common stock at \$3.00 per share, for a total of \$50,000. 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 150,000 shares of common stock to the Company at \$3.00 per share. If the seller fails to exercise such right, the Company has the right to call 150,000 shares of common stock at \$3.00 per share.

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, 2003, 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.

Effective November 15, 2002, the Company reincorporated into Nevada and changed its name to VTEX Energy, Inc. The reincorporation and name change was 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.

## **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 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.

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 January 31, 2004 and April 30, 2003, the rate was 5.25%. Accrued interest on the loans totaled \$39,018 and \$32,547 at January 31, 2003 and April 30, 2003, respectively. The stock issued was booked at its fair market value and treated as a loan cost, which was 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 is 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 January 31, 2004 and April 30, 2003 the rate was 5.25%. Accrued interest on the loan totaled \$179,279 and \$146,543 at January 31, 2004 and April 30, 2003, respectively.

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 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 for \$35,000. 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 January 31, 2004 and April 30, 2003 the rate was 5.25%. Accrued interest on the loans totaled \$3,215 and \$873 at January 31, 2004 and April 30, 2003, respectively.

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 will pay \$300,000 to its lender by September 30, 2002. The Company will then be relieved of all payments until December 2, 2002. The Company has 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 has agreed to convert all of its \$3 million preferred stock 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 \$17,740 in cash and \$150,000 in production payments. Such cash payment was made on December 13, 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.

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 effect the \$250,000 interest retained by the bank

In July, 2003, the Company sold 125,000 shares of restricted common stock to a private investor for \$40,000.

In August, 2003, the Company sold 100,000 shares of restricted common stock to a private investor for \$23,750.

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.

For the past nine months, the Company's oil and gas revenues have been sufficient to satisfy its oil and gas operating expenses and general and administrative expenses. Additional equity funding will be required to meet the capital 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. 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 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 stock. If the Company is unsuccessful in these negotiations, additional equity funding may be needed in order to comply with the terms of the revolving credit note.

## **PART II – OTHER INFORMATION**

### **Item 1. 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

### **Item 2. Changes in Securities and Use of Proceeds**

The information required by this item is provided in the Notes to Financial Statements appearing at pages F-7 through F-13 hereof and are incorporated by reference.

### **Item 3. Defaults Upon Senior Securities**

None

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

None.

### **Item 5. Other Information**

None

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

- (a) Additional Exhibits  
Exhibit 31.1 Certification pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as amended  
Exhibit 32.2 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
- (b) Reports on Form 8-K.  
None

## **SIGNATURES**

In accordance with 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/ Randal B. McDonald, Jr.  
Randal B. McDonald, Jr.  
Chief Financial Officer  
Principal Financial and Accounting Officer  
Date: October 27, 2004

By /S/ Stephen F. Noser,  
Stephen F. Noser  
President  
Principal Executive Officer  
Date: October 27, 2004

**VTEX Energy, Inc.**  
**FINANCIAL STATEMENTS**  
**January 31, 2004**  
**(Unaudited)**



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**VTEX Energy, Inc.**  
**CONSOLIDATED BALANCE SHEETS**

	January 31, 2004 (Unaudited)	April 30, 2003 (Audited)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 66,971	\$ 14,542
Certificates of deposit	75,000	75,000
Revenue accounts receivable	105,509	186,591
JIB accounts receivable	53,401	57,613
<b>Total current assets</b>	<u>300,881</u>	<u>333,746</u>
<b>PROVED OIL AND GAS PROPERTIES, USING THE FULL COST METHOD OF ACCOUNTING</b>	17,033,470	16,629,967
Less accumulated depreciation, depletion, Amortization, and impairment	<u>1,243,462</u>	<u>1,031,680</u>
Net oil and gas properties	<u>15,790,008</u>	<u>15,598,287</u>
<b>OTHER ASSETS</b>		
Other property and equipment, less accumulated Depreciation of \$87,930 and \$77,514 at January 31, 2004 and April 30, 2003, respectively	38,731	29,147
Long term accounts receivable (net of allowance for Doubtful accounts of \$109,969 at January 31, 2004 and April 30, 2003)	148,000	148,000
Other assets	<u>46,777</u>	<u>19,277</u>
<b>Total other assets</b>	<u>233,508</u>	<u>196,424</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 16,324,397</u></u>	<u><u>\$ 16,128,457</u></u>

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

**VTEX Energy, Inc.**  
**CONSOLIDATED BALANCE SHEETS**

	<b>January 31, 2004</b> <b>(Unaudited)</b>	<b>April, 30, 2003</b> <b>(Audited)</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Notes payable	\$ 201,326	\$ 161,537
Production payments payable to related party	934,518	934,518
Production payments payable	309,000	309,000
Accounts payable - trade	1,016,320	1,519,408
Royalties payable	646,045	492,750
Working interest revenues payable	118,336	152,272
Taxes payable	201,478	181,858
Advances from related parties	246,869	673,961
Accrued payroll	-	106,883
Accrued interest	442,502	290,447
<b>Total current liabilities</b>	<b>4,116,394</b>	<b>4,822,634</b>
<b>NONCURRENT LIABILITIES</b>		
Line of Credit	1,839,143	2,064,143
Asset retirement obligations	927,031	-
<b>Total noncurrent liabilities</b>	<b>2,766,174</b>	<b>2,064,143</b>
<b>STOCKHOLDERS' EQUITY</b>		
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; 4,546,181 and 5,792,646 shares issued and Outstanding at January 31, 2004 and April 30, 2003, respectively)	4,546	5,793
Additional paid-in capital	28,686,781	27,723,542
Retained earnings	( 19,299,498)	( 18,537,655)
<b>Total stockholders' equity</b>	<b>9,441,829</b>	<b>9,241,680</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 16,324,397</b>	<b>\$ 16,128,457</b>

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

**VTEX Energy, Inc.**  
**CONSOLIDATED STATEMENTS OF INCOME**

	<b>Nine Months Ended</b>	
	<b>January 31, 2004</b>	<b>January 31, 2003</b>
	<b><u>(Unaudited)</u></b>	<b><u>(Unaudited)</u></b>
<b>REVENUES</b>		
Oil Sales	\$ 233,324	\$ 52,487
Gas Sales	737,753	211,722
Production byproducts	-	9,010
Forgiveness of Debt	200,000	-
Interest Income	898	2,540
	<u>1,171,975</u>	<u>275,759</u>
<b>Total Revenues</b>	<u>1,171,975</u>	<u>275,759</u>
<b>EXPENSES</b>		
Production taxes	106,803	28,923
Lease operating expense	438,764	501,561
Depletion of oil and gas properties	176,923	63,163
Accretion expense	39,921	-
Interest expense	161,740	149,518
General and administrative expense	824,156	1,366,098
	<u>1,748,307</u>	<u>2,109,263</u>
<b>Total expenses</b>	<u>1,748,307</u>	<u>2,109,263</u>
<b>Net Loss Before Cumulative Effect of Change In Accounting Principle</b>	( 576,332)	( 1,833,504)
<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>	( 761,846)	( 1,833,504)
<b>Preferred Dividend</b>	-	170,000
<b>NET LOSS AVAILABLE TO COMMON SHAREHOLDERS</b>	<u>\$ ( 761,846)</u>	<u>\$ ( 2,003,504)</u>
<b>NET LOSS PER SHARE - BASIC</b>		
Net Loss Before Cumulative Effect of Change In Accounting Principle	<u>\$ ( 0.11)</u>	<u>\$ ( 0.77)</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>\$ ( 0.15)</u>	<u>\$ ( 0.77)</u>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<u>4,979,108</u>	<u>2,615,341</u>

The accompanying notes are an integral part of the financial statements

**VTEX Energy, Inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**

	<b>Nine Months Ended</b>	
	<b>January 31, 2004</b>	<b>January 31, 2003</b>
	<b><u>(Unaudited)</u></b>	<b><u>(Unaudited)</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$ ( 761,846)	\$ ( 2,003,504)
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	176,923	63,163
Depreciation expense	10,416	11,328
Accretion expense	39,921	-
Stock issued for consulting fees	366,767	856,500
Forgiveness of Debt	( 200,000)	-
Decrease in certificates of deposit	-	25,000
Decrease in accounts receivable	85,294	52,011
(Decrease) increase in accounts payable	( 2,807)	56,121
Increase in royalties and revenues payable	119,359	3,810
Increase in accrued dividends payable	-	170,000
Increase in other current liabilities	171,675	108,226
Increase in other assets	-	( 9,924)
Net cash provided from (used by) operating activities	<u>191,216</u>	<u>( 667,269)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales of oil and gas properties	5,100	887,695
Development costs incurred	( 172,426)	( 127,090)
Purchase of fixed assets	( 20,000)	-
Net cash (used by) provided from investing activities	<u>( 187,326)</u>	<u>760,605</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of notes payable	184,356	281,154
Note repayments	( 144,567)	( 80,261)
Borrowings under line of credit	25,000	-
Payments on lines of credit	( 50,000)	( 834,601)
Borrowings under production payments payable	-	24,000
Advances from related parties	-	362,263
Repayments to related parties	( 30,000)	-
Issuance of common stock	63,750	64,999
Net cash provided from (used by) financing activities	<u>48,539</u>	<u>( 182,446)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	52,429	( 89,110)
<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>\$ 66,971</u>	<u>\$ 12,431</u>

The accompanying notes are an integral part of the financial statements

**VTEX Energy, Inc.**  
**Notes to Unaudited Consolidated Financial Statements**  
**January 31, 2004**

**Management's Representation of Interim Financial Information**

The accompanying financial statements have been prepared by VTEX Energy, Inc. (The Company) without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosure normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as allowed by such rules and regulations, and management believes that the disclosures are adequate to make the information presented not misleading. These financial statements include all of the adjustments which, in the opinion of management, are necessary to a fair presentation of financial position and results of operations. These financial statements should be read in conjunction with the audited financial statements included in the Company's Form 10-KSB, as of April 30, 2003.

**Business and Organization**

VTEX Energy, Inc., 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. The Company is primarily engaged in the acquisition, development, production and exploration of oil and natural gas properties in the United States.

**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.

*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 January 31, 2004 and April 30, 2003, there were no costs of unproved properties or major development projects included in the capitalized cost pool.

*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.

*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.

*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.

**VTEX Energy, Inc.**  
**Notes to Unaudited Consolidated Financial Statements (Continued)**  
**January 31, 2004**

The following is a summary of all significant noncash investing and financing activities and payments made for interest and income taxes for the nine months ended January 31, 2004 and 2003.

	<u><b>2004</b></u>	<u><b>2003</b></u>
<b><u>Noncash activities:</u></b>		
Common stock issued for consulting fees	\$ 366,767	\$ 856,500
Common stock issued in settlement of payables	\$ -	\$ 48,500
Common stock issued for other assets	\$ 27,500	\$ -
Common stock issued for Class A-1 Preferred Stock	\$ -	\$ 3,000,000
Common stock issued for accrued dividends on preferred stock	\$ -	\$ 510,000
Stock appreciation rights issued for accrued payroll and advances from related parties	\$ 240,000	\$ -
Oil and Gas Properties sold for assumption of payables	\$ 500,278	\$ -
<b><u>Cash Payments:</u></b>		
Interest	\$ 9,685	\$ 39,349

**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 January 31, 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 \$47,466. Additional effects of this change are more fully described in "*Asset Retirement Obligations*".

**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 313,124 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 has capitalized \$251,704 in expenses incurred in conjunction with this transaction. Subsequently, the Company issued 116,014 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 1,226,667 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 has 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. Because such capital investment was not made, the sellers were entitled to receive an additional 500,000 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 March 7, 2000, the Company closed a purchase and sale agreement with a company, which is 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 550,000 shares of common stock valued at \$550,000. In accordance with the agreement, the Company immediately repurchased 16,667 shares of common stock at \$3.00 per share, for a total of \$50,000. 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 150,000 shares of common stock to the Company at \$3.00 per share. If the seller fails to exercise such right, the Company has the right to call 150,000 shares of common stock at \$3.00 per share.

**VTEX Energy, Inc.**  
**Notes to Unaudited Consolidated Financial Statements (Continued)**  
**January 31, 2004**

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, 2003, 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.

**Line 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 will pay \$300,000 to its lender by September 30, 2002. The Company will then be relieved of all payments until December 2, 2002. The Company has 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 has agreed to convert all of its \$3 million preferred stock into common stock equivalent to a 45% ownership position in the Company.



**VTEX Energy, Inc.**  
**Notes to Unaudited Consolidated Financial Statements (Continued)**  
**January 31, 2004**

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 \$17,740 in cash and \$150,000 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.

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 effect 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 \$0.1. per share until August 8, 2006.

#### **Certificates of Deposit**

At January 31, 2004 and April 30, 2003, the Company had certificates of deposit totaling \$75,000. Such certificates bore interest at 1.1% and mature at dates ranging from March 20, 2004 to June 13, 2004. 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.**  
**Notes to Unaudited Consolidated Financial Statements (Continued)**  
**January 31, 2004**

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 January 31, 2004 and April 30, 2003, the rate was 5.25%. Accrued interest on the loans totaled \$39,018 and \$32,547 at January 31, 2003 and April 30, 2003, respectively. The stock issued was booked at its fair market value and treated as a loan cost, which was 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 is 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 January 31, 2004 and April 30, 2003 the rate was 5.25%. Accrued interest on the loan totaled \$179,279 and \$146,543 at January 31, 2004 and April 30, 2003, respectively.

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 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 for \$35,000. 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 January 31, 2004 and April 30, 2003 the rate was 5.25%. Accrued interest on the loans totaled \$3,215 and \$873 at January 31, 2004 and April 30, 2003, respectively.

**VTEX Energy, Inc.**  
**Notes to Unaudited Consolidated Financial Statements (Continued)**  
**January 31, 2004**

**Notes Payable**

Other notes payable at January 31, 2004 and April 30, 2003 consisted of \$107,116 and \$104,608, respectively, in unsecured 9% to 12% notes issued to vendors in settlement of accounts payable. Certain of the notes are past their due dates and are due on demand. Also included at January 31, 2004 and April 30, 2003 is a financing obligation for insurance premiums, payable in monthly installments, with interest at 5.57%, through October 2004. The balance of such obligation was \$94,210 and \$56,929 at January 31, 2004 and April 30, 2003, respectively.

**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.

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.

The following table describes all changes to the Company's ARO liability:

	Nine Months Ended January 31,	
	2004	2003
Beginning asset retirement obligations	\$ 887,110	\$ -
Accretion expense	39,921	-
Ending asset retirement obligations	<u>\$ 927,031</u>	<u>\$ -</u>

**Stockholder's Equity**

*Common Stock*

The Company has 150,000,000 authorized shares of \$0.001 par value common stock. At January 31, 2004 and April 30, 2003, 4,546,181 and 5,792,646 shares of common stock were issued and outstanding, respectively.

In July, 2003, the Company sold 125,000 shares of restricted common stock to a private investor for \$40,000.

In August, 2003, the Company sold 100,000 shares of restricted common stock to a private investor for \$23,750.

On August 8, 2003, 2,369,033 shares of the Company's common stock, which were owned by Wachovia Bank, were returned and cancelled in conjunction with a settlement of a portion of the Company's line of credit.

**VTEX Energy, Inc.**  
**Notes to Unaudited Consolidated Financial Statements (Continued)**  
**January 31, 2004**

On January 27, 2004, the Company issued 50,000 shares of its common stock, valued at \$27,500, in exchange for other assets.

During the nine months ended January 31, 2004, the Company issued 776,334 of its common stock, valued at \$366,767, in exchange for consulting services.

Effective November 15, 2002, the Company reincorporated into Nevada and changed its name to VTEX Energy, Inc. The reincorporation and name change was 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 January 31, 2004, 4,212,237 shares of common stock of Vector Energy Corporation remain unexchanged. The 140,550 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.

*Preferred Stock*

The Company has 50,000,000 authorized shares of 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.

The Company is authorized to issue 500,000 shares of Class B Preferred Stock, par value \$0.001 per share. Class B Preferred Stock is senior to any and all capital stock. The holders of Class B Preferred Stock are not entitled to receive any dividends. As of January 31, 2004 and April 30, 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 Company by resolution of the Company'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.

*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.

Also outstanding at January 31, 2004 are warrants for the purchase of 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.