

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, 2001

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

Commission file number 0-22661

VECTOR ENERGY CORPORATION

(Name of small business issuer in its charter)

Texas

(State or other jurisdiction of
incorporation or organization)

76-0582614

(I.R.S. Employer
Identification No.)

8303 Southwest Freeway, Suite 950, Houston, Texas

(Address of principal executive offices)

77074

(Zip Code)

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

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

NONE

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

Title of Each Class

Name of Each Exchange
On Which registered

Common Stock, no 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. .

State issuer's revenues for its most recent fiscal year. \$2,385,174

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. \$4,967,811 as of July 31, 2001.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. 35,413,908 shares of common stock, no par value, were outstanding as of July 31, 2001.

Documents Incorporated by Reference: None

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

PART I.....	2
ITEM 1. BUSINESS	2
<i>General</i>	2
<i>Competitive Conditions</i>	4
<i>Dependence upon one or a few major customers</i>	4
<i>Governmental and Environmental Regulations</i>	5
<i>Employees and Consultants</i>	5
ITEM 2. PROPERTY	6
<i>Properties Acquired</i>	6
<i>Other Assets</i>	7
<i>Production Information</i>	8
<i>Reserve Information</i>	8
<i>Oil and Gas Wells</i>	9
<i>Oil and gas leaseholds</i>	10
<i>Office Facilities</i>	10
ITEM 3. LEGAL PROCEEDINGS.....	10
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	10
PART II	11
ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS	11
ITEM 6. MANAGEMENT’S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION	11
<i>General</i>	11
<i>Liquidity and Capital Resources</i>	12
ITEM 7. FINANCIAL STATEMENTS	14
<i>Annual Financial Statements</i>	14
ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	14
PART III.....	14
ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT	14
ITEM 10. EXECUTIVE COMPENSATION	16
<i>Summary Compensation Table</i>	16
<i>Options Granted in 2001 and 2000</i>	16
<i>Options Exercised During 2001 and 2000 and Year End Option Values (1)</i>	17
ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	18
ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.....	18
ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K	19

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

PART I

Item 1. Business

General

Vector Energy Corporation (the “Company”) was incorporated under the laws of the State of Texas on June 18, 1998 as a wholly owned subsidiary of Sunburst Acquisitions II, Inc. (“Sunburst”). The Company 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

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.

On May 8, 1998, Sunburst entered into an asset acquisition transaction in which it acquired substantially all of its operating assets. The transaction consisted of an Asset Purchase Agreement executed by the Company and Old Vector Corporation (formerly Vector Energy Corporation), a Texas corporation (“Old Vector”) under which Old Vector transferred substantially all of its assets to Sunburst, including its rights to two asset purchase agreements with Lisbon Development Company, L.L.C., a Texas limited liability company (“Lisbon”), and Taurus Operating, Inc., a Texas corporation (“Taurus”) dated March 23, 1998 and March 31, 1998, respectively.

Other than the rights to the above mentioned asset purchase agreements with Lisbon and Taurus, Old Vector’s assets acquired by Sunburst consisted of non-operated working interests and royalty interests in approximately 80 producing oil and gas wells located primarily in Oklahoma and Kansas. Sunburst also acquired from Old Vector a wholly owned subsidiary of Old Vector, Vector Exploration, Inc., a Texas Corporation (“Vector Exploration”), which then became a wholly owned subsidiary of Sunburst. Old Vector assigned its rights to the asset purchase agreement with Lisbon to Vector Exploration prior to Sunburst’s acquisition of Old Vector. In exchange for these assets and the rights under the asset purchase agreements, Old Vector received 100,001 shares of Common Stock.

The Company, through its newly acquired wholly owned subsidiary Vector Exploration, exercised the rights under the asset purchase agreement with Lisbon by which Vector Exploration acquired 13 oil and gas wells located in East Texas and North Louisiana. These assets are currently held in the Company’s wholly owned subsidiary Vector Exploration. In exchange for these assets, Vector Exploration delivered to Lisbon 30,000 shares of the Company’s class AA 6% cumulative convertible preferred stock (“Class AA Preferred Stock”) and assumed \$6.1 million in secured debt and \$511,465 in accounts payable, net of accounts receivable and cash acquired. The secured debt assumed by the Company is a credit facility secured by the production on the acquired producing properties that allows the Company access to a line of credit of up to \$10 million with a national bank. These liabilities, just as the assets, are held by the Company’s wholly owned subsidiary Vector Exploration. The Class AA Preferred Stock was convertible into Common Stock and voted at a rate of 100 for each share of Class AA Preferred Stock. All Class AA Preferred Stock has been converted into common stock.

The Company also exercised its rights under the asset purchase agreement with Taurus which were assigned directly to the Company, and acquired the East Westbrook Properties located in Mitchell County, Texas. In exchange for this asset, the Company issued to Taurus 213,123 shares of Common Stock.

In connection with the above transaction, the Company additionally issued 2,480,026 shares of Common Stock, a warrant to purchase an additional 300,000 shares of Common Stock at \$.10 per share, and 500,000 shares of the Company's class B preferred stock ("Class B Preferred Stock") to subscribers in exchange for an aggregate consideration of \$773,002 in cash and services. The Class B Preferred Stock is not convertible, but has 100 votes for every share of Class B Preferred.

On November 4, 1998, the Company entered into an asset acquisition transaction by which the Company acquired the right, title, and interest in certain oil, gas, and mineral leases and working interests in approximately fifteen producing oil and gas wells located in Oklahoma, Texas and Louisiana. The transaction consisted of a purchase and sale agreement with Texas Energy and Environmental, Inc. and Cougar Oil and Gas, Inc. (collectively the "Sellers").

Pursuant to the asset acquisition transaction, the Company issued 1,226,667 of its common stock to the Sellers, issued a \$120,000 non-interest bearing note payable to the Sellers, and assumed \$690,522 of the Sellers' bank debt and \$750,000 of other liabilities of the Sellers. In addition the Sellers were entitled to receive up to 500,000 additional shares of the Company's common stock based on the value of the proved developed producing reserves attributed to the properties acquired, as determined by an independent engineering evaluation on September 30, 1999. The purchase and sale agreement also required the Company to expend a minimum of \$500,000 in capital investment on the properties acquired, within nine months. If such capital investment was not made, the Sellers were entitled to receive an additional 500,000 shares of the Company's common stock. Five hundred thousand shares of common stock were issued to the Sellers on August 23, 1999. The Company does not believe any additional shares will be issued to the Sellers under this agreement.

In conjunction with the asset acquisition transaction, the Company executed an amended and restated credit agreement with its lender whereby its borrowing base was increased by \$800,000. On November 4, 1998, the Company drew down the additional \$800,000 and used the proceeds to repay the bank debt and certain of the other liabilities assumed in the asset acquisition transaction.

In addition, the Company borrowed \$500,000 from a stockholder under a six-month promissory note. Such note bears interest at 10% per annum and is subordinate to the Company's credit agreement. The holder of the promissory note received warrants to purchase 100,000 shares of the Company's common stock at \$.10 per share. Such warrants expire ten years from the date granted. On May 17, 1999 the Company issued 100,000 shares of common stock to the holder of the promissory note in order to exercise certain provisions extending the term of the note. The note also provides that the Company will use its best efforts to raise additional equity capital, and any capital so raised shall be used to repay the promissory note.

On March 7, 2000, the Company closed a purchase and sale agreement with a company, which is a debtor in possession in a Chapter 11 Bankruptcy. Under the agreement, the Company acquired all of the Bankrupt Debtor's interest in a block located in the Offshore Texas, Mustang Island Area for 550,000 shares of common stock valued at \$550,000. In accordance with the agreement, the Company immediately repurchased 16,667 shares of common stock at \$3.00 per share, for a total of \$50,000, for payment of administrative expenses in the Bankruptcy proceeding. Under the terms of the agreement, in the event that the daily rate of production from the properties

acquired averages at least 5,000 Mcf per day over a complete calendar month the seller has the right to put 150,000 shares of common stock to the Company at \$3.00 per share. If the seller fails to exercise such right, the Company has the right to call 150,000 shares of common stock at \$3.00 per share. In addition, the Company may be required to issue a maximum of 370,000 additional shares of common stock to the seller based upon the required future development costs associated with the properties acquired, as determined by an independent engineering firm. In addition, the Company purchased \$120,000 in secured debt from three of the seller's secured creditors for face value.

Vector Energy Corporation and its wholly owned subsidiary, Vector Exploration, Inc., are primarily engaged in the exploration, production, acquisition and development of oil and gas properties. These operations are conducted in the United States.

Competitive Conditions

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

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

Raw materials 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.

Dependence upon one or a few major customers

The Company currently markets the oil and gas production from its properties to nine customers, two of which represent sales in excess of 10% of the Company's total oil and gas revenues. These two customers represent approximately 39% and 18% of the Company's total oil and gas revenues, respectively. During the year ended April 30, 2000 the Company marketed the oil and gas production from its properties to fourteen customers, one of which represented sales in excess of 10% of the Company's total oil and gas revenues. This one customer represented approximately 46% of the Company's total oil and gas revenues. The availability of oil and gas purchasers is such, however, that any customer discontinuing purchases from the Company could almost assuredly be replaced by another buyer.

Governmental and Environmental Regulations

Governmental Regulations

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

Environmental Regulations

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

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

Employees and Consultants

The Company has six full 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 two engineering consultants on a part time basis.

Item 2. Property

Properties Acquired

Lisbon Properties

The Company acquired the Lisbon Properties on May 8, 1998, through its wholly owned subsidiary Vector Exploration, Inc. The properties consist of oil and gas working interests, ranging from approximately 50% to 100%, in eleven wells and leases in eight fields located in Gregg and Harrison Counties, Texas and Claiborne, Lincoln, Webster and Bossier Parishes, Louisiana. The primary target zones consist of the Cotton Valley, Travis Peak, Petit, Gray Sand, Haynesville, Burgess Simmons, Vaughn and Hall formations. The Company currently operates nine of the eleven wells. Currently there are eleven wells producing on the properties. The aggregate amount of daily production equals approximately 300 Mcf per day (net) of natural gas and 9 barrels per day (net) of oil and condensate. The Company believes that these fields in East Texas and North Louisiana provide an opportunity for continued growth and have significant remaining undeveloped reserve potential.

East Westbrook Properties

The East Westbrook Properties consist of approximately a 98% working interest in 980 acres in Mitchell County, Texas that were formerly part of the East Westbrook Unit. The East Westbrook Unit encompasses approximately 1,200 acres and is part of the Westbrook Field which encompasses over 18,000 acres and has produced in excess of 99.1 million barrels of oil since its discovery in 1920. The East Westbrook Unit is located on the northeast corner of the Midland Basin Platform and on the west flank of the Eastern Shelf. The East Westbrook Unit is bordered on the west, south, and north by waterflood projects. All of these waterfloods have been infill drilled and have produced large volumes of oil. Twenty wells have been completed on the properties, five of which have recent production. The Company operates all of the wells on this property. Historically the East Westbrook Unit has been poorly managed and was placed in the hands of a promoter who went into bankruptcy. The wells were not properly maintained, no water was injected and the facility was allowed to deteriorate. Taurus acquired the property and spent nearly \$1 million putting the wells back on line, cleaning out the wells, and replacing worn equipment. In addition, the Company performed workovers on two of the wells. In order to complete the work that needs to be done to bring the property up to full production, Vector estimates that an additional \$8.1 million needs to be spent.

Old Vector Properties

The Company acquired the Old Vector Properties on May 8, 1998. The properties consist of non-operated working and royalty interests in approximately eighty wells and units located primarily in Oklahoma and Kansas. The most significant property holdings are focused in the south central, central, and northwestern regions of Oklahoma within well established producing oil and gas fields, and in a waterflood project located in Kingman County, Kansas. Because of the Company's small interest in any particular well or unit, the Company has little or no influence over the operation of the properties or their further development.

Texas Energy & Environmental, Inc. Properties

The Company acquired the Texas Energy & Environmental, Inc. properties on November 4, 1998. These properties consist of fourteen wells located in Oklahoma, Texas and Louisiana. All wells are Company operated. These wells currently produce approximately 850 Mcf per day (net) and 6 barrels of oil per day (net). The Company's working interest in these wells varies from approximately 50% to 100%.

Mustang Island Block

On March 7, 2000, the Company closed a purchase and sale agreement with a company which is a debtor in possession in Chapter 11 Bankruptcy. Under the agreement, the Company acquired all of the Bankrupt Debtor's interest in a Block located in the Offshore Texas, Mustang Island Area. The Company currently estimates that this property contains in excess of 15 Bcf of net proved reserves.

New Properties

The Company continues to pursue the evaluation of a number of oil and gas properties. During their respective careers, management has made numerous contacts in the oil and gas industry and has accumulated knowledge concerning location, current ownership, and other information with respect to properties. Based on this experience and knowledge, management believes that the Company will be able to continue to acquire properties. However, additional financing will be required to pursue particular properties.

Other Assets

The Company became involved in the development of a consumer to business internet business known as EZServ in August of 1999 through a consulting arrangement with IT Development. The technology is now largely complete, and experimental marketing has been conducted in Houston, Texas. The Company has the right to have all of the assets of the business placed in a new company, of which the Company will own one-third. The Company is seeking independent venture capital for this business and does not anticipate providing any funding.

In April of 2000, the Company executed a contract with a Turkish company to assist in the development of a natural gas distribution system in Ezurum, Turkey. The Company also has the option to provide a fiber optic system in the same city. The Company is currently seeking strategic partners for this project and anticipates that this project will be funded independently.

Production Information

The table below sets forth the net quantities of oil and gas production (net of all royalties, overriding royalties, and production due to others), the average sales prices, and the average production costs attributable to the Company's properties for the years ended April 30, 2000 and 1999.

	<u>Year Ended</u> <u>April 30, 2001</u>	<u>Year Ended</u> <u>April 30, 2000</u>
<u>Net Production</u>		
Oil (BBLs)	10,176	8,860
Gas (MCF)	377,674	391,006
<u>Average Sales Prices</u>		
Oil (per BBL)	\$ 28.62	\$ 21.60
Gas (per MCF)	\$ 5.40	\$ 2.57
<u>Average Production Cost (1)</u>		
Per Equivalent MCF of Gas (2)	\$ 2.03	\$ 1.68

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

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

Reserve Information

Oil and gas reserve information for the properties owned by the Company have been prepared internally by the Company.

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

Within the next twenty-four months it is the Company's intention to have all then existing reserves reviewed by outside independent third party engineers. It is likely that such a review will result in substantially different reserve estimates than would result from an internal review. Such estimates may be substantially lower than those made by the Company's engineering staff and could result in material write downs in reserve values.

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

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

The tables below set forth the estimated proved and proved developed reserves of crude oil (including condensate) and natural gas, all of which are located within the continental United States, associated with the properties owned by the Company for the years ended April 30, 2001 and 2000.

Proved Reserves at Year End

	Developed	Undeveloped	Total
<u>Oil (BBLs) (in thousands)</u>			
April 30, 2001	286	3,310	3,596
April 30, 2000	381	3,476	3,857
<u>Gas (MCF) (in thousands)</u>			
April 30, 2001	19,070	1,447	20,517
April 30, 2000	24,378	7,398	31,776

Changes in Proved Reserves

	MCF	BBLS
	(In Thousands)	
Estimated Quantity, April 30, 1999	13,698	3,563
Acquisitions	23,823	344
Sales of Reserves in Place	(2,331)	(24)
Production	(391)	(9)
Changes in Estimates	(3,023)	(17)
Estimated Quantity, April 30, 2000	31,776	3,857
Sales of Reserves in Place	(725)	(10)
Production	(378)	(10)
Changes in Estimates	(10,156)	(241)
Estimated Quantity, April 30, 2000	20,517	3,596

Oil and Gas Wells

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

	April 30, 2001		April 30, 2000	
	Gross (1) Wells	Net Wells	Gross (1) Wells	Net Wells
Oil Wells	73	4.60	72	4.28
Gas Wells	47	8.85	49	10.56
Total	120	13.45	121	14.84

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

Oil and gas leaseholds

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

	April 30, 2001				April 30, 2000			
	Developed (1)		Undeveloped		Developed(1)		Undeveloped	
	Acreage		Acreage		Acreage		Acreage	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Louisiana	6,523	3,535	8,320	5,073	6,523	3,539	8,320	5,073
Texas	6,753	2,663	2,480	1,551	6,753	2,835	2,480	1,551
Kansas	4,037	52	0	0	4,037	52	0	0
Oklahoma	14,468	800	200	100	14,468	841	200	100
Total	31,781	7,050	11,000	6,724	31,781	7,267	11,000	6,724

(1) Acres spaced or assigned to productive wells

Office Facilities

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

Item 3. Legal Proceedings

The Company is involved from time to time in various claims, lawsuits and administrative proceedings incidental to its business. In the opinion of management, the ultimate liability thereunder, if any, will not have a materially adverse effect on the financial condition or results of operations of the Company. The Company currently has accounts payable in the amount of \$1,252,441. A significant portion of these accounts are now past due and are subject to becoming matters for litigation at any time.

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. The following table shows, for the period indicated, the high and low closing bid prices of the Company common stock as reported by NASDAQ. Any market for the common stock should be considered sporadic, illiquid and highly volatile. Prices reflect inter-dealer quotations, without adjustment for retail markup, markdowns or commissions, and may not represent actual transactions.

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

	High	Low
<u>2000 Fiscal Year</u>		
1 st Quarter	\$ 2.25	\$ 0.75
2 nd Quarter	4.44	1.00
3 rd Quarter	1.25	0.31
4 th Quarter	1.09	0.40
<u>2001 Fiscal Year</u>		
1 st Quarter	\$ 0.63	\$ 0.26
2 nd Quarter	0.35	0.15
3 rd Quarter	0.25	0.13
4 th Quarter	0.20	0.11
<u>2002 Fiscal Year</u>		
1 st Quarter	\$ 0.28	\$ 0.12

As of July 31, 2001, there were approximately 206 holders of record of the Company's common stock. The Company has not paid any dividends on its common stock and no dividends are anticipated in the foreseeable future. In addition, the ability of the Company to declare or pay dividends on its common stock is currently subject to certain restrictions contained in its credit facility with a bank.

Item 6. Management's Discussion and Analysis or Plan of Operation

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

General

On May 8, 1998, the Company entered into an asset acquisition transaction in which it acquired its initial operating assets. Prior to this time the Company had no employees or operations.

In exchange for its initial operating assets, the Company issued 313,124 shares of common stock, 30,000 shares of the Company's class AA 6% cumulative convertible preferred stock and assumed \$6.1 million in secured debt and \$511,465 in accounts payable, net of accounts receivable and cash acquired. The secured debt assumed by the Company is a credit facility secured by the production on the acquired producing properties that allows the Company access to a line of credit of up to \$10 million with a national bank.

In connection with the above transaction, the Company additionally issued 2,480,026 shares of common stock, a warrant to purchase an additional 300,000 shares of common stock at \$.10 per share, and 500,000 shares of the Company's class B preferred stock to subscribers in exchange for an aggregate consideration of \$773,002 in cash and services.

On November 4, 1998, the Company entered into an additional asset acquisition transaction in which the Company issued 1,226,667 shares of common stock and a \$120,000 non-interest bearing note and assumed \$690,522 in bank debt and \$600,954 in accounts payable. Subsequently, the Company issued an additional 500,000 shares of common stock under this agreement. The Company does not believe any further shares will be issued to the Sellers under this agreement.

On March 7, 2000, the Company closed a purchase and sale agreement under which the Company issued 550,000 shares of common stock. In accordance with the agreement, the Company immediately repurchased 16,667 shares of common stock at \$3.00 per share. In addition, the Company may be required to issue a maximum of 370,000 additional shares of common stock to the seller.

Liquidity and Capital Resources

On October 19, 2000, the Company sold 543,197 shares of common stock together with a warrant to purchase 543,197 shares of common stock at \$0.50 per share and an undivided 2.2% working interest in two nonproducing oil and gas wells to a private investor for a total consideration of \$100,000.00 in cash. The investor is also entitled to recoup his investment out of future production from the wells, if any. On October 19, 2000, the closing price of the common stock was \$0.24 per share. The proceeds of this transaction were used to fund development of the Mustang Island Properties.

On October 27, 2000, the Company sold 407,398 shares of common stock together with a warrant to purchase 407,398 shares of common stock at \$0.50 per share and an undivided 2.2% working interest in two nonproducing oil and gas wells to a private investor for a total consideration of \$100,000.00 in cash. The investor is also entitled to recoup his investment out of future production from the wells, if any. On October 27, 2000, the closing price of the common stock was \$0.155 per share. The proceeds of this transaction were used to fund development of the Mustang Island Properties.

Both of the transactions in October 2000 were treated by the Company as loans repayable out of production for accounting purposes. The stock issued was booked at its fair market value and treated as a loan cost to be amortized over the life of the loan.

On December 27, 2000, the Company sold certain interest in 5 wells located in McClain, Oklahoma and undivided 10% interest in 6 wells located on the Mustang Island Property to Old Jersey Oil Ventures, LLC. for \$1,000,000.00. The brother of the President of the Company is a principal in Old Jersey Oil Ventures, LLC. At the same time Old Jersey Oil Ventures LLC, as holder of \$591,849.41 in indebtedness owed by the Company, agreed to exchange such indebtedness for 3,945,663 shares of the Company's common stock. This represented a price of \$0.15 per share. On December 27, 2000, the closing price of the common stock was \$0.125. Old Jersey Oil Ventures, LLC also exercised warrants to purchase 400,000 shares of the Company's common stock at \$0.10 per share. All shares issued to Old Jersey Oil Ventures, LLC. were issued in a private transaction and may only be transferred in a private transaction or pursuant to an applicable exemption to the registration requirements. The Company is under no obligation to register such shares. The proceeds of this transaction were used as follows: \$250,000.00 to make payments to general creditors; \$300,000.00 to make a principal payment to the lender under the Company's secured indebtedness as a condition to the lender's agreement to enter into the fifth amendment to the credit agreement described below; \$50,000 reserved for capital investment on properties owned by the Company in St. Mary's Parish, Louisiana; and \$400,000.00 reserved to pay the costs of this registration and to pay principal and interest due under the Company's credit agreement.

On December 27, 2000, the company entered into the Fifth Amendment to its credit agreement. As a result of that agreement, the Company's indebtedness was reduced by \$3,000,000. This indebtedness is payable in (a) three (3) monthly installments of \$31,250.00 from January 15, 2001 through March 15, 2001; (b) seven (7) monthly installments of \$125,000.00 from April 15, 2001 through October 15, 2001 and (c) a final installment of \$2,400,845.81 due November 15, 2001. No further borrowings are available. All financial covenants have been removed. As a part of this amendment, the Company issued 3,000 shares of Class A-1 Cumulative Convertible Preferred Stock to its lender in exchange for \$3,000,000 in outstanding indebtedness and pledged its interest in the Mustang Island Properties as additional collateral to the lender. Under the terms of the preferred stock, the holder of such stock is required to convert the preferred stock into shares of common stock immediately upon the registration of the common stock. Each share of preferred stock converts into an number of Initial Shares equal to \$1,000 worth of common stock at a price equal to the lesser of (i) \$0.50 per share or (ii) ninety percent (90%) of the Average Market Price. The Average Market Price is defined as the average of the highest bid and lowest asked prices of the common stock over a period of twenty-one consecutive Trading Days ending on the Trading Day immediately prior to the date of conversion. In addition, following conversion, the holder of each preferred share prior to conversion will also be entitled to receive a number of Contingent Shares equal to one hundred ten percent (110%) of the Liquidation Value of such share divided by the Average Market Price on the first anniversary of the Conversion Date minus the number of Initial Shares. The Liquidation Value is an amount equal to all declared and unpaid dividends and distributions, in any, on the preferred stock plus \$1,000. The Company is required to register the resale of the common stock with the Securities and Exchange Commission. On December 27, 2000 the closing price of the Common Stock, which is quoted on the Electronic Bulletin Board under the symbol "VECT", was \$0.125 per share.

For the past twelve months, the Company's oil and gas revenues have been sufficient to satisfy its oil and gas operating expenses and a portion of the interest payments. The Company's general and administrative expenses, development costs and the remainder of the interest payments have been funded primarily from the proceeds from the sale of stock. Pursuant to the Fifth Amendment to the Credit Agreement, the Company escrowed \$400,000 to pay principal and interest due pursuant to the Fifth Amendment. The company anticipates that wells currently being brought into production will be sufficient to meet its obligations after March 2001. However, there can be no assurance that this will occur. It may be that an additional equity funding will be required to meet the current needs of the Company. Any inability of the Company to raise

additional capital under such circumstances will limit the development of most of its oil and gas properties and may prevent the Company from meeting its cash requirements. In any event, it will be necessary for the Company to obtain new financing prior to November 15, 2001. If the wells currently being brought into production perform as expected such financing should be available; however, there is no assurance that such financing will in fact be available or that the wells will, in fact, perform as expected. In the absence of such well performance or financing, the company will not be able to meet the payment due under its credit agreement on November 15, 2001.

The Company is currently negotiating with many of the vendors for which accounts payable were assumed in the asset acquisition transactions, and believes that a significant portion of these payables can be satisfied through the issuance of common stock. If the Company is unsuccessful in these negotiations, additional equity funding may be needed in order to comply with the terms of the revolving credit note.

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

Item 7. Financial Statements

Annual Financial Statements

The Report of the Independent Certified Public Accountants appearing at page F-3 and the Consolidated Financial Statements and Notes to Consolidated Financial Statements appearing at pages F-4 through F-20 hereof are incorporated herein by reference.

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

None

PART III

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

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

Name	Age	Position	Tenure
Samuel M. Skipper	42	Director Chairman of the Board Chief Executive Officer	May 8, 1998
Stephen F. Noser	55	Director President Secretary Assistant Treasurer	May 8, 1998
Randal B. McDonald, Jr.	44	Chief Financial Officer Treasurer Assistant Secretary	May 8, 1998

All Directors of the Company will hold office until the next annual meeting of shareholders. The Executive Officers of the Company, who are appointed by the Board of Directors, hold office until their successors are chosen and qualified, or until their death, resignation or removal. The Company presently has no audit, nominating or executive committee or committees performing substantially similar functions. 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.

Sam Skipper, CEO/Chairman. Since 1990, Mr. Skipper has assisted in the consolidation of private and public companies and the entry of such companies into the public markets. From 1996 until the present, Mr. Skipper has been Managing Director of Metropolitan Capital, a boutique investment banking firm specializing in the marketing and financing of small public companies. From 1995 to 1996, Mr. Skipper served as CEO/President of Basic Natural Resources, an oil and gas company which later merged into Synaptix. In 1992, he was the founder, CEO, President and Chairman of ImageTrust, Inc., a public company which was in the diagnostic health care business. In 1990, he served as Founder and Vice President of Corporate Development of Diagnostic Health Corporation (DHC) where he assisted the company in the identification and closing of several acquisitions until DHC's acquisition by HealthSouth Corporation in 1994.

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

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

In Addition, the Company employs Mr. Gary Countryman as a full time consultant. Mr. Countryman served as a vice-president of the Company from its inception until December, 1999. Mr. Countryman has been a consulting petroleum engineer since 1987. Since 1996, he has devoted substantial time to the activities of Vector Energy. Prior to 1987, Mr. Countryman served in a variety of capacities for Conoco, Inc. From 1984 to 1986, he was the Managing Director in charge of Conoco's operations in Egypt where he managed a \$200 million annual budget and set the organization in place to develop one billion barrels of reserves. From 1980 to 1984, he was

Manager of Operations. From 1978 to 1980, he served as Manager of Conoco's operations in Dubai. From 1975 to 1977, he served as Division Manager in Midland, Texas. From 1971 to 1976, he served as assistant division manager in Oklahoma City. From 1961 to 1976, he served in Conoco's research and development department with special emphasis on water flood operations. Mr. Countryman holds an M.S. in Management from the Massachusetts Institute of Technology, and an M.S. and B.S. in Petroleum Engineering from the University of California at Berkeley. He is a member of Phi Beta Kappa, the American Petroleum Institute and the society of Petroleum Engineers.

The Company's three officers and directors failed to file Form 5, "Annual Statement of Beneficial Ownership of Securities", on a timely basis with the Securities and Exchange Commission. Such forms were due on or before the 45th day after the end of the Company's fiscal year and were filed concurrently with the Company's Form 10KSB. Transactions which were required to be reported included options to purchase shares of the Company's common stock granted to each of the officers and directors and one acquisition of common stock by a single officer.

Item 10. Executive Compensation

Summary Compensation Table

Name and Principal Position	Year End	Annual Compensation (1)			Long Term Compensation Awards		
		Salary(\$)	Bonus(\$)	Other(\$)	Restricted Stock Awards(\$)	(2) Options(#)	All Other(\$)
Samuel M. Skipper Chief Executive Officer	2001	75,833	-	-	-	-	-
	2000	72,000	-	-	-	500,000	-
	1999	72,000	-	-	-	-	-
Stephen F. Noser President	2001	75,833	-	-	-	-	-
	2000	72,000	-	-	-	500,000	-
	1999	72,000	-	-	-	250,000	-
Randal B. McDonald, Jr. Chief Financial Officer	2001	75,000	-	-	-	100,000	-
	2000	72,000	-	-	-	200,000	-
	1999	72,000	-	-	-	-	-

(1) Includes deferred compensation of \$27,000 in 2001 and \$66,000 in 2000 payable to Mr. Skipper

(2) Includes 150,000 shares of common stock issued to Mr. McDonald in 2000

Options Granted in 2001 and 2000

Mr McDonald was granted options to purchase 100,000 and 50,000 shares of common stock during the years ended April 30, 2001 and 2000, respectively. Mr. Skipper and Mr. Noser were each granted options to purchase 500,000 shares of common stock during the year ended April 30, 2000

Options Exercised During 2001 and 2000 and Year End Option Values (1)

Name	Number of Securities Underlying Unexercised Options At Fiscal Year End (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options At Fiscal Year End (\$) Exercisable/ Unexercisable
Samuel M. Skipper	500,000 -	- -
Stephen F. Noser	750,000 -	- -
Randal B. McDonald, Jr.	150,000 -	- -

(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.

Pursuant to its bylaws and the Texas Business Corporation Act, the Company shall indemnify each Director and Officer against expenses, judgements, 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, 2001 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
Samuel M. Skipper 11757 Katy Freeway, Suite 950 Houston, Texas 77079	Common Stock	Director	(2) 1,018,017	2.8%
	Class B Preferred Stock	Chairman of the Board CEO	250,000	50.0%
Stephen F. Noser 11757 Katy Freeway, Suite 950 Houston, Texas 77079	Common Stock	Director, President	(1)(3) 1,100,003	3.0%
	Class B Preferred Stock	Secretary Assistant Treasurer	250,000	50.0%
Randal B. McDonald, Jr. 11757 Katy Freeway, Suite 950 Houston, Texas 77079	Common Stock	CFO	(4) 300,000	0.8%
		Treasurer		
		Assistant Secretary		
Eugene A. Noser, Jr. 90 Broad Street New York, New York 10004	Common Stock	N/A	(1)(5) 4,945,666	14.0%
First Union National Bank 1001 Fannin, Suite 2255 Houston, Texas 77002	Common Stock	N/A	(6)(7) 6,227,807	15.0%
	Class A-1 Convertible Preferred Stock		3,000	100.0%
All Officers And Directors	Common Stock	N/A	(1)(8) 2,418,020	6.6%
	Class B Preferred Stock		500,000	100.0%

- (1) Includes 50,000 shares of common stock indirectly owned by Mr. Noser because of his 50% ownership in Old Vector Corporation, which owns 100,000 shares of common stock.
- (2) Includes 500,000 shares of common stock issuable upon the exercise of stock options.
- (3) Includes 750,000 shares of common stock issuable upon the exercise of stock options.
- (4) Includes 150,000 shares of common stock issuable upon the exercise of stock options.
- (5) Includes 4,345,663 shares of common stock indirectly owned by Mr. Noser because of his control of Old Jersey Oil Ventures, L.L.C.
- (6) Includes 227,807 shares of common stock owned by First Union Investors, Inc.
- (7) Includes 6,000,000 shares of common stock issuable upon the conversion of the Class A-1 Convertible Preferred Stock, assuming a \$0.50 conversion price. See "Description of Capital Stock"
- (8) Includes 1,400,000 shares of common stock issuable upon the exercise of stock options

Item 12. Certain Relationships and Related Transactions

During the year ended April 30, 2000, the Company sublet office space from a corporation owned and controlled by the president of the Company and his family for \$2,283 per month.

The Company was obligated under a 10% promissory note payable to the brother of the Company's president. The note matured November 4, 1999 and is unsecured, except that the holder has received up 300,000 shares of the Company's common stock due event to nonpayment. The balance of principal and accrued interest at April 30, 2000 was \$500,000 and \$74,521, respectively. In December 2000, the note balance of \$500,000 and \$91,850 in accrued interest was converted into 3,945,663 shares of the Company's common stock.

The Company's chairman and chief executive officer has executed a limited guaranty agreement covering certain deferred interest on the Company's secured line of credit. In addition, the chairman and chief executive officer made unsecured advances to the Company totaling \$7,000 and \$145,992 during the years ended April 30, 2001 and 2000, respectively.

The Company is obligated under a production payment to an entity whose principal is the brother of the Company's president. At April 30, 2001, the balance due under such production payment was \$972,875

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 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

No reports were filed on Form 8-K during the Company's fourth fiscal quarter ended April 30, 2000.

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.

VECTOR ENERGY CORPORATION
(Registrant)

By /S/ Samuel M. Skipper
Samuel M. Skipper.
Chairman of the Board and Chief Executive Officer

Date: August 14, 2001

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

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

Date: August 14, 2001

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

Date: August 14, 2001

Vector Energy Corporation
FINANCIAL STATEMENTS
April 30, 2001

CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	F-3
CONSOLIDATED BALANCE SHEETS	F-4 to F-5
CONSOLIDATED STATEMENTS OF INCOME	F-6
CONSOLIDATED STATEMENTS OF CASH FLOW	F-7
STATEMENTS OF STOCKHOLDERS' EQUITY	F-8 to F-11
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	F-12 to F-21

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders of
Vector Energy Corporation

We have audited the accompanying consolidated balance sheets of Vector Energy Corporation as of April 30, 2001 and 2000, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the 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 Vector Energy Corporation, Inc. as of April 30, 2001 and 2000, and the consolidated results of its operations, its cash flows and changes in its shareholders' equity for the years then ended in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As more fully described in Note 11, the Company has incurred substantial losses leading to a significant working capital deficit. These and other conditions have created substantial doubt about the Company's ability to continue as a going concern. Management's assessment of these conditions and its plans to alleviate them are also described in Note 11. The accompanying financial statements do not include any adjustments which might be necessary if the Company is unable to continue.

Denver, Colorado

July 11, 2001

/s/ Comiskey & Company
PROFESIONAL CORPORATION

Vector Energy Corporation
CONSOLIDATED BALANCE SHEETS
April 30, 2001 and 2000

	<u>April 30, 2001</u>	<u>April 30, 2000</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 781,502	\$ 106,018
Cash – restricted	9,536	-
Certificates of deposit	100,000	-
Revenue accounts receivable	420,259	299,666
JIB accounts receivable	26,666	94,565
	<hr/>	<hr/>
Total current assets	1,337,963	500,249
	<hr/>	<hr/>
PROVED OIL AND GAS PROPERTIES, USING THE FULL COST METHOD OF ACCOUNTING	16,959,121	16,083,311
	<hr/>	<hr/>
Less accumulated depreciation, depletion, Amortization, and impairment	579,091	446,562
	<hr/>	<hr/>
Net oil and gas properties	16,380,030	15,636,749
	<hr/>	<hr/>
OTHER ASSETS		
Other property and equipment, less accumulated Depreciation of \$47,485 and \$24,024 at April 30, 2001 and 2000, respectively	52,627	51,521
Long term accounts receivable	136,642	197,235
Deferred loan costs – net	23,895	298,084
Other assets	6,926	6,926
	<hr/>	<hr/>
Total other assets	220,090	553,766
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 17,938,083</u>	<u>\$ 16,690,764</u>

The accompanying notes are an integral part of the financial statements

Vector Energy Corporation
CONSOLIDATED BALANCE SHEETS
April 30, 2001 and 2000

	<u>April 30, 2001</u>	<u>April, 30, 2000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Line of credit	\$ 3,150,846	\$ 6,729,596
Notes payable	141,465	674,813
Production payments payable	1,222,875	-
Accounts payable – trade	1,252,441	1,170,222
Royalties payable	502,366	239,218
Working interest revenues payable	126,824	143,745
Taxes payable	162,961	102,994
Advances from related party	152,992	145,992
Accrued payroll	106,883	79,279
Accrued dividends payable	100,000	5,468
Accrued interest	12,172	107,320
	<hr/>	<hr/>
Total current liabilities	6,931,825	9,398,647
	<hr/>	<hr/>
STOCKHOLDERS' EQUITY		
Preferred stock class A-1, cumulative convertible; \$1,000 par value per share 3,000 shares authorized; 3,000 and no shares issued and outstanding at April 30, 2001 And 2000, respectively	3,000,000	-
Preferred stock class B, noncumulative nonconvertible; \$1 par value per share, 500,000 shares authorized; 500,000 shares issued and outstanding	50,000	50,000
Common stock, no par value; 100,000,000 shares authorized; 31,014,286 and 19,244,757 shares issued and outstanding at April 30, 2001 and 2000, respectively	2,476,412	2,358,716
Additional paid-in capital	18,869,407	16,041,810
Retained earnings	(13,389,561)	(11,158,409)
	<hr/>	<hr/>
Total stockholders' equity	11,006,258	7,292,117
	<hr/>	<hr/>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 17,938,083	\$ 16,690,764
	<hr/>	<hr/>

The accompanying notes are an integral part of the financial statements

Vector Energy Corporation
CONSOLIDATED STATEMENTS OF INCOME
Years Ended April 30, 2001 and 2000

	<u>Year Ended April 30, 2001</u>	<u>Year Ended April 30, 2000</u>
REVENUES		
Oil Sales	\$ 291,300	\$ 191,013
Gas Sales	2,039,732	1,006,006
Production byproducts	50,805	47,213
Interest Income	3,337	1,331
	<hr/>	<hr/>
Total Revenues	2,385,174	1,245,563
	<hr/>	<hr/>
EXPENSES		
Production taxes	86,053	36,186
Lease operating expense	803,868	711,490
Depletion of oil and gas properties	132,529	208,654
Interest expense	607,039	952,705
General and administrative expense	2,535,375	7,754,365
	<hr/>	<hr/>
Total expenses	4,164,864	9,663,400
	<hr/>	<hr/>
Net Loss Before Cumulative Effect of Change In Accounting Principle	(1,779,692)	(8,417,837)
Cumulative Effect on Prior Years (to April 30, 2000) of a Change in Accounting Principle	(351,460)	-
	<hr/>	<hr/>
Net Loss Before Preferred Dividend	(2,131,152)	(8,417,837)
Preferred Stock Dividend	100,000	-
	<hr/>	<hr/>
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	<u>\$ (2,231,152)</u>	<u>\$ (8,417,837)</u>
	<hr/>	<hr/>
PER SHARE AMOUNTS - BASIC		
Net Loss Before Cumulative Effect of Change In Accounting Principle	<u>\$ (0.07)</u>	<u>\$ (0.84)</u>
Cumulative Effect on Prior Years (to April 30, 2000) of a Change in Accounting Principle	<u>\$ (0.01)</u>	<u>\$ -</u>
Net Loss Available to Common Shareholders	<u>\$ (0.09)</u>	<u>\$ (0.84)</u>
	<hr/>	<hr/>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	25,299,182	10,005,755
	<hr/>	<hr/>

The accompanying notes are an integral part of the financial statements

Vector Energy Corporation
CONSOLIDATED STATEMENTS OF CASH FLOW
Years Ended April 30, 2001 and 2000

	<u>Year Ended April 30, 2001</u>	<u>Year Ended April 30, 2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (2,231,152)	\$ (8,417,837)
Adjustments to reconcile net loss to net cash Used by operating activities		
Cumulative effect of change in accounting principle	351,460	
Depletion of oil and gas properties	132,529	208,654
Amortization expense	506,596	443,858
Depreciation expense	20,461	14,769
Stock issued for consulting fees	1,153,170	6,643,251
Stock issued for loan fee	-	237,500
Stock options granted	98,660	-
(Increase) decrease in restricted cash	(9,536)	-
(Increase) decrease in certificates of deposit	(100,000)	-
(Increase) decrease in accounts receivable	7,899	(225,871)
(Increase) decrease in employee advances	-	51,908
(Increase) decrease in other assets	-	(85,223)
Increase (decrease) in accounts payable	176,482	(69,165)
Increase (decrease) in royalties and revenues payable	246,227	131,733
Increase (decrease) in other current liabilities	178,805	106,401
Net cash (used by) provided from operating activities	<u>531,601</u>	<u>(960,022)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of oil and gas properties	-	-
Cash acquired in property acquisitions	-	-
Development costs incurred	(809,434)	(146,779)
Sale of oil and gas properties	180,000	493,645
Property and equipment, other	(21,567)	(14,904)
Net cash (used by) provided from investing activities	<u>(651,001)</u>	<u>331,962</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of notes payable	173,108	149,587
Note repayments	(161,456)	(71,762)
Borrowings under production payments	1,250,000	-
Repayment of production payments	(27,125)	
Draw on line of credit	-	149,596
Payment on line of credit	(578,750)	(300,000)
Deferred loan costs incurred	(38,893)	-
Advances from related party	7,000	145,992
Repurchase of common stock	-	(50,000)
Issuance of common stock	171,000	685,000
Net cash provided from financing activities	<u>794,884</u>	<u>708,413</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	675,484	80,353
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>106,018</u>	<u>25,665</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 781,502</u>	<u>\$ 106,018</u>

The accompanying notes are an integral part of the financial statements

Vector Energy Corporation
STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended April 30, 2001 and 2000

	Price <u>Per share</u>	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Paid in capital</u>	<u>Total Stockholders' Equity</u>
		<u>Number Of shares</u>	<u>Amount</u>	<u>Number of shares</u>	<u>Amount</u>			
Balances as of April 30, 1999		531,250	\$ 3,145,000	5,709,863	\$ 2,128,680	\$ (2,590,392)	\$ 2,791,670	\$ 5,474,958
Issued as loan extension fee In May, 1999	1.13			100,000	1,000		111,500	112,500
Issued in settlement of Accounts payable In May, 1999	1.13			28,809	288		32,122	32,410
Issued to third party as loan collateral fee in June, 1999	1.25			279,000	2,790		311,085	313,875
Issued in settlement of Accounts payable In June, 1999	1.13			2,000	20		2,230	2,250
Issued for consulting services In July, 1999	1.88			280,000	2,800		522,200	525,000
Issued for deferred payroll In July, 1999	1.23			55,020	550		67,280	67,830
Conversion of previous Preferred class C to Common, in August, 1999		(625)	(47,500)	15,625	47,500		-	-
Issued for consulting services In August, 1999	1.31			8,000	80		10,420	10,500
Contingent consideration for Acquisition of properties In August, 1999	2.38			500,000	5,000		1,182,500	1,187,500
Issued for consulting services In September, 1999	1.54			2,294,000	22,940		3,430,665	3,453,605
Issued in settlement of Accounts payable In September, 1999	2.38			61,334	613		145,055	145,668
Issued to bank as loan Amendment fee In September 1999	1.25			50,000	500		62,000	62,500
Issued for loan default fee In November 1999	1.19			200,000	2,000		235,500	237,500
Issued for consulting services In November, 1999	1.19			13,000	130		15,307	15,437
Issued for consulting services In December, 1999	0.72			228,000	2,280		161,458	163,738
Issued in settlement of Accounts payable In January, 2000	0.42			156,904	1,569		63,924	65,493

The accompanying notes are an integral part of the financial statements

Vector Energy Corporation
STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended April 30, 2001 and 2000

	<u>Price Per share</u>	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Paid in capital</u>	<u>Total Stockholders' Equity</u>
		<u>Number Of shares</u>	<u>Amount</u>	<u>Number of shares</u>	<u>Amount</u>			
Conversion of previous Preferred class C to Common, in January, 2000		(625)	(47,500)	15,625	47,500		-	-
Issued for consulting services In January, 2000	0.44			200,000	2,000		85,500	87,500
Issued for consulting services In February, 2000	0.46			2,700,000	27,000		1,204,220	1,231,220
Conversion of previous Preferred class AA to Common, in March, 2000		(30,000)	(3,000,000)	3,000,000	30,000		2,970,000	-
Issued for accrued dividends On Preferred Stock In March, 2000	0.37			890,271	8,903		320,497	329,400
Issued for consulting services In March, 2000	1.00			1,000,000	10,000		990,000	1,000,000
Issued for the acquisition of Properties in March , 2000	1.00			550,000	5,500		544,500	550,000
Repurchase of Stock In March, 2000	3.00		(16,667)	(167)			(49,833)	(50,000)
Issued for consulting services In April, 2000	0.63			250,000	2,500		153,750	156,250
Sales of Common stock For Cash	1.02			673,973	6,740		678,260	685,000
Net loss						(8,417,837)		(8,417,837)
Preferred stock dividends						(150,180)		(150,180)
Balances as of April 30, 2000		500,000	\$ 50,000	19,244,757	\$ 2,358,716	\$ (11,158,409)	\$ 16,041,810	\$ 7,292,117
Issued for consulting services In May, 2000	0.46			600,000	6,000		268,470	274,470
Issued in settlement of Accounts payable In May, 2000	0.26			129,700	1,297		32,966	34,263
Issued in settlement of Notes payable In May, 2000	0.26			170,300	1,703		43,297	45,000
Issued for consulting services In June, 2000	0.38			250,000	2,500		92,750	95,250
Issued for consulting services In July, 2000	0.33			990,000	9,900		320,400	330,300

The accompanying notes are an integral part of the financial statements

Vector Energy Corporation
STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended April 30, 2001 and 2000

	<u>Price Per share</u>	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Paid in capital</u>	<u>Total Stockholders' Equity</u>
		<u>Number Of shares</u>	<u>Amount</u>	<u>Number of shares</u>	<u>Amount</u>			
Issued in settlement of Accounts payable In July, 2000	0.31			24,510	245		7,255	7,500
Issued for consulting services In August, 2000	0.23			40,000	400		8,800	9,200
Issued in settlement of Accounts payable In August, 2000	0.31			24,085	241		7,259	7,500
Issued for consulting services In September, 2000	0.18			1,200,000	12,000		204,000	216,000
Issued in settlement of Accounts payable In September, 2000	0.20			37,313	373		7,127	7,500
Issued for consulting services In October 2000	0.16			400,000	4,000		60,000	64,000
Issued in settlement of Accounts payable In October, 2000	0.18			41,667	417		7,083	7,500
Issued for deferred loan costs In October, 2000	0.20			950,595	9,506		184,008	193,514
Issued for consulting services In November, 2000	0.14			475,000	4,750		63,700	68,450
Issued in settlement of Accounts payable In November, 2000	0.15			48,701	487		7,013	7,500
Issued in settlement of Notes payable In December, 2000	0.15			3,945,663	39,457		552,393	591,850
Conversion of line of credit Into preferred class A-1 In December, 2000	1,000	3,000	3,000,000					3,000,000
Issued in settlement of Accounts payable In December, 2000	0.17			43,604	436		7,064	7,500
Issued in settlement of Accounts payable In January, 2001	0.15			50,336	503		6,997	7,500
Issued in settlement of Accounts payable In February, 2001	0.14			53,571	536		6,964	7,500

The accompanying notes are an integral part of the financial statements

Vector Energy Corporation
STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended April 30, 2001 and 2000

	Price <u>Per share</u>	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Paid in capital</u>	<u>Total Stockholders' Equity</u>
		<u>Number Of shares</u>	<u>Amount</u>	<u>Number of shares</u>	<u>Amount</u>			
Issued for consulting services In March, 2001	0.19			400,000	4,000		73,500	77,500
Issued for consulting services In April, 2001	0.18			100,000	1,000		17,000	18,000
Contingent consideration for Acquisition of properties In May thru October, 2000	0.39			97,711	977		37,070	38,047
Issued for development of Properties in May Through October, 2000	0.28			727,773	7,278		201,051	208,329
Sales of Common stock For Cash	0.18			969,000	9,690		161,310	171,000
Stock options granted							98,660	98,660
Cumulative effect on prior years of change in Accounting principle							351,460	351,460
Preferred Stock Dividend						(100,000)		(100,000)
Net loss						(2,131,152)		(2,131,152)
Balances as of April 30, 2001		500,000	\$ 3,050,000	31,014,286	\$ 2,476,412	\$ (13,389,561)	\$ 18,869,407	\$ 1 1,006,258

The accompanying notes are an integral part of the financial statements

Vector Energy Corporation
Notes to Consolidated Financial Statements
April 30, 2001 and 2000

1. Business and Organization

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Concentrations of Credit Risk

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

The Company periodically maintains cash balances in excess of FDIC insured limits. The amount in excess at April 30, 2001 totaled \$739,000.

Oil and Gas Properties

The Company follows the full cost method of accounting for its oil and gas properties. All costs associated with property acquisition, exploration, and development activities are capitalized in a single, United States cost center. Internal costs directly identified with the acquisition, exploration and development activities of the Company are also capitalized. Capitalized costs are amortized on the unit-of-production basis using proved oil and gas reserves. Capitalized costs are limited to the present value of estimated future net revenues less estimated future expenditures using a discount factor of ten percent. Sales and abandonments of oil and gas properties are treated as reductions of the capitalized cost pool. At April 30, 2001 and 2000, there were no costs of unproved properties or major development projects included in the capitalized cost pool.

In accordance with Statement of Financial Accounting Standards No. 121 ("SFAS 121") - Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of, the Company assesses the need for an impairment of capitalized costs of oil and gas properties on a combined basis, with separate consideration given to unproved properties and major development projects, of which there were none at April 30, 2001 and 2000. If impairment is indicated based upon undiscounted future cash flows, then an impairment is recognized to the extent that net capitalized costs exceed discounted expected future cash flows. No impairment was considered necessary for the years ended April 30, 2001 and 2000.

Vector Energy Corporation
Notes to Consolidated Financial Statements (Continued)
April 30, 2001 and 2000

Other Property and Equipment

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

Income Taxes

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

Loss Per Share

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

Transactions in the Company's Stock

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

Statement of Cash Flows

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

The following is a summary of all significant noncash investing and financing activities and payments made for interest and income taxes for the years ended April 30, 2001 and 2000.

	<u>Year Ended</u> <u>April 30, 2001</u>	<u>Year Ended</u> <u>April 30, 2000</u>
<u>Noncash activities:</u>		
Common stock issued for compensation	\$ -	\$ 67,830
Common stock issued for consulting fees	\$ 1,153,170	\$ 6,643,251
Common stock issued for deferred loan cost	\$ 193,514	\$ 488,875
Properties acquired for stock and assumption of liabilities	\$ 38,047	\$ 1,737,500
Stock issued in settlement of accounts payable	\$ 94,263	\$ 245,821
Stock issued in settlement of notes payable and interest due	\$ 636,850	\$ -
Stock issued for the development of oil and gas properties	\$ 208,329	\$ -
Preferred stock issued upon the conversion of debt	\$ 3,000,000	\$ -
<u>Cash Payments:</u>		
Interest	\$ 610,337	\$ 709,841
Income Taxes	\$ 0	\$ 0

3. Acquisitions of Oil and Gas Properties

On May 8, 1998, the Company acquired various working and royalty interests in wells located in Texas, Louisiana and Oklahoma. To effect the transaction, the Company issued 30,000 shares of class AA preferred stock, valued at \$3,000,000, and 313,124 shares of common stock, valued at \$939,372. In addition, the Company assumed \$6,100,000 in bank debt and \$511,465 in accounts payable, net of accounts receivable and cash acquired. The Company capitalized \$251,704 in expenses incurred in conjunction with this transaction. Subsequently, the Company issued 116,014 shares of common stock, valued at \$163,065, for additional working interests in certain of the properties acquired.

Vector Energy Corporation
Notes to Consolidated Financial Statements (Continued)
April 30, 2001 and 2000

On November 4, 1998, the Company acquired various working interests in wells located in Louisiana, Texas and Oklahoma. To effect the transaction, the Company issued 1,226,667 shares of common stock, valued at \$1,840,000, and a \$120,000 non-interest bearing note payable to the sellers. In addition, the Company assumed \$690,522 in bank debt and \$600,954 in accounts payable. The Company capitalized \$15,145 in expenses incurred in conjunction with this transaction. The purchase and sale agreement also provides that the sellers may receive up to 500,000 additional shares of common stock based on the value of proved developed producing reserves attributable to the properties acquired, as determined by an independent engineering evaluation as of September 30, 1999. The Company was also required to expend a minimum of \$500,000 in capital investment on the properties acquired within nine months or the sellers would be entitled to receive an additional 500,000 shares of common stock. Subsequently, the Company exchanged the working interests acquired in certain properties in Texas and \$30,000 for additional working interests in the properties acquired in Louisiana. On August 23, 1999, the Company issued 500,000 shares of common stock valued at \$1,187,500 to the sellers under the terms of the purchase and sale agreement. The Company does not believe any additional shares will be issued to the sellers under this agreement.

On March 7, 2000, the Company closed a purchase and sale agreement with a company, which is a debtor in possession in a Chapter 11 Bankruptcy. Under the agreement, the Company acquired all of the Bankrupt Debtor's interest in a block located in the Offshore Texas, Mustang Island Area for 550,000 shares of common stock valued at \$550,000. In accordance with the agreement, the Company immediately repurchased 16,667 shares of common stock at \$3.00 per share, for a total of \$50,000, for payment of administrative expenses in the Bankruptcy proceeding. Under the terms of the agreement, in the event that the daily rate of production from the properties acquired averages at least 5,000 Mcf per day over a complete calendar month the seller has the right to put 150,000 shares of common stock to the Company at \$3.00 per share. If the seller fails to exercise such right, the Company has the right to call 150,000 shares of common stock at \$3.00 per share. In addition, the Company may be required to issue a maximum of 370,000 additional shares of common stock to the seller based upon the required future development costs associated with the properties acquired, as determined by an independent engineering firm. In addition, the Company purchased \$120,000 in secured debt from three of the seller's secured creditors for face value.

4. 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, 2001 and 2000, and costs incurred in oil and gas property acquisition, development and exploration activities for the years ended April 30, 2001 and 2000.

	<u>April 30, 2001</u>	<u>April 30, 2000</u>
<u>Capitalized Costs</u>		
Proved properties	\$ 16,959,121	\$ 16,083,311
Unproved properties	0	0
Accumulated depreciation, depletion and amortization	(579,091)	(446,562)
	<u>\$ 16,380,030</u>	<u>\$ 15,636,749</u>
	<u>Year Ended April 30, 2001</u>	<u>Year Ended April 30, 2000</u>
<u>Cost Incurred</u>		
Property acquisitions:		
Proved properties	\$ 38,047	\$ 1,737,500
Unproved properties	0	0
Development costs	1,017,766	146,779
Exploration costs	0	0
	<u>\$ 1,055,813</u>	<u>\$ 1,884,279</u>

Vector Energy Corporation
Notes to Consolidated Financial Statements (Continued)
April 30, 2001 and 2000

The following presents the results of operations of oil and gas producing activities for the years ended April 30, 2001 and 2000:

	<u>Year Ended April 30, 2001</u>	<u>Year Ended April 30, 2000</u>
Oil and gas sales	\$ 2,381,837	\$ 1,244,232
Production costs	(889,921)	(747,676)
Exploration	0	0
Depreciation, depletion and amortization	(132,529)	(208,654)
Impairment of oil and gas properties	0	0
Operating Income (Loss)	<u>1,359,387</u>	<u>(287,902)</u>
Income tax	0	0
Net Income (Loss)	<u><u>\$ 1,359,387</u></u>	<u><u>\$ (287,902)</u></u>

5. Notes Payable

Total debt at April 30, 2001 and 2000 consists of the following:

	<u>April 30, 2001</u>	<u>April 30, 2000</u>
Line-of-credit	\$ 3,150,846	\$ 6,729,596
Other	141,465	674,813
Less current portion	<u>3,292,311</u>	<u>7,404,409</u>
	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

Line of Credit

The Company has a \$10 million revolving credit note with First Union National Bank, which terminates on November 15, 2001. Interest on the note is payable monthly at a floating rate, which was 8.8675% and 9.59% at April 30, 2001 and 2000, respectively. The borrowing base under the note is determined periodically based upon the collateral value assigned to the mortgaged properties, and was \$3,150,846 and \$6,729,596 at April 30, 2001 and 2000, respectively. The borrowing base may be redetermined at the Bank's sole discretion.. The Company does not anticipate that the borrowing base under the note can be increased without incurring significant development costs.

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

Certificates of Deposit

At April 30, 2001, the Company has three certificates of deposit totaling \$100,000. Such certificates bear interest at rates ranging from 4.554% to 4.746 % and have maturity dates ranging from October 27, 2001 to April 3, 2002. The certificates of deposit are collateral for three 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.

Vector Energy Corporation
Notes to Consolidated Financial Statements (Continued)
April 30, 2001 and 2000

Production Payments Payable

On October 19, 2000, the Company sold 543,197 shares of common stock together with a warrant to purchase 543,197 shares of common stock at \$0.50 per share and an undivided 2.2% working interest in two nonproducing oil and gas wells to a private investor for a total consideration of \$100,000.00 in cash. The investor is also entitled to recoup his investment out of future production from the wells, if any. On October 19, 2000, the closing price of the common stock was \$0.24 per share. The proceeds of this transaction were used to fund development of the Mustang Island Properties.

On October 27, 2000, the Company sold 407,398 shares of common stock together with a warrant to purchase 407,398 shares of common stock at \$0.50 per share and an undivided 2.2% working interest in two nonproducing oil and gas wells to a private investor for a total consideration of \$100,000.00 in cash. The investor is also entitled to recoup his investment out of future production from the wells, if any. On October 27, closing price of the common stock was \$0.155 per share. The proceeds of this transaction were used to fund development of the Mustang Island Properties.

Both of the transactions in October 2000 were treated by the Company as loans repayable out of production for accounting purposes. The stock issued was booked at its fair market value and treated as a loan cost to be amortized over the life of the loan.

On December 27, 2000, the Company sold certain interest in 5 wells located in McClain, Oklahoma and undivided 10% interest in 6 wells located on the Mustang Island Property to Old Jersey Oil Ventures, LLC. for \$1,000,000.00. The brother of the President of the Company is a principal in Old Jersey Oil Ventures, LLC. At the same time Old Jersey Oil Ventures LLC, as holder of \$591,849.41 in indebtedness owed by the Company, agreed to exchange such indebtedness for 3,945,663 shares of the Company's common stock. This represented a price of \$0.15 per share. On December 27, 2000, the closing price of the common stock was \$0.125. Old Jersey Oil Ventures, LLC also exercised warrants to purchase 400,000 shares of the Company's common stock at \$0.10 per share. All shares issued to Old Jersey Oil Ventures, LLC. were issued in a private transaction and may only be transferred in a private transaction or pursuant to an applicable exemption to the registration requirements. The Company is under no obligation to register such shares. The proceeds of this transaction were used as follows: \$250,000.00 to make payments to general creditors; \$300,000.00 to make a principal payment to the lender under the Company's secured indebtedness as a condition to the lender's agreement to enter into the fifth amendment to the credit agreement described below; \$50,000 reserved for capital investment on properties owned by the Company in St. Mary's Parish, Louisiana; and \$400,000.00 reserved to pay the costs of this registration and to pay principal and interest due under the Company's credit agreement.

Other notes payable

The Company was obligated under a 10%, unsecured promissory note payable to the brother of the Company's president. In conjunction with the issuance of the note, the Company issued a warrant to purchase 100,000 shares of the Company's common stock at \$0.10 per share. Such warrant expired on October 30, 2008. The note had an original maturity date of April 30, 1998, which was extended by the Company until October 30, 1999 by the issuance of 100,000 shares of common stock to the holder. Under the terms of the note, the Company issued an additional 200,000 shares of common stock to the holder due to its failure to pay the balance due by the extended maturity date. The balance of principal and accrued interest at April 30, 2000 was \$500,000 and \$74,521, respectively. In December 2000, the note balance of \$500,000 and accrued interest of \$91,850 was converted into 3,945,663 shares of the Company's common stock.

The Company was obligated under an unsecured non-interest bearing promissory note, payable in equal monthly installments of \$10,000 per month. The outstanding balance on this note at April 30, 2000 was \$45,000. In May 2000, the balance of the note was converted into 170,300 shares of the Company's common stock.

The Company is obligated under unsecured installment notes, which were issued to various vendors in settlement of accounts payable. The notes, which bear interest at rates ranging from 0% to 13.6%, call for monthly payments totaling \$21,865 and \$13,684 at April 30, 2001 and 2000, respectively. The outstanding principal balances totaled \$141,465 and \$129 at April 30, 2001 and 2000, respectively.

Vector Energy Corporation
Notes to Consolidated Financial Statements (Continued)
April 30, 2001 and 2000

6. Income Taxes

The Company has available at April 30, 2001 an approximate \$2,400,000 unused operating loss carryforward that may be applied against future taxable income, and that expires in the year 2018. The tax benefit of unused operating loss carryforwards of approximately \$816,000 has been offset by a full valuation allowance.

7. Stockholder's Equity

Preferred Stock

The Company is authorized to issue 3,000 shares of Class A-1 Cumulative Convertible Preferred Stock (Class A-1 Preferred Stock). Class A-1 Preferred Stock was issued for \$1,000 per share and is entitled to receive cumulative cash dividends at the annual rate of 8% payable annually in arrears commencing December 1, 2001 when and as declared by the Board of Directors. All shares of Class A-1 Preferred Stock were issued to the Company's secured lender on December 27, 2000 as consideration for the reduction in the Company's secured indebtedness by \$3,000,000.00 and remain outstanding. The Class A-1 Preferred Stock will convert to common stock upon the effective date of its registration. Each share of Class A-1 Preferred Stock will convert into shares of the Company's common stock equal to \$1,000.00 per share plus all accumulated and unpaid dividends (the "Liquidation Value") divided by the lesser of \$0.50 or 90% of the average of the highest bid and lowest asked prices of the common stock over a period of twenty-one consecutive trading days ending on the trading day immediately prior to the date of conversion. In addition, on the first anniversary of the conversion, each holder may be entitled to receive additional shares ("Contingent Shares") equal to 110% of the Liquidation Value divided by the average of the highest bid and lowest asked prices of the common stock over a period of twenty-one consecutive trading days ending on the trading day immediately prior to the first anniversary date of such conversion minus the shares received by such holder upon the conversion. If the computation of Contingent Shares results in a negative number then no Contingent Shares shall be issued. Each share of Class A-1 Preferred Stock is entitled to cast a number of votes equal to the number of shares of common stock into which the Class A-1 Preferred Stock is convertible. The Class A-1 Preferred Stock is senior to all other series of preferred stock and all of the Company's common stock.

The Company is authorized to issue 500,000 shares of Class B Preferred Stock, par value \$1.00 per share. The holders of Class B Preferred Stock are not entitled to receive any dividends. As of April 30, 2001 and 2000, 500,000 shares of the Class B Preferred Stock were issued and outstanding. The Class B Preferred Stock is redeemable in whole, but not in part, at the option of the Corporation by resolution of the Corporation's Board of Directors at anytime at \$1.00 per share. Each share of Class B Preferred Stock has the voting rights equal to 100 shares of the Company's common stock. The holders of Class B shares are entitled to elect at least two directors to the Board of Directors of the Corporation. The holders of Class B Preferred Stock voting as a class will have the right to remove without cause at any time and replace any director such holders have elected.

Common Stock

The Company has 100,000,000 shares of authorized common stock, of which 31,014,286 and 19,244,757 shares were issued and outstanding at April 30, 2001 and 2000, respectively.

Stock Options and Warrants

In December 1998, the Company granted options to certain key employees to purchase 500,000 shares of the Company's common stock at the purchase price of \$1.00 per share. These options were exercisable at anytime from May 1, 1999 until their expiration on May 1, 2007 and were non-transferable. In March 2000, the Company granted options to certain key employees to purchase 1,242,000 shares of the Company's common stock at the purchase price of \$0.50 per share. These options were exercisable at anytime from April 1, 2000 until their expiration on March 2, 2005 and were non-transferable. In August 2000, all options previously granted were forfeited and the Company granted options to purchase 1,880,000 shares of The Company's common stock at the purchase price of \$0.23 per share. These options may be exercised at any time from September 25, 2000 until their expiration on August 25, 2005 and are non-transferable. In March 2001, the Company granted options to an employee to purchase 200,000 shares of the Company's common stock at the purchase price of \$0.15 per share. These options are exercisable at anytime from April 1, 2001 until their expiration on March 1, 2006. The options, which were issued at a price equal to or exceeding the market value of the underlying stock on the date of the grant, are not intended to qualify as incentive stock options

Vector Energy Corporation
Notes to Consolidated Financial Statements (Continued)
April 30, 2001 and 2000

under Internal Revenue Code Section 422. The Company applied Accounting Principles Board No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for options granted during the years ended April 30, 2000. In August 2000, the Company implemented the provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation (SFAS No. 123) using a Black Scholes option pricing model. Accordingly, the Company recognized \$98,660 in compensation cost during the year ended April 30, 2001 for options granted. The table following presents the assumptions used in calculating the fair value of the options granted and the pro forma effect on net loss for the year ended April 30, 2000 had the provisions of SFAS No. 123 been implemented:

	<u>2001</u>	<u>2000</u>
Assumptions Used:		
Expected Life (Years)	3	3
Stock Volatility	275% to 285%	66%
Dividends	None	None
Risk Free Interest Rate	5.00% to 6.37%	6.75%
Net Loss:		
As Reported	N/A	\$ (8,417,837)
Pro Forma	N/A	\$ (8,579,327)

In December 2000, warrants for the purchase of 400,000 shares of the Company's common stock were exercised at a purchase price of \$0.10 per share. In October 2000, the Company sold warrants to two investors to purchase 950,595 shares of the Company's common stock at the purchase price of \$0.50 per share. These warrants may be exercised at any time until their expiration on October 19, 2003 and are transferable and are the only warrants outstanding at April 30, 2001

8. Significant Customers

The Company currently markets the oil and gas production from its properties to nine customers, two of which represent sales in excess of 10% of the Company's total oil and gas revenues. These two customers represent approximately 39% and 18% of the Company's total oil and gas revenues, respectively. During the year ended April 30, 2000 the Company marketed the oil and gas production from its properties to fourteen customers, one of which represented sales in excess of 10% of the Company's total oil and gas revenues. This one customer represented approximately 46% of the Company's total oil and gas revenues. The availability of oil and gas purchasers is such, however, that any customer discontinuing purchases from the Company could almost assuredly be replaced by another buyer.

9. Related Party Transactions

During the years ended April 30, 2000 the Company sublet office space from a related party for \$2,283 per month.

During the year ended April 30, 2001 and 2000, an officer and director of the Company made unsecured advances totaling \$7,000 and \$145,992, respectively, to the Company.

The Company is obligated under a production payment to an entity whose principal is the brother of the Company's president. At April 30, 2001, the balance due under such production payment was \$972,875

10. Risk Management

The Company's market risk exposures relate primarily to commodity prices and interest rates. Therefore, the Company periodically uses commodity price swaps to hedge the impact of natural gas price fluctuations and uses interest rate swaps to hedge interest rates on floating rate debt. The Company does not engage in activities using complex or highly leveraged instruments. These instruments are generally put in place to limit risk of adverse natural gas price or interest rate movements, however, these instruments usually limit future gains from favorable natural gas prices or lower interest rates. Recognition of realized gains or losses in the Statement of Operations are deferred until the underlying physical product is purchased or sold. Unrealized gains or losses on derivative financial instruments are not recorded. The cash flow impact of derivative and other financial instruments is reflected as cash flows from operating activities in the Statement of Cash Flows.

Vector Energy Corporation
Notes to Consolidated Financial Statements (Continued)
April 30, 2001 and 2000

11. Going Concern

As shown in the financial statements, the Company incurred net losses of approximately \$2,100,000 and \$8,400,000 for the years ended April 30, 2001 and 2000, respectively. Current liabilities exceeded current assets by approximately \$5,494,000 and \$8,898,000 at April 30, 2001 and 2000, respectively. Amounts outstanding and payable to creditors are in arrears and the Company is in negotiations with creditors to obtain extensions and settlements of outstanding amounts. Of the \$11,106,258 and \$7,292,117 in shareholders' equity at April 30, 2001 and 2000, respectively, \$16,380,030, respectively, is attributable to the Company's investment in oil and gas properties. Although the properties generated operating income for the year ended April 30, 2000, management anticipates that significant additional expenditures will be necessary to develop the properties, which consist of only proved reserves, before significant positive operating cash flows will be achieved. These factors are an indication that the Company may be unable to continue in existence.

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

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

12. Change in Accounting Principle

In the third quarter of fiscal 2001, the Company elected to adopt effective for all of fiscal 2001 and future years the accounting provisions of SFAS No. 123 (Accounting for Stock Based Compensation) as it pertains to options issued to employees. The net loss for fiscal 2001 includes the cumulative effect [(\$351,460) net of tax of \$0, or (\$0.01) per share] necessary to adjust the Company's recorded compensation for all options issued to employees prior to fiscal 2001. Assuming the accounting change had been applied retroactively, fiscal 2000 net loss would be increased by (\$273,240), or (\$0.03) per share.

13. Subsequent Events

In June 2001, the Company entered into a long term lease for office space at an annual rental of \$65,124.

14. Oil and Gas Reserve Information (Unaudited)

The estimates of proved oil and gas reserves utilized in the preparation of the financial statements were estimated internally by the Company 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 \$23.17 per barrel of oil and \$5.59 per Mcf of gas and \$25.71 per barrel of oil and \$2.89 per Mcf of natural gas at April 30, 2001 and 2000, respectively.

Vector Energy Corporation
Notes to Consolidated Financial Statements (Continued)
April 30, 2001 and 2000

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.

Within the next twenty-four months it is the Company's intention to have all then existing reserves reviewed by outside independent third party engineers. It is likely that such a review will result in substantially different reserve estimates than would result from an internal review. Such estimates may be substantially lower than those made by the Company's engineering staff and could result in material write downs in reserve values.

	Oil (Bbls)	Gas (Mcf)
	(in thousands)	
<u>Proved Reserves</u>		
Estimated Quantities – April 30, 1999	3,563	13,698
Acquisitions	344	23,823
Sales of Reserves in Place	(24)	(2,331)
Production	(9)	(391)
Revisions	(17)	(3,023)
Estimated Quantities – April 30, 2000	3,857	31,776
Sales of Reserves in Place	(10)	(725)
Production	(10)	(378)
Revisions	(241)	(10,116)
Estimated Quantities – April 30, 2001	<u>3,596</u>	<u>20,517</u>
<u>Proved Developed Reserves</u>		
April 30, 2001	286	19,070
April 30, 2000	381	24,378

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

	As of April 30,	
	2001	2000
	(in thousands)	
Future cash inflows	\$ 190,982	\$ 190,898
Future production costs	(31,740)	(34,850)
Future development costs	(15,212)	(14,443)
Future net cash flows	144,030	141,605
10% annual discount for estimating Timing of cash flows	(74,433)	(67,092)
Standardized measure of discounted Future net cash flows	\$ <u>69,597</u>	\$ <u>74,513</u>

Vector Energy Corporation
Notes to Consolidated Financial Statements (Continued)
April 30, 2001 and 2000

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

	Year Ended of April 30,	
	2001	2000
	(in thousands)	
Standardized measure of discounted		
Future net cash flows, beginning of year	\$ 74,513	\$ 21,219
Changes due to operations:		
Sales, net of production costs	(1,492)	(497)
Net change in prices, net of production costs	47,353	18,916
Development costs incurred	1,018	147
Change in future development costs	(1,675)	(616)
Revisions of quantity estimates	(36,624)	(1,060)
Acquisitions	-	37,306
Sales of Reserves	(2,608)	(1,270)
Changes in production rates, timing and other	(18,339)	(1,654)
Accretion of discount	<u>7,451</u>	<u>2,022</u>
Standardized measure of discounted		
Future net cash flows, end of year	\$ <u>69,597</u>	\$ <u>74,513</u>