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

Form 10-QSB
Amendment No. 1

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

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

As of December 9, 2004, there were 6,824,240 shares of common stock, \$0.001 par value, outstanding.

Transitional Small Business Disclosure Format (Check one).

Yes No X

VTEX ENERGY, INC.
FORM 10-QSB
FOR THE QUARTER ENDED OCTOBER 31, 2004

EXPLANATORY NOTE

We are filing this amendment to our quarterly report for the quarter ended October 31, 2004 to correct certain errors in the Company's financial statements as of, and for the six months ended October 31, 2004 and 2003. Such errors were discovered in conjunction with the audit of the Company's financial statements as of and for the year ended April 30, 2005 and included the failure to record the correct amount of the asset retirement obligation ("ARO") in accordance with Statement of Financial Accounting Standards ("SFAS") No. 143, *"Accounting for Asset Retirement Obligations."* In addition, corresponding amounts of ARO capitalized costs, depletion expense and accretion expense were also misstated for the six months ended October 31, 2004 and 2003. Additionally, the Company did not record certain property taxes owed and certain stock, warrant and option transactions which the Company was obligated to issue or grant. The effect of the restatement is described more fully in Note 2 of these financial statements

For convenience and ease of review we are filing our quarterly report on Form 10-QSB/A Amendment No. 1 for the quarterly period ended October 31, 2004 in its entirety with the applicable changes necessary to reflect the adjustments described above. All information contained in this amended report, including the related notes to the consolidated financial statements are as of October 31, 2004 as originally included in our quarterly report on Form 10-QSB filed with the SEC on December 21, 2004.

INDEX

| | <u>PAGE</u> |
|---|-------------|
| PART I. FINANCIAL INFORMATION | |
| Item 1. Financial Statements | |
| Consolidated Balance Sheets | 3 |
| as of October 31, 2004 (Restated) and April 30, 2004 | |
| Consolidated Statements of Operations | 5 |
| for the Three Months Ended October 31, 2004 (Restated) and 2003 (Restated) | |
| Consolidated Statements of Operations | 6 |
| for the Six Months Ended October 31, 2004 (Restated) and 2003 (Restated) | |
| Consolidated Statements of Cash Flow | 7 |
| for the Six Months Ended October 31, 2004 (Restated) and 2003 (Restated) | |
| Notes to Consolidated Financial Statements | 8 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 18 |
| Item 3. Controls and Procedures | 25 |
| PART II. OTHER INFORMATION | |
| Item 1. Legal Proceedings | 26 |
| Item 2. Changes in Securities and Use of Proceeds | 26 |
| Item 3. Defaults Upon Senior Securities | 27 |
| Item 4. Submission of Matters to a Vote of Security Holders | 27 |
| Item 5. Other Information | 27 |
| Item 6. Exhibits and Reports on Form 8-K | 27 |
| SIGNATURES | 28 |

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

VTEX ENERGY, INC. CONSOLIDATED BALANCE SHEETS

| | <u>October 31, 2004</u> Unaudited <u>Restated</u> | <u>April 30, 2004</u> |
|--|---|-----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 76,343 | \$ 156,575 |
| Certificates of deposit | 98,917 | 75,000 |
| Accounts receivable, trade | 84,019 | 165,262 |
| Joint interest billings receivable | 64,784 | 25,865 |
| Note receivable | - | 67,000 |
| Advances to related parties | - | 10,000 |
| Deferred offering costs | 53,631 | - |
| Other current assets | <u>238,370</u> | <u>82,051</u> |
| Total current assets | <u>616,064</u> | <u>581,753</u> |
| OIL AND NATURAL GAS PROPERTIES – Full cost method of accounting | 17,969,159 | 16,996,853 |
| Less accumulated depletion, depreciation and amortization | <u>(1,440,665)</u> | <u>(1,310,150)</u> |
| Oil and natural gas properties, net | <u>16,528,494</u> | <u>15,686,703</u> |
| OTHER ASSETS | | |
| Other property and equipment, net of accumulated depreciation of \$100,143 and \$91,720 at October 31, 2004 and April 30, 2004, respectively | 45,423 | 34,941 |
| Long term accounts receivable, net of allowance for doubtful accounts of \$135,119 at October 31, 2004 and April 30, 2004 | - | 28,000 |
| Deferred loan costs, net of accumulated amortization of \$317,970 and \$126,750 at October 31, 2004 and April 30, 2004, respectively | 9,178 | 134,350 |
| Other assets | <u>46,750</u> | <u>19,277</u> |
| Total other assets | <u>101,351</u> | <u>216,568</u> |
| TOTAL ASSETS | <u>\$ 17,245,909</u> | <u>\$ 16,485,024</u> |

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

VTEX ENERGY, INC.
CONSOLIDATED BALANCE SHEETS

| | <u>October 31, 2004</u> Unaudited <u>Restated</u> | <u>April 30, 2004</u> |
|--|---|-----------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Line of credit - related party | \$ 1,839,143 | \$ 1,839,143 |
| Line of credit - bank | 246,537 | 100,000 |
| Notes payable, net of debt discount of \$132,872 at October 31, 2004 | 761,786 | 306,092 |
| Production payments payable - related party | 934,518 | 934,518 |
| Production payments payable | 254,000 | 254,000 |
| Accounts payable - trade | 969,420 | 805,533 |
| Royalties payable | 753,611 | 654,191 |
| Working interest revenues payable | 64,801 | 94,232 |
| Taxes payable | 201,728 | 201,478 |
| Advances from related parties | 244,906 | 252,406 |
| Accrued interest | 608,360 | 486,043 |
| Total current liabilities | <u>6,878,810</u> | <u>5,927,636</u> |
| NONCURRENT LIABILITIES | | |
| Asset retirement obligations | <u>1,209,440</u> | <u>1,165,330</u> |
| Total noncurrent liabilities | <u>1,209,440</u> | <u>1,165,330</u> |
| COMMITMENTS AND CONTINGENCIES | | |
| | - | - |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock class A-1, cumulative convertible; \$0.001 par value per share, 3,000 shares authorized; no shares issued or outstanding | - | - |
| Preferred stock class AA-1, cumulative convertible; \$0.01 par value per share, 500,000 shares authorized; 395,879 shares issued and outstanding | 3,959 | 3,959 |
| Preferred stock class B, noncumulative nonconvertible; \$0.001 par value per share, 500,000 shares authorized; 500,000 shares issued and outstanding | 500 | 500 |
| Common stock, \$0.001 par value per share; 150,000,000 shares authorized; 6,824,240 and 5,848,681 shares issued and outstanding at October 31, 2004 and April 30, 2004, respectively | 6,824 | 5,849 |
| Additional paid-in capital | 31,464,541 | 29,976,623 |
| Accumulated deficit | (22,318,165) | (20,594,873) |
| Total stockholders' equity | <u>9,157,659</u> | <u>9,392,058</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 17,245,909</u> | <u>\$ 16,485,024</u> |

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

VTEX ENERGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended October 31, | |
|--|---------------------------------------|------------------------|
| | <u>2004</u> | <u>2003</u> |
| | <u>Restated</u> | <u>Restated</u> |
| REVENUES | | |
| Oil sales | \$ - | \$ 38,735 |
| Natural gas sales | <u>309,379</u> | <u>270,311</u> |
| Total Revenues | <u>309,379</u> | <u>309,046</u> |
| OPERATING EXPENSES | | |
| Production taxes | 33,233 | 37,014 |
| Lease operating expense | 119,075 | 160,278 |
| Depletion expense | 54,722 | 40,278 |
| General and administrative expense | 1,133,801 | 190,102 |
| Accretion expense | <u>22,260</u> | <u>20,326</u> |
| Total operating expenses | <u>1,363,091</u> | <u>447,998</u> |
| OTHER INCOME (EXPENSE) | | |
| Other income | 992 | 358 |
| Interest expense | <u>(207,070)</u> | <u>(52,050)</u> |
| Total other expense, net | <u>(206,078)</u> | <u>(51,692)</u> |
| NET LOSS | <u>\$ (1,259,790)</u> | <u>\$ (190,644)</u> |
| NET LOSS PER SHARE – Basic and Diluted | <u>\$ (0.17)</u> | <u>\$ (0.04)</u> |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | <u>7,393,863</u> | <u>4,580,217</u> |

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

VTEX ENERGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Six Months Ended October 31, | |
|--|-------------------------------------|-----------------------------|
| | <u>2004</u> | <u>2003</u> |
| | <u>Restated</u> | <u>Restated</u> |
| REVENUES | | |
| Oil sales | \$ 57,321 | \$ 179,585 |
| Natural gas sales | <u>693,865</u> | <u>533,129</u> |
| Total Revenues | <u>751,186</u> | <u>712,714</u> |
| OPERATING EXPENSES | | |
| Production taxes | 78,535 | 73,694 |
| Lease operating expense | 259,067 | 384,565 |
| Depletion expense | 130,515 | 56,165 |
| General and administrative expense | 1,556,918 | 633,971 |
| Accretion expense | <u>44,110</u> | <u>40,652</u> |
| Total operating expenses | <u>2,069,145</u> | <u>1,189,047</u> |
| OTHER INCOME (EXPENSE) | | |
| Other income | 7,421 | 624 |
| Interest expense | <u>(412,754)</u> | <u>(109,305)</u> |
| Total other expense, net | <u>(405,333)</u> | <u>(108,681)</u> |
| Loss Before Cumulative Effect of Change in Accounting Principle | (1,723,292) | (585,014) |
| Cumulative Effect of Change in Accounting Principle | <u>-</u> | <u>(275,533)</u> |
| NET LOSS | <u><u>\$ (1,723,292)</u></u> | <u><u>\$ (860,547)</u></u> |
| NET LOSS PER SHARE – Basic and Diluted | | |
| Loss Before Cumulative Effect of Change in Accounting Principle | \$ (0.25) | \$ (0.11) |
| Cumulative Effect of Change in Accounting Principle | <u>-</u> | <u>(0.05)</u> |
| Net Loss | <u><u>\$ (0.25)</u></u> | <u><u>\$ (0.16)</u></u> |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | <u>6,917,852</u> | <u>5,263,235</u> |

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

VTEX Energy, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

| | Six Months Ended October 31, | |
|--|-------------------------------------|------------------------|
| | <u>2004</u> | <u>2003</u> |
| | <u>Restated</u> | <u>Restated</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (1,723,292) | \$ (860,547) |
| Adjustments to reconcile net loss to net cash provided by operating activities | | |
| Cumulative effect of change in accounting principle | - | 275,533 |
| Depletion expense | 130,515 | 56,165 |
| Amortization expense | 279,798 | - |
| Depreciation expense | 8,423 | 6,521 |
| Bad debt expense | 28,000 | - |
| Accretion expense | 44,110 | 40,652 |
| Common stock issued for services | 972,652 | 355,577 |
| Common stock issued to settle accounts payable | 13,743 | - |
| Advances to related parties applied to travel costs | 79,537 | - |
| Changes in operating assets and liabilities | | |
| Accounts receivable, trade | 42,324 | (43,947) |
| Other assets | 31,208 | - |
| Accounts payable – trade | 163,887 | 122,568 |
| Royalties and working interest revenues payable | 69,989 | 296,842 |
| Other current liabilities | 122,567 | 116,088 |
| Net cash provided by operating activities | <u>263,461</u> | <u>365,452</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment in certificates of deposit | (23,917) | - |
| Oil and natural gas capital expenditures | (972,306) | (132,203) |
| Purchase of property and equipment, other | (18,905) | - |
| Payments received on note receivable | 67,000 | - |
| Advances to related party | (114,537) | - |
| Payments received on advances to related party | 45,000 | - |
| Net cash used in investing activities | <u>(1,017,665)</u> | <u>(132,203)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Borrowings on notes payable | 700,000 | 14,948 |
| Repayments of notes payable | (111,434) | (122,171) |
| Borrowings on lines of credit | 149,300 | - |
| Repayments of lines of credit | (2,763) | (50,000) |
| Repayments of advances from related parties | (7,500) | (37,500) |
| Deferred offering costs | (53,631) | - |
| Issuance of common stock | - | 63,750 |
| Net cash provided by (used in) financing activities | <u>673,972</u> | <u>(130,973)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (80,232) | 102,276 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | <u>156,575</u> | <u>14,542</u> |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | <u>\$ 76,343</u> | <u>\$ 116,818</u> |

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

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

Note 1. Management's Representation of Interim Financial Information

The accompanying consolidated financial statements have been prepared by management of VTEX Energy, Inc. (Formerly Vector Energy Corporation), a Nevada corporation (together with its subsidiary, Vector Exploration, Inc., the "Company") without audit pursuant to the rules and regulations of the SEC. Certain information and footnote disclosure normally included in the financial statements prepared in accordance with U.S. 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 that, in the opinion of management, are necessary for the fair presentation of the financial position and results of operations of the Company. These financial statements should be read in conjunction with the audited consolidated financial statements for the year ended April 30, 2004, as amended, which are included in the Company's annual report on Form 10-KSB filed with the SEC on August 15, 2005.

Business and Organization

The Company was incorporated under the laws of the State of Texas on June 18, 1998 as Vector Energy Corporation. Effective November 15, 2002, the Company was reincorporated into Nevada. The reincorporation was effected by the merger of Vector Energy Corporation with and into a newly created wholly owned subsidiary VTEX Energy, Inc., a Nevada corporation, which became the surviving entity. The Company is primarily engaged in the acquisition, development, production and exploration of oil and natural gas properties in the United States.

Going Concern

For the year ended April 30, 2004 our independent registered public accounting firm issued a going concern opinion. As shown in the financial statements, the Company has historically incurred net losses from operations and has incurred net losses of approximately \$1,723,000 and \$861,000 for the six months ended October 31, 2004 and 2003, respectively, and losses are expected to be incurred in the near term. Current liabilities exceeded current assets by approximately \$6,263,000 and \$5,346,000 at October 31, 2004 and April 30, 2004, respectively, and the accumulated deficit is approximately \$22,318,000 at October 31, 2004. 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. Management anticipates that significant additional expenditures will be necessary to develop the Company's properties, which consist primarily of proved reserves that are non-producing, before significant positive operating cash flows will be achieved. Without outside investment from the sale of equity securities or debt financing our ability to execute our business plan will be limited. 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 scheduled payments, and sales of non core 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 consolidated financial statements are prepared as if the Company will continue as a going concern. The consolidated financial statements do not contain adjustments, including adjustments to recorded assets and liabilities, which might be necessary if the Company were unable to continue as a going concern.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of VTEX Energy, Inc. and its wholly owned subsidiary, Vector Exploration, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Restatement

We are filing this amendment to our quarterly report for the quarter ended October 31, 2004 to correct certain errors in the Company's financial statements as of, and for the six months ended October 31, 2004 and 2003. Such errors were discovered in conjunction with the audit of the Company's financial statements as of and for the year ended April 30, 2005 and included the failure to record the correct amount of the asset retirement obligation ("ARO") in accordance with Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." In addition, corresponding amounts of ARO capitalized costs, depletion expense and accretion expense were also misstated for the three and six months ended October 31, 2004 and 2003. Additionally, the Company did not record certain property taxes owed and certain stock, warrant and option transactions which the Company was obligated to issue or grant. The effect of this restatement was to increase the net loss for the three months ended October 31, 2004 and 2003 by \$924,291 and \$16,568, respectively, or \$0.12 per share and \$0.00 per share for the three months ended October 31, 2004 and 2003, respectively. The effect of this restatement was to increase the net loss for the six months ended October 31, 2004 and 2003 by \$1,081,680 and \$156,220, respectively, or \$0.15 and \$0.03 per share, respectively. These adjustments reduced total stockholders' equity by \$293,563 as of October 31, 2004.

For convenience and ease of review we are filing our quarterly report on Form 10-QSB/A Amendment No. 1 for the quarterly period ended October 31, 2004 in its entirety with the applicable changes necessary to reflect the adjustments described above. All information contained in this amended report, including the related notes to the consolidated financial statements are as of October 31, 2004 as originally included in our quarterly report on Form 10-QSB filed with the SEC on December 21, 2004. Where applicable, corresponding notes have been adjusted to conform to this restatement.

The following is a comparison of the previously reported and restated amounts for the Consolidated Balance Sheet and Consolidated Statement of Operations as of and for the six months ended October 31, 2004.

| | <u>As Reported</u> | <u>Adjustment</u> | <u>As Restated</u> |
|---|--------------------|-------------------|--------------------|
| <u>Consolidated Balance Sheet</u> | | | |
| Oil and natural gas properties | \$ 17,855,420 | \$ 113,739 | \$ 17,969,159 |
| Accumulated depletion, depreciation and amortization | (1,471,582) | 30,917 | (1,440,665) |
| Oil and natural gas properties, net | 16,383,838 | 144,656 | 16,528,494 |
| Deferred loan costs | 215,429 | (206,251) | 9,178 |
| Total other assets | 307,602 | (206,251) | 101,351 |
| Total assets | 17,307,504 | (61,595) | 17,245,909 |
| Notes payable | 894,658 | (132,872) | 761,786 |
| Accounts payable - trade | 809,033 | 160,387 | 969,420 |
| Total current liabilities | 6,851,295 | 27,515 | 6,878,810 |
| Asset retirement obligations | 1,004,987 | 204,453 | 1,209,440 |
| Total noncurrent liabilities | 1,004,987 | 204,453 | 1,209,440 |
| Additional paid-in capital | 30,389,794 | 1,074,747 | 31,464,541 |
| Accumulated deficit | (20,949,855) | (1,368,310) | (22,318,165) |
| Total stockholders' equity | 9,451,222 | (293,563) | 9,157,659 |
| Total liabilities and stockholders' equity | \$ 17,307,504 | \$ (61,595) | \$ 17,245,909 |
| <u>Consolidated Statement of Operations</u> | | | |
| Lease operating expense | \$ 250,549 | \$ 8,518 | \$ 259,067 |
| General and administrative expense | 743,014 | 813,904 | 1,556,918 |
| Accretion expense | 64,650 | (20,540) | 44,110 |
| Total operating expenses | 1,267,263 | 801,882 | 2,069,145 |
| Interest expense | 132,956 | 279,798 | 412,754 |
| Total other expense, net | 125,535 | 279,798 | 405,333 |
| Net loss | \$ (641,612) | \$ (1,081,680) | \$ (1,723,292) |
| Loss per share | \$ (0.10) | \$ (0.15) | \$ (0.25) |

The following is a comparison of the previously reported and restated amounts for the Consolidated Statement of Operations for the six months ended October 31, 2003.

| <u>Consolidated Statement of Operations</u> | <u>As Reported</u> | <u>Adjustment</u> | <u>As Restated</u> |
|---|---------------------------|--------------------------|---------------------------|
| Lease operating expense | \$ 297,574 | \$ 86,991 | \$ 384,565 |
| Depletion expense | 90,993 | (34,828) | 56,165 |
| Accretion expense | 26,614 | 14,038 | 40,652 |
| Total operating expenses | 1,122,846 | 66,201 | 1,189,047 |
| Loss before cumulative effect of change in accounting principle | (518,813) | (66,201) | (585,014) |
| Cumulative effect of change in accounting principle | (185,514) | (90,019) | (275,533) |
| Net loss | \$ (704,327) | \$ (156,220) | \$ (860,547) |
| Loss per share - | | | |
| Before cumulative effect of change in accounting principle | \$ (0.10) | \$ (0.01) | \$ (0.11) |
| Cumulative effect of change in accounting principle | \$ (0.03) | \$ (0.02) | \$ (0.05) |
| Net loss | \$ (0.13) | \$ (0.03) | \$ (0.16) |

The following is a comparison of the previously reported and restated amounts for the Consolidated Statement of Operations for the three months ended October 31, 2004.

| <u>Consolidated Statement of Operations</u> | <u>As Reported</u> | <u>Adjustment</u> | <u>As Restated</u> |
|--|---------------------------|--------------------------|---------------------------|
| Lease operating expense | \$ 114,816 | \$ 4,259 | \$ 119,075 |
| General and administrative expense | 353,261 | 780,540 | 1,133,801 |
| Accretion expense | 18,497 | 3,763 | 22,260 |
| Total operating expenses | 574,529 | 788,562 | 1,363,091 |
| Interest expense | 71,341 | 135,729 | 207,070 |
| Total other expense, net | 70,349 | 135,729 | 206,078 |
| Net loss | \$ (335,499) | \$ (924,291) | \$ (1,259,790) |
| Net loss per share – Basic and Diluted | \$ (0.05) | \$ (0.12) | \$ (0.17) |

The following is a comparison of the previously reported and restated amounts for the Consolidated Statement of Operations for the three months ended October 31, 2003.

| <u>Consolidated Statement of Operations</u> | <u>As Reported</u> | <u>Adjustment</u> | <u>As Restated</u> |
|--|---------------------------|--------------------------|---------------------------|
| Lease operating expense | \$ 148,902 | \$ 11,376 | \$ 160,278 |
| Depletion expense | 42,105 | (1,827) | 40,278 |
| Accretion expense | 13,307 | 7,019 | 20,326 |
| Total operating expenses | 431,430 | 16,568 | 447,998 |
| Net loss | \$ (174,076) | \$ (16,568) | \$ (190,644) |

Changes in Accounting Principles

Effective May 1, 2003, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 143, “Accounting for Asset Retirement Obligations,” which requires a liability for an asset retirement obligation to be recorded at its fair value in the period in which the obligation is incurred and a corresponding increase in the carrying amount of the related long-lived asset (see Note 6).

Revenue Recognition

The Company recognizes oil and natural gas revenue from its interests in producing wells as oil and natural gas is produced and sold from those wells. Oil and natural gas sold by the Company is not significantly different from the Company's share of production.

Oil and Natural Gas Properties

The Company follows the full cost method of accounting for its oil and natural gas properties. All costs associated with property acquisition, exploration, and development activities are capitalized in a single cost center located within the United States. 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 natural gas reserves. Capitalized costs are subject to a "ceiling test" and limited to the present value of estimated future net revenues less estimated future expenditures using a discount factor of ten percent. Should capitalized costs exceed the present value of our reserves discounted at ten percent the excess is charged to operations. Once incurred, an impairment of oil and natural gas properties is not recoverable at a later date. Impairment of oil and natural gas properties is assessed on a quarterly basis in conjunction with our quarterly filings with the SEC. Sales of proved and unproved oil and natural gas properties are treated as reductions of the capitalized cost pool, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves. At October 31, 2004 and April 30, 2004, there were no costs of unproved properties or major development projects included in the capitalized cost pool. The depletion rates per Mcfe for the three and six months ended October 31, 2004 and 2003 were \$1.00 and \$1.04 and \$0.62 and \$0.40, respectively.

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.

Deferred Loan Costs

Deferred loan costs consist of direct costs of securing financing and includes primarily common stock and warrants issued as part of the underlying debt instruments, loan origination fees paid to third parties, extension fees, and legal costs to prepare loan documents. These costs are capitalized and amortized over the life of the loan on a straight line basis.

Asset Retirement Obligations

The Company records a liability for legal obligations associated with the retirement of tangible long-lived assets in the period in which they are incurred in accordance with SFAS No. 143. The Company adopted this policy effective May 1, 2003, using a cumulative effect approach to recognize transition amounts for asset retirement obligations ("ARO"), asset retirement costs and accumulated accretion and depletion. Under this method, when liabilities for dismantlement and abandonment costs, excluding salvage values, are initially recorded the carrying amount of the related oil and natural gas properties are increased. Accretion of the liability is recognized each period using the interest method of allocation, and the capitalized cost is depleted over the useful life of the related asset. Revisions to such estimates are recorded as adjustments to the ARO liability, capitalized asset retirement costs and charges to operations during the periods in which they become known (see Note 6).

Stock-Based Compensation

The Company accounts for stock based compensation to employees under the fair value method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation." Under the fair value method, compensation cost is measured at the grant date of each common stock option or warrant awarded based on the fair value of the award and is recognized over the vesting period, which is usually the service period. For common stock options and warrants, fair value is determined using an option-pricing model that takes into account the common stock market price at the grant date, the exercise price, the expected life of the common stock option or warrant, the market volatility of the underlying common stock, and the risk-free interest rate over the expected life of the common stock option or warrant. The fair value of a common stock option or warrant is estimated at the grant date and is not subsequently adjusted for changes in the assumptions used.

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 due to the Company incurring a net loss for all periods presented. Additionally, included in weighted average shares outstanding are 150,000 shares the Company is obligated to issue at October 31, 2004, of which the weighted average effect of such shares totals 150,000. At October 31, 2004, there are 250,000 warrants that are potentially dilutive common shares. There were no potentially dilutive common shares at October 31, 2003.

Income Taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes," which provides for an asset and liability approach for accounting for income taxes. Under this approach, deferred tax assets and liabilities are recognized based on anticipated future tax consequences, using currently enacted tax laws, attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. Management determined that it is more likely than not that NOL's accumulated during prior years of in excess of \$15,000,000 will not be recoverable. Accordingly, a valuation allowance has been provided for the full value of its net tax assets.

Statement of Cash Flows

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

The following is a summary of all payments made for interest and significant noncash financing activities for the six months ended October 31, 2004 and 2003, respectively.

Supplemental Disclosures of Cash Flow Information:

| | <u>2004</u> <u>Restated</u> | <u>2003</u> |
|---|--------------------------------|-------------|
| <u>Cash Payments</u> | | |
| Interest | \$ 10,639 | \$ 8,668 |
| <u>Noncash financing activities</u> | | |
| Common stock and warrants issued for services | \$ 972,652 | \$ 355,577 |
| Common stock and warrants issued to note holders recorded as deferred loan costs | \$ 66,048 | \$ - |
| Common stock and warrants issued to note holders Recorded as debt discount | \$ 221,449 | \$ - |
| Common stock issued to settle accounts payable | \$ 13,743 | \$ - |
| Common stock warrants issued for option to purchase oil and natural gas properties | \$ 215,000 | \$ - |

Use of Estimates

The preparation of financial statements in conformity with U.S. 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 as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates.

Significant estimates include volumes of oil and natural gas reserves used in calculating depletion, depreciation and amortization of proved oil and natural gas properties, asset retirement obligations, bad debts, contingencies and litigation. Oil and natural gas reserve estimates, which are the basis for unit-of-production depletion and the ceiling test, have numerous inherent uncertainties. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of drilling, testing, and production subsequent to the date of the estimate may justify revision of such estimate (positive or negative). Accordingly, reserve estimates are most often different from the quantities of oil and natural gas that are ultimately recovered. In addition, reserve estimates are vulnerable to changes on wellhead prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be volatile in the future.

Note 3. Certificates of Deposit

At October 31, 2004 and April 30, 2004, the Company had certificates of deposit totaling \$98,917 and \$75,000, respectively. Such certificates bore interest at rates ranging from 1.099% to 1.1% at October 31, 2004 and 1.1% at April 30, 2004. The maturity dates of the certificates ranged from February 8, 2005 to March 20, 2005. 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.

Note 4. Acquisitions of Oil and Natural Gas Properties

On July 13, 2004, the Company entered into an option with CLK Energy, Inc. ("CLK"). Under the option, the Company has the right to purchase from CLK 50% of their interest in the Bayou Choctaw Field, located in the Iberville and West Baton Rouge Parishes of Louisiana for \$1,250,000 and the assumption of a production payment of \$1,500,000 payable contingent upon reaching 110% of payout of the Company's investment. The Company's investment is comprised of its original purchase price (as defined), value of common stock and warrants issued as purchase price consideration, and its commitment to fund \$5,000,000 of workover and well development costs. Upon exercise of the option and 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 totaling \$5,000,000, as defined. Under the terms of the option, CLK was issued warrants to purchase 500,000 shares of the Company's common stock at an exercise price of \$0.50 per share. Such warrants had a fair value of \$215,000 which has been recorded as a noncurrent asset. Upon exercise of the option, such amount will be included in oil and natural gas properties as a component of the purchase price. If the option expires, the Company will expense the fair value of the warrants during the period in which the option expires. The option had an original expiration date of October 31, 2004 which was subsequently extended to December 10, 2004.

In the event that the Company elects to exercise this option, it will issue to CLK, warrants to purchase 1,500,000 shares of additional common stock of the Company at an exercise price of \$0.50 per share. CLK has indicated that it will combine operations, technical and executive staff within the Company's expanded future operations. In further consideration, the Company would issue 10% of its then fully diluted common shares to CLK and expand its Board of Directors to accommodate nomination of certain members of CLK's executive management (see Note 10).

Note 5. Debt

Total debt at October 31, 2004 and April 30, 2004 consists of the following:

| | <u>October 31, 2004</u> <u>(Restated)</u> | <u>April 30, 2004</u> |
|--------------------------------------|--|-----------------------|
| Lines-of-credit | \$ 2,085,680 | \$ 1,939,143 |
| Production payments payable | 1,188,518 | 1,188,518 |
| Other notes payable, net of discount | 761,786 | 306,092 |
| | <u>4,035,984</u> | <u>3,433,753</u> |
| Less current portion | (4,035,984) | (3,433,753) |
| | <u>\$ -</u> | <u>\$ -</u> |

Lines of Credit

The Company has a \$10 million revolving credit line with an entity controlled by the brother of the Company's president. The borrowing base under this revolving credit line is \$1,839,143 at October 31, 2004, which is equal to the outstanding balance and cannot be increased without the consent of the lender. The line of credit is secured by all of the Company's oil and natural gas properties and bears interest at the rate of 7.5%. Accrued interest on the line of credit totaled \$318,302 and \$248,767 at October 31, 2004 and April 30, 2004, respectively. Under the currently scheduled reductions in the borrowing base, the principal balance and unpaid interest 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. The note has been guaranteed by a private investor who received 100,000 shares of the Company's common stock with a fair value of \$49,000 as consideration for such guarantee. The fair value of the common stock has been recorded as a deferred loan cost and is being amortized over one year. Interest on this note is payable monthly at a floating rate of prime plus

1.097% (5.597% at October 31, 2004 and April 30, 2004.) The outstanding balance under the note, which was \$246,537 and \$100,000 at October 31, 2004 and April 30, 2004, respectively, is due upon demand.

Other Notes Payable

Included in other notes payable 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. These notes totaled \$42,850 at October 31, 2004 and April 30, 2004, respectively.

Also included in other notes payable is a financing obligation for insurance premiums, payable in monthly installments, with interest at 5.57%, through October 2004 and was paid in full. Such obligation had a balance of \$63,242 at April 30, 2004.

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%, matured on August 21, 2004 and was paid in full in November 2004. Such note had a balance of \$2,000 and \$10,000 at October 31, 2004 and April 30, 2004, respectively.

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 deferred loan cost which is being amortized over six months. The notes were due on dates ranging from April 29, 2004 to May 26, 2004. The Company subsequently reached agreement with the investors to extend the due dates of the notes to dates ranging from April 29, 2005 to May 26, 2005 in return for the issuance of 28,250 shares of its common stock and warrants to purchase 5,000 of its common stock at \$0.50 per share which expire on dates ranging from April 29, 2006 to May 26, 2006. The stock and warrants were recorded at their fair market value of \$17,048 and treated as deferred loan cost which is being amortized over the terms of the extensions. As of October 31, 2004, the common stock had not been issued, however their fair value has been included in stockholders' equity.

In March, 2004, the Company issued a \$150,000 note payable to Mustang Island Gathering, LLC (the "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 10% 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 natural gas purchased, beginning with April 2004 production. The balance due under the note was \$109,808 and \$150,000 at October 31, 2004 and April 30, 2004, respectively.

During the period June through September of 2004, the Company issued a series of 12% notes totaling \$700,000 to investors for working capital purposes. The Company also provided for the issuance to the investors of 300,000 shares of its common stock and warrants to purchase 150,000 shares of the Company's common stock at \$0.50 per share which expire on dates ranging from June 18, 2006 to September 8, 2006. The stock and warrants were recorded at their fair market value of \$221,449 and treated as a debt discount which is being amortized over the terms of the notes. The unamortized debt discount is \$132,872 at October 31, 2004. As of October 31, 2004, 140,000 shares of the common stock had not been issued, however their fair value has been included in stockholders' equity.

Production Payments Payable

During October and November of 2000, the Company issued 31,687 shares of its common stock and undivided working interests, ranging from 3.7% to 4.4%, in three nonproducing wells in the Mustang Island Field to private investors for total cash consideration of \$254,000. The proceeds were used to fund development of the wells. The investors are entitled to recoup their investment out of 100% of the future production, if any, from the wells. These transactions were treated, by the Company, as loans repayable out of production from designated wells for accounting purposes. The stock issued was recorded at its fair market value as a loan cost which has been fully amortized. The production loans began accruing interest on January 1, 2001 at 5.25% and accrued interest on the loans totaled \$50,825 and \$44,103 at October 31, 2004 and April 30, 2004, respectively. Although certain of the wells covered by the production loans have been producing, the Company has not made any principal payments under the loans. In January and February of 2004, the Company issued the holders of the production loans 100,000 shares of the Company's common stock in return for their forbearance under the production loans 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 recorded at its fair market value of \$57,500 and treated as deferred loan cost which was amortized over six months. Forbearance under the production loans has continued under a verbal agreement between the Company and the holders of the loans while

discussions are being held on restructuring the terms of the loans. However, there can be no assurance that any restructuring will occur.

In December 2000, the Company issued an undivided 10% interest in six wells located in the Mustang Island Field to Old Jersey Oil Ventures, LLC for cash consideration of \$1,000,000. The brother of the President of the Company is a principal in Old Jersey Oil Ventures, LLC. Old Jersey Oil Ventures, LLC is entitled to recoup its investment out of future production from the wells in the Mustang Island Field. The transaction was treated, by the Company, as a loan repayable out of production from designated wells for accounting purposes. The production loan began accruing interest on January 1, 2001 at 5.25% and accrued interest on the loan totaled \$216,109 and \$191,376 at October 31, 2004 and April 30, 2004, respectively. The balance due under the production loan was \$934,518 at October 31, 2004 and April 30, 2004. In March, 2004, the Company issued Old Jersey Oil Ventures, LLC 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 recorded at its fair market value of \$176,000 and treated as a loan cost which was amortized over five months. Forbearance under the production loan has continued under a verbal agreement between the Company and Old Jersey Oil Ventures, LLC while discussions are being held on restructuring the terms of the loans. However, there can be no assurance that any restructuring will occur.

Note 6. Asset Retirement Obligations

Beginning in fiscal 2004, SFAS No. 143 requires the Company to recognize an estimated liability for the plugging and abandonment of its oil and natural gas wells and associated pipelines, platforms, and equipment. This statement requires the Company to record a liability in the period in which its asset retirement obligation ("ARO") is incurred. Upon initial recognition of the liability, the Company must capitalize a corresponding asset cost equal to the amount of the liability. Upon adoption of SFAS No. 143 the Company recognized (1) a liability for any existing ARO's, (2) corresponding capitalized cost related to the liability, (3) accumulated depletion, depreciation and amortization on that capitalized cost, and (4) a cumulative effect of accounting change.

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 No. 143 was effective beginning May 1, 2003 and resulted in an adjustment to record (1) an \$1,084,028 ARO, (2) a \$850,194 increase in the carrying value of proved properties, (3) a \$41,699 increase in accumulated depletion, and (4) a \$275,533 one-time cumulative effect of change in accounting principle.

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

| | Six Months Ended October 31, | |
|--|-------------------------------------|--------------------------|
| | <u>2004</u> | <u>2003</u> |
| | <u>(Restated)</u> | <u>(Restated)</u> |
| Beginning asset retirement obligations | \$ 1,165,330 | \$ 1,084,028 |
| Accretion expense | 44,110 | 40,652 |
| Ending asset retirement obligations | <u>\$ 1,209,440</u> | <u>\$ 1,124,680</u> |

Note 7. Commitments and Contingencies

In June 2001, the Company entered into a long-term lease for office space with an annual rent of \$65,124. Rent expense for the three and six months ended October 31, 2004 and 2003 was \$16,281 and \$32,562 and \$16,281 and \$32,562, respectively. As of October 31, 2004, future minimum lease payments under this lease were as follows:

| <u>Fiscal Year Ended April 30,</u> | | |
|---|----|----------------|
| 2005 | \$ | 32,562 |
| 2006 | | 65,124 |
| 2007 | | 16,281 |
| Total | \$ | <u>113,967</u> |

As a member of Mustang Island Gathering, 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. The Company's share of such guarantee is approximately \$40,000. Due to positive financial performance of the pipeline, the likelihood that the Company will be required to perform under this guarantee is remote thus no amount is recorded to reflect the obligation under this guarantee.

From time to time, the Company is party to certain legal actions and claims arising in the ordinary course of business. While the outcome of these events cannot be predicted with certainty, management does not expect these matters to have a materially adverse effect on the financial position of the Company.

The operations and financial position of the Company continue to be affected from time to time in varying degrees by domestic and political developments as well as legislation and regulations pertaining to restrictions on oil and natural gas production, natural gas regulation, tax increases, environmental regulations and cancellation of contract rights. Both the likelihood and overall effect of such occurrences on the Company vary greatly and are not predictable.

Note 8. 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 a \$3,000,000 reduction in the Company's secured indebtedness. 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 the Black-Scholes option pricing model. Such value was included in additional paid in capital.

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 has 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 (or 39,588 shares) when and as declared by the Board of Directors. At October 31, 2004, dividends in arrears totaled 21,421 shares of Class AA-1 Preferred Stock. 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 20 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 \$0.001 per share. The holders of Class B Preferred Stock are not entitled to receive any dividends. As of October 31, 2004 and April 30, 2004, 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 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 Company. 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 6,824,240 and 5,848,681 shares were issued and outstanding at October 31, 2004 and April 30, 2004, respectively.

During the six months ended October 31, 2004, the Company issued 80,000 shares of its common stock having a fair value of \$45,350 for services and 50,000 shares of the Company's common stock having a fair value of \$13,743 to settle outstanding accounts payable.

During the six months ended October 31, 2004, the Company issued 100,000 shares of its common stock having a fair value of \$49,000 to a private investor as consideration for providing a guarantee on its line of credit with a bank.

During the six months ended October 31, 2004, the Company incurred obligations to issue 825,000 shares of common stock to consultants for services having a fair value of \$394,749. As of October 31, 2004, these shares had not been issued, but their fair value has been included in stockholders' equity.

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 SFAS No. 123 recording the fair value of common stock options on the date of grant using a Black Scholes option pricing model. The amounts are charged to expense over the vesting period, which is usually the service period.

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.

During the six months ended October 31, 2004, the Company issued warrants to purchase 155,000 shares of its common stock at \$0.50 per share to investors under the terms of notes payable. The warrants had a fair value of \$74,594 and expire on dates ranging from June 18, 2006 to September 8, 2006.

During the six months ended October 31, 2004, the Company issued warrants to purchase 500,000 shares of its common stock at \$0.50 per share under the terms of an option agreement to purchase oil and natural gas properties. The warrants had a fair value of \$215,000 and expire on July 13, 2009.

During the six months ended October 31, 2004, the Company issued warrants to purchase 1,000,000 shares of its common stock at \$0.50 per share to consultants for services. The warrants had a fair value of \$504,100 and expire on October 12, 2006.

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 stock appreciation rights 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 the 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. During the six months ended October 31, 2004, the grantee has exercised 652,833 stock appreciation rights receiving 528,653 shares of the Company's common stock in lieu of cash settlement. As of October 31, 2004, there remains no stock appreciation rights to be exercised. The Company has elected to pay all of the stock appreciation rights by the issuance of the Company's common stock. The Company also issued an additional 56,906 shares of common stock with a fair value of \$28,453 to the grantee as consideration for services.

Note 9. Related Party Transactions

From time to time, officers, directors and shareholders of the Company make unsecured advances to the Company and receive advances from the Company. The Company made repayments of such advances in the amount of \$7,500 and \$18,000 during the six months ended October 31, 2004 and 2003, respectively. The balance of advances from related parties was \$244,906 and \$252,406 at October 31, 2004 and April 30, 2004, respectively. Additionally, during the six months ended October 31, 2004, the Company received repayment of advances to related parties of \$45,000 and made advances to related parties of \$114,537. During the six months ended October 31, 2004, advance to related party of \$79,537 was utilized to reimburse travel costs and was charged to expense.

The Company is obligated under a line of credit to an entity controlled by the brother of the Company's president. At October 31, 2004 and April 30, 2004 the balance due under line of credit was \$1,839,143. 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 \$318,302 and \$248,767 at October 31, 2004 and April 30, 2004, respectively.

The Company is obligated under a production payment to an entity whose principal is the brother of the Company's president. At October 31, 2004 and April 30, 2004 the balance due under such production payment was \$934,518. Such production loan began accruing interest on January 1, 2001 at 5.25%. Accrued interest on the loan totaled \$216,109 and \$191,376 at October 31, 2004 and April 30, 2004, 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 10% 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 natural gas purchased, beginning with April 2004 production. The balance due under the note was \$109,808 and \$150,000 at October 31, 2004 and April 30, 2004, respectively.

Note 10. Subsequent Event

On December 10, 2004, the Company notified CLK Energy, Inc. ("CLK") that it did not intend to exercise its option to purchase from CLK 50% of their interest in the Bayou Choctaw Field, located in the Iberville and West Baton Rouge Parishes Louisiana. Under the terms of the option, CLK was issued warrants to purchase 500,000 shares of the Company's common stock at an exercise price of \$0.50 per share. Such warrants had a fair value of \$215,000 which has been recorded as a noncurrent asset which will be charged to expense during the quarter ended January 31, 2004. To fund this potential acquisition, the Company was simultaneously in the process of raising capital through a private placement memorandum. The Company incurred offering costs totaling \$53,631 relating to this private placement memorandum which was capitalized as deferred offering costs. Due to the Company not exercising its option to purchase from CLK its 50% interest in the Bayou Choctaw Field the private placement memorandum was abandoned and the deferred offering costs were charged to expense during the quarter ended January 31, 2005.

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

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

condensed consolidated financial statements included elsewhere in this Form 10-QSB/A Amendment No. 1 and with Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements for the year ended April 30, 2004, as amended, included in our annual report on Form 10-KSB for the year ended April 30, 2004 filed with the SEC on August 15, 2005.

Forward-Looking Statements

The statements contained in all parts of this document, including, but not limited to, those relating to our outlook, including any expectations regarding increases in our liquidity or available credit, our ability to access the capital markets to raise additional capital, our drilling plans, capital expenditures, future capabilities, the sufficiency of capital resources and liquidity to support working capital and capital expenditure requirements, reinvestment of cash flows, use of NOLs, tax rates, the outcome of litigation and audits, and any other statements regarding future operations, financial results, business plans, sources of liquidity and cash needs and other statements that are not historical facts are forward looking statements. When used in this document, the words "anticipate," "estimate," "expect," "may," "project," "believe," "budgeted," "intend," "plan," "potential," "forecast," "might," "predict," "should" and similar expressions are intended to be among the statements that identify forward looking statements. Such statements involve risks and uncertainties, including, but not limited to, those relating to the results of and our dependence on our exploratory and development drilling activities, the volatility of oil and natural gas prices, the need to replace reserves depleted by production, operating risks of oil and natural gas operations, our dependence on key personnel, our reliance on technological development and possible obsolescence of the technology currently used by us, the significant capital requirements of our exploration and development and technology development programs, the potential impact of government regulations and liability for environmental matters, results of litigation and audits, expansion of our capital budgets, our ability to manage our growth and achieve our business strategy, competition from larger oil and natural gas companies, the uncertainty of reserve information and future net revenue estimates, property acquisition risks and other factors detailed in this Form 10QSB/A Amendment No. 1 for the quarterly period ended October 31, 2004 and our audited consolidated financial statements for the year ended April 30, 2004, as amended, included in our annual report on Form 10-KSB filed with the SEC on August 15, 2005 and other filings with the SEC. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated. All subsequent written and oral forward-looking statements attributable to the Company or the persons acting on its behalf are expressly qualified in their entirety by the reference to these risks and uncertainties.

General Overview

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 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 in 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").

From its inception through March 2000, the Company consummated a series of oil and natural gas property acquisitions in Texas, Louisiana and Oklahoma. These acquisitions were funded primarily through the issuance of the Company's stock and the Company's assumption of debt and other liabilities. The properties acquired were a combination of 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 began selling its non core non strategic oil and natural 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.

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 of which 69,000 barrels of oil and 14,872,000 MCF of natural gas relate to properties that are not currently producing. It is expected that a majority of these properties can be brought on-line after conducting workovers, recompletions or offset drilling. These reserves (producing and non-producing) 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.

| <u>Field</u> | <u>Location</u> | <u>Percent of April 30, 2004 Estimated Future Net Cash Flows Discounted at 10%</u> | <u>Percent of Revenue Six Months Ended October 31, 2004</u> | <u>Percent of Revenue Six Months Ended October 31, 2003</u> |
|----------------------|-----------------------------|--|---|---|
| Bateman Lake | St. Mary Parish, Louisiana | 66.62% | 20.60% | 19.39% |
| Mustang Island 818-L | State Waters Offshore Texas | 33.38% | 79.40% | 51.63% |
| Properties Sold | Various | - | - | 28.88% |

Results of Operations

Three Months Ended October 31, 2004 Compared to Three Months Ended October 31, 2003

Oil and natural gas revenues for the three months ended October 31, 2004 remained virtually unchanged from the same period in fiscal 2004. Production volumes for natural gas during the three months ended October 31, 2004 decreased 3%, to 54,479 MCF, compared to 56,420 MCF for the three months ended October 31, 2003. Average natural gas prices for the three months ended October 31, 2004 increased 19% to \$5.68 per MCF, compared to \$4.79 per MCF in the same period in fiscal 2004. Production volumes for oil for the three months ended October 31, 2004 decreased 100% from 1,449 barrels in the same period in fiscal 2004. Average oil prices for the three months ended October 31, 2003 were \$26.73 per barrel. The decrease in oil production was offset by the increase in natural gas prices and was primarily due to declines in production from the main oil producing well at the Bateman Lake Field.

The following table summarizes production volumes, average sales prices and operating revenues for the Company's oil and natural gas operations for the three months ended October 31, 2004 and 2003.

| | <u>Quarter Ended October 31,</u> | | <u>2004 Period Compared to 2003 Period</u> | |
|------------------------|----------------------------------|-------------------|--|----------------------------------|
| | <u>2004</u> | <u>2003</u> | <u>Increase (Decrease)</u> | <u>% Increase (Decrease)</u> |
| Production volumes - | | | | |
| Oil (Bbls) | - | 1,449 | (1,449) | (100%) |
| Natural Gas (MCF) | 54,479 | 56,420 | (1,941) | 3% |
| Average sales prices - | | | | |
| Oil (per Bbl) | \$ - | \$ 26.73 | \$ (26.73) | (100%) |
| Natural gas (per MCF) | 5.68 | 4.79 | 0.89 | 19% |
| Operating revenue | | | | |
| Oil | \$ - | \$ 38,735 | \$ (38,735) | (100%) |
| Natural gas | 309,379 | 270,311 | 39,068 | 14% |
| | <u>\$ 309,379</u> | <u>\$ 309,046</u> | <u>\$ 333</u> | - |

Production expenses decreased by \$44,984 to \$152,308 for the three months ended October 31, 2004 compared to the three months ended October 31, 2003. This 23% decrease was primarily due to a decrease in ad valorem taxes relating to the Company's working interest in the Mustang Island property as a result of negotiations with the taxing authorities. Production expense per equivalent unit showed a corresponding \$0.23 decrease to \$2.80 per Mcfe for the three months ended October 31, 2004 compared to \$3.03 in the same period in fiscal 2004.

Depletion expense increased from \$40,278 for the three months ended October 31, 2003 to \$54,722 for the three months ended October 31, 2004. This 36% increase was primarily due to a negative revision in reserve volume estimates since April 30, 2003 partially offset by a 16% decrease in Mcfe production volumes.

General and Administrative expenses for the three months ended October 31, 2004 increased by \$943,699 to \$1,133,801 compared to \$190,102 for the three months ended October 31, 2003. The increase was primarily due to an increase in consulting fees incurred by the Company which increased by \$833,748 for the three months ended October 31, 2004.

Accretion expense for the three months ended October 31, 2004 increased by \$1,934 to \$22,260 compared to \$20,326 for the three months ended October 31, 2003. This increase was due to the normal compound effect of the discount factor.

Interest expense for the three months ended October 31, 2004 increased by 298% to \$207,070 from \$52,050 for the same period in fiscal 2004. The increase was due primarily to the addition of a \$250,000 line of credit with a bank in April 2004, the addition of \$700,000 in notes payable to investors during the current fiscal year and an increase in amortization of loan discount and deferred loan costs of \$135,729 relating to the notes payable issued to investors during the current fiscal quarter.

Six Months Ended October 31, 2004 Compared to Six Months Ended October 31, 2003

Oil and natural gas revenues for the six months ended October 31, 2004 increased 5% to \$751,186, compared to \$712,714 for the same period in fiscal 2004. Production volumes for natural gas during the six months ended October 31, 2004 increased 13%, to 115,461 MCF, compared to 102,394 MCF for the six months ended October 31, 2003. Average natural gas prices for the six months ended October 31, 2004 increased 15% to \$6.01 per MCF, compared to \$5.21 per MCF in the same period in fiscal 2004. Production volumes for oil for the six months ended October 31, 2004 decreased 74% to 1,628 barrels compared to 6,262 barrels in the same period in fiscal 2004. Average oil prices for the six months ended October 31, 2004 increased 23% to \$35.21 per barrel, compared to \$28.68 per barrel for the same period in fiscal 2004. The increase in natural gas production was due to increased production at the Mustang Island Field and a workover performed on a well at the Bateman Lake Field which began production in July 2004. These increases were partially offset by natural declines in the production from the remaining wells at the Bateman Lake Field and sales of producing properties in fiscal 2004. The decrease in oil production was primarily due to declines in production from the main oil producing well at the Bateman Lake Field.

The following table summarizes production volumes, average sales prices and operating revenues for the Company's oil and natural gas operations for the six months ended October 31, 2004 and 2003.

| | Six Months Ended October 31, | | 2004 Period Compared to 2003 Period | |
|------------------------|------------------------------|-------------------|--|--------------------------|
| | 2004 | 2003 | Increase (Decrease) | % Increase (Decrease) |
| Production volumes - | | | | |
| Oil (Bbls) | 1,628 | 6,262 | (4,634) | (74%) |
| Natural Gas (MCF) | 115,461 | 102,394 | 13,067 | 13% |
| Average sales prices - | | | | |
| Oil (per Bbl) | \$ 35.21 | \$ 28.68 | \$ 6.53 | 23% |
| Natural gas (per MCF) | 6.01 | 5.21 | 0.80 | 15% |
| Operating revenue | | | | |
| Oil | \$ 57,321 | \$ 179,585 | \$ (122,264) | (68%) |
| Natural gas | 693,865 | 533,129 | 160,736 | 30% |
| | <u>\$ 751,186</u> | <u>\$ 712,714</u> | <u>\$ 38,472</u> | <u>5%</u> |

Production expenses decreased by \$120,657 to \$337,602 for the six months ended October 31, 2004 compared to the six months ended October 31, 2003. This 26% decrease was primarily due to a decrease in ad valorem taxes relating to the Company's working interest in the Mustang Island property as a result of negotiations with the taxing authorities. Production expense per equivalent unit showed a corresponding \$0.57 decrease to \$2.70 per Mcfe for the six months ended October 31, 2004 compared to \$3.27 in the same period in fiscal 2004.

Depletion expense increased from \$56,165 for the six months ended October 31, 2003 to \$130,515 for the six months ended October 31, 2004. This 132% increase was primarily due to a negative revision in reserve volume estimates since April 30, 2003 partially offset by a 11% decrease in Mcfe production volumes.

General and Administrative expenses for the six months ended October 31, 2004 increased by \$922,947 to \$1,556,918 compared to \$633,971 for the six months ended October 31, 2003. The increase was primarily due to an increase in consulting fees incurred by the Company which increased by \$1,045,636 during the six months ended October 31, 2004.

Accretion expense for the six months ended October 31, 2004 increased by \$3,458 to \$44,110 compared to \$40,652 for the six months ended October 31, 2003. This increase was due to the normal compound effect of the discount factor.

Interest expense for the six months ended October 31, 2004 increased by 278% to \$412,754 from \$109,305 for the same period in fiscal 2004. The increase was due primarily to the addition of a \$250,000 line of credit with a bank in April 2004, the addition of \$700,000 in notes payable to investors during the current fiscal year and an increase in amortization of loan discount and deferred loan costs relating to the notes payable issued to investors during the current fiscal year totaling \$279,798.

We adopted SFAS No. 143 effective May 1, 2003 and recorded a cumulative effect of change in accounting principle of \$275,533 during the six months ended October 31, 2003.

Financial Condition and Capital Resources

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 six months ended October 31, 2004 and 2003, the Company reported losses of \$1,723,292 and \$860,547, respectively. The Company's continuing negative operating results have produced a working capital deficit of \$6,262,746 at October 31, 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 upon 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 natural gas prospects which will provide the Company the ability to increase profitability and sustain a cash flow level that will ensure support for continuing operations.

For the past six months, the Company's oil and natural gas revenues have been sufficient to satisfy its oil and natural gas operating expenses and general and administrative expenses. The Company has funded the development of its oil and natural gas properties through additional borrowings under its line of credit and through short term investor notes. Additional equity funding will be required in the near term to meet the capital needs of the Company. The Company is evaluating various financing alternatives such as the issuance of debt, private placements of its common and preferred stock and joint ventures with industry partners. There is no guarantee that the Company will be successful in obtaining such financing, or that the terms of any financing which may be obtained will be on terms favorable to the Company. Any inability of the Company to raise additional capital will limit the development of most of its oil and natural gas properties and may prevent the Company from meeting its cash requirements. If the wells which are currently being brought into production through development and workovers perform as expected additional cash flows may be available; however, there is no assurance that such cash flows 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 prior asset acquisition transactions, and believes that a significant portion of these payables can be satisfied through the issuance of common stock.

Financing Arrangements

The Company has a \$10 million revolving credit line with an entity controlled by the brother of the Company's president. However, the borrowing base under the revolving credit line is \$1,839,143 at October 31, 2004, which is equal to the outstanding balance. This principal balance plus unpaid interest is due at maturity on January 31, 2005. The borrowing base cannot be increased without the consent of the lender. The Company also has a \$250,000

line of credit with a bank. The outstanding balance under this line of credit is \$246,537 at October 31, 2004, and is due upon demand.

The Company has outstanding production payments in the amount of \$1,188,518 at October 31, 2004. The holders of such production payments have agreed to a temporary forbearance of the Company's obligation. If such forbearance is not continued, the Company will be required to remit the revenue from a substantial portion of the Company's production.

From time to time the Company incurs notes payable to settle outstanding accounts payable and other liabilities, finance expenditures and generate working capital. The balances of such notes payable were \$761,786, net of a discount of \$132,872, and \$306,092 at October 31, 2004 and April 30, 2004, respectively.

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. The Company's share of such guarantee is approximately \$40,000. Due to the financial performance of the pipeline, the likelihood that the Company will be required to perform under this guarantee is remote thus no amount is recorded to reflect the obligation under this guarantee.

Net Cash Provided by Operating Activities

Cash flows provided by operating activities were \$263,461 for the six months ended October 31, 2004 as compared to \$365,452 for the six months ended October 31, 2003. This decrease was primarily due to the Company paying a substantial portion of ongoing operating expenses on a current basis which in the past were deferred for a longer period of time. Working capital decreased \$491,551 during the six months ended October 31, 2003 compared to a decrease of working capital of \$429,975 for the six months ended October 31, 2004. The Company's loss before cumulative effect of change in accounting principle increased to \$1,723,292 for the six months ended October 31, 2004 from \$585,014 for the six months ended October 31, 2003.

Net Cash Used in Investing Activities

Cash flows used in investing activities increased to \$1,017,665 for the six months ended October 31, 2004 from \$132,203 for the six months ended October 31, 2003. This increase was due primarily to \$972,306 in oil and natural gas capital expenditures incurred related to workovers and a recompletion performed on two wells in the Bateman Lake field.

Net Cash Provided by Financing Activities

Net cash flows provided by financing activities totaled \$673,972 for the six months ended October 31, 2004 primarily from borrowings under a new line of credit from a bank and notes payable to investors totaling \$700,000 offset by repayments of debt of \$121,697 and deferred offering costs incurred on debt raises of \$53,631. Net cash used by financing activities totaled \$130,973 for the six months ended October 31, 2003 primarily from repayments of debt totaling \$172,171 which were partially offset by sales of the Company's common stock totaling \$63,750.

Critical Accounting Policies

The following summarizes several of our critical accounting policies:

Use of Estimates

The preparation of financial statements in conformity with U.S. 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 periods. Actual results could differ from these estimates. The use of these estimates significantly affects natural gas and oil properties through depletion and the full cost ceiling test, as discussed in more detail below.

Oil and Natural Gas Properties

We account for investments in natural gas and oil properties using the full-cost method of accounting. All costs directly associated with the acquisition, exploration and development of natural gas and oil properties are capitalized. These costs include lease acquisitions, seismic surveys, and drilling and completion equipment. We expense maintenance and repairs as they are incurred.

We amortize natural gas and oil properties based on the unit-of-production method using estimates of proved reserve quantities. The amortizable base includes estimated future development costs and, where significant, dismantlement, restoration and abandonment costs, net of estimated salvage values. The depletion rates per Mcfe for the three and six months ended October 31, 2004 and 2003 were \$1.00 and \$0.62 and \$1.04 and \$0.40, respectively.

We account for dispositions of natural gas and oil properties as adjustments to capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves. We have not had any transactions that significantly alter that relationship.

The net capitalized costs of proved oil and natural gas properties are subject to a "ceiling test" which limits such costs to the estimated present value, discounted at a 10% interest rate, of future net revenues from proved reserves, based on current economic and operating conditions. If net capitalized costs exceed this limit, the excess is charged to operations through depletion, depreciation and amortization.

Oil and Natural Gas Reserve Estimates

The reserve data included in this document are estimates prepared by D. Raymond Perry, Jr., Independent Petroleum Engineer. Reserve engineering is a subjective process of estimating underground accumulations of hydrocarbons that cannot be measured in an exact manner. The process relies on interpretation of available geologic, geophysical, engineering and production data. The extent, quality and reliability of this data can vary. The process also requires certain economic assumptions regarding drilling and operating expense, capital expenditures, taxes and availability of funds. The SEC mandates some of these assumptions such as oil and natural gas prices and the present value discount rate.

Proved reserve estimates prepared by others may be substantially higher or lower than these estimates. Because these estimates depend on many assumptions, all of which may differ from actual results, reserve quantities actually recovered may be significantly different than estimated. Material revisions to reserve estimates may be made depending on the results of drilling, testing, and rates of production.

You should not assume that the present value of future net cash flows is the current market value of our estimated proved reserves. In accordance with SEC requirements, we based the estimated discounted future net cash flows from proved reserves on prices and costs on the date of the estimate.

Our rate of recording depreciation, depletion and amortization expense for proved properties depends on our estimate of proved reserves. If these reserve estimates decline, the rate at which we record these expenses will increase.

Asset Retirement Obligations

The Company records a liability for legal obligations associated with the retirement of tangible long-lived assets in the period in which they are incurred in accordance with SFAS No. 143, *"Accounting for Asset Retirement Obligations."* The Company adopted this policy effective May 1, 2003, using a cumulative effect approach to recognize transition amounts for asset retirement obligations, asset retirement costs and accumulated accretion and depletion. Under this method, when liabilities for dismantlement and abandonment costs, excluding salvage values, are initially recorded, the carrying amount of the related oil and natural gas properties are increased. Accretion of the liability is recognized each period using the interest method of allocation, and the capitalized cost is depleted over the useful life of the related asset.

Contingencies

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

Volatility of Oil and Natural Gas Prices

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

Acquisition of Oil and Natural Gas Properties

On July 13, 2004, the Company entered into an option with CLK Energy, Inc. ("CLK"). Under the option, the Company has the right to purchase from CLK 50% of their interest in the Bayou Choctaw Field, located in the Iberville and West Baton Rouge Parishes of Louisiana for \$1,250,000 and the assumption of a production payment of \$1,500,000 payable contingent upon reaching 110% of payout of the Company's investment. The Company's investment is comprised of its original purchase price (as defined), value of common stock and warrants issued as purchase price consideration, and its commitment to fund \$5,000,000 of workover and well development costs. Upon exercise of the option and 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 totaling \$5,000,000, as defined. Under the terms of the option, CLK was issued warrants to purchase 500,000 shares of the Company's common stock at an exercise price of \$0.50 per share. Such warrants had a fair value of \$215,000 which has been recorded as a noncurrent asset. Upon exercise of the option, such amount will be included in oil and natural gas properties as a component of the purchase price. If the option expires, the Company will expense the fair value of the warrants during the period in which the option expires. The option had an original expiration date of October 31, 2004 which was subsequently extended to December 10, 2004. On December 10, 2004, the Company notified CLK that it did not intend to exercise its option under the agreement. Accordingly, the fair value of the warrants of \$215,000 has been charged to expense during the quarter ended January 31, 2005. To fund this potential acquisition, the Company was simultaneously in the process of raising capital through a private placement memorandum. The Company incurred offering costs totaling \$53,631 relating to this private placement memorandum which was capitalized as deferred offering costs. Due to the Company not exercising its option to purchase from CLK its 50% interest in the Bayou Choctaw Field the private placement memorandum was abandoned and the deferred offering costs were charged to expense during the quarter ended January 31, 2005.

Item 3. Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Security and Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Securities and Exchange Act is accumulated and communicated to management, including the Company's President and Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's Chief Executive Officer and Chief Financial Officer (collectively, the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)) for the Company. Such officers have concluded (based upon their evaluation of these controls and procedures as of a date within 90 days of the filing of this report) that the Company's disclosure controls and procedures are not adequate and effective for purposes of Rule 13a-14(c) in timely alerting them to material information relating to the Company required to be included in the Company's filings with the SEC under the Securities Exchange Act of 1934. The reasons for our determination that our internal controls and procedures are not effective are detailed below.

The Company currently employs one person in the accounting department (the Chief Financial Officer) who is responsible for the day to day accounting and SEC reporting function of the Company. Daily transactions are accounted for, reconciled and processed to our accounting records solely by this person. This is considered a material

weakness due to lack of segregation of responsibilities. The lack of resources in the accounting and reporting function of our internal controls also resulted in the Company not being able to file its quarterly financial statements during the year ended April 30, 2005 and for the quarterly period ended July 31, 2005 on a timely basis. As of the date of this filing the Company is compliant in all of its SEC required filings. Furthermore, during the course of completing the audit for the year ended April 30, 2005, several accounting adjustments were identified requiring adjustments to the current year and restatement of the financial statements for the year ended April 30, 2004 and to various of its Form 10-QSBs for each respective year.

As a result of the items mentioned above, the Company has a material weakness in its internal control over the financial reporting and disclosure function due to the lack accounting resources available for the daily processing of transactions and account reconciliations and the reporting of our financial statements within the appropriate filings in the time required. This void in available accounting resources increases the likelihood to more than remote that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected in a timely manner.

Executive management of the Company is currently evaluating its accounting resource needs and anticipates employing further accounting assistance in the near term. Management believes that additional accounting assistance, including increased technical resources, will mitigate the circumstances that have resulted in our evaluation of internal controls and procedures as having material weaknesses.

There has been no change in our internal controls over financial reporting that occurred during the three months ended October 31, 2004 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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, 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

In May 2004 the Company issued 50,000 shares of its common stock to Samuel M. Skipper in return for the assumption of \$13,743 of the Company's accounts payable.

In May and June of 2004, the Company issued a total of 50,000 shares of its common stock to Arcoa Advisors, LLC in exchange for services valued at \$28,250.

In May, July and September of 2004, the Company issued a total of 528,653 shares of its common stock to Samuel M. Skipper under its Stock Appreciation Rights Plan.

In June 2004, the Company issued 30,000 shares of its common stock to Marshall Smith in exchange for services valued at \$17,100.

In September of 2004, the Company issued a total of 56,906 shares of its common stock to Samuel M. Skipper as consideration for services valued at \$28,453.

In October 2004 the Company issued 100,000 shares of its common stock to the Bargus Partnership as consideration under the terms of a loan agreement.

In October 2004 the Company issued 60,000 shares of its common stock to W. Douglas Moreland as consideration under the terms of a loan agreement.

In October 2004 the Company issued 100,000 shares of its common stock to W. Ray Nesbitt as consideration under the terms of a loan agreement.

In each of the aforementioned cases, the Company issued the shares of its common stock in reliance upon the exemption from registration under Section 4(2) of the Securities Act of 1933, as amended. The Company did not engage any underwriters in connection with their issuances.

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 Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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.

Exhibit 32.2 Certification of Chief Financial Officer 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.

The Company filed a Current Report on Form 8-K on September 8, 2004 announcing an extension of the option agreement with CLK.

The Company filed a Current Report on Form 8-K on September 30, 2004 announcing a change in auditor from Comiskey and Company, P.C. to Pannell Kerr Forster of Texas, P.C.

The Company filed a Current Report on Form 8-K on October 5, 2004 announcing an extension of the option agreement with CLK.

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/ Grant G. Emms
 Grant G. Emms
 President
 Principal Executive Officer
 Date: December 20, 2005

By /S/ Randal B. McDonald, Jr.
 Randal B. McDonald, Jr.
 Chief Financial Officer
 Principal Financial and Accounting Officer
 Date: December 20, 2005

CERTIFICATIONS
Chief Executive Officer

I, Grant G. Emms, certify that:

1. I have reviewed this quarterly report on Form 10-QSB/A Amendment No. 1 of VTEX Energy, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the small business issuer and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: December 20, 2005

By: /s/ Grant G. Emms
Grant G. Emms
Chief Executive Officer

CERTIFICATIONS
Chief Financial Officer

I, Randal B. McDonald, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-QSB/A Amendment No. 1 of VTEX Energy, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the small business issuer and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: December 20, 2005

By: /s/ Randal B. McDonald, Jr.
Randal B. McDonald, Jr.
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of VTEX Energy, Inc. (the "Company") on Form 10-QSB/A Amendment No. 1 for the period ending October 31, 2004 (the "Report"), I, Grant G. Emms, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirement of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the Company's financial position and results of operations for the periods presented.

/s/Grant G. Emms
Grant G. Emms
Chief Executive Officer
December 20, 2005

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of VTEX Energy, Inc. (the "Company") on Form 10-QSB/A Amendment No. 1 for the period ending October 31, 2004 (the "Report"), I, Randal B. McDonald, Jr., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirement of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the Company's financial position and results of operations for the periods presented.

/s/Randal B. McDonald, Jr.
Randal B. McDonald, Jr.
Chief Financial Officer
December 20, 2005