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

# Form 10-KSB

**_X_ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.** For the fiscal year ended April 30, 2006

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

Commission file number 0-22661

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

| | |
|---|---|
| **Nevada**<br>(State or other jurisdiction of incorporation or organization) | **76-0582614**<br>(I.R.S. Employer Identification No.) |
| **11811 North Freeway, Suite 200, Houston, Texas**<br>(Address of principal executive offices) | **77060**<br>(Zip Code) |

Registrant's telephone number, including area code: (281) 445-5880

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

NONE

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

| **Title of Each Class** | **Name of Each Exchange On Which registered** |
|---|---|
| Common Stock, $0.001 par value | None |

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

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

The issuer's revenues for its most recent fiscal year were $641,621.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the issuer was $5,465,278 as of July 31, 2006, based upon the average bid and asked price of $0.37 per share of such common equity as of that date.

As of July 31, 2006, there were 15,087,689 shares of common stock, $0.001 par value, outstanding.

**Documents Incorporated by Reference:** None

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

**Forward Looking Statements**

This Form 10-KSB includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Form 10-KSB, including without limitation the statements under “Description of Business,” “Description of Property” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” regarding the nature of the Company’s oil and natural gas reserves, productive wells, acreage, and drilling activities, the adequacy of the Company’s financial resources, current and future industry conditions and the potential effects of such matters on the Company’s business strategy, results of operations and financial position, are forward-looking statements. 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-KSB for the year ended April 30, 2006 and other filings with the SEC (“SEC”). Although the Company believes that the expectations reflected in the forward-looking statements contained herein are reasonable, no assurance can be given that such expectations will prove to have been correct. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements. The Company assumes no duty to update or revise its forward-looking statements based on changes in internal estimates or expectations or otherwise.

# PART I

**Item 1. Description of Business**

**General**

VTEX Energy, Inc., a Nevada corporation (the "Company" or "VTEX"), is an independent oil and natural gas company engaged in acquiring, exploiting, developing and operating oil and natural gas properties, with a focus on Texas and Louisiana. The Company has one wholly owned subsidiary, Vector Exploration, Inc., and is headquartered in Houston, Texas. The estimated proved oil and natural gas reserves of the Company at April 30, 2006 were 108,000 barrels of crude oil and condensate and 10,277,000 MCF (thousand cubic feet) of natural gas. These reserves have an estimated $27 million in future net cash flow, discounted at 10%. Of these reserves, an estimated 76,000 barrels of crude oil and condensate and 6,880,000 MCF of natural gas with an estimated $16 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, 2006 Estimated Future Net Cash Flows Discounted at 10% | Percent of Fiscal 2006 Revenue |
|---|---|---|---|
| Bateman Lake | St. Mary Parish, Louisiana | 45.26% | 1.10% |
| Mustang Island 818-L | State Waters Offshore Texas | 54.74% | 98.90% |

**Company Background**

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

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

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

A lack of working capital and the service requirements of the debt assumed by the Company in its acquisitions prevented the Company from fully developing the properties it had acquired. Accordingly, the Company identified those properties that had the most potential for future development, and in July 2002 began to actively market for sale the rest of its non-strategic producing 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.

**Business Strategy**

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

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

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

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

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

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

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

**Going Concern Risk**

The Company has had, and could have, losses, deficits and deficiencies in liquidity, which could impair its ability to continue as a going concern. In Note 1 to its consolidated financial statements, the Company's independent auditors have indicated that certain factors raise substantial doubt about the Company's ability to continue as a going concern. Since its inception, the Company has suffered recurring losses from operations and has been dependent on existing stockholders and new investors to provide the cash resources to sustain its operations. During the years ended April 30, 2006 and 2005, the Company reported losses of approximately $7,447,000 and $3,960,000, respectively. The Company's continuing negative operating results have produced a working capital deficit of approximately $8,579,000 at April 30, 2006. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company's long-term viability as a going concern is dependent on certain factors primarily including:

- 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;
- The Company's ability to locate attractive development prospects, and coordinate with timely funding that will allow the Company to continue to increase oil and natural gas reserves and production; and
- The Company's ability to attain profitability and sustain a cash flow level that will ensure support for continuing operations.
- The Company's ability to settle significant delinquent obligations and meet other operating criteria including its legal requirements for environmental bonds.

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

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

**Competitive Conditions**

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

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

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

**Risks of the Oil and Gas Industry**

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

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

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

It is likely that oil and natural gas prices will continue to fluctuate as they have in the past.

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

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

There are many additional risks incident to drilling for and producing oil and natural gas. These risks include blowouts, cratering, fires, equipment failure and accidents. Any of these events could result in personal injury, loss of life and environmental and/or property damage. If such an event does occur, the Company may be held liable for properties it operates and may not be fully insured against these risks. In fact, many of these risks are not insurable. The occurrence of such events that are not fully covered by insurance may require the Company to pay damages, which would reduce the Company's profits. As of April 30, 2006, we have not experienced any material losses due to these types of events.

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

The Company currently markets the oil and natural gas production from its properties to three customers, one of which represents sales in excess of 10% of the Company's total oil and natural gas revenues. This customer represents approximately 98% of the Company's total oil and natural gas revenues during the year ended April 30, 2006. During the year ended April 30, 2005, the Company marketed its oil and natural gas production from its properties to three customers, two of which represented sales in excess of 10% of the Company's total oil and natural gas revenues. These two customers represented approximately 83% and 14% of the Company's total oil and natural gas revenues, respectively. The availability of oil and natural gas purchasers, with respect to onshore production, is such, however, that any customer discontinuing purchases from the Company will normally be replaced by another buyer.

Approximately $26,000,000, or 53%, of estimated future cash flows from the Company's proved reserves is expected to be generated from offshore production from the Company's Mustang Island Block. Available purchasers and transportation facilities are much more limited for offshore production.

**Governmental and Environmental Regulations**

*Governmental Regulations*

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

*Environmental Regulations*

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

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

**Employees and Consultants**

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

**Item 2. Description of Property**

**Properties Acquired**

*Bateman Lake*

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

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

| Sand | Depth, Ft. | Thickness, Ft. |
|---|---|---|
| G | 10,200 | 20 |
| J | 10,400 | 10 |
| N | 10,600 | 43 |
| W | 11,600 | 31 |
| X | 11,650 | 37 |

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

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

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

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

| Fiscal Year | Natural Gas Production (MCF) | Oil/Condensate Production (BBL) | Gross Revenue |
|---|---|---|---|
| 2000 | 210,833 | 2,195 | $617,167 |
| 2001 | 163,270 | 2,807 | $970,540 |
| 2002 | 141,062 | 2.229 | $501,794 |
| 2003 | 9,102 | 552 | $ 48,596 |
| 2004 | 36,503 | 2,312 | $260,376 |
| 2005 | 24,038 | 857 | $166,390 |
| 2006 | 867 | 0 | $7,083 |

*Mustang Island 818-L*

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

The Mustang Island Block 818-L consists of two leases covering 2,170 acres located approximately four miles offshore Kleberg County, Texas in State waters. There are 15 wells located on three 4-pile platforms and one individual well caisson. The field was discovered in 1977 and has produced over 124 billion cubic feet of natural gas. The producing intervals are Frio sands located from 8,500 to 11,900 feet deep. The property was originally produced using a number of techniques that resulted in significant reserves being prematurely abandoned or not fully produced. The Company is currently producing five wells from one platform. The Company currently estimates at least 6 billion cubic feet of remaining recoverable reserves.

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

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

| Fiscal Year | Natural Gas Production (MCF) | Oil/Condensate Production (BBL) | Gross Revenue |
|---|---|---|---|
| 2003 | 37,731 | - | $234,270 |
| 2004 | 128,367 | 7,651 | $895,436 |
| 2005 | 132,741 | 775 | $842,132 |
| 2006 | 88,981 | 92 | $634,538 |

The Company is currently seeking an investor to provide $3 million for the workover of three wells in the Mustang Island 818-L block. This will allow for the conversion of approximately 4 Billion cubic feet of reserves from proved developed non-producing to proved developed producing.

**Other Assets**

On November 22, 2000, the Company exchanged pipeline, meter stations, and related equipment acquired in the Mustang Island transaction for a cash payment of $150,000 and a 20% interest in Mustang Island Gathering, LLC, a Texas limited liability company and pipeline operator (the "LLC"). As part of the transaction, the Company entered into a five-year natural gas purchase agreement with the LLC. As a member of the LLC, the Company has been required to guarantee a portion of the LLC's bank debt, which is approximately $1.1 million in the aggregate. In addition, any member of the LLC has the right, but not the obligation, to transfer all of its membership units in the LLC to the Company in exchange for shares of its common stock. At April 30, 2006, the Company's percentage ownership in the LLC was approximately 11%.

**Production Information**

The table below sets forth the net quantities of oil and natural gas production (net of all royalties, overriding royalties, and production due to others), the average sales prices, and the average production costs attributable to the Company's properties for the years ended April 30, 2006 and 2005.

| | Year Ended April 30, | |
|---|---|---|
| | 2006 | 2005 |
| Net Production | | |
| Oil (BBLS) | 92 | 1,628 |
| Natural gas (MCF) | 133,608 | 156,779 |
| | | |
| Average Sales Prices | | |
| Oil (per BBL) | $ 62.79 | $ 35.21 |
| Natural gas (per MCF) | $ 4.76 | $ 6.07 |
| | | |
| Average Production Cost (1) per Equivalent MCF of Gas (2) | $ 5.62 | $ 3.80 |

(1) Production costs include lease operating expenses, severance taxes, transportation, treatment, marketing, and other direct expenses of producing oil and natural gas.

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

**Reserve Information**

Oil and natural gas reserve information for the properties owned by the Company have been prepared internally by the Company for the year ended April 30, 2006 and by D. Raymond Perry, Jr., a registered petroleum engineer for the year ended April 30, 2005.

Reserve calculations by petroleum engineers involve the estimation of future net recoverable reserves of oil and natural gas and the timing and amount of future net revenues to be received therefrom. Those estimates are based on numerous factors, many of which are variable and uncertain. Reserve estimators are required to make numerous judgements based upon professional training, experience, and educational background. The extent and significance of the judgements in themselves are sufficient to render reserve estimates inherently imprecise. Since reserve determinations involve estimates of future events, actual production, revenues and operating expenses may not occur as estimated. Accordingly, it is common for the actual production and revenues later received to vary from earlier estimates. Estimates made in the first few years of production from a property are generally not as reliable as later estimates based on longer production history. Reserve estimates based upon volumetric analysis are inherently less reliable than those based on lengthy production history. Also, potentially productive natural gas wells may not generate revenue immediately due to lack of pipeline connections and potential development wells may have to be abandoned due to unsuccessful completion techniques. Hence, reserve estimates may vary from year to year.

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

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

The tables below set forth the estimated proved and proved developed reserves of crude oil (including condensate) and natural gas, all of which are located within the continental United States, associated with the properties owned by the Company for the years ended April 30, 2006 and 2005.

*Proved Reserves at Year End*

| | Developed | Undeveloped | Total |
|---|---|---|---|
| | | (in thousands) | |
| Oil (BBLs) | | | |
| April 30, 2006 | 76 | 32 | 108 |
| April 30, 2005 | 50 | 53 | 103 |
| | | | |
| Gas (MCF) | | | |
| April 30, 2006 | 6,880 | 3,397 | 10,277 |
| April 30, 2005 | 4,130 | 5,294 | 9,424 |

*Changes in Proved Reserves*

| | MCF | BBLS |
|---|---|---|
| | (in thousands) | |
| Estimated Quantity, April 30, 2004 | 15,516 | 85 |
| Production | ( 157 ) | ( 2 ) |
| Changes in Estimates | ( 5,935 ) | 20 |
| Estimated Quantity, April 30, 2005 | 9,424 | 103 |
| Production | ( 90 ) | ( 1 ) |
| Changes in Estimates | 943 | 6 |
| Estimated Quantity, April 30, 2005 | 10,277 | 108 |

**Oil and Natural Gas Wells**

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

| | April 30, 2006 | | April 30, 2005 | |
|---|---|---|---|---|
| | Gross (1) Wells | Net Wells | Gross (1) Wells | Net Wells |
| Oil Wells | 34 | 2.55 | 34 | 2.55 |
| Gas Wells | 36 | 4.28 | 36 | 4.28 |
| Total | 70 | 6.83 | 70 | 6.83 |

(1) One or more completions in the same well are counted as separate wells.

**Oil and Natural Gas Leaseholds**

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

| | April 30, 2006 | | | | April 30, 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| | Developed (1) Acreage | | Undeveloped Acreage | | Developed (1) Acreage | | Undeveloped Acreage | |
| | Gross | Net | Gross | Net | Gross | Net | Gross | Net |
| Louisiana | 4,603 | 2,211 | - | - | 4,603 | 2,211 | - | - |
| Texas | 4,856 | 1,469 | - | - | 4,856 | 1,469 | - | - |
| Total | 9,459 | 3,680 | - | - | 9,459 | 3,680 | - | - |

(1) Acres spaced or assigned to productive wells.

**Office Facilities**

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

**Item 3. Legal Proceedings**

The Company is involved from time to time in various claims, lawsuits and administrative proceedings incidental to its business. In the opinion of management, the ultimate liability thereunder, if any, will not have a materially adverse effect on the financial condition or results of operations of the Company. At April 30, 2006, the Company has accounts payable in the amount of $2,602,721. A significant portion of these accounts are now past due and are subject to becoming matters for litigation at any time. Certain of these accounts have been converted into judgments and the Company is continuing to try and work out payment arrangements with the judgment creditors.

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

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

# PART II

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

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

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

| | High | Low |
|---|---|---|
| 2006 Fiscal Year | | |
| 1st Quarter | $ 0.39 | $ 0.22 |
| 2nd Quarter | 0.61 | 0.28 |
| 3rd Quarter | 0.58 | 0.31 |
| 4th Quarter | 0.53 | 0.37 |
| | | |
| 2005 Fiscal Year | | |
| 1st Quarter | $ 0.68 | $ 0.40 |
| 2nd Quarter | 0.70 | 0.45 |
| 3rd Quarter | 0.52 | 0.22 |
| 4th Quarter | 0.47 | 0.23 |

As of July 31, 2006, there were approximately 2,094 holders of record of the Company's common stock. The Company has not paid any dividends on its common stock and no dividends are anticipated in the foreseeable future. In addition, the ability of the Company to declare or pay dividends on its common stock is currently subject to certain restrictions contained in its credit facilities and its Class AA-1 Preferred Stock.

The following shares of common stock have been issued subject to the provisions of Rule 144 of the Securities and Exchange Commission.

In February 2006, the Company issued 40,000 shares of its common stock to Frontier Medical Institute PSP as consideration under the terms of a loan agreement.

In February 2006, the Company issued 40,000 shares of its common stock to Accu-Tube Corporation as consideration under the terms of a loan agreement.

In February 2006, the Company issued 40,000 shares of its common stock to Michael R. Seeley as consideration under the terms of a loan agreement.

In February 2006, the Company issued 40,000 shares of its common stock to William R. DeGarmo as consideration under the terms of a loan agreement.

In February 2006, the Company issued 40,000 shares of its common stock to Allen Brown as consideration under the terms of a loan agreement.

In March 2006, the Company issued 120,000 shares of its common stock to W. Douglas Moreland as consideration under the terms of a loan agreement.

In March 2006, the Company issued 112,000 shares of its common stock to the Bargus Partnership as consideration under the terms of a loan agreement.

In March 2006, the Company issued 40,000 shares of its common stock to Aquaria GK, LLC as consideration under the terms of a loan agreement.

In March, the Company issued 60,301 shares of its common stock to SSSP, LLC under the terms of a forbearance agreement.

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

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

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 audited consolidated financial statements. This discussion should be read in conjunction with the accompanying audited consolidated financial statements included elsewhere in this Form 10-KSB.

**General Overview**

VTEX Energy, Inc., a Nevada corporation (the "Company"), is an independent oil and natural gas company engaged in acquiring, exploiting, developing and operating oil and natural gas properties, with a focus on Texas and Louisiana. The Company has one wholly owned subsidiary, Vector Exploration, Inc., and is headquartered in Houston, Texas.

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

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 or funding sufficient capital expenditures on certain existing properties to sustain economic production. Accordingly, the Company identified those properties that had the most potential for future development, and in July 2002 began to actively market for sale the rest of its non-strategic producing oil and gas properties. The proceeds from the property sales allowed the Company to reduce and restructure its debt, while retaining enough capital to begin development of the properties retained.

The estimated proved oil and natural gas reserves of the Company at April 30, 2006 were 108,000 barrels of crude oil and condensate and 10,277,000 Mcf (thousand cubic feet) of natural gas. These reserves have an estimated $27 million in future net cash flow, discounted at 10%. Of these reserves, an estimated 76,000 barrels of crude oil and condensate and 6,880,000 MCF of natural gas with an estimated $16 million in future net cash flow, discounted at 10%, are considered to be proved developed. Estimated capital expenditures to develop these properties are $11,275,000. The Company's reserves are located in two fields, Bateman Lake and Mustang Island 818-L.

| Field | Location | Percent of April 30, 2006 Estimated Future Net Cash Flows Discounted at 10% | Percent of Revenue Year Ended April 30, 2006 | Percent of Revenue Year Ended April 30, 2005 |
|---|---|---|---|---|
| Bateman Lake | St. Mary Parish, Louisiana | 45.26% | 1.10% | 16.50% |
| Mustang Island 818-L | State Waters Offshore Texas | 54.74% | 98.90% | 83.50% |

**Results of Operations**

Oil and natural gas revenues for the year ended April 30, 2006 decreased 36% to $641,621 compared to $1,008,521 for fiscal 2005. Production volumes for natural gas during the year ended April 30, 2006 decreased 15%, to 133,608 Mcf, compared to 156,779 Mcf for the year ended April 30, 2005. Average natural gas prices for the year ended April 30, 2006 decreased 22% to $4.76 per Mcf, compared to $6.07 per Mcf for fiscal 2005. Production volumes for oil for the year ended April 30, 2006 decreased 94% from 1,628 barrels produced during the year ended April 30, 2005 to 92 for fiscal 2006. Average oil prices for the year ended April 30, 2006 increased 78% to $62.79 per barrel, compared to $35.21 per barrel for fiscal 2005.

The following table summarizes production volumes, average sales prices and operating revenues for the Company's oil and natural gas operations for the years ended April 30, 2006 and 2005.

| | Year Ended April 30, | | 2006 Period Compared to 2005 Period | |
|---|---|---|---|---|
| | 2006 | 2005 | Increase (Decrease) | % Increase (Decrease) |
| Production volumes - | | | | |
| Oil (Bbls) | 92 | 1,628 | ( 1,536 ) | ( 94% ) |
| Natural Gas (Mcf) | 133,608 | 156,779 | ( 23,171 ) | ( 15% ) |
| Average sales prices - | | | | |
| Oil (per Bbl) | $ 62.79 | $ 35.21 | $ 27.58 | 78% |
| Natural gas (per Mcf) | 4.76 | 6.07 | ( 1.31 ) | ( 22% ) |
| Operating revenue | | | | |
| Oil | $ 5,777 | $ 57,321 | $ ( 51,544 ) | ( 90% ) |
| Natural gas | 635,844 | 951,200 | ( 315,356 ) | ( 33% ) |
| | $ 641,621 | $ 1,008,521 | $ ( 366,900 ) | ( 36% ) |

Production expenses for the year ended April 30, 2006 increased 19% to $754,241 compared to $633,094 for fiscal 2005. Production expense per equivalent unit increased to $5.62 per Mcfe for the year ended April 30, 2006 compared to $3.80 in fiscal 2005. This increase in production expense per Mcfe is caused by the effect of fixed lease operating expenses which in effect increase production expense on a per equivalent unit basis when production decreases. Production expenses exceeded revenue by $112,620 for the year ended April 30, 2006, principally due to the fact that the Company’s producing oil and gas wells have either been shut-in or produce only intermittently pending the completion of necessary repairs. Such repairs include repairs to the main tank battery and a new natural gas supply line for artificial gas lift at Bateman Lake and repairs to the production platform at Mustang Island. The Company estimates that such repairs will cost approximately $450,000.

Depreciation, depletion and amortization expense decreased from $290,504 for the year ended April 30, 2005 to $164,511 for the year ended April 30, 2006. This 43% decrease is primarily due to a 20% decrease in Mcfe production volumes. The depletion rate decreased to $1.06 per Mcfe in fiscal 2006 from $1.63 per Mcfe in fiscal 2005.

General and Administrative expenses for the year ended April 30, 2006 increased by $2,767,742 to $5,870,153 compared to $3,102,411 for the year ended April 30, 2005. The increase was partially due to the value of options issued to employees and directors of the Company whose value of $1,280,000, was expensed in fiscal 2006. Contract services incurred by the Company increased from $1,866,161 for the year ended April 30, 2005 to $2,396,946 for the year ended April 30, 2006 primarily due to fund raising efforts by consultants and investment advisors that we retain on an ongoing basis. Of the contract services incurred in fiscal 2006, $1,355,124 (57%) was paid for through the issuance of the Company’s common stock and warrants to purchase common stock. Of the contract services incurred in fiscal 2005, $1,626,059 (87%) was paid for through the issuance of the Company’s common stock or warrants to purchase common stock.

Accretion expense for the year ended April 30, 2006 increased by $5,587 to $95,054 compared to $89,467 for the year ended April 30, 2005. 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 year ended April 30, 2006 increased by 42% to $1,252,910 from $883,769 for fiscal 2005. The increase in interest expense was due primarily to an increase in weighted average debt from $4,170,141 for the year ended April 30, 2005 to $6,869,287 for the year ended April 30, 2006. Amortization of loan discount and deferred loan costs included in interest expense increased from $575,621 for the year ended April 30, 2005 to $637,794 for the year ended April 30, 2006.

**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 years ended April 30, 2006 and 2005, the Company reported losses of approximately $7,447,000 and $3,960,000, respectively. The Company's continuing negative operating results have produced a working capital deficit of approximately $8,579,000 at April 30, 2006. 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 attain profitability and sustain a cash flow level that will ensure support for continuing operations. The Company estimates that an additional $1.2 million in capital will be required to sustain operations for the next year.

For the past year, the Company's oil and natural gas revenues have been sufficient to satisfy most of its oil and natural gas operating expenses. The Company has funded the remainder of its oil and gas operating expenses, general and administrative expenses and the development of its oil and natural gas properties through additional borrowings under its line of credit and through the issuance of short term investor notes. Additional equity funding will be required in the near term to meet the capital needs of the Company. The Company is evaluating various financing alternatives such as the issuance of debt, private placements of its common and preferred stock, sales of undivided 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's bonding requirement has been $50,000, but would increase to $1,500,000 under the new regulations. The Company is seeking a bond at this increased level but does not have such bond in place at this time. There is no assurance that a bond can be obtained or that such bond would be available on commercial terms acceptable to the Company. The Company requested reconsideration by the Texas Railroad Commission of this decision and such request was declined on March 27, 2006. The Company has appealed such decision to the district court. Until a final decision is made 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 requirement, or alternatively obtain a bond at the increased requirement, or provide other satisfactory security the Company could be required to outsource offshore operations of the property provided such operator provides a satisfactory bond. An arrangement to outsource operations would likely result in the reduction of the Company's working interests or an increase in lease operating expenses to fund such asset retirement obligations.

**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 credit line is subject to a borrowing base formula. At April 30, 2006, the Company had drawn the maximum available under the borrowing base on the revolving credit line of $3,624,707. Additional borrowings are not available 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 and unpaid interest on the line of credit totaled $271,853 at April 30, 2006. Under its terms, the line of credit was to accrue interest through October 31, 2005, at which time interest was to be due monthly. Beginning in November 2006, the principal balance outstanding under the line of credit was to convert to a term note payable in 48 equal monthly installments along with current interest.

The Company has not made any payments under the terms of the converted note and interest on the line of credit is continuing to accrue. The note is currently in default, however no demand for payment has been received pending ongoing discussions with the lender to modify the terms of the note. No definitive agreement has yet been reached.

The Company also has a $250,000 line of credit with a bank. The outstanding balance under this line of credit is $245,001 at April 30, 2006, and 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 is to receive 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. Interest on this note is payable quarterly at the prime rate. The outstanding balance under the note is due December 31, 2006.

The Company has outstanding production payments in the amount of $299,504 at April 30, 2006. One of the holders of such production payments has agreed to a temporary forbearance of the Company's obligation until December 31, 2006. The Company is currently holding discussions with the holder of the remaining production payments in order to obtain his forbearance, however there can be no assurance that such forbearance will be obtained or will be on terms favorable to the Company. If such forbearance is not obtained or 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 issues notes payable to settle outstanding accounts payable and other liabilities, finance expenditures and generate working capital. The balances of such notes payable were $2,795,999 and $1,377,333 at April 30, 2006 and 2005, respectively. Notes payable totaling $1,420,342 have reached maturity and are currently in default, however no demand for payment has been received pending ongoing discussions with the lenders to modify the terms of the notes.

**Off Balance Sheet Financing Arrangements**

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 (Used in) Provided by Operating Activities**

Cash flows used in operating activities were $2,498,677 for the year ended April 30, 2006 as compared to cash flows provided by operating activities of $90,183 for the year ended April 30, 2005. This decrease was primarily due to an increase in the net loss incurred by the Company from $3,960,385 in fiscal 2005 to $7,482,674 in fiscal 2006.

**Net Cash Provided by (Used in) Investing Activities**

Cash flows provided by investing activities increased to $114,505 for the year ended April 30, 2006 from $1,535,184 used in investing activities for the year ended April 30, 2005. Cash flows from investing activities were primarily derived from proceeds of $591,500 from the sale of non-strategic properties offset by capital expenditures of $333,530 to develop properties with higher development potential. The increase from the prior year was due primarily to a decrease in oil and natural gas capital expenditures from $1,550,927 in fiscal 2005 to $333,530 in fiscal 2006.

**Net Cash Provided by Financing Activities**

Net cash flows provided by financing activities totaled $2,377,072 for the year ended April 30, 2006 primarily from borrowings under a new line of credit from a bank and notes payable to investors totaling $2,591,775. Net cash flows provided by financing activities totaled $1,326,008 for the year ended April 30, 2005 primarily from borrowings under a new line of credit from a bank and notes payable to investors totaling $1,421,800.

**Critical Accounting Policies**

The following summarizes several of our critical accounting policies:

*Recent Accounting Pronouncements*

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 153, *"Exchanges of Nonmonetary Assets — an amendment of Accounting Principles Board ("APB") Opinion No. 29."* SFAS No. 153 is effective for fiscal years beginning after June 15, 2005.

This statement addresses the measurement of exchange of nonmonetary assets and eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, *"Accounting for Nonmonetary Transactions"* and replaces it with an exception for exchanges that do not have commercial substance. The adoption of SFAS No. 153 is expected to have no impact on our consolidated financial statements.

In May 2005, the Financial Accounting Standards Board issued SFAS No. 154, *"Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3."* which is effective for fiscal years beginning after December 15, 2005. This statement changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. The adoption of SFAS No. 154 is expected to have no impact on our consolidated financial statements.

*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 oil and natural gas 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 oil and natural gas properties using the full-cost method of accounting. All costs directly associated with the acquisition, exploration and development of oil and natural gas 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 oil and natural gas 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 rate per Mcfe for the years ended April 30, 2006 and 2005 was $1.06 and $1.63, respectively.

We account for dispositions of oil and natural gas 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. No ceiling test write downs were required during the years ended April 30, 2006 or 2005.

*Oil and Natural Gas Reserve Estimates*

The reserve data included in this document for the year ended April 30, 2006 are estimates prepared internally by the Company. The reserve data included in this document for the year ended April 30, 2005 are estimates prepared by D. Raymond Perry, Jr., an 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.

**Risk Factors**

*Our reserve data and estimated discounted future net cash flows are estimates based on assumptions that may be inaccurate and are based on existing economic and operating conditions that may change in the future.*

There are numerous uncertainties inherent in estimating oil and natural gas reserves and their estimated value, including many factors beyond the control of the producer. The reserve data set forth in this Form 10-KSB represents only estimates. Reservoir engineering is a subjective and inexact process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact manner. The reserve data included in this Form 10-KSB represents estimates that depend on a number of factors and assumptions that may vary considerably from actual results, including:

- historical production from the area compared with production from other areas;
- the assumed effects of regulations by governmental agencies;
- assumptions concerning future oil and natural gas prices;
- future operating costs;
- severance and excise taxes;
- development costs; and
- workover and remedial costs.

For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of those reserves based on risk of recovery and estimates of the future net cash flows expected from them prepared by different engineers or by the same engineers but at different times may vary substantially. Accordingly, reserve estimates may be subject to upward or downward adjustment, and actual production, revenue and expenditures with respect to our reserves likely will vary, possibly materially, from estimates. Additionally, there recently has been increased debate and disagreement over the classification of reserves, with particular focus on proved undeveloped reserves. Changes in interpretations as to classification standards, or disagreements with our interpretations, could cause us to write down these reserves.

As of April 30, 2006, all of our proved reserves were proved undeveloped and proved nonproducing. Reserve estimates on these wells may be less reliable than estimates based on a lengthy production history. Realization or recognition of our proved undeveloped reserves will depend on our development schedule and plans. Lack of certainty with respect to development plans for proved undeveloped reserves could cause the discontinuation of the classification of these reserves as proved.

The discounted future net cash flows included in this Form 10-KSB are not necessarily the same as the current market value of our estimated oil and natural gas reserves. As required by the Securities and Exchange Commission, the estimated discounted future net cash flows from proved reserves are based on prices and costs as of the date of the estimate. Actual future net cash flows also will be affected by factors such as:

- the actual prices we receive for oil and natural gas;
- our actual operating costs in producing oil and natural gas;
- the amount and timing of actual production;
- supply and demand for oil and natural gas;
- increases or decreases in consumption of oil and natural gas; and
- changes in governmental regulations or taxation.

In addition, the 10% discount factor we use when calculating discounted future net cash flows for reporting requirements in compliance with the FASB in SFAS No. 69 may not be the most appropriate discount factor based on interest rates in effect from time to time and risks associated with us or the oil and natural gas industry in general.

*We depend on successful exploration, development and acquisitions to maintain reserves and revenue in the future.*

In general, the volume of production from oil and natural gas properties declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. Except to the extent we conduct successful exploration and development activities or acquire properties containing proved reserves, or both, our proved reserves will decline as reserves are produced. Our future oil and natural gas production is, therefore, highly dependent on our level of success in finding or acquiring additional reserves. The business of exploring for, developing or acquiring reserves is capital intensive. Recovery of our reserves, particularly undeveloped reserves, will require significant additional capital expenditures and successful drilling operations. To the extent cash flow from operations is reduced and external sources of capital become limited or unavailable, our ability to make the necessary capital investment to maintain or expand our asset base of oil and natural gas reserves would be impaired.

*Oil and natural gas prices are highly volatile, and lower prices will negatively affect our financial results.*

Our revenue, profitability, cash flow, future growth and ability to borrow funds or obtain additional capital, as well as the carrying value of our properties, are substantially dependent on prevailing prices of oil and natural gas. Historically, the markets for oil and natural gas prices have been volatile, and those markets are likely to continue to be volatile in the future. It is impossible to predict future oil and natural gas price movements with certainty. Prices for oil and natural gas are subject to wide fluctuation in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond our control. These factors include:

- the level of consumer product demand;
- overall economic conditions;
- weather conditions;
- domestic and foreign governmental relations;
- the price and availability of alternative fuels;
- political conditions;
- the level and price of foreign imports of oil and liquefied natural gas; and

- the ability of the members of the Organization of Petroleum Exporting Countries to agree upon and maintain oil price controls.

Declines in oil and natural gas prices may materially adversely affect our financial condition, liquidity and ability to finance planned capital expenditures and results of operations.

*We face strong competition from other oil and natural gas companies.*

We encounter competition from other oil and natural gas companies in all areas of our operations, including the acquisition of proven properties. Our competitors include major integrated oil and natural gas companies and numerous independent oil and natural gas companies, individuals and drilling and income programs. Many of our competitors are large, well-established companies that have been engaged in the oil and natural gas business much longer than we have and possess substantially larger operating staffs and greater capital resources than we do. These companies may be able to pay more for developmental projects and productive oil and natural gas properties and may be able to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. In addition, these companies may be able to expend greater resources on the existing and changing technologies that we believe are and will be increasingly important to attaining success in the industry. We may not be able to conduct our operations, evaluate and select suitable properties and consummate transactions successfully in this highly competitive environment.

*We may not be able to keep pace with technological developments in our industry.*

The oil and natural gas industry is characterized by rapid and significant technological advancements and introductions of new products and services using new technologies. As others use or develop new technologies, we may be placed at a competitive disadvantage, and competitive pressures may force us to implement those new technologies at substantial cost. In addition, other oil and natural gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before we can. We may not be able to respond to these competitive pressures and implement new technologies on a timely basis or at an acceptable cost. If one or more of the technologies we use now or in the future were to become obsolete or if we are unable to use the most advanced commercially available technology, our business, financial condition and results of operations could be materially adversely affected.

*We are subject to various governmental regulations and environmental risks.*

Oil and natural gas operations are subject to various federal, state and local government regulations that may change from time to time. Matters subject to regulation include discharge permits for drilling operations, plug and abandonment bonds, reports concerning operations, the spacing of wells, unitization and pooling of properties and taxation. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and natural gas wells below actual production capacity in order to conserve supplies of oil and natural gas. Other federal, state and local laws and regulations relating primarily to the protection of human health and the environment apply to the development, production, handling, storage, transportation and disposal of oil and natural gas, by-products thereof and other substances and materials produced or used in connection with oil and natural gas operations. In addition, we may be liable for environmental damages caused by previous owners of property we purchase or lease. As a result, we may incur substantial liabilities to third parties or governmental entities and may be required to incur substantial remediation costs. We also are subject to changing and extensive tax laws, the effects of which cannot be predicted. Compliance with existing, new or modified laws and regulations could have a material adverse effect on our business, financial condition and results of operations.

*We are subject to various operating and other casualty risks that could result in liability exposure or the loss of production and revenues.*

The oil and natural gas business involves operating hazards such as:

- well blowouts;
- mechanical failures;
- explosions;
- uncontrollable flows of oil, natural gas or well fluids;
- fires;

- geologic formations with abnormal pressures;
- pipeline ruptures or spills;
- releases of toxic gases; and
- other environmental hazards and risks.

Any of these hazards and risks can result in the loss of hydrocarbons, environmental pollution, personal injury claims and other damage to our properties and the property of others.

*We do not have insurance to cover all of the risks we face.*

In August, 2006, the Company's general liability, umbrella and control of well insurance policies lapsed, and the Company has decided not to renew its control of well policy due to premium cost considerations. Our insurance coverage provides protection against some, but not all, potential losses we face. We do not carry business interruption insurance. We may elect not to carry insurance if our management believes that the cost of available insurance is excessive relative to the risks presented. In addition, we cannot insure fully against pollution and environmental risks. The occurrence of an event not covered by insurance could have a material adverse effect on our financial condition and results of operations.

*The marketability of our natural gas production depends on facilities that we typically do not own or control, which could result in a curtailment of production and revenues.*

The marketability of our production depends in part upon the availability, proximity and capacity of natural gas gathering systems, pipelines and processing facilities. We generally deliver natural gas through gas gathering systems and gas pipelines that we do not own under interruptible or short-term transportation agreements. Under the interruptible transportation agreements, the transportation of our gas may be interrupted due to capacity constraints on the applicable system, for maintenance or repair of the system, or for other reasons as dictated by the particular agreements. Our ability to produce and market natural gas on a commercial basis could be harmed by any significant change in the cost or availability of such markets, systems or pipelines.

*Our future acquisitions may yield revenues or production that varies significantly from our projections.*

In acquiring producing properties, we assess the recoverable reserves, future oil and natural gas prices, operating costs, potential liabilities and other factors relating to the properties. Our assessments are necessarily inexact and their accuracy is inherently uncertain. Our review of a subject property in connection with our acquisition assessment will not reveal all existing or potential problems or permit us to become sufficiently familiar with the property to assess fully its deficiencies and capabilities. We may not inspect every well, and we may not be able to observe structural and environmental problems even when we do inspect a well. If problems are identified, the seller may be unwilling or unable to provide effective contractual protection against all or part of those problems. Any acquisition of property interests may not be economically successful, and unsuccessful acquisitions may have a material adverse effect on our financial condition and future results of operations.

*Our business may suffer if we lose key personnel.*

We depend to a large extent on the services of certain key management personnel, including our executive officers and other key employees, the loss of any of whom could have a material adverse effect on our operations. We do not maintain key-man life insurance with respect to any of our employees. Our success will be dependent on our ability to continue to employ and retain skilled technical personnel.

*We may experience difficulty in achieving and managing future growth.*

We have experienced growth in the past primarily through the acquisition of proven properties. Future growth may place strains on our resources and cause us to rely more on project partners and independent contractors, possibly negatively affecting our financial condition and results of operations. Our ability to grow will depend on a number of factors, including:

- our ability to obtain proven properties;
- our ability to acquire additional 3-D seismic data;
- our ability to develop existing properties;

- our ability to retain and attract skilled personnel;
- our ability to maintain or enter into new relationships with project partners and independent contractors;
- the results of our developmental programs;
- hydrocarbon prices; and
- our access to capital.

We may not be successful in upgrading our technical, operations and administrative resources or in increasing our ability to internally provide certain of the services currently provided by outside sources, and we may not be able to maintain or enter into new relationships with project partners and independent contractors. Our inability to achieve or manage growth may adversely affect our financial condition and results of operations.

*We have substantial capital requirements that, if not met, may hinder operations.*

We have experienced and expect to continue to experience substantial capital needs as a result of our development and acquisition programs and continued net losses. We expect that additional external financing will be required in the future to fund our growth. We may not be able to obtain additional financing, and financing under existing or new credit facilities may not be available in the future. Without additional capital resources, we may be forced to limit or defer our planned oil and natural gas development program and thereby adversely affect the recoverability and ultimate value of our oil and natural gas properties, in turn negatively affecting our business, financial condition and results of operations.

*We may have difficulty obtaining additional credit.*

Our credit facilities are secured by a pledge of substantially all of our oil and natural gas properties. Some of our credit facilities are guaranteed by individuals. We may not be able to refinance our debt or obtain additional financing, particularly in view of our continued net losses and the fact that substantially all of our assets are currently pledged to secure obligations under existing credit facilities. Our difficulty in obtaining additional debt financing may have adverse consequences on our operations and financial results including:

- our ability to obtain financing for working capital, capital expenditures, our developmental programs, purchases of new technology or other purposes may be impaired;
- because a majority of our indebtedness is subject to variable interest rates, we are vulnerable to increases in interest rates;
- any additional financing we obtain may be on unfavorable terms;
- we may be required to use a substantial portion of our cash flow to make debt service payments, which will reduce the funds that would otherwise be available for operations and future business opportunities;
- a substantial decrease in our operating cash flow or an increase in our expenses could make it difficult for us to meet debt service requirements and could require us to modify our operations, including by curtailing portions of our developmental program, selling assets, reducing our capital expenditures, refinancing all or a portion of our existing debt or obtaining additional financing; and
- we may become more vulnerable to downturns in our business or the economy generally.

We may incur additional debt in order to fund our development activities. A higher level of indebtedness increases the risk that we may default on our debt obligations. Our ability to meet our debt obligations and reduce our level of indebtedness depends on future performance. General economic conditions, oil and natural gas prices and financial, business and other factors, many of which are beyond our control, affect our operations and our future performance.

*We may record ceiling limitation write-downs that would reduce our shareholders' equity.*

We use the full-cost method of accounting for investments in oil and natural gas properties. Accordingly, we capitalize all the direct costs of acquiring, exploring for and developing oil and natural gas properties. Under the full-cost accounting rules, the net capitalized cost of oil and natural gas properties may not exceed a “ceiling limit” that is based upon the present value of estimated future net revenues from proved reserves, discounted at 10%, plus the lower of the cost or the fair market value of unproved properties. If net capitalized costs of oil and natural gas properties exceed the ceiling limit, we must charge the amount of the excess to operations through depreciation, depletion and amortization expense. This charge is called a "ceiling limitation write-down." This charge does not impact cash flow from operating activities but does reduce our shareholders' equity. The risk that we will be required to write down the carrying value of our oil and natural gas properties increases when oil and natural gas prices are low or volatile. In addition, write-downs would occur if we were to experience sufficient downward adjustments to our estimated proved reserves or the present value of estimated future net revenues, as further discussed in "Risk Factors—Our reserve data and estimated discount future net cash flows are estimates based upon assumptions that may be inaccurate and are based on existing economic and operating conditions that may change in the future." Once incurred, a write-down of oil and natural gas properties is not reversible at a later date. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Oil and Natural Gas Properties" for additional information on these matters.

## Item 7. Financial Statements

### VTEX ENERGY, INC.

### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders of
VTEX Energy, Inc.

We have audited the accompanying consolidated balance sheet of VTEX Energy, Inc. ("the Company") as of April 30, 2006 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended April 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of VTEX Energy, Inc. as of April 30, 2006, and the consolidated results of operations and cash flows for the year ended April 30, 2006 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements the Company has suffered a significant loss from operations during the current year, has a working capital deficit, and is currently in default on certain of its debt instruments. In the past two years, the Company has been required to raise additional capital by the issuance of both equity and debt instruments to sustain operations. There are no commitments from funding sources, debt or equity, in the event that cash flows are not sufficient to fund ongoing operations or other cash commitments as they come due. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are described in Note 1. The Consolidated Financial Statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Malone & Bailey, PC
Malone & Bailey, PC

www.malone-bailey.com
Houston, Texas
September 15, 2006

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of
VTEX Energy, Inc.

We have audited the accompanying consolidated balance sheet of VTEX Energy, Inc. and Subsidiary ("the Company") as of April 30, 2005 and the related consolidated statements of operations (Restated), stockholders' equity, and cash flows for the year ended April 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of VTEX Energy, Inc. and Subsidiary as of April 30, 2005, and the consolidated results of their operations (Restated) and their cash flows for the year ended April 30, 2005 in conformity with U.S. generally accepted accounting principles.

As referred to in Note 1, the accompanying consolidated financial statements have been prepared assuming the Company will continue on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has suffered a significant loss from operations during the current year, has a working capital deficit, is currently in default on certain of its debt instruments, and will require capital funding from sources other than operations to meet its current debt obligations. In the past two years, the Company has been required to raise additional capital by the issuance of both equity and debt instruments. There are no commitments from funding sources, debt or equity, in the event that cash flows are not sufficient to fund ongoing operations or other cash commitments as they come due. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management will be required to raise additional capital in the near term through offerings of equity or debt securities to fund the Company's debt service obligations and its operations. No assurance can be given that such financing will be available or, if available, that it will be on commercially favorable terms. Moreover, available financing may be dilutive to current investors. Management's plans regarding these matters are also described in Note 1. The Consolidated Financial Statements do not include any adjustments that might result from the outcome of this uncertainty.

As referred to in Note 1, subsequent to the filing of the Form 10-KSB for the year ended April 30, 2005 an error was identified in the computation of the weighted average number of shares outstanding used in computing net loss per share. Accordingly, the loss per share was reduced to $(0.50) per share compared to $(0.55) per share, as previously reported.

/s/ Pannell Kerr Forster of Texas, P.C.
Pannell Kerr Forster of Texas, P.C.

Houston, Texas
July 29, 2005

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

| | April 30, 2006 | April 30, 2005 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash | $ 38,536 | $ 37,582 |
| Certificates of deposit | 101,807 | 98,917 |
| Accounts receivable, oil and natural gas | 52,239 | 78,702 |
| Joint interest billings receivable | 20,267 | 106,118 |
| Note receivable | 537,000 | - |
| Other current assets | 374,310 | - |
| **Total current assets** | 1,124,159 | 321,319 |
| OIL AND NATURAL GAS PROPERTIES – Full cost method of accounting | 16,977,310 | 18,325,280 |
| Less accumulated depletion, depreciation and amortization | ( 1,723,720) | ( 1,581,145) |
| Oil and natural gas properties, net | 15,253,590 | 16,744,135 |
| OTHER ASSETS | | |
| Other property and equipment, net of accumulated depreciation of $133,077 and $111,229 at April 30, 2006 and 2005, respectively | 69,297 | 47,030 |
| Deferred loan costs, net of accumulated amortization of $623,089 and $362,558 at April 30, 2006 and 2005, respectively | 37,152 | 14,405 |
| Investment in Viking Petroleum UK Limited, cost method | 1,369,570 | - |
| Other assets | 108,342 | 44,600 |
| **Total other assets** | 1,584,361 | 106,035 |
| **TOTAL ASSETS** | $ 17,962,110 | $ 17,171,489 |

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

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

| | April 30, 2006 | April 30, 2005 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES | | |
| Current portion of line of credit - related party | $ 1,359,265 | $ - |
| Revolving lines of credit - banks | 745,001 | 246,537 |
| Notes payable, net of debt discount of $265,492 and $87,397 at April 30, 2006 and 2005, respectively | 2,795,999 | 1,377,333 |
| Production payments payable | 299,504 | 305,504 |
| Accounts payable, trade | 2,736,973 | 1,462,292 |
| Accrued salaries - officers | 217,500 | - |
| Royalties payable | 771,793 | 720,823 |
| Working interest revenues payable | 63,768 | 61,676 |
| Taxes payable | 172,463 | 172,463 |
| Advances from related parties | - | 12,500 |
| Accrued interest | 540,418 | 75,810 |
| **Total current liabilities** | 9,702,684 | 4,434,938 |
| NONCURRENT LIABILITIES | | |
| Line of credit - related party | 2,265,442 | 3,624,707 |
| Asset retirement obligations | 1,327,351 | 1,232,297 |
| **Total noncurrent liabilities** | 3,592,793 | 4,857,004 |
| **TOTAL LIABILITIES** | 13,295,477 | 9,291,942 |
| COMMITMENTS AND CONTINGENCIES | - | - |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock class A-1, cumulative convertible; $1,000 par value per share 3,000 shares authorized; No shares issued or outstanding | - | - |
| Preferred stock class AA-1, cumulative convertible; $0.01 par value per share, 500,000 shares authorized; 395,879 shares issued and outstanding | 3,959 | 3,959 |
| Preferred stock class B, noncumulative nonconvertible; $0.001 par value per share, 500,000 shares authorized; 500,000 shares issued and outstanding | 500 | 500 |
| Common stock, $0.001 par value per share; 150,000,000 shares authorized; 15,007,689 and 9,769,989 shares issued and outstanding at April 30, 2006 and 2005, respectively | 15,008 | 9,770 |
| Additional paid-in capital | 36,685,098 | 32,420,576 |
| Accumulated deficit | ( 32,002,436) | ( 24,555,258) |
| Accumulated other comprehensive loss | ( 35,496) | - |
| **Total stockholders' equity** | 4,666,633 | 7,879,547 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 17,962,110 | $ 17,171,489 |

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

**VTEX ENERGY, INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Year Ended April 30, 2006 | Year Ended April 30, 2005 (Restated) |
|---|---|---|
| REVENUES | | |
| Oil sales | $ 5,777 | $ 57,321 |
| Natural gas sales | 635,844 | 951,200 |
| **Total revenues** | 641,621 | 1,008,521 |
| OPERATING EXPENSES | | |
| Lease operating expense | 597,085 | 505,323 |
| Production taxes | 157,156 | 127,771 |
| Depreciation, depletion and amortization expense | 164,511 | 290,504 |
| General and administrative expense | 5,870,153 | 3,102,411 |
| Accretion expense | 95,054 | 89,467 |
| **Total operating expenses** | 6,883,959 | 4,115,476 |
| OPERATING LOSS | ( 6,242,338) | ( 3,106,955) |
| OTHER INCOME (EXPENSE) | | |
| Other income | 48,070 | 30,339 |
| Interest expense | ( 1,252,910) | ( 883,769) |
| **Total other expense, net** | ( 1,204,840) | ( 853,430) |
| **NET LOSS** | $ ( 7,447,178) | $ ( 3,960,385) |
| NET LOSS PER SHARE – Basic and Diluted | $ ( 0.56) | $ ( 0.50) |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 13,183,420 | 7,922,569 |

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

**VTEX Energy, Inc.**
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
**Years Ended April 30, 2006 and 2005**

| | Preferred Stock | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Class AA-1 | | Class B | | Common Stock | | Accumulated | Accumulated Other Comprehensive | Additional Paid-in | Total Shareholders' |
| | Shares | Amount | Shares | Amount | Shares | Amount | Deficit | Loss | Capital | Equity |
| Balance April 30, 2004 | 395,879 | $ 3,595 | 500,000 | $ 500 | 5,848,681 | $ 5,849 | $ ( 20,594,873 ) | $ - | $ 29,976,623 | $ 9,392,058 |
| Common stock issued for consulting services | - | - | - | - | 2,424,999 | 2,425 | - | - | 942,084 | 944,509 |
| Warrants issued for consulting services | - | - | - | - | - | - | - | - | 681,550 | 681,550 |
| Common stock issued for cash | - | - | - | - | 200,000 | 200 | - | - | 49,800 | 50,000 |
| Common stock issued as loan consideration | - | - | - | - | 660,750 | 661 | - | - | 402,902 | 403,563 |
| Warrants issued as loan consideration | - | - | - | - | - | - | - | - | 139,509 | 139,509 |
| Common stock issued under stock appreciation rights agreement | - | - | - | - | 585,559 | 585 | - | - | ( 585 ) | - |
| Common stock issued in settlement of accounts payable | - | - | - | - | 50,000 | 50 | - | - | 13,693 | 13,743 |
| Warrants issued for option to acquire oil and gas properties | - | - | - | - | - | - | - | - | 215,000 | 215,000 |
| Net loss | - | - | - | - | - | - | ( 3,960,385 ) | - | - | ( 3,960,385 ) |
| Balance April 30, 2005 | 395,879 | $ 3,959 | 500,000 | $ 500 | 9,769,989 | $ 9,770 | $ ( 24,555,258 ) | $ - | $ 32,420,576 | $ 7,879,547 |
| Common stock issued for consulting services | - | - | - | - | 993,025 | 993 | - | - | 300,751 | 301,744 |
| Warrants granted for consulting services | - | - | - | - | - | - | - | - | 1,033,380 | 1,033,380 |
| Common stock obligated to be issued for services | - | - | - | - | - | - | - | - | 20,000 | 20,000 |
| Common stock issued for consulting services incurred in the prior year | - | - | - | - | 125,771 | 126 | - | - | ( 126 ) | - |
| Common stock issued as loan consideration | - | - | - | - | 812,586 | 813 | - | - | 311,834 | 312,647 |

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

**VTEX Energy, Inc.**
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
**Years Ended April 30, 2006 and 2005**

| | Preferred Stock | | | | | | | Accumulated Other | Additional | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | Class AA-1 | | Class B | | Common Stock | | Accumulated | Comprehensive | Paid-in | Shareholders' |
| | Shares | Amount | Shares | Amount | Shares | Amount | Deficit | Loss | Capital | Equity |
| Warrants granted as loan consideration | - | - | - | - | - | - | - | - | 181,026 | 181,026 |
| Common stock obligated to be issued as loan consideration | - | - | - | - | - | - | - | - | 57,200 | 57,200 |
| Common stock issued for prior year loan consideration | - | - | - | - | 205,267 | 205 | - | - | 4,279 | 4,484 |
| Common stock issued for loan extensions | - | - | - | - | 388,403 | 388 | - | - | 128,177 | 128,565 |
| Warrants granted for loan extensions | - | - | - | - | - | - | - | - | 46,504 | 46,504 |
| Common stock obligated to be issued for loan extensions | - | - | - | - | - | - | - | - | 19,720 | 19,720 |
| 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 |
| Common stock issued in settlement of accounts payable | - | - | - | - | 407,648 | 408 | - | - | 155,592 | 156,000 |
| Net loss | - | - | - | - | - | - | ( 7,447,178 ) | | - | ( 7,447,178 ) |
| Total other comprehensive loss | - | - | - | - | - | - | - | ( 35,496 ) | - | ( 35,496 ) |
| Balance April 30, 2006 | 395,879 | $ 3,959 | 500,000 | $ 500 | 15,007,689 | $ 15,008 | $ ( 32,002,436 ) | ( 35,496 ) | $ 36,685,098 | $ 4,666,633 |

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

## VTEX Energy, Inc.
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended April 30, 2006 | Year Ended April 30, 2005 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss | $ ( 7,447,178 ) | $ ( 3,960,385 ) |
| Adjustments to reconcile net loss to net cash provided by operating activities | | |
| Depreciation, depletion and amortization expense | 164,511 | 290,504 |
| Amortization of deferred loan costs and debt discount | 637,794 | 575,621 |
| Bad debt expense | 183,717 | 28,000 |
| Accretion expense | 95,054 | 89,467 |
| Deferred officers salaries | 217,500 | - |
| Common stock and warrants issued for services | 1,355,124 | 1,626,059 |
| Stock based compensation | 1,280,000 | - |
| Advances to related parties applied to travel costs | - | 205,742 |
| Write off option to purchase oil and natural gas properties | - | 215,000 |
| Changes in operating assets and liabilities | | |
| Accounts receivable, trade | ( 71,403 ) | 6,307 |
| Other assets | ( 327,555 ) | 56,728 |
| Accounts payable – trade | 889,986 | 670,501 |
| Royalties and working interest revenues payable | 53,062 | 34,076 |
| Other current liabilities | 514,261 | 252,563 |
| Net cash (used in) provided by operating activities | ( 2,455,127 ) | 90,183 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Investment in certificates of deposit | ( 2,890 ) | ( 23,917 ) |
| Oil and natural gas capital expenditures | ( 333,530 ) | ( 1,550,927 ) |
| Proceeds from sales of oil and natural gas properties | 591,500 | 200,000 |
| Purchase of property and equipment, other | ( 18,956 ) | ( 31,598 ) |
| Acquisition of Viking International Petroleum, PLC, net of cash acquired | ( 121,619 ) | - |
| Payments received on note receivable | - | 67,000 |
| Advances to related party | - | ( 220,742) |
| Payments received on advances to related party | - | 25,000 |
| Net cash provided by (used in) investing activities | 114,505 | ( 1,535,184 ) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Borrowings on notes payable | 2,091,775 | 1,272,500 |
| Repayments of notes payable | ( 194,667 ) | ( 127,029 ) |
| Repayments of production payments | ( 6,000 ) | - |
| Borrowings on lines of credit | 500,000 | 149,300 |
| Repayments of lines of credit | ( 1,536 ) | ( 2,763 ) |
| Repayments of advances from related party | ( 12,500 ) | ( 16,000 ) |
| Proceeds from issuance of common stock | - | 50,000 |
| Net cash provided by financing activities | 2,377,072 | 1,326,008 |
| Effect of foreign currency translation | ( 35,496 ) | - |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 954 | ( 118,993 ) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | 37,582 | 156,575 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | $ 38,536 | $ 37,582 |

**SUPPLEMENTAL CASH FLOW DISCLOSURES – SEE NOTE 2**

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

## Note 1. Financial Statement Presentation

*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 19, 2002, the Company was reincorporated into Nevada. The reincorporation was effected by the merger of Vector Energy Corporation with and into a newly created wholly owned subsidiary VTEX Energy, Inc., a Nevada corporation, which became the surviving entity. The Company is primarily engaged in the acquisition, development, production and exploration of oil and natural gas properties in the United States.

*Going Concern*

As shown in the financial statements, the Company has historically incurred net losses from operations and has incurred net losses of approximately $7,447,000 and $3,960,000 for the years ended April 30, 2006 and 2005, respectively, and losses are expected to continue in the near term. Current liabilities exceeded current assets by approximately $8,579,000 and $4,114,000 at April 30, 2006 and 2005, respectively, and the accumulated deficit is approximately $32,002,000 at April 30, 2006. Amounts outstanding and payable to creditors are in arrears and the Company is in negotiations with creditors to obtain extensions and settlements of outstanding amounts. Management anticipates that significant additional expenditures will be necessary to develop the Company's properties, which consist primarily of proved reserves that are non-producing, before significant positive operating cash flows will be achieved. Without outside investment from the sale of equity securities or debt financing our ability to execute our business plan will be limited. These factors are an indication that the Company may be unable to continue in existence.

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

The accompanying consolidated financial statements are prepared as if the Company will continue as a going concern. The consolidated financial statements do not contain adjustments, including adjustments to recorded assets and liabilities, which might be necessary if the Company were unable to continue as a going concern.

## Note 2. Summary of Significant Accounting Policies

*Principles of Consolidation*

The consolidated financial statements include the accounts of VTEX Energy, Inc. and its wholly owned subsidiaries, Vector Exploration, Inc. and Viking International Petroleum, PLC ("Viking"), herein collectively referred to as the "Company". All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company owns an approximate 24% interest in Viking Petroleum UK Limited which is accounted for under the cost method because of the inability to exercise significant influence over its operations. This investment is carried at cost and adjusted only for other than temporary declines in fair value. Profits and losses of the investee are not recognized in the consolidated financial statements of the Company. No impairment of this investment was considered necessary at April 30, 2006.

*Restatement of loss per share*

Subsequent to the filing of the Form 10-K for the year ended April 30, 2005 an error was identified in the computation of the weighted average number of shares outstanding used in the computation of net loss per share. The error was caused due to the exclusion of weighted average shares obligated to be issued as a component of the total weighted average shares outstanding. Accordingly, the weighted average shares outstanding was increased to 7,922,569 compared to 7,257,918, as previously reported, and the net loss per share was reduced to $(0.50) per share compared to $(0.55) per share, as previously reported.

*Revenue Recognition*

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

*Recent Accounting Pronouncements*

In December 2004, SFAS No. 153, "*Exchanges of Nonmonetary Assets — an amendment of Accounting Principles Board ("APB") Opinion No. 29*" was issued and is effective for fiscal years beginning after June 15, 2005. This Statement addresses the measurement of exchange of nonmonetary assets and eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "*Accounting for Nonmonetary Transactions*" and replaces it with an exception for exchanges that do not have commercial substance. The adoption of SFAS No. 153 is expected to have no impact on our consolidated financial statements.

In May 2005, SFAS No. 154, "*Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3*" was issued and is effective for fiscal years beginning after December 15, 2005. This statement changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. The adoption of SFAS No. 154 is expected to have no impact on our consolidated financial statements.

*Accounts Receivable*

The majority of the Company's accounts receivable are due from purchasers of its oil and natural gas production and industry partners in its wells. The Company determines any required allowance by considering a number of factors including length of time accounts receivable are past due and the Company's previous loss history. The Company provides reserves for account receivable balances when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

*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 total proved oil and natural gas reserves. Capitalized costs are subject to a "ceiling test" and are 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 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 April 30, 2006 and 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 years ended April 30, 2006 and 2005 were $1.06 and $1.63, respectively.

*Other Property and Equipment*

Other property and equipment of the Company consists primarily of computer equipment, vehicles and furniture and fixtures, which are depreciated over estimated useful lives, ranging from three to seven years, on a straight-line basis. Repairs and maintainence is expensed as incurred while costs incurred that extend the useful life are capitalized.

*Deferred Loan Costs*

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

*Asset Retirement Obligations*

The Company records a liability for legal obligations associated with the retirement of tangible long-lived assets in the period in which they are incurred in accordance with SFAS No. 143. The Company adopted this policy effective May 1, 2003, using a cumulative effect approach to recognize transition amounts for asset retirement obligations ("ARO"), asset retirement costs and accumulated accretion and depletion. Under this method, when liabilities for dismantlement and abandonment costs, excluding salvage values, are initially recorded the carrying amount of the related oil and natural gas properties are increased. Accretion of the liability is recognized each period using the interest method of allocation, and the capitalized cost is depleted over the useful life of the related asset. Revisions to such estimates are recorded as adjustments to the ARO, 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 7).

*Stock-Based Compensation*

The Company accounts for stock based compensation to employees under the fair value method prescribed by SFAS No. 123(R), "*Accounting for Share-Based Payment.*" Under the fair value method, compensation cost is measured at the grant date of each common stock option or warrant awarded based on the fair value of the award and is recognized over the vesting period, which is usually the service period. For common stock options and warrants, fair value is determined using 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 April 30, 2006 and 2005, there were 269,430 and 396,039 shares, respectively, that the Company was obligated to issue. The weighted average effect of these shares was 111,499 and 176,431 for the years ended April 30, 2006 and 2005, respectively. At April 30, 2006 and 2005, there are 250,000 warrants that are potentially dilutive common shares that have been excluded from the calculation of earnings per share because their effects are anti-dilutive.

*Income Taxes*

The Company accounts for income taxes under the provisions of SFAS No. 109, "*Accounting for Income Taxes,*" which provides for an asset and liability approach for accounting for income taxes. Under this approach, deferred tax assets and liabilities are recognized based on anticipated future tax consequences, using currently enacted tax laws, attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. The Company's most significant timing difference is its net operating loss carry forwards and the timing difference between the book and tax basis if its oil and natural gas properties. Management determined that it is more likely than not that NOL's accumulated during prior years of in excess of $27,000,000 will not be recoverable. Accordingly, a valuation allowance has been provided for the full value of its net tax assets. The Company's NOL carry forwards begin to expire in 2013.

*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 years ended April 30, 2006 and 2005, respectively.

| Supplemental Disclosures of Cash Flow Information: | Year Ended April 30, | |
|---|---|---|
| | **2006** | **2005** |
| ***Cash payments*** | | |
| Interest | $ 93,419 | $ 25,231 |
| ***Noncash investing and financing activities*** | | |
| Accrued interest converted into note payable | $ 49,653 | $ 13,167 |
| Accrued interest converted into production payment | - | 51,503 |
| Accrued interest converted into line of credit | - | 386,702 |
| Advances from related party converted into line of credit | - | 223,906 |
| Production payment and accrued interest converted into line of credit | - | 1,174,956 |
| Common stock and warrants issued for services | 1,355,124 | 1,626,059 |
| Note receivable received in sale of oil and natural gas properties | 537,000 | - |
| Notes payable assumed in sale of oil and natural gas properties | 350,000 | - |
| Accounts payable offset against proceeds from sale of oil and natural gas properties | 203,000 | - |
| Common stock and warrants issued to note holders recorded as debt discounts | 555,358 | 399,610 |
| Common stock and warrants issued for debt extensions and a guarantee | 283,278 | 143,462 |
| Common stock issued to settle accounts payable | 156,000 | 13,743 |
| Common stock warrants issued for option to purchase oil and natural 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 | - |

*Use of Estimates*

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

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

*Concentration of Credit Risk*

Substantially all of the Company's accounts receivable result from oil and natural gas sales or joint interest billings to third parties in the oil and gas industry. This concentration of customers and joint interest owners may impact the Company's overall credit risk in that these entities may be similarly affected by changes in economic and other industry conditions. The Company does not require collateral from its customers and the Company has not experienced material credit losses on such receivables. Further, the Company generally has the right to offset revenue against related billings to joint interest owners.

*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 April 30, 2006 and 2005, the Company had certificates of deposit totaling $101,807 and $98,917, respectively. Such certificates bear interest at a rates ranging from 2.81% to 3.93% at April 30, 2006 and from 1.88% to 2.52% at April 30, 2005. The maturity dates of the certificates ranged from June 3, 2006 to March 20, 2007. 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. Sales of Oil and Natural Gas Properties**

On January 13, 2005, the Company executed a purchase and sale agreement with ARCOA Energy Partners I, L.P. ("ARCOA"). 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 $1,800,000. No gain or loss was recognized and the gross sales price was reflected as a reduction in oil and gas properties under the full cost method.

The net profits interest is initially payable out of 75% of the monthly cash flows 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% until the net cash flow attributable to the Company's working interest reaches a total of $9 million. At that time, the net profits interest will be reduced to 50% which will be the net profits percentage thereafter. 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%.

On December 29, 2005, the Company closed the sale of the net profits interest to ARCOA. The purchase price consisted of the following:

| | | |
|---|---|---|
| Cash proceeds | $ | 710,000 |
| Notes payable converted into partnership units of ARCOA | | 250,000 |
| Notes payable assumed by the general partner of ARCOA | | 100,000 |
| Offsets against amounts owed to the general partner of ARCOA | | 203,000 |
| Note receivable from the general partner of ARCOA | | 537,000 |
| Total sale price | $ | 1,800,000 |

In connection with this transaction, the Company received a total of $510,000 and $200,000 in cash payments from ARCOA during the fiscal years ended April 30, 2006 and 2005, respectively (such payments were a component of the sale price described above) which were recorded as a sale of oil and natural gas properties at the time received.

The note receivable of $537,000 bears interest at the rate of 10%, is due on December 29, 2006 and is secured by the net revenues attributable to the net profits interest.

**Note 5. Acquisition of Viking**

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 24% 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. Such additional shares, valued at $512,000 were issued on October 18, 2005. The North Yorkshire gas fields are 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 the acquisition date 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 | | 640,000 |
| Total purchase price | $ | 767,757 |

**Note 6. Oil and Gas Producing Activities**

Set forth below is certain information regarding the aggregate capitalized costs of oil and gas properties, as of April 30, 2006 and 2005, and costs incurred in oil and gas property acquisition, development and exploration activities for the years ended April 30, 2006 and 2005.

| | April 30, | |
|---|---|---|
| | **2006** | **2005** |
| **Capitalized Costs** | | |
| Proved properties | $ 16,977,310 | $ 18,325,280 |
| Unproved properties | - | - |
| Accumulated depreciation, depletion and amortization | ( 1,723,720) | ( 1,581,145) |
| | $ 15,253,590 | $ 16,744,135 |

| | Year Ended April 30, | |
|---|---|---|
| | **2006** | **2005** |
| **Cost Incurred** | | |
| Property acquisitions: | | |
| Proved properties | $ - | $ - |
| Unproved properties | - | - |
| Development costs | 333,530 | 1,550,927 |
| Exploration costs | - | - |
| | $ 333,530 | $ 1,550,927 |

The following presents the results of operations of oil and gas producing activities for the years ended April 30, 2006 and 2005:

| | Year Ended April 30, | |
|---|---|---|
| | **2006** | **2005** |
| Oil and gas sales | $ 641,621 | $ 1,008,521 |
| Production costs | ( 754,241) | ( 633,094) |
| Exploration | - | - |
| Depreciation, depletion and amortization | ( 142,575) | ( 270,995) |
| Impairment of oil and gas properties | - | - |
| Operating income (loss), before income tax | ( 255,195) | 104,432 |
| Income tax | - | - |
| Operating income (loss), after income tax | $ ( 255,195) | $ 104,432 |

**Note 7. Debt**

Total debt at April 30, 2006 and 2005 consists of the following:

| | April 30, 2006 | April 30, 2005 |
|---|---|---|
| Line-of-credit – related party | $ 3,624,707 | $ 3,624,707 |
| Lines-of-credit - banks | 745,001 | 246,537 |
| Production payments payable | 299,504 | 305,504 |
| Other notes payable, net of discount | 2,795,999 | 1,377,333 |
| | 7,465,211 | 5,554,081 |
| Less current portion | ( 5,199,769) | ( 1,929,374) |
| | $ 2,265,442 | $ 3,624,707 |

Long term debt due in each of the next five fiscal years is as follows:

| Fiscal Year Ended April 30, | |
|---|---|
| 2008 | $ 906,177 |
| 2009 | 906,177 |
| 2010 | 453,088 |
| Total | $ 2,265,442 |

*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 credit line is subject to a borrowing base formula. At April 30, 2006, the Company had drawn the maximum available under the borrowing base on the revolving credit line of $3,624,707. Additional borrowings are not available 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 $271,853 at April 30, 2006. Under its terms, the line of credit was to accrue interest through October 31, 2005, at which time interest was to be due monthly. Beginning in November 2005, the principal balance outstanding under the line of credit was to convert to a term note payable in 48 equal monthly installments along with current interest. The Company has not made any payments under the terms of the converted note and interest on the line of credit is continuing to accrue. The note is currently in default, however no demand for payment has been received pending ongoing discussions with the lender to modify the terms of the note. No definitive agreement has yet been reached.

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% (8.847% and 6.847% at April 30, 2006 and 2005, respectively.) The outstanding balance under the note, which was $245,001 and $246,537 at April 30, 2006 and 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 7.75% at April 30, 2006. The note has a balance of $500,000 at April 30, 2006 and matures on December 31, 2006.

*Other Notes Payable*

Included in other notes payable are unsecured 10% to 13.6% notes issued to vendors in settlement of accounts payable. These notes are past their due dates, are in default and are subject to a demand for payment at any time. These notes totaled $42,842 at April 30, 2006 and 2005, respectively.

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 $61,149 and $96,220 at April 30, 2006 and 2005, respectively.

During December 2003 and January 2004, the Company issued a series of 12% notes totaling $40,000 to investors for working capital loans. In conjunction with these 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 expired 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 was 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 was amortized over the terms of the extensions. At April 30, 2006, 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 $8,298 and $6,276 at April 30, 2006 and 2005, respectively. These notes have matured and are subject to a demand for payment at any time. The Company is currently holding discussions with the holders of the notes in order to obtain additional extensions, however, there can be no assurance that such extensions will be obtained or will be on terms favorable to the Company.

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 100,000 shares of the Company's common stock. The common stock was recorded at its fair value of $38,000 and treated as a debt discount which was immediately expensed as interest expense. Accrued interest on the note totaled $34,192 and $4,192 at April 30, 2006 and 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. During fiscal 2006, the Company borrowed an additional $100,000 under these notes and made principal payments of $50,000. 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 $366,094 and treated as a debt discount which was amortized over the term of the loan. At April 30, 2006, 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 $119,677 and $63,027 at April 30, 2006 and 2005, respectively. Unamortized debt discount was $0 and $87,397 at April 30, 2006 and 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 in March 2007. The stock and warrants issued were recorded at their fair market value of $77,414 and treated as deferred loan cost which was 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 207,500 shares of its common stock and warrants to purchase 50,000 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 $73,180 and treated as deferred loan cost which was amortized over the term of the extension. At April 30, 2006, 50,000 shares of the common stock remain unissued, however their fair value was included in stockholders' equity. During December 2005, notes totaling $250,000 were converted into partnership units of ARCOA and notes totaling $100,000 were assumed by the general partner of ARCOA in conjunction with the sale of a net profits interest by the Company (see Note 4). In January 2006, a note with a principal amount of $263,167 and related interest of $23,188 were converted into a new series of secured convertible notes. The remaining notes have matured and are subject to a demand for payment at any time. The Company is currently holding discussions with the holders of the notes in order to obtain additional extensions, however, there can be no assurance that such extensions will be obtained or will be on terms favorable to the Company.

During fiscal 2006, the Company issued a series of 12% notes totaling $851,466 to private investors for working capital purposes. The notes also provided for the issuance to the investors of 340,586 shares of its common stock and warrants to purchase 170,293 shares of the Company's common stock at $0.50 per share which expire on dates ranging from May 2, 2007 to October 20, 2007. The common stock and warrants were recorded at their fair value of $170,777 and treated as a debt discount which was amortized over the terms of the loans. Interest on the notes is payable quarterly and the principal balances matured on December 31, 2005. In December 2005, two of the notes with a total principal balance of $226,466 were converted into a new series of secured convertible notes. The remaining notes have matured and are subject to a demand for payment at any time. The Company is currently holding discussions with the holders of the notes in order to obtain additional extensions, however there can be no assurance that such extensions will be obtained or will be on terms favorable to the Company. Accrued interest on the notes totaled $41,794 at April 30, 2006.

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. In January 2006, the Company issued 50,000 shares of the Company's common stock to the holder of the note for his continued forbearance. The common stock was recorded at its fair value of $15,500 and treated as a loan cost which was expensed. Accrued interest on the note totaled $8,384 at April 30, 2006.

During December 2005 through March 2006, the Company issued a series of 10% secured convertible notes totaling $1,480,000 to private investors for working capital purposes. Included in these notes was principal and interest converted from other notes payable which totaled $512,821. The notes also provided for the issuance to the investors of 592,000 shares of its common stock and warrants to purchase 296,000 shares of the Company's common stock at $0.50 per share which expire on dates ranging from December 5, 2009 to March 10, 2010. The common stock and warrants were recorded at their fair value of $380,096 and treated as a debt discount which is being amortized over the terms of the loans. Interest and principal is due upon maturity on dates ranging from December 5, 2006 to March 10, 2007. The notes are secured by the Company's interest in certain wells in its Mustang Island Field and are convertible at the holders' option into common stock of the Company at $0.75 per share. Accrued interest on the notes totaled $45,808 at April 30, 2006.

*Production Payments Payable*

During October and November 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 $5,611 and $1,992 at April 30, 2006 and 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 were amortized over the terms of the forbearance. In January 2006, the Company agreed to issue one of the holders of the production loans 60,301 shares of its common stock and warrants to purchase 30,150 shares of the Company's common stock at $0.50 per share which expire on January 4, 2008 in return for forbearance under the loans until December 31, 2006. In addition, the Company agreed to begin making principal payments of $2,000 per month through December 31, 2006. The common stock and warrants were recorded at their fair value of $36,777 and treated as deferred loan costs which are being amortized over the term of the forbearance. The Company is currently holding discussions with the holder of the remaining production payments in order to obtain his forbearance, however there can be no assurance that such forbearance will be obtained or will be on terms favorable to the Company.

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 8. Asset Retirement Obligations**

The Company recognizes an estimated liability for the plugging and abandonment of its oil and natural gas wells and associated pipelines, platforms, and equipment. The Company records 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.

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

| | Year Ended April 30, 2006 | Year Ended April 30, 2005 |
|---|---|---|
| Beginning asset retirement obligations | $ 1,232,297 | $ 1,165,330 |
| Accretion expense | 95,054 | 89,467 |
| Asset retirement costs paid | - | ( 22,500) |
| Ending asset retirement obligations | $ 1,327,351 | $ 1,232,297 |

**Note 9. Commitments and Contingencies**

The Texas Railroad Commission declined a request by the Company for a reduction in bonding requirements for asset retirement obligations 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's bonding requirement has been $50,000, but would increase to $1,500,000 under the new regulations. The Company is seeking a bond at this increased level but does not have such bond in place at this time. There is no assurance that a bond can be obtained or that such bond would be available on commercial terms acceptable to the Company. The Company requested reconsideration by the Texas Railroad Commission of this decision and such request was declined on March 27, 2006. The Company has appealed such decision to the district court. Until a final decision is made 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 requirement, or alternatively obtain a bond at the increased requirement, or provide other satisfactory security the Company could be required to outsource offshore operations of the property provided such operator provides a satisfactory bond. An arrangement to outsource operations would likely result in the reduction of the Company's working interests or an increase in lease operating expenses to fund such asset retirement obligations.

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 years ended April 30, 2006 and 2005 was $65,124. As of April 30, 2006, future minimum lease payments under this lease were as follows:

| Fiscal Year Ending April 30, | |
|---|---|
| 2007 | $ 10,854 |
| Total | $ 10,854 |

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, management's opinion of 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 10. Stockholder's Equity**

*Preferred Stock*

The Company is authorized to issue 3,000 shares of Class A-1 Cumulative Convertible Preferred Stock (Class A-1 Preferred Stock). Class A-1 Preferred Stock was issued for $1,000 per share and is entitled to receive cumulative cash dividends at the annual rate of 8% payable annually in arrears commencing December 1, 2001 when and as declared by the Board of Directors. As of April 30, 2006 and 2005, there were no shares of Class A-1 Preferred Stock issued or outstanding

The Company is authorized to issue 500,000 shares of Class AA-1 Cumulative Convertible Preferred Stock (Class AA-1 Preferred Stock). Class AA-1 Preferred Stock has a par value of $0.01 per share and is entitled to receive cumulative dividends at the rate of 10% payable annually in shares of Class AA-1 Preferred Stock (or 39,588 shares) when and as declared by the Board of Directors. At April 30, 2006, no dividends have been declared. The aggregate amount of cumulative dividends in arrears was approximately 80,788 shares and 41,200 shares at April 30, 2006 and 2005, respectively. The effect of the cumulative dividends on basic and diluted earnings per share was $0.00 for the years ended April 30, 2006 and 2005, respectively. All shares of Class AA-1 Preferred Stock were issued to holders of judgment liens against the Company, in the amount of $395,879, on April 15, 2004 and remain outstanding. The holders of the Class AA-1 Preferred Stock are, upon the liquidation of the Company, entitled to receive $1.00 per share. Alternatively, and at the sole option of the holders, the holders of the Class AA-1 Preferred Stock, upon the liquidation of the Company, may retain the rights provided under the original judgment liens. The Class AA-1 Preferred Stock is redeemable in whole or in part at any time, at the option of the Company, at $1.00 per share. The holders of the Class AA-1 Preferred Stock are entitled to a 20 day written notice of the Company’s intent to redeem and the opportunity to convert the Class AA-1 Preferred Stock into common stock of the Company. The Class AA-1 Preferred Stock is convertible by the holder into common stock of the Company at any time. Each share of Class AA-1 Preferred Stock is convertible into one share of the Company’s common stock, adjusted for stock dividends and stock splits. The holders of Class AA-1 Preferred Stock have no voting rights except as expressly required by Nevada law. The Class AA-1 Preferred Stock is senior to all other series of preferred stock and all of the Company’s common stock.

The Company is authorized to issue 500,000 shares of Class B Preferred Stock, par value $0.001 per share. The holders of Class B Preferred Stock are not entitled to receive any dividends. As of April 30, 2006 and 2005, 500,000 shares of the Class B Preferred Stock were issued and outstanding. The Class B Preferred Stock is redeemable in whole, but not in part, at the option of the Company by resolution of the Company's Board of Directors at anytime at $1.00 per share. Each share of Class B Preferred Stock has voting rights equal to 100 shares of the Company's common stock. The holders of Class B shares are entitled to elect at least two directors to the Board of Directors of the Company. The holders of Class B Preferred Stock voting as a class will have the right to remove without cause at any time and replace any director such holders have elected.

*Common Stock*

The Company has 150,000,000 shares of authorized $0.001 par value common stock, of which 15,007,689 and 9,769,989 shares were issued and outstanding at April 30, 2006 and 2005, respectively.

During the year ended April 30, 2006, the Company issued 993,025 shares of its common stock having a fair value of $301,744 for services. In addition, the Company is obligated to issue an additional 71,430 shares of its common stock under the terms of consulting agreements. The unissued common stock has a fair value of $20,000 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 year ended April 30, 2006, the Company issued 812,586 shares of its common stock having a fair value of $312,648 to investors under the terms of notes payable. In addition, the Company is obligated to issue an additional 120,000 shares of its common stock to investors under the terms of notes payable. The unissued common stock has a fair value of $57,200 which has been included in stockholders’ equity. The Company also issued 205,267 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 year ended April 30, 2006, the Company issued 388,403 shares of its common stock having a fair value of $128,565 to investors in order to extend the due dates of notes payable. In addition, the Company is obligated to issue an additional 68,000 shares of its common stock to investors under the terms extensions of notes payable. The unissued common stock has a fair value of $19,720 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 year ended April 30, 2006, the Company issued 407,648 shares of the Company's common stock having a fair value of $156,000 to settle outstanding accounts payable.

During the year ended April 30, 2006, the Company issued 2,000,000 shares of its common stock, valued at $640,000, to the shareholders of Viking as partial consideration for all of its outstanding shares (see Note 5).

During the year ended April 30, 2005 the Company issued 200,000 of its common stock for cash totaling $50,000.

During the year ended April 31, 2005, the Company issued 442,500 shares of its common stock having a fair value of $217,275 to investors under the terms of notes payable.

During the year ended April 30, 2005, the Company issued 100,000 shares of its common stock having a fair value of $49,000 to a private investor as consideration for providing a guarantee on its line of credit with a bank.

During the year ended April 30, 2005, the Company issued 118,250 shares of its common stock having a fair value of $41,103 to investors in order to extend the due dates of notes payable.

During the year ended April 30, 2005, the Company issued 50,000 shares of the Company's common stock having a fair value of $13,743 to settle outstanding accounts payable.

*Stock Options and Warrants*

The Company has outstanding options granted to certain key employees to purchase 4,000,000 shares of the Company's common stock a purchase price of $0.50 per share. These options expire on July 29, 2015 and are non-transferable. The options, which were issued at a price equal to or exceeding the market value of the underlying stock on the date of the grant, are not intended to qualify as incentive stock options under Internal Revenue Code Section 422. The Company follows the provisions of SFAS No. 123(R) recording the fair value of common stock options on the date of grant using a Black Scholes option pricing model. This model allows the use of a range of assumptions related to volatility, the risk-free interest rate, the expected life, and the dividend yield. The expected volatility utilized in the valuation model is based on implied volatilities from traded options on the Company's stock and the historical volatility of the Company's stock price. Similarly, the dividend yield and the expected holding period are both based on historical experience and management's estimate of future events. The risk-free interest rate is derived from the U.S. Treasury yield curve based on the expected life of the grant in effect at the time of grant. The fair values of the Company's stock options are calculated using the following weighted average assumptions based on the methods described above for the year ended April 30, 2006:

| **Assumptions** | |
|---|---|
| Dividend yield | 0% |
| Expected volatility | 289% |
| Risk-free interest rate | 4% |
| Expected holding period | 10 Years |

Based on the above assumptions, the stock options issued during the year ended April 30, 2006 were valued at $1,280,000. This amount was charged to compensation expense immediately as all of the options were fully vested at issuance.

A summary of the Company's stock options as of April 30, 2006 and 2005, and changes during the years then ended is presented below:

| | Weighted Average Exercise Price | Number of Options |
|---|---|---|
| Balance at April 30, 2004 | $ 6.68 | 69,336 |
| Exercisable | $ 6.68 | 69,336 |
| Granted | - | - |
| Exercised | - | - |
| Forfeited | - | - |
| Balance at April 30, 2005 | $ 6.68 | 69,336 |
| Exercisable | $ 6.68 | 69,336 |
| Granted | 0.50 | 4,000,000 |
| Exercised | - | - |
| Forfeited | 6.68 | ( 69,336 ) |
| Balance at April 30, 2006 | $ 0.50 | 4,000,000 |
| Exercisable | $ 0.50 | 4,000,000 |

The following table summarizes information about the Company's stock options outstanding at April 30, 2006:

*Options Outstanding*

| Exercise Price | Number Outstanding | Weighted Average Remaining Life | Weighted Average Exercise Price |
|---|---|---|---|
| $ 0.50 | 4,000,000 | 9.25 | $ 0.50 |
| | 4,000,000 | 9.25 | $ 0.50 |

*Options Exercisable*

| Exercise Price | Number Outstanding | Weighted Average Remaining Life | Weighted Average Exercise Price |
|---|---|---|---|
| $ 0.50 | 4,000,000 | 9.25 | $ 0.50 |
| | 4,000,000 | 9.25 | $ 0.50 |

As of April 30, 2006, there were 5,254,376 warrants outstanding and exercisable at prices ranging from $0.10 to $0.50. Such warrants expire on dates ranging from August 8, 2006 to March 10, 2010.

During the year ended April 30, 2006, the Company issued warrants to purchase 466,293 shares of its common stock at $0.50 per share to investors under the terms of notes payable. The warrants had a fair value of $181,026 and expire on dates ranging from May 2, 2007 to March 10, 2010.

During the year ended April 30, 2006, the Company issued warrants to purchase 140,450 shares of its common stock at $0.50 per share to investors in order to extend the due dates of notes payable. The warrants had a fair value of $46,504 and expire on dates ranging from January 2, 2007 to June 27, 2007.

During the year ended April 30, 2006, the Company issued warrants to purchase 100,000 shares of its common stock at $0.50 per share to investors for guarantees of its notes payable. The warrants had a fair value of $28,490 and expire on June 21, 2007.

During the year ended April 30, 2006, the Company issued warrants to purchase 2,000,000 shares of its common stock at $0.50 for services. The warrants had a fair value of $1,033,380 and expire on November 29, 2008.

**Note 11. 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 $16,000 and $12,500 during the years ended April 30, 2006 and 2005, respectively. As of April 30, 2006, 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. See Note 7.

In March, 2004, the Company issued a $150,000 note payable to and affiliate, Mustang Island Gathering, LLC, for indemnification of litigation settlement costs. See Note 7.

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 April 30, 2006, $217,500 of deferred compensation has been accrued and is recorded as accrued salaries, officers.

**Note 12. Oil and Gas Reserve Information (Unaudited**)

The estimates of proved oil and gas reserves utilized in the preparation of the financial statements for the year ended April 30, 2006 were estimated internally by the Company. The estimates of proved oil and gas reserves utilized in the preparation of the financial statements for the year ended April 30, 2005 were estimated by D. Raymond Perry, Jr., a registered petroleum engineer. All estimates were prepared in accordance with guidelines established by the Securities and Exchange Commission and the Financial Accounting Standards Board, which require that reserve reports be prepared under existing economic and operating conditions with no provision for price and cost escalation except by contractual agreement. All of the Company's reserves are located in the continental United States.

Future prices received for production and future production costs may vary, perhaps significantly, from the prices and costs assumed for purposes of these estimates. There can be no assurance that the proved reserves will be developed within the periods indicated or that prices and costs will remain constant. There can be no assurance that actual production will equal the estimated amounts used in the preparation of reserve projections. In accordance with the Securities and Exchange Commission's guidelines, the Company's internal petroleum engineers' estimates of future net cash flows from the Company's proved properties and the present value thereof are made using oil and natural gas sales prices in effect as of the dates of such estimates and are held constant throughout the life of the properties. Average prices used in estimating the future net cash flows were $67.51 per barrel of oil and $6.27 per Mcf of gas and $48.04 per barrel of oil and $6.13 per Mcf of natural gas at April 30, 2006 and 2005, respectively.

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

| | Oil (Bbls) | Gas (Mcf) |
|---|---|---|
| | (in thousands) | |
| Proved Reserves | | |
| Estimated Quantities – April 30, 2004 | 85 | 15,516 |
| Production | (2) | (157) |
| Revisions | 20 | (5,935) |
| Estimated Quantities – April 30, 2005 | 103 | 9,424 |
| Production | (1) | (90) |
| Revisions | 6 | 943 |
| Estimated Quantities – April 30, 2006 | 108 | 10,277 |
| | | |
| Proved Developed Reserves | | |
| April 30, 2005 | 50 | 4,130 |
| April 30, 2006 | 76 | 6,880 |

Due to significant NOL carry forwards, there have been no income taxes have been provided for within the standardized measure of discounted future net cash flow.

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

| | April 30, 2006 | April 30, 2005 |
|---|---|---|
| | (in thousands) | |
| Future cash inflows | $ 71,836 | $ 62,710 |
| Future production costs | ( 11,483) | ( 6,508) |
| Future development costs | ( 11,275) | ( 6,495) |
| Future net cash flows | 49,078 | 49,707 |
| 10% annual discount for estimating timing of cash flows | ( 21,887) | ( 19,218) |
| Standardized measure of discounted future net cash flows | $ 27,191 | $ 30,489 |

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

| | Year Ended of April 30, 2006 | Year Ended of April 30, 2005 |
|---|---|---|
| | (in thousands) | |
| Standardized measure of discounted future net cash flows, beginning of year | $ 30,489 | $ 43,778 |
| Changes due to operations: | | |
| Sales, net of production costs | 270 | ( 392) |
| Net change in prices, net of production costs | 1,786 | 1,555 |
| Development costs incurred | 334 | 1,528 |
| Change in future development costs | ( 1,555) | ( 321) |
| Revisions of quantity estimates | 4,672 | ( 16,170) |
| Sales of reserves | ( 2,082) | - |
| Changes in production rates, timing and other | ( 9,772) | ( 3,867) |
| Accretion of discount | 3,049 | 4,378 |
| Standardized measure of discounted future net cash flows, end of year | $ 27,191 | $ 30,489 |

**Note 13. Subsequent Events**

*Office Lease*

In June 2006, the Company entered into a long term lease for office space effective September 1, 2006. Under the terms of the lease, rent expense will be $4,330 per month for the first year and escalates annually to a maximum of $5,052 per month. Future minimum lease payments under this lease will be as follows:

| **Fiscal Year Ended April 30,** | |
|---|---|
| 2007 | $ 25,980 |
| 2008 | 53,403 |
| 2009 | 55,568 |
| 2010 | 57,733 |
| 2011 | 59,898 |
| 2012 | 30,310 |
| Total | $ 282,892 |

*Exchange of Viking Interests to USEY*

On August 11, 2006, VTEX closed a transaction whereby it contributed all of the outstanding stock of Viking to US Energy Overseas Investments, LLC ("Overseas") in return for Class B ownership units in Overseas and warrants to purchase common stock of US Energy Systems, Inc. ("USEY"). The Company, through Viking owned an approximate 24% interest in Viking Petroleum UK Limited ("Viking Petroleum"). Viking Petroleum owned gas licenses (the "Gas Licenses") for approximately 100,000 acres of onshore natural gas properties and mineral rights in North Yorkshire, England. The transaction between the Company and Overseas was combined with transactions between several other entities which resulted in the Gas Licenses, the Knapton Generating Station, a 42 MW gas-fired power plant associated with and located in the vicinity of the natural gas reserves in North Yorkshire, England, and certain related gas gathering and processing assets being directly and indirectly acquired by UK Energy Systems Limited ("UK Energy"). UK Energy is an English company which is a wholly-owned subsidiary of GBGH, LLC ("GBGH"), a Delaware limited liability company. GBGH is 79% owned by Overseas, and 21% owned by Marathon Capital Holdings (UK), LLC. As part of the transaction, a power purchase agreement and a gas sales agreement with Scottish Power Energy Management ("Scottish Power") was entered into under which Scottish Power is required to take all of the electricity generated by the Knapton Generating Station and all of the natural gas produced from the associated reserves up to 100 Bcf for a term of up to 12 years. The financing of the transaction provided approximately $167,000,000 for the acquisition of the assets, for certain reserves required by the terms of the financing and for working capital to be used for the operation and upgrading of the assets and the proposed increased production of natural gas from the reserves covered by the Gas Licenses.

The assets received by the Company in return for Viking were 100 Class B Membership Units of Overseas. The Class B Membership Units participate in the cash flow of Overseas and are convertible into up to 1,900,000 shares of common stock of USEY. In addition, the Company received warrants to purchase 500,000 shares of common stock of USEY. The warrants are exercisable at prices ranging from $8 to $10 per share and expire on August 7, 2011.

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

Effective January 31, 2006, the Company's Independent Registered Public Accounting Firm resigned. In connection therewith the Company states the following:

(a) Pannell Kerr Forster of Texas, P.C. ("PKF") resigned as the Company's Independent Registered Public Accounting Firm, effective January 31, 2006.

(b) PKF's report of the independent registered accounting firm on the Company's financial statements for the year ended April 30, 2005 did not contain an adverse opinion or disclaimer of opinion, nor was it modified as to audit scope or accounting principles. PKF's report of the independent registered accounting firm was modified as to an uncertainty about the Company's ability to continue as a going concern

(c) There was no disagreement with PKF for the year ended April 30, 2005 or for the interim period through January 31, 2006, whether or not resolved, on any matter of accounting principles or practices, financial statement disclosure, auditing scope or procedure, which, if not resolved to the satisfaction of PKF, would have caused it to make reference to the subject matter of the disagreement in connection with its report of the independent registered accounting firm.

(d) The board of directors selected Malone & Bailey, PC ("Malone") as the Company's successor independent registered public accounting firm, effective February 3, 2006. Neither the Company, nor any other party on its behalf, consulted with Malone on any matter of accounting principles or practices, financial statement disclosure, auditing scope or procedure prior to its selection.

**Item 8A. 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, 2006 on a timely basis. As of the date of this filing the Company is compliant in all of its filings.

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.

**Item 8B. Other Information**

None

# PART III

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

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

| Name | Age | Position | Tenure |
|---|---|---|---|
| Stephen F. Noser | 60 | Director | May 8, 1998 |
| | | President | March 21, 2006 |
| | | Chief Executive Officer | March 21, 2006 |
| | | Secretary | May 8, 1998 |
| | | Assistant Treasurer | May 8, 1998 |
| Randal B. McDonald, Jr. | 49 | Director | May 8, 1998 |
| | | Chief Financial Officer | May 8, 1998 |
| | | Treasurer | May 8, 1998 |
| | | Assistant Secretary | May 8, 1998 |
| John E. Seago | 61 | Director | August 25, 2006 |

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

**Stephen Noser, President**. Mr. Noser has been with VTEX Energy, Inc. in various capacities since its inception. Mr. Noser has served as President and Chief Executive Officer since March 21, 2006. From August 25, 2005 until March 21, 2006 Mr. Noser served as Executive Vice President and General Counsel. From May 8, 1998 until August 25, 2005, Mr. Nosert served as President and Chhief Executive Officer. Mr. Noser has been a Director of the Company since its inception. Prior to that time, he served in various management and legal capacities within the oil and gas industry. He was Vice President and General Counsel of MCO Resources, Inc. ($60 million in assets and listed on the American Stock Exchange) from 1987 to 1988. He was Associate General Counsel and then General Counsel of Inexco Oil Company ($500 million in assets and listed on the New York Stock Exchange) from 1983 to 1986. He also served on Inexco's Board of Directors and as a member of the company's operating committee. Both at Inexco and MCO, Mr. Noser had primary responsibility for all SEC reporting requirements and preparation of all registration statements. From 1977 to 1983, he served in various legal capacities within the American Natural Resources System. From 1974 to 1977, he served as an attorney for Mitchell Energy & Development Corp. Mr. Noser holds a B.A. from the University of St. Thomas and a J.D. degree from the University of Houston. He is a member of the Texas and Houston Bar Associations.

**Randal McDonald, Chief Financial Officer.** Mr. McDonald has been Chief Financial Officer and a Director of the Company since its inception. Mr. McDonald has twenty-six years experience in the field of accounting. Since 1993, he has provided general financial consulting and litigation support services to a variety of companies. Such services have included preparation and review of public and private offering documents, preparation of pro forma financial statements utilized in raising capital, and services as interim chief financial officer. From 1979 to 1985, he was with KPMG Peat Marwick's Houston office, specializing in public oil and gas companies. During 1986, he served a one year rotational assignment in KPMG Peat Marwick's world headquarters developing their audit software. During 1987, he served as Chief Financial Officer for IBS Technologies, Ltd., a publicly traded computer software company. From 1988 to 1992, he was with Arthur Andersen's Denver office, specializing in public oil and gas companies. Mr. McDonald holds a B.B.A. in accounting from the University of Texas at Austin and is a licensed CPA.

**John E. Seago, Director.** During the past five years Mr. Seago has been a partner with the law firm of Seago & Carmichael, or its predecessors, in Baton Rouge, Louisiana.

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

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

Based solely on the review of the copies of such forms received by us, or written representations from certain reporting persons, the Company believes that during fiscal year 2006, all filing requirements applicable to the Company’s officers, directors and greater than ten percent beneficial owners were complied with.

**Code of Ethics**

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

**Item 10. Executive Compensation**

The aggregate amount of compensation paid by the Company or its subsidiaries during the fiscal year ended April 30, 2006 to officers and directors, as a group, for services in all capacities was $185,000.

The following table sets out the compensation received by the President and Chief Financial Officer of the Company for the last three fiscal years ended April 30, 2006.

**Summary Compensation Table**

| | | | | | Long Term Compensation Awards | | |
|---|---|---|---|---|---|---|---|
| Name and Principal Position | Year End | Annual Compensation (1) Salary($) | Bonus($) | Other($) | Restricted Stock Awards($) | Options(#) | All Other($) |
| Stephen F. Noser | 2006 | 95,000 | - | - | - | 1,000,000 | - |
| President | 2005 | 95,000 | - | - | - | - | - |
| | 2004 | 95,000 | - | - | - | - | - |
| Randal B. McDonald, Jr. | 2006 | 90,000 | - | - | - | 1,000,000 | - |
| Chief Financial Officer | 2005 | 90,000 | - | - | - | - | - |
| | 2004 | 90,000 | - | - | - | - | - |

During July, 2005, the Company executed employment agreements with Mr. Noser and Mr. McDonald. Mr. Noser and Mr. McDonald have voluntarily elected to defer payment of a portion of their salary under such agreements until such time as the Company’s cash flow improves. At April 30, 2006, $217,500 of deferred compensation has been accrued and is recorded as accrued salaries, officers.

**Options Granted in 2006 and 2005**

Options granted to officers and directors during the fiscal year ended April 30, 2006 were as follows:

| Name | Number of Securities Underlying Options Granted | Percent of Total Options Granted to Employees During Fiscal Year | Exercise or Base Price | Expiration Date |
|---|---|---|---|---|
| Stephen F. Noser | 1,000,000 | 25.0% | $0.50 | July 29, 2015 |
| Randal B. McDonald, Jr. | 1,000,000 | 25.0% | $0.50 | July 29, 2015 |

No options were granted to officers or directors during the fiscal years ended April 30, 2005.

**Options Exercised During 2006 and 2005 and Year End Option Values (1)**

| | Number of Securities Underlying Unexercised Options At Fiscal Year End (#) | | Value of Unexercised In-the-Money Options At Fiscal Year End ($) | |
|---|---|---|---|---|
| Name | Exercisable | Unexercisable | Exercisable | Unexercisable |
| Stephen F. Noser | 1,000,000 | - | - | - |
| Randal B. McDonald, Jr. | 1,000,000 | - | - | - |

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

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

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

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

The following table sets forth certain information regarding beneficial ownership of outstanding shares as of July 31, 2006 by each person who is known by the Company to own beneficially five percent or more of the outstanding shares, the Company's Directors and Executive Officers, and all Directors and Executive Officers as a group.

| Name and Address Of Beneficial Owner | Title of Class | Position or Title | Amount and Nature Of Beneficial Ownership | % of Class |
|---|---|---|---|---|
| Stephen F. Noser<br>8303 Southwest Freeway, Suite 950<br>Houston, Texas 77074 | Common Stock<br><br>Class B Preferred Stock | Director, President, Secretary and Assistant Treasurer | (1)(2) 1,011,667<br><br>250,000 | 6.29%<br><br>50.00% |
| Randal B. McDonald, Jr.<br>8303 Southwest Freeway, Suite 950<br>Houston, Texas 77074 | Common Stock | Director, CFO, Treasurer and Assistant Secretary | (2) 1,005,000 | 6.25% |
| John E. Seago<br>8303 Southwest Freeway, Suite 950<br>Houston, Texas 77074 | Common Stock | Director | 300,000 | 1.99% |
| KLA Consulting, Inc.<br>4631 S. Columbine Ct.<br>Englewood, Colorado 80113 | Common Stock | N/A | (3) 2,000,000 | 11.70% |
| ARCOA Advisors, LLC<br>50 Briar Hollow East, Suite 210<br>Houston, Texas 77027 | Common Stock | N/A | (4) 1,500,000 | 9.62% |
| Ronald E. Reese, M.D.<br>1441 Liberty St., Suite 206<br>Redding, CA 96001 | Common Stock | N/A | (5) 1,099,033 | 7.28% |
| WDR Capital, Inc.<br>19607 Piney Place<br>Houston, Texas 77094 | Class B Preferred Stock | N/A | 250,000 | 50.00% |
| All Officers<br>And Directors | Common Stock<br>Class B Preferred Stock | N/A | (1)(6) 2,316,667<br>250,000 | 13.56%<br>50.00% |

(1) Includes 1,667 shares of common stock indirectly owned by Mr. Noser because of his 50% ownership in Old Vector Corporation, which owns 3,334 shares of common stock.
(2) Includes 1,000,000 shares of common stock issuable upon the exercise of stock options.
(3) Includes 2,000,000 shares of common stock issuable upon the exercise of stock warrants.
(4) Includes 500,000 shares of common stock issuable upon the exercise of stock warrants.
(5) Shares included as Trustee and beneficiary of the Ronald E. Reese Retirement Trust, dated 01/01/87 and the Ronald E. Reese Revocable Trust, dated 06/30/00.
(6) Includes 2,000,000 shares of common stock issuable upon the exercise of stock options.

### Item 12. Certain Relationships and Related 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 $16,000 during the years ended April 30, 2005 and 2006, respectively. As of April 30, 2006, 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. See Note 7.

In March, 2004, the Company issued a $150,000 note payable to and affiliate, Mustang Island Gathering, LLC, for indemnification of litigation settlement costs. See Note 7.

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 April 30, 2006, $217,500 of deferred compensation has been accrued and is recorded as accrued salaries, officers.

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

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

| | | |
|---|---|---|
| Exhibit | 2.01 | Asset Purchase Agreement between Registrant and Vector |
| Exhibit | 2.02 | Lisbon Agreement |
| Exhibit | 2.03 | Taurus Agreement |
| Exhibit | 2.04 | Agreement and Plan of Merger Between Sunburst Acquisitions II, Inc. and Vector Energy Corporation |
| Exhibit | 2.05 | Option Agreement Between CLK Energy, Inc. and VTEX Energy, Inc. |
| Exhibit | 3.01 | Articles of Incorporation of Vector Energy Corporation |
| Exhibit | 3.02 | By-Laws of Vector Energy Corporation |
| Exhibit | 4.01 | Certificate of Designation, Preferences, Rights and Limitations of Class AA 6% Cumulative Convertible Preferred Stock and Class B Preferred Stock of Vector Energy Corporation |
| Exhibit | 4.02 | Certificate of Designation, Preferences, Rights and Limitations of Class C 5% Cumulative Convertible Preferred Stock of Vector Energy Corporation |
| Exhibit | 21 | Subsidiaries of the Registrant |
| Exhibit | 23 | Consent of Pannell Kerr Forster of Texas, P.C.* |
| Exhibit | 31.1 | CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| Exhibit | 32.1 | CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| Exhibit | 31.1 | CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002* |
| Exhibit | 32.1 | CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002* |

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

The Company’s board of directors reviews and approves audit and permissible non-audit services performed by the authorized Independent Registered Public Accounting Firm as well as the fees charged by the authorized Independent Registered Public Accounting Firm for such services. In its review of non-audit service fees and its appointment of the authorized Independent Registered Public Accounting Firm, the board of directors considered whether the provision of such services is compatible with maintaining the authorized Independent Registered Public Accounting Firm’s independence. All of the services provided and fees charged by the authorized Independent Registered Public Accounting Firm in fiscal 2006 and 2005 were pre-approved by the board of directors.

**Audit Fees**

The aggregate fees billed by the authorized Independent Registered Public Accounting Firm for professional services for the audit of the annual financial statements of the Company and the reviews of the financial statements included in the Company's quarterly reports on Form 10-QSB for fiscal 2006 and Fiscal 2005 were $91,866 and $25,793 respectively, net of expenses.

**Audit Related Fees**

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

**Tax Fees**

There were no fees billed by the authorized Independent Registered Public Accounting Firm during fiscal 2006 for tax compliance. The aggregate fees billed by the authorized Independent Registered Public Accounting Firm for professional services related to tax compliance were $22,963 for fiscal 2005.

**All Other Fees**

There were no fees billed by the authorized Independent Registered Public Accounting Firm during fiscal 2006 for other services. The aggregate fees billed by the authorized Independent Registered Public Accounting Firm for other professional services were $10,895 for fiscal 2005.

## SIGNATURES

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

VTEX ENERGY, INC.
(Registrant)

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

Date: September 19, 2006

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

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

Date: September 19, 2006

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

Date: September 19, 2006

EXHIBIT 31.1

CERTIFICATIONS
PRINCIPAL EXECUTIVE OFFICER

I, Stephen F. Noser, certify that:

1. I have reviewed this annual report on Form 10-KSB 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officer 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 registrant and we 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

c) disclosed in this annual 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 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 registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies 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: September 19, 2006 /S/ Stephen F. Noser

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President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS
PRINCIPAL FINANCIAL OFFICER

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

1. I have reviewed this annual report on Form 10-KSB 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officer 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 registrant and we 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 annual report is being prepared;

   b) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

   c) disclosed in this annual 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 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 registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies 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: September 19, 2006 /S/ Randal B. McDonald, Jr.
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Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (A) AND (B) OF SECTION 1350,
CHAPTER 63 OF TITLE 18, UNITED STATES CODE)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Stephen F. Noser, President and Chief Executive Officer of VTEX Energy, Inc., a Nevada corporation (the "Company"), hereby certify, to my knowledge, that:

(1) the Company's Annual Report on Form 10-KSB for the year ended April 30, 2006 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 19, 2006 /S/ Stephen F. Noser
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Name: Stephen F. Noser
President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to VTEX Energy, Inc. and will be retained by VTEX Energy, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (A) AND (B) OF SECTION 1350,
CHAPTER 63 OF TITLE 18, UNITED STATES CODE)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Randal B. McDonald, Jr., Chief Financial Officer of VTEX Energy, Inc., a Nevada corporation (the "Company"), hereby certify, to my knowledge, that:

(1) the Company's Annual Report on Form 10-KSB for the year ended April 30, 2006 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 19, 2006 /S/ Randal B. McDonald, Jr.

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Name: Randal B. McDonald, Jr.
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to VTEX Energy, Inc. and will be retained by VTEX Energy, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.