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

# Form 10-QSB

**_X_ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITITES EXCHANGE ACT OF 1934.** For the quarter ended October 31, 2005

**__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** | **76-0582614** |
| (State or other jurisdiction of incorporation or organization) | (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 November 30, 2005, there were 12,708,579 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, 2005

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# PART I – FINANCIAL INFORMATION

**Item 1. Financial Statements**

**VTEX ENERGY, INC.**
**CONSOLIDATED BALANCE SHEETS**

| | October 31, 2005 Unaudited | April 30, 2005 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash | $ 43,592 | $ 37,582 |
| Certificates of deposit | 101,807 | 98,917 |
| Accounts receivable, oil and natural gas | 175,239 | 78,702 |
| Joint interest billings receivable | 158,496 | 106,118 |
| Other current assets | 239,382 | - |
| **Total current assets** | 718,516 | 321,319 |
| OIL AND NATURAL GAS PROPERTIES – Full cost method of accounting | 18,206,900 | 18,325,280 |
| Less accumulated depletion, depreciation and amortization | ( 1,677,843) | ( 1,581,145) |
| Oil and natural gas properties, net | 16,529,057 | 16,744,135 |
| OTHER ASSETS | | |
| Other property and equipment, net of accumulated depreciation of $128,329 and $111,229 at October 31, 2005 and April 30, 2005, respectively | 72,511 | 47,030 |
| Deferred loan costs, net of accumulated amortization of $505,716 and $362,558 at October 31, 2005 and April 30, 2005, respectively | 100,724 | 14,405 |
| Investment in Viking Petroleum UK Limited, equity method | 1,369,570 | - |
| Other assets | 106,680 | 44,600 |
| **Total other assets** | 1,649,485 | 106,035 |
| **TOTAL ASSETS** | $ 18,897,058 | $ 17,171,489 |

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

**VTEX ENERGY, INC.**
**CONSOLIDATED BALANCE SHEETS**

| | October 31, 2005 Unaudited | April 30, 2005 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES | | |
| Line of credit - banks | 720,304 | 246,537 |
| Notes payable, net of discount of $92,715 and $87,397 at October 31, 2005 and April 30, 2005, respectively | 2,409,117 | 1,377,333 |
| Production payments payable | 305,504 | 305,504 |
| Accounts payable - trade | 2,143,304 | 1,462,292 |
| Accrued salaries, officers | 72,500 | - |
| Royalties payable | 731,062 | 720,823 |
| Working interest revenues payable | 59,070 | 61,676 |
| Taxes payable, other | 172,463 | 172,463 |
| Advances from related parties | - | 12,500 |
| Accrued interest | 299,149 | 75,810 |
| **Total current liabilities** | 6,912,473 | 4,434,938 |
| NONCURRENT LIABILITIES | | |
| Line of credit – related party | 3,624,707 | 3,624,707 |
| Asset retirement obligations | 1,278,941 | 1,232,297 |
| **Total noncurrent liabilities** | 4,903,648 | 4,857,004 |
| COMMITMENTS AND CONTINGENCIES | - | - |
| STOCKHOLDERS' EQUITY | | |
| 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; 12,708,579 and 9,769,989 shares issued and outstanding at October 31, 2005 and April 30, 2005, respectively | 12,709 | 9,770 |
| Additional paid-in capital | 34,789,385 | 32,420,576 |
| Accumulated deficit | ( 27,725,616) | ( 24,555,258) |
| **Total stockholders' equity** | 7,080,937 | 7,879,547 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 18,897,058 | $ 17,171,489 |

**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, 2005 | Three Months Ended October 31, 2004 |
|---|---|---|
| REVENUES | | |
| Oil sales | $ 5,777 | $ - |
| Natural gas sales | 207,739 | 309,379 |
| **Total Revenues** | 213,516 | 309,379 |
| OPERATING EXPENSES | | |
| Lease operating expense | 179,580 | 119,075 |
| Production taxes | 28,580 | 33,233 |
| Depreciation, depletion and amortization expense | 46,263 | 54,722 |
| General and administrative expense | 722,819 | 1,133,801 |
| Accretion expense | 23,539 | 22,260 |
| **Total operating expenses** | 1,000,781 | 1,363,091 |
| OTHER INCOME (EXPENSE) | | |
| Other income | 5,227 | 992 |
| Interest expense | ( 350,641) | ( 207,070) |
| **Total other expense, net** | ( 345,414) | ( 206,078) |
| **NET LOSS** | $ ( 1,132,679) | $ ( 1,259,790) |
| NET LOSS PER SHARE – Basic and Diluted | $ ( 0.09) | $ ( 0.17) |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 13,060,851 | 7,393,863 |

**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, 2005 | Six Months Ended October 31, 2004 |
|---|---|---|
| REVENUES | | |
| Oil sales | $ 5,777 | $ 57,321 |
| Natural gas sales | 407,453 | 693,865 |
| **Total Revenues** | 413,230 | 751,186 |
| OPERATING EXPENSES | | |
| Lease operating expense | 285,091 | 259,067 |
| Production taxes | 62,382 | 78,535 |
| Depreciation, depletion and amortization expense | 104,945 | 130,515 |
| General and administrative expense | 2,507,329 | 1,556,918 |
| Accretion expense | 46,644 | 44,110 |
| **Total operating expenses** | 3,006,391 | 2,069,145 |
| OTHER INCOME (EXPENSE) | | |
| Other income | 8,523 | 7,421 |
| Interest expense | ( 585,720) | ( 412,754) |
| **Total other expense, net** | ( 577,197) | ( 405,333) |
| **NET LOSS** | $ ( 3,170,358) | $ ( 1,723,292) |
| NET LOSS PER SHARE – Basic and Diluted | $ ( 0.27) | $ ( 0.25) |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 11,776,296 | 6,917,852 |

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

**VTEX Energy, Inc.**
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
**Six Months Ended October 31, 2005**

| | Preferred Stock | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Class AA-1 | | Class B | | Common Stock | | Additional Paid-in | Accumulated | Total Stockholders' |
| | Shares | Amount | Shares | Amount | Shares | Amount | Capital | Deficit | Equity |
| Balance at April 30, 2005 | 395,879 | $ 3,959 | 500,000 | $ 500 | 9,769,989 | $ 9,770 | $ 32,420,576 | $ ( 24,555,258 ) | $ 7,879,547 |
| Common stock issued for consulting services | - | - | - | - | 39,450 | 40 | 11,454 | | 11,494 |
| Common stock obligated to be issued for services | - | - | - | - | - | - | 40,000 | | 40,000 |
| Common stock issued for consulting services incurred in the prior year | - | - | - | - | 125,771 | 126 | ( 126 ) | | - |
| Common stock issued as loan consideration | - | - | - | - | 130,000 | 130 | 37,770 | | 37,900 |
| Warrants granted as loan consideration | - | - | - | - | - | - | 55,090 | | 55,090 |
| Common stock obligated to be issued as loan consideration | - | - | - | - | - | - | 77,787 | | 77,787 |
| Common stock issued for prior year loan consideration | - | - | - | - | 105,267 | 105 | ( 105 ) | | - |
| Common stock issued for loan extensions | - | - | - | - | 233,102 | 233 | 75,809 | | 76,042 |
| Warrants granted for loan extensions | - | - | - | - | - | - | 35,825 | | 35,825 |
| Common stock obligated to be issued for loan extensions | - | - | - | - | - | - | 29,120 | | 29,120 |
| Common stock issued for prior year loan extensions | - | - | - | - | 105,000 | 105 | ( 105 ) | | - |
| Common stock issued for loan guarantee | - | - | - | - | 200,000 | 200 | 59,800 | | 60,000 |
| Warrants granted for loan guarantee | - | - | - | - | - | - | 28,490 | | 28,490 |
| Common stock options granted for stock based compensation | - | - | - | - | - | - | 1,280,000 | | 1,280,000 |
| Common stock issued for the acquisition of Viking | - | - | - | - | 2,000,000 | 2,000 | 638,000 | | 640,000 |
| Net loss | - | - | - | - | - | - | - | ( 3,170,358 ) | ( 3,170,358 ) |
| Balance at October 31, 2005 | 395,879 | $ 3,959 | 500,000 | $ 500 | 12,708,579 | $ 12,709 | $ 34,789,385 | $ ( 27,725,616 ) | $ 7,080,937 |

**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, 2005 | Six Months Ended October 31, 2004 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss | $ ( 3,170,358 ) | $ ( 1,723,292 ) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities | | |
| Depreciation, depletion and amortization expense | 413,561 | 418,736 |
| Bad debt expense | - | 28,000 |
| Accretion expense | 46,644 | 44,110 |
| Common stock issued for services | 51,494 | 972,652 |
| Common stock issued in settlement of accounts payable | - | 13,743 |
| Advances to related parties applied to travel costs | - | 79,537 |
| Stock based compensation | 1,280,000 | - |
| Changes in operating assets and liabilities | | |
| Accounts receivable | ( 148,915 ) | 42,324 |
| Other assets | ( 190,965 ) | 31,208 |
| Accounts payable – trade | ( 62,682 ) | 163,887 |
| Accrued salaries, officers | 72,500 | - |
| Royalties and working interest revenues payable | 7,633 | 69,989 |
| Other current liabilities | 249,805 | 122,567 |
| Net cash (used in) provided by operating activities | ( 1,451,283 ) | 263,461 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Investment in certificates of deposit | ( 2,890 ) | ( 23,917 ) |
| Oil and natural gas capital expenditures | ( 326,620 ) | ( 972,306 ) |
| Proceeds from sales of oil and natural gas properties | 445,000 | - |
| Purchase of property and equipment, other | ( 8,482 ) | ( 18,905 ) |
| Acquisition of Viking International Petroleum, PLC, net of cash acquired | ( 121,619 ) | - |
| 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 | ( 14,611 ) | ( 1,017,665 ) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Borrowings on notes payable | 1,124,595 | 700,000 |
| Repayments of notes payable | ( 113,958 ) | ( 111,434 ) |
| Borrowings on lines of credit | 475,000 | 149,300 |
| Repayments of lines of credit | ( 1,233 ) | ( 2,763 ) |
| Repayments of advances from related parties | ( 12,500 ) | ( 7,500 ) |
| Deferred offering costs | - | ( 53,631) |
| Net cash provided by financing activities | 1,471,904 | 673,972 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 6,010 | ( 80,232 ) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | 37,582 | 156,575 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | $ 43,592 | $ 76,343 |

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

**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 and its subsidiaries, Vector Exploration, Inc. and Viking International Petroleum, PLC ("Viking"), collectively 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, 2005, 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. The Company also has, through its wholly owned subsidiary Viking, a 26% interest in an entity that owns a gas field in the United Kingdom.

*Going Concern*

For the year ended April 30, 2005 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 $3,170,000 and $1,723,000 for the six months ended October 31, 2005 and 2004, respectively, and losses are expected to be incurred in the near term. Current liabilities exceeded current assets by approximately $6,194,000 and $4,114,000 at October 31, 2005 and April 30, 2005, respectively, and the accumulated deficit is approximately $27,726,000 at October 31, 2005. 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 oil and natural gas 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. Furthermore, the Texas Railroad Commission declined a request by the Company for a reduction in bonding requirements which were recently increased by the State of Texas. The Company has not secured a new bond which may impact operations at Mustang Island. See Note 7.

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 subsidiaries, Vector Exploration, Inc. and Viking International Petroleum, PLC ("Viking") (see Note 4). All significant intercompany accounts and transactions have been eliminated in consolidation. The Company applies the equity method of accounting when it is determined that it can exert significant influence, but not control, over the policies and decisions of the entity.

Certain prior period amounts have been reclassed to conform to the current period presentation. These reclassifications did not effect the amount of the net loss, total assets or net equity.

*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 can not be reversed 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, 2005 and April 30, 2005, 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, 2005 and 2004 were $1.61 and $1.61 and $1.00 and $1.04, respectively.

The equity investment held by Viking is a 26% ownership in an entity that owns and operates various oil and natural gas properties. The Company subjects this equity investment to the same impairment criteria used to evaluate its direct ownership interests in proved oil and natural gas properties. No impairment was required as of October 31, 2005 for this equity investment.

*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 Statement of Financial Accounting Standards ("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 ("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, capitalized asset retirement costs and charges to operations during the periods in which they become known. At the time the abandonment cost is incurred, the Company will be required to recognize a gain or loss if the actual costs do not equal the estimated costs included in ARO (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 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 the Black-Scholes 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, the dividend yield 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. At October 31, 2005 and 2004, there were 516,446 and 1,043,249 shares, respectively, that the Company was obligated to issue. The weighted average effects of these shares was 370,826 and 746,766 for the three months ended October 31, 2005 and 2004, respectively, and 239,219 and 532,514 for the six months ended October 31, 2005 and 2004, respectively. At October 31, 2005 and 2004, there were 250,000 warrants that were potentially dilutive common shares.

*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, 2005 and 2004, respectively.

Supplemental Disclosures of Cash Flow Information:

| | Six Months Ended October 31, 2005 | Six Months Ended October 31, 2004 |
|---|---|---|
| ***Cash Payments*** | | |
| Interest | $ 28,635 | $ 10,639 |
| ***Noncash financing activities*** | | |
| Accrued interest converted into note payable | $ 26,466 | $ - |
| Common stock issued for services | 51,494 | 972,652 |
| Common stock and warrants issued to note holders recorded as debt discounts | 170,177 | 66,048 |
| Common stock and warrants issued for debt extensions and a guarantee | 229,477 | 221,449 |
| Common stock issued to settle accounts payable | - | 13,743 |
| Common stock warrants issued for option to purchase oil and gas properties | - | 215,000 |
| Common stock options issued for stock based compensation | 1,280,000 | - |
| Common stock issued as consideration for the acquisition of Viking International Petroleum, PLC | 640,000 | - |
| Net liabilities acquired in the acquisition of Viking International Petroleum, PLC (net of cash acquired) | 607,951 | - |

*Guarantees*

Guarantees are accounted for in accordance with the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. ("FIN") 45,"*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.*" FIN 45 establishes disclosure and liability-recognition requirements for direct and indirect debt guarantees with specified characteristics.

**Note 3. Certificates of Deposit**

At October 31, 2005 and April 30, 2005, the Company had certificates of deposit totaling $101,807 and $98,917, respectively. Such certificates bear interest at rates ranging from 2.52% to 2.81% at October 31, 2005. The maturity dates of the certificates ranged from March 20, 2006 to June 3, 2006. 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 and Dispositions of Oil and Natural Gas Properties**

On January 13, 2005, the Company executed a purchase and sale agreement with ARCOA Oil & Gas, Inc. ("ARCOA"), which was subsequently amended in March 2005. Under the terms of the agreement, as amended, ARCOA acquired a net profits interest in three wells on the Company's Bateman Lake property for up to $1,150,000. The net profits interest is initially payable out of 75% of the monthly cash flows, as defined, attributable to the Company's interest in such wells until payout, including a 12% rate of return. The net profits interest will then be reduced to 65% until the well has produced a total of $7 million of net cash flow to the Company's working interest. The net profits interest will be further reduced to 60% when the net cash flows attributable to the Company's working interest reaches a total of $9 million. At that time, the net profits interest will be reduced to 30% which will be the net profits percentage there after. To the extent that ARCOA elects to acquire a net profits interest of less than $1,150,000 the net profits amounts will be proportionately reduced. Further more, after June 1, 2006, ARCOA may elect to convert its net profits interest into common stock of the Company at a conversion rate of $1.25 per share. The value of the net profits interest will be determined based upon the net cash flows attributable to the reserves, discounted at 15%. ARCOA has until December, 31, 2005 to fund and close the transaction. However, such date may be extended by mutual agreement. The Company has received a total of $645,000 in payments from ARCOA from inception of this agreement through October 31, 2005, of which $445,000 was received during the six months ended October 31, 2005, representing its purchase of net profits interests in certain oil and natural gas wells.

On July 29, 2005, the Company completed the acquisition of all of the outstanding shares of Viking. Viking is a UK registered company with offices in London and owns a 26% interest in a company that owns the North Yorkshire gas fields (an extension of the Southern North Sea Gas Basin onshore). The properties include licenses covering approximately 100,000 acres onshore including, four proved producing fields, two proved undeveloped fields and additional seismically mapped low risk exploration potential. Upon closing of this acquisition, the Company delivered 400,000 shares of its common stock, valued at $128,000, to Viking for distribution to its shareholders, with an obligation to deliver an additional 1.6 million shares of its common stock no later than six months from the acquisition, or earlier if certain defined goals are met, unless there is a foreclosure on the assets of Viking's interest in the gas fields. Such additional shares, valued at $512,000 were issued on October 18, 2005. Viking's interest in the gas fields is security for debt in Viking Petroleum UK, Limited. Such debt is not currently in default, however the Company has no assurance that an event of default will not occur. Additionally, prior to the closing of the acquisition, the Company advanced $127,757 to Viking for working capital purposes. This amount is considered a component of the purchase price paid to acquire the stock of Viking. This transaction has been recorded using the purchase method of accounting and the results of operations subsequent to July 29, 2005 are recorded in the consolidated results of operations of the Company.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed of Viking:

| | | |
|---|---|---|
| Current assets, including cash of $6,138 | $ | 54,892 |
| Fixed assets | | 25,246 |
| Other assets | | 61,743 |
| Investment in Viking Petroleum UK Limited | | 1,369,570 |
| Current liabilities | | (743,694) |
| Total purchase price | $ | 767,757 |

The following table summarizes the components of the purchase price of Viking:

| | | |
|---|---|---|
| Working capital advances made to Viking prior to the date of acquisition | $ | 127,757 |
| Fair value of common stock issued | | 128,000 |
| Fair value of common stock obligated to be issued | | 512,000 |
| Total purchase price | $ | 767,757 |

On October 7, 2005, the Company entered into an agreement with Marathon Capital, LLC ("Marathon") and U.S. Energy Systems, Inc. ("USEY") to jointly acquire the assets owned by Viking Petroleum UK Limited, an entity in which the Company owns a 26% interest through its wholly owned subsidiary Viking. The acquisition will be made through a newly created entity which will be owned 25% by each of Marathon and the Company in consideration of their contribution of assets and/or services, and 50% will be owned by an entity USEY will organize in consideration of a capital contribution of up to $5 million. It is anticipated that the aggregate purchase price for the assets will be approximately $60 million, of which $5 million will consist of the contributed capital. Additional funding of the acquisition is expected to consist of project financing secured by the acquired assets.

**Note 5. Debt**

Total debt at October 31, 2005 and April 30, 2005 consists of the following:

| | October 31, 2005 | April 30, 2005 |
|---|---|---|
| Lines-of-credit | $ 4,345,011 | $ 3,871,244 |
| Production payments payable | 305,504 | 305,504 |
| Other notes payable, net of discount | 2,409,117 | 1,377,333 |
| | 7,059,632 | 5,554,081 |
| Less current portion | ( 3,434,925) | ( 1,929,374) |
| | $ 3,624,707 | $ 3,624,707 |

*Lines of Credit*

The Company has a $10.0 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 $3,624,707 at October 31, 2005, which is equal to the outstanding balance at that time 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 $137,044 at October 31, 2005. Under its terms, the line of credit accrues interest through October 31, 2005, at which time interest will be due monthly. Beginning in November 2006, the principal balance outstanding under the line of credit converts to a term note and is payable in 48 equal monthly installments along with current interest.

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 was expensed when incurred. Interest on this note is payable monthly at a floating rate of prime plus 1.097% (7.847% and 6.847% at October 31, 2005 and April 30, 2005, respectively.) The outstanding balance under the note, which was $245,304 and $246,537 at October 31, 2005 and April 30, 2005, respectively, is due upon demand.

On June 21, 2005, the Company entered into a $500,000 revolving credit agreement with Bank of Texas. The note was guaranteed by a private investor who received 200,000 shares of the Company's common stock and warrants to purchase 100,000 shares of the Company's common stock at $0.50. The value of the common stock and warrants, which is $88,490, has been included in deferred loan costs and is being amortized over the life of the loan. Interest on this note is payable quarterly at the prime rate, which was 6.75% at October 31, 2005. The note has a balance of $475,000 at October 31, 2005 and matures on June 20, 2006.

*Other Notes Payable*

Included in other notes payable are unsecured 9% to 10% 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 $42,842 at October 31, 2005 and April 30, 2005.

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 $75,049 and $96,220 at October 31, 2005 and April 30, 2005, respectively.

Also included in other notes payable is a financing obligation for insurance premiums, payable in monthly installments, with interest at 7.48%, through February 2006. Such obligation had a balance of $66,809 at October 31, 2005.

During December 2003 and January 2004, 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 was amortized over four months. The notes were due on dates ranging from April 29, 2004 to May 26, 2004 and were in default. These notes were subject to a demand for payment at any time. However, 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 shares of the Company's common stock at $0.50 per share which expire on January 26, 2006. The stock and warrants issued were recorded at their fair market value of $17,048 and treated as deferred loan cost which is being amortized over one year. During June 2005, the Company reached agreements with the holders of notes totaling $30,000 to further extend the maturity dates of the notes to December 31, 2005 in return for the issuance of 18,000 shares of the Company's common stock. The stock was recorded at its fair market value of $5,220 and treated as deferred loan cost which is being amortized over the terms of the extensions. At October 31, 2005, the 18,000 shares of common stock remained unissued, however their fair value has been included in stockholders' equity. In July 2005, the Company paid the remaining $10,000 principal balance and $1,792 in accrued interest on the only note which was not extended. Accrued interest on these notes totaled $6,549 and $6,276 at October 31, 2005 and April 30, 2005, respectively.

During March 2005, the Company issued a $250,000 unsecured note payable to a private investor. The note bears interest at 12% and the principal and accrued interest is due in one payment upon the demand of the holder. The note provided for the issuance to the investor of 50,000 shares of the Company's common stock and warrants to purchase 40,000 shares of the Company's common stock at $0.50 per share which expire on March 10, 2007. The common stock and warrants were recorded at their fair value of $33,516 and treated as a debt discount which was immediately amortized into interest expense. At October 31, 2005, the shares of common stock remained unissued, however their fair value was included in stockholders' equity. Accrued interest on the note totaled $19,315 and $4,192 at October 31, 2005 and April 30, 2005, respectively.

During the period June 2004 through April 2005, the Company issued a series of 12% notes totaling $1,035,667 to private investors for working capital purposes. The notes also provided for the issuance to the investors of 557,767 shares of its common stock and warrants to purchase 252,633 shares of the Company's common stock at $0.50 per share which expire on dates ranging from June 18, 2006 to April 27, 2007. The common stock and warrants were recorded at their fair value of $399,610 and treated as a debt discount which is being amortized over the term of the loan. At October 31, 2005, 10,000 shares of the common stock remained unissued, however their fair value was included in stockholders' equity. Interest on the notes is payable quarterly and the principal balances had original maturity dates ranging from June 18, 2005 to December 31, 2005. Accrued interest on the notes totaled $107,481 and $63,027 at October 31, 2005 and April 30, 2005, respectively. Unamortized debt discount was $12,307 and $87,397 at October 31, 2005 and April 30, 2005, respectively. The Company subsequently reached agreement with certain of the investors to extend the due dates of the notes to dates ranging from March 2, 2005 to June 8, 2005 in return for the issuance of 195,000 shares of its common stock and warrants to purchase 40,000 shares of the Company's common stock at $0.50 per share which expire on dates ranging from March 2, 2007 to March 8, 2007. The stock and warrants issued were recorded at their fair market value of $77,414 and treated as deferred loan cost which is being amortized over the term of the extension. In June 2005, the Company reached agreements to further extend the maturity dates of all of the 12% notes to investors that had matured, to December 31, 2005 in return for the issuance of 197,500 shares of its common stock and warrants to purchase 105,000 shares of the Company's common stock at $0.50 per share which expire in June 2007. The stock and warrants issued were recorded at their fair market value of $71,655 and treated as deferred loan cost which is being amortized over the term of the extension. At October 31, 2005, 85,000 shares of the common stock remain unissued, however their fair value was included in stockholders' equity.

During the period May 2005 through July 2005, the Company issued a series of 12% notes totaling $351,466 to private investors for working capital purposes. The notes also provided for the issuance to the investors of 130,000 shares of its common stock and warrants to purchase 65,000 shares of the Company's common stock at $0.50 per share which expire on dates ranging from May 2, 2007 to June 27, 2007. The common stock and warrants were recorded at their fair value of $55,880 and treated as a debt discount which is being amortized over the terms of the loan. Interest on the notes is payable quarterly and the principal balances mature on December 31, 2005. Accrued interest on the notes totaled $15,732 at October 31, 2005. Unamortized debt discount was $16,674 at October 31, 2005.

During August 2005, the Company issued a $100,000 unsecured note payable to a private investor. The note bears interest at 12% and the principal and accrued interest is due in one payment upon the demand of the holder. Accrued interest on the note totaled $2,433 at October 31, 2005.

During the period August 2005 through October 2005, the Company issued a series of 12% notes totaling $526,466 to private investors for working capital purposes. The notes also provided for the issuance to the investors of 210,586 shares of its common stock and warrants to purchase 105,293 shares of the Company's common stock at $0.50 per share which expire on dates ranging from July 27, 2007 to October 20, 2007. The common stock and warrants were recorded at their fair value of $114,898 and treated as a debt discount which is being amortized over the terms of the loan. At October 31, 2005 the shares of common stock remained unissued, however their fair value was included in stockholders' equity. Interest on the notes is payable quarterly and the principal balances mature on December 31, 2005. Accrued interest on the notes totaled $9,474 at October 31, 2005. Unamortized debt discount was $63,734 at October 31, 2005.

*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 $2,147 and $1,992 at October 31, 2005 and April 30, 2005, 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. In December of 2004, the Company reached an agreement with the holders of the loans to increase the interest rate to 6%, begin paying interest monthly on the loans and to convert the accrued interest of $51,503 into principal. In August 2005, the Company agreed to issue the holders of the production loans 120,602 shares of its common stock and warrants to purchase 60,300 shares of the Company's common stock at $0.50 per share which expire on August 15, 2007 in return for their forbearance under the loans until December 31, 2005. The common stock and warrants were recorded at their fair value of $64,112 and treated as deferred loan costs which are being amortized over the terms of the forbearance.

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%. 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 deferred loan cost which was amortized over five months. On April 30, 2005, the production payment and $240,438 in accrued interest was transferred into the Company's line of credit with Old Jersey Oil Ventures, LLC.

**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 the abandonment cost is incurred, the Company will be required to recognize a gain or loss if the actual costs do not equal the estimated costs included in the ARO.

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, 2005 | 2004 |
|---|---|---|
| Beginning asset retirement obligations | $ 1,232,297 | $ 1,165,330 |
| Accretion expense | 46,644 | 44,110 |
| Ending asset retirement obligations | $ 1,278,941 | $ 1,209,440 |

**Note 7. Commitments and Contingencies**

The Texas Railroad Commission declined a request by the Company for a reduction in bonding requirements which were recently increased by the State of Texas for operators of certain wells located in offshore and bay State of Texas waters. The Company is working on obtaining a bond at this increased level but does not have such bond in place at this time. The Company has requested reconsideration by the Texas Railroad Commission of this decision and such request has been granted. Until a final decision in this matter, the Company will be allowed to continue its operations under its current bond. Should the Company not be successful in reducing the bond level, or in the alternative obtaining a bond at the increased level, or provide other satisfactory security the Company could outsource offshore operations of the property.

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 six months ended October 31, 2005 and 2004 was $32,562. As of October 31, 2005, future minimum lease payments under this lease were as follows:

| Fiscal Year Ended April 30, | |
|---|---|
| 2006 | $ 32,562 |
| 2007 | 16,281 |
| Total | $ 48,843 |

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.

Subsequent to June 1, 2006, ARCOA shall have the right to convert its net profits interest into common stock of the Company at a conversion rate of $1.25 per share. The value of the net profits interest will be determined based upon the net cash flows attributable to the reserves, discounted at 15%.

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**

*Common Stock*

The Company has 150,000,000 shares of authorized $0.001 par value common stock, of which 12,708,579 and 9,769,989 shares were issued and outstanding at October 31, 2005 and April 30, 2005, respectively.

During the six months ended October 31, 2005, the Company issued 39,450 shares of its common stock having a fair value of $11,494 for services. In addition, the Company is obligated to issue an additional 142,860 shares of its common stock under the terms of consulting agreements. The unissued common stock has a fair value of $40,000 which has been expensed and included in stockholders' equity. The Company also issued 125,771 shares of its common stock for services which had been performed prior to April 30, 2005 and whose value was included in stockholders' equity at April 30, 2005.

During the six months ended October 31, 2005, the Company issued 130,000 shares of its common stock having a fair value of $37,900 to investors under the terms of notes payable. In addition, the Company is obligated to issue an additional 210,586 shares of its common stock to investors under the terms of notes payable. The unissued common stock has a fair value of $77,788 which has been included in stockholders' equity. The Company also issued 105,267 shares of its common stock under the terms of notes payable for which the obligation of issuance arose prior to April 30, 2005 and whose value was included in stockholders' equity at April 30, 2005.

During the six months ended October 31, 2005, the Company issued 233,102 shares of its common stock having a fair value of $76,042 to investors in order to extend the due dates of notes payable. In addition, the Company is obligated to issue an additional 103,000 shares of its common stock to investors under the terms extensions of notes payable. The unissued common stock has a fair value of $29,120 which has been included in stockholders' equity. The Company also issued 105,000 shares of its common stock under the terms of extensions of notes payable for which the obligation of issuance arose prior to April 30, 2005 and whose value was included in stockholders' equity at April 30, 2005.

During the six months ended October 31, 2005, the Company issued 2,000,000 shares of its common stock, valued at $640,000, to the shareholders of Viking in exchange for all of its outstanding shares (see Note 4).

*Stock Options and Warrants*

As of April 30, 2005, the Company had 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. On August 25, 2005, 62,669 of the options expired without being exercised. The remaining 6,667 options expire on March 1, 2006 and are non-transferable.

On July 29, 2005, in conjunction with changes in the Company's executive management and board of directors, the Company issued options to purchase 4,000,000 of its common stock at $0.50 per share to certain of the Company's executive officers and directors. The options expire on July 29, 2015 and are fully vested. The fair value of the options was $1,280,000 on the date of grant, and such amount was charged to expense during the quarter ended July 31, 2005.

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.

As of April 30, 2005, the Company had granted various other warrants to purchase 2,337,633 shares of its common stock at $0.50 per share. Such warrants expire on dates ranging from January 26, 2006 to April 27, 2007.

During the six months ended October 31, 2005, the Company issued warrants to purchase 385,593 shares of its common stock at $0.50 per share to investors under the terms of notes payable and for extensions to the maturity dates of notes payable. The warrants had a fair value of $119,405 and expire on dates ranging from May 2, 2007 to October 20, 2007.

**Note 9. Related Party Transactions**

From time to time, officers, directors and shareholders of the Company make unsecured advances to the Company. The Company made repayments of such advances in the amount of $12,500 and $7,500 during the six months ended October 31, 2005 and 2004, respectively. As of October 31, 2005, all such advances to the Company had been repaid.

The Company is obligated under a line of credit to an entity controlled by the brother of the Company's president. At October 31, 2005 and April 30, 2004, the balance due under line of credit was $3,624,707. 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 $137,044 at October 31, 2005. Under its terms, the line of credit accrues interest through October 31, 2005, at which time interest will be due monthly. Beginning in November 2006, the principal balance outstanding under the line of credit converts to a term note and is payable in 48 equal monthly installments along with current interest.

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 $75,049 and $96,220 at October 31, 2005 and April 30, 2005, respectively.

During July, 2005, the Company executed employment agreements with its officers. Certain of the officers have elected to defer payment of a portion of their salary under such agreements until such time as the Company's cash flow improves. At October 31, 2005, $72,500 of deferred compensation has been accrued and is recorded as accrued salaries, officers.

**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 and with Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements included in our annual report on Form 10-KSB for the year ended April 30, 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 10-QSB for the quarterly period ended October 31, 2005 and in our Form 10-KSB for the year ended April 30, 2005 and other filings with the SEC ("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 two wholly owned subsidiaries, Vector Exploration, Inc. and Viking Petroleum International, PLC, 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.

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, 2005 were 103,000 barrels of crude oil and condensate and 9,424,000 Mcf (thousand cubic feet) of natural gas. These reserves have an estimated \$30 million in future net cash flow, discounted at 10%. Of these reserves, an estimated 50,000 barrels of crude oil and condensate and 4,130,000 MCF of natural gas with an estimated \$13 million in future net cash flow, discounted at 10%, are considered to be proved developed. The Company's reserves are located in two fields, Bateman Lake and Mustang Island 818-L.

| Field | Location | Percent of April 30, 2005 Estimated Future Net Cash Flows Discounted at 10% | Percent of Revenue Six Months Ended October 31, 2005 | Percent of Revenue Six Months Ended October 31, 2004 |
|---|---|---|---|---|
| Bateman Lake | St. Mary Parish, Louisiana | 48.60% | 0.67% | 16.50% |
| Mustang Island 818-L | State Waters Offshore Texas | 51.40% | 99.33% | 83.50% |

**Results of Operations**

*Three Months Ended October 31, 2005 Compared to Three Months Ended October 31, 2004*

Oil and natural gas revenues for the three months ended October 31, 2005 decreased 31% to \$213,516, compared to \$309,379 for the same period in fiscal 2005. Production volumes for natural gas during the three months ended October 31, 2005 decreased 53%, to 25,487 Mcf, compared to 54,479 Mcf for the three months ended October 31, 2004. Average natural gas prices for the three months ended October 31, 2005 increased 43% to \$8.15 per Mcf, compared to \$5.68 per Mcf for the same period in fiscal 2005. Production volumes for oil for the three months ended October 31, 2005 increased to 92 barrels compared to none produced during the three months ended October 31, 2004. Average oil prices for the three months ended October 31, 2005 were \$62.79 per barrel. The decrease in oil and natural gas production was primarily due to the wells at the Bateman Lake Field being shut-in pending completion of certain repairs.

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, 2005 and 2004.

| | Quarter Ended October 31, | | Fiscal 2006 Period Compared to 2005 Period | |
|---|---|---|---|---|
| | 2005 | 2004 | Increase (Decrease) | % Increase (Decrease) |
| Production volumes - | | | | |
| Oil (Bbls) | 92 | - | 92 | 100% |
| Natural Gas (Mcf) | 25,487 | 54,479 | ( 28,992 ) | ( 53% ) |
| Average sales prices - | | | | |
| Oil (per Bbl) | $ 62.79 | $ - | $ 62.79 | 100% |
| Natural gas (per Mcf) | 8.15 | 5.68 | 2.47 | 43% |
| Operating revenue | | | | |
| Oil | $ 5,777 | $ - | $ 5,777 | 100% |
| Natural gas | 207,739 | 309,379 | ( 101,640 ) | ( 33% ) |
| | $ 213,516 | $ 309,379 | $ ( 95,863 ) | ( 31% ) |

Production expenses for the three months ended October 31, 2005 increased 37% to $208,160 compared to $152,308 for the same period in fiscal 2005. Production expense per equivalent unit increased to $7.99 per Mcfe for the three months ended October 31, 2005 compared to $2.80 in the same period in fiscal 2005. This increase in production expense per Mcfe is caused by the effect of fixed lease operating expenses combined with a decrease in production volumes.

Depreciation and depletion expense decreased from $54,722 for the three months ended October 31, 2004 to $46,263 for the three months ended October 31, 2005. This 15% decrease was primarily due to a 52% decrease in Mcfe production volumes partially offset by a negative revision in reserve volume estimates since April 30, 2004 which increased the depletion rate on an Mcfe basis.

General and administrative expenses for the three months ended October 31, 2005 decreased by $410,982 to $722,819 compared to $1,133,801 for the three months ended October 31, 2004. The decrease was primarily due to the fair value of stock options issued to executive officers and directors of $1,280,000 which was expensed in the first quarter of fiscal 2006. This decrease in general and administrative expense was partially offset by the general and administrative expenses of Viking, which were included in the Company’s operations beginning July 29, 2005.

Accretion expense for the three months ended October 31, 2005 increased by $1,279 to $23,539 compared to $22,260 for the three months ended October 31, 2004. This increase was due to the normal compound effect of the discount factor attributable to the Company’s asset retirement obligation.

Interest expense for the three months ended October 31, 2005 increased by 69% to $350,641 from $207,070 for the same period in fiscal 2005. The increase in interest expense was due primarily to an increase in weighted average debt from $3,996,278 for the three months ended October 31, 2004 to $6,791,088 for the three months ended October 31, 2005. Amortization of loan discount and deferred loan costs included in interest expense increased from $135,729 for the three months ended October 31, 2004 to $200,501 for the three months ended October 31, 2005.

*Six Months Ended October 31, 2005 Compared to Six Months Ended October 31, 2004*

Oil and natural gas revenues for the six months ended October 31, 2005 decreased 45% to $413,230, compared to $751,186 for the same period in fiscal 2005. Production volumes for natural gas during the six months ended October 31, 2005 decreased 48%, to 59,661 Mcf, compared to 115,461 Mcf for the six months ended October 31, 2004. Average natural gas prices for the six months ended October 31, 2005 increased 14% to $6.83 per Mcf, compared to $6.01 per Mcf for the same period in fiscal 2005. Production volumes for oil for the six months ended October 31, 2005 decreased to 92 barrels compared to 1,628 produced during the six months ended October 31, 2004. Average oil prices for the six months ended October 31, 2005 increased 78% to $62.79 per barrel compared to $35.21 per barrel for the same period in fiscal 2005. The decrease in oil and natural gas production was primarily due to the wells at the Bateman Lake Field being shut-in pending completion of certain repairs.

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, 2005 and 2004.

| | Six months Ended October 31, | | 2006 Period Compared to 2005 Period | |
|---|---|---|---|---|
| | 2005 | 2004 | Increase (Decrease) | % Increase (Decrease) |
| Production volumes - | | | | |
| Oil (Bbls) | 92 | 1,628 | ( 1,536 ) | ( 94% ) |
| Natural Gas (Mcf) | 59,661 | 115,461 | ( 55,800 ) | ( 48% ) |
| Average sales prices - | | | | |
| Oil (per Bbl) | $ 62.79 | $ 35.21 | $ 27.58 | 78% |
| Natural gas (per Mcf) | 6.83 | 6.01 | 0.82 | 14% |
| Operating revenue | | | | |
| Oil | $ 5,777 | $ 57,321 | $ ( 51,544 ) | ( 90% ) |
| Natural gas | 407,453 | 693,865 | ( 286,412 ) | ( 41% ) |
| | $ 413,230 | $ 751,186 | $ ( 337,956 ) | ( 45% ) |

Production expenses for the six months ended October 31, 2005 increased 3% to $347,473 compared to $337,602 for the same period in fiscal 2005. Production expense per equivalent unit increased to $5.77 per Mcfe for the six months ended October 31, 2005 compared to $2.70 in the same period in fiscal 2005. This increase in production expense per Mcfe is caused by the effect of fixed lease operating expenses combined with a decrease in production volumes.

Depreciation and depletion expense decreased from $130,515 for the six months ended October 31, 2004 to $104,945 for the six months ended October 31, 2005. This 20% decrease was primarily due to a 52% decrease in Mcfe production volumes partially offset by a negative revision in reserve volume estimates since April 30, 2004 which increased the depletion rate on an Mcfe basis.

General and administrative expenses for the six months ended October 31, 2005 increased by $950,411 to $2,507,329 compared to $1,556,918 for the six months ended October 31, 2004. The increase was primarily due to the fair value of stock options issued to executive officers and directors of $1,280,000 which was expensed in the first quarter of fiscal 2006.

Accretion expense for the six months ended October 31, 2005 increased by $2,534 to $46,644 compared to $44,110 for the six months ended October 31, 2004. This increase was due to the normal compound effect of the discount factor attributable to the Company’s asset retirement obligation.

Interest expense for the six months ended October 31, 2005 increased by 42% to $585,720 from $412,754 for the same period in fiscal 2005. The increase in interest expense was due primarily to an increase in weighted average debt from $3,761,926 for the six months ended October 31, 2004 to $6,325,289 for the six months ended October 31, 2005. Amortization of loan discount and deferred loan costs included in interest expense decreased from $321,735 for the six months ended October 31, 2004 to $308,616 for the six months ended October 31, 2005.

*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, 2005 and 2004, the Company reported losses of approximately $3,170,000 and $1,723,000, respectively. The Company’s continuing negative operating results have produced a working capital deficit of approximately $6,194,000 at October 31, 2005. 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 revenue and profitability and sustain a cash flow level that will ensure support for continuing operations.

For the past three months, the Company's oil and natural gas revenues have been sufficient to satisfy its oil and natural gas operating expenses and a portion of its general and administrative expenses. The Company has funded the remainder of its general and administrative expenses and the development of its oil and natural gas properties through additional borrowings under its lines of credit, through short term investor notes, proceeds from the sale of its oil and gas properties and issuance of its common stock. 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, sales of interests in some of its oil and natural gas properties 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 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 Texas Railroad Commission declined a request by the Company for a reduction in bonding requirements which were recently increased by the State of Texas for operators of certain wells located in offshore and bay State of Texas waters. The Company is working on obtaining a bond at this increased level but does not have such bond in place at this time. The Company has requested reconsideration by the Texas Railroad Commission of this decision and such request has been granted. Until a final decision in this matter, the Company will be allowed to continue its operations under its current bond. Should the Company not be successful in reducing the bond level, or in the alternative obtaining a bond at the increased level, or provide other satisfactory security the Company could outsource offshore operations of the property.

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 $10.0 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 $3,624,707 at October 31, 2005, which is equal to the outstanding balance at that time 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 $137,044 at October 31, 2005. Under its terms, the line of credit accrues interest through October 31, 2005, at which time interest will be due monthly. Beginning in November 2006, the principal balance outstanding under the line of credit converts to a term note and is payable in 48 equal monthly installments along with current interest.

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 was expensed when incurred. Interest on this note is payable monthly at a floating rate of prime plus 1.097% (7.847% and 6.847% at October 31, 2005 and April 30, 2005, respectively.) The outstanding balance under the note, which was $245,304 and $246,537 at October 31, 2005 and April 30, 2005, respectively, is due upon demand.

On June 21, 2005, the Company entered into a $500,000 revolving credit agreement with Bank of Texas. The note was guaranteed by a private investor who received 200,000 shares of the Company's common stock and warrants to purchase 100,000 shares of the Company's common stock at $0.50. The value of the common stock and warrants, which is $88,490, has been included in deferred loan costs and is being amortized over the life of the loan. Interest on this note is payable quarterly at the prime rate, which was 6.75% at October 31, 2005. The note has a balance of $475,000 at October 31, 2005 and matures on June 20, 2006.

The Company has outstanding production payments in the amount of $305,504 at October 31, 2005. In August 2005, the Company agreed to issue the holders of the production loans 120,602 shares of its common stock and warrants to purchase 60,300 shares of the Company's common stock at $0.50 per share which expire on August 15, 2007 in return for their forbearance under the loans until December 31, 2005. The common stock and warrants were recorded at their fair value of $64,112 and treated as deferred loan costs which are being amortized over the terms of the forbearance. 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 $2,409,117 and $1,377,333 at October 31, 2005 and April 30, 2005, 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 used in operating activities were $1,451,283 for the six months ended October 31, 2005 as compared to $263,461 provided by operating activities for the six months ended October 31, 2004. This decrease was primarily due to the Company beginning to utilize some of the working capital raised by debt offerings to pay past operating costs which had been deferred, combined with a decrease in oil and natural gas revenues and an increase in professional fees incurred.

*Net Cash Used in Investing Activities*

Cash flows used in investing activities was $14,611 for the six months ended October 31, 2005 as compared to $1,017,665 for the six months ended October 31, 2004. This increase was due primarily to a decrease of $645,686 in oil and natural gas capital expenditures incurred related to workovers and a recompletion performed on three wells in the Bateman Lake field during fiscal 2005. In addition, the Company had proceeds from the sale of oil and natural gas properties of $445,000 during the six months ended October 31, 2005.

*Net Cash Provided by Financing Activities*

Net cash flows provided by financing activities totaled $1,471,904 for the six months ended October 31, 2005 primarily from borrowings under a new line of credit from a bank and notes payable to investors combined totaling $1,599,595 offset by debt repayments totaling $115,191. Net cash provided from 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 $849,300 offset by the net repayments of debt totaling $114,197.

*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, 2005 and 2004 were $1.61 and $1.61 and $1.00 and $1.04, 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 for the fiscal year ended April 30, 2005 and thereafter 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.

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 and Disposition of Oil and Natural Gas Properties

On January 13, 2005, the Company executed a purchase and sale agreement with ARCOA Oil & Gas, Inc. (“ARCOA”), which was subsequently amended in March 2005. Under the terms of the agreement, as amended, ARCOA acquired a net profits interest in three wells on the Company’s Bateman Lake property for up to $1,150,000. The net profits interest is initially payable out of 75% of the monthly cash flows, as defined, attributable to the Company’s interest in such wells until payout, including a 12% rate of return. The net profits interest will then be reduced to 65% until the well has produced a total of $7 million of net cash flow to the Company’s working interest.

The net profits interest will be further reduced to 60% when the net cash flows attributable to the Company's working interest reaches a total of $9 million. At that time, the net profits interest will be reduced to 30% which will be the net profits percentage there after. To the extent that ARCOA elects to acquire a net profits interest of less than $1,150,000 the net profits amounts will be proportionately reduced. Further more, after June 1, 2006, ARCOA may elect to convert its net profits interest into common stock of the Company at a conversion rate of $1.25 per share. The value of the net profits interest will be determined based upon the net cash flows attributable to the reserves, discounted at 15%. ARCOA has until December, 31, 2005 to fund and close the transaction. However, such date may be extended by mutual agreement. The Company has received a total of $645,000 in payments from ARCOA from the inception of this agreement through October 31, 2005 representing its purchase of net profits interests in certain oil and natural gas wells.

On July 29, 2005, the Company completed the acquisition of all of the outstanding shares of Viking. Viking is a UK registered company with offices in London and owns a 26% interest in a company that owns the North Yorkshire gas fields (an extension of the Southern North Sea Gas Basin onshore). The properties include licenses covering approximately 100,000 acres onshore including, four proved producing fields, two proved undeveloped fields and additional seismically mapped low risk exploration potential. Upon closing of this acquisition, the Company delivered 400,000 shares of its common stock, valued at $128,000, to Viking for distribution to its shareholders, with an obligation to deliver an additional 1.6 million shares of its common stock if certain defined goals are met or six months from the acquisition, unless there is a foreclosure on the assets of Viking's interest in the gas fields. Such additional shares, valued at $512,000 were issued on October 18, 2005. Viking's interest in the gas fields is security for debt in Viking Petroleum UK, Limited. Such debt is not currently in default, however the Company has no assurance that an event of default will not occur. Additionally, prior to the closing of the acquisition, the Company advanced $127,757 to Viking for working capital purposes. This amount is considered a component of the purchase price paid to acquire the stock of Viking. This transaction has been recorded using the purchase method of accounting and the results of operations subsequent to July 29, 2005 are recorded in the consolidated results of operations of the Company.

On October 7, 2005, the Company entered into an agreement with Marathon Capital, LLC ("Marathon") and U.S. Energy Systems, Inc. ("USEY") to jointly acquire the assets owned by Viking Petroleum UK Limited, an entity in which the Company owns a 26% interest through its wholly owned subsidiary Viking. The acquisition will be made through a newly created entity which will be owned 25% by each of Marathon and the Company in consideration of their contribution of assets and/or services, and 50% will be owned by an entity USEY will organize in consideration of a capital contribution of up to $5 million. It is anticipated that the aggregate purchase price for the assets will be approximately $60 million, of which $5 million will consist of the contributed capital. Additional funding of the acquisition is expected to consist of project financing secured by the acquired assets.

## 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 periods ended July 31, 2005 and October 31, 2005 on a timely basis. As of the date of this filing the Company is compliant in all of its 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, 2005 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 2005, the Company issued 1,750 shares of its common stock to Arcoa Advisors, LLC in return for services valued at $700.

In May 2005, the Company issued a total of 135,267 shares of its common stock to W. D. Moreland as consideration under the terms of a loan agreement and for the extension of the maturity date of a loan agreement.

In May 2005, the Company issued a total of 115,000 shares of its common stock to the Bargus Partnership as consideration under the terms of a loan agreement and for the extension of the maturity date of a loan agreement.

In May 2005, the Company issued 125,771 shares of its common stock to Marshall Smith in exchange for services performed in the prior year.

In May 2005, the Company issued a total of 10,000 shares of its common stock to Stan Chason as consideration under the terms of a loan agreement.

In June 2005, the Company issued 35,715 shares of its common stock to Larry C. Wallace in return for services valued at $10,000.

In June 2005, the Company issued a total of 132,500 shares of its common stock to Star Investments, Ltd as consideration under the terms of a loan agreement and for the extension of the maturity dates of loan agreements.

In June 2005, the Company issued a total of 60,000 shares of its common stock to Select Properties, Ltd as consideration under the terms of a loan agreement and for the extension of the maturity date of a loan agreement.

In September 2005, the Company issued 1,750 shares of its common stock to Arcoa Advisors, LLC in return for services valued at $794.

In September 2005, the Company issued 200,000 shares of its common stock to J. Virgil Waggoner as consideration for a loan guarantee.

In September 2005, the Company issued 60,301 shares of its common stock to Edlen, LLC as consideration for forbearance under a production payment payable.

In September 2005, the Company issued 60,301 shares of its common stock to SSSP, LLC as consideration for forbearance under a production payment payable.

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**

(a) Additional Exhibits

Exhibit 31.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

Exhibit 32.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

## 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 *<u>/S/</u>* <u>Grant G. Emms</u>
Grant G. Emms
President
Principal Executive Officer
Date: December 20, 2005

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

Exhibit 31.1

# CERTIFICATIONS
## Chief Executive Officer

I, Grant G. Emms, certify that:

1. I have reviewed this quarterly report on Form 10-QSB 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

Exhibit 31.2

# CERTIFICATIONS
## Chief Financial Officer

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

1. I have reviewed this quarterly report on Form 10-QSB 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

Exhibit 32.1

**CERTIFICATIONS 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 for the quarterly period ending October 31, 2005 (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.

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

Exhibit 32.2

# CERTIFICATIONS 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 for the quarterly period ending October 31, 2005 (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.

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