EMERSON RADIO CORP
Form SC 13D/A
October 02, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13D

(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT TO § 240.13D-1(a)

AND AMENDMENTS THERETO FILED PURSUANT TO § 240.13D-2(a)

(Amendment No. 2)

Emerson Radio Corp.

(Name of Issuer)

Common Stock

(Title of Class of Securities)

291087203

(CUSIP Number)

Eleanor Ann Crosthwaite

12th Floor, The Grande Building

398 Kwun Tong Road

Kowloon, Hong Kong

(852) 97743970

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

With copies to:

September 26, 2017

(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g), check the following box.

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See §240.13d7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person s initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 291087203

1	NAME OF REPORTING PERSONS I.R.S. Identification Nos. of above person (entities only) Sino Bright Enterprises Co., Ltd.	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) (b)	
3	SEC USE ONLY	
4	SOURCE OF FUNDS (See Instructions) AF	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)	
6	CITIZENSHIP OR PLACE OF ORGANIZATION British Virgin Islands	

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 0
	8	SHARED VOTING POWER 0
	9	SOLE DISPOSITIVE POWER 0

10 SHARED DISPOSITIVE POWER

0

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

0 shares of Common Stock

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (See Instructions)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

0%

14 TYPE OF REPORTING PERSON (See Instructions)

CO

CUSIP No. 291087203

1 NAME OF REPORTING PERSONS

I.R.S. Identification Nos. of above person (entities only)

Grosvenor Fair Limited

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

(a) (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

AF

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 0
	8	SHARED VOTING POWER 0
	9	SOLE DISPOSITIVE POWER 0

10 SHARED DISPOSITIVE POWER

0

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0 shares of Common Stock

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (See Instructions)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

0%

14 TYPE OF REPORTING PERSON (See Instructions)

CO

CUSIP No. 291087203

1	NAME OF REPORTING PERSONS I.R.S. Identification Nos. of above person (entities only) Barrican Investments Corporation	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) (b)	
3	SEC USE ONLY	
4	SOURCE OF FUNDS (See Instructions) AF	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)	
6	CITIZENSHIP OR PLACE OF ORGANIZATION British Virgin Islands	

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 0
	8	SHARED VOTING POWER 0
	9	SOLE DISPOSITIVE POWER 0

10 SHARED DISPOSITIVE POWER

0

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

0

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (See Instructions)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

0%

14 TYPE OF REPORTING PERSON (See Instructions)

CO

CUSIP No. 291087203

1 NAME OF REPORTING PERSONS

I.R.S. Identification Nos. of above person (entities only)

McVitie Capital Limited

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

(a) (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

AF

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 0
	8	SHARED VOTING POWER 0
	9	SOLE DISPOSITIVE POWER 0

10 SHARED DISPOSITIVE POWER

0

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

0

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (See Instructions)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

0%

14 TYPE OF REPORTING PERSON (See Instructions)

CO

CUSIP No. 291087203

1	NAME OF REPORTING PERSONS I.R.S. Identification Nos. of above person (entities only) Airwave Capital Limited	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) (b)	
3	SEC USE ONLY	
4	SOURCE OF FUNDS (See Instructions) AF	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)	
6	CITIZENSHIP OR PLACE OF ORGANIZATION British Virgin Islands	

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 0
	8	SHARED VOTING POWER 0
	9	SOLE DISPOSITIVE POWER 0

10 SHARED DISPOSITIVE POWER

0

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

0

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (See Instructions)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

0%

14 TYPE OF REPORTING PERSON (See Instructions)

CO

CUSIP No. 291087203

1	NAME OF REPORTING PERSONS I.R.S. Identification Nos. of above person (entities only) The Ho Family Trust Limited	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) (b)	
3	SEC USE ONLY	
4	SOURCE OF FUNDS (See Instructions) AF	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)	
6	CITIZENSHIP OR PLACE OF ORGANIZATION British Virgin Islands	

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 0
	8	SHARED VOTING POWER 0
	9	SOLE DISPOSITIVE POWER 0

10 SHARED DISPOSITIVE POWER

0

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

0

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (See Instructions)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

0%

14 TYPE OF REPORTING PERSON (See Instructions)

CO

CUSIP No. 291087203

1	NAME OF REPORTING PERSONS I.R.S. Identification Nos. of above person (entities only) Ho Family Trust	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) (b)	
3	SEC USE ONLY	
4	SOURCE OF FUNDS (See Instructions) AF	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)	
6	CITIZENSHIP OR PLACE OF ORGANIZATION British Virgin Islands	

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 0
	8	SHARED VOTING POWER 0
	9	SOLE DISPOSITIVE POWER 0

10 SHARED DISPOSITIVE POWER

0

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

0

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (See Instructions)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

0%

14 TYPE OF REPORTING PERSON (See Instructions)

OO

CUSIP No. 291087203

1 NAME OF REPORTING PERSONS

I.R.S. Identification Nos. of above person (entities only)

Accolade (PTC) Inc.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

(a) (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

AF

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 0
	8	SHARED VOTING POWER 0
	9	SOLE DISPOSITIVE POWER 0

10 SHARED DISPOSITIVE POWER

0

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

0

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (See Instructions)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

0%

14 TYPE OF REPORTING PERSON (See Instructions)

CO

CUSIP No. 291087203

1 NAME OF REPORTING PERSONS

I.R.S. Identification Nos. of above person (entities only)

Christopher Ho Wing On

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

(a) (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Canadian

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 0
	8	SHARED VOTING POWER 0
	9	SOLE DISPOSITIVE POWER 0
	10	SHARED DISPOSITIVE POWER

0

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

0

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (See Instructions)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

0%

14 TYPE OF REPORTING PERSON (See Instructions)

IN

Item 1. Security and Issuer.

Item 1 is hereby amended and restated in its entirety to read as follows:

This Amendment No. 2 (this Amendment No. 2) amends and supplements the Statement of Beneficial Ownership on Schedule 13D filed with the Securities and Exchange Commission (the Commission) on September 15, 2016 (the Initial Statement), as amended by Amendment No. 1 on September 21, 2017 (Amendment No. 1 , and together with the Initial Statement and Amendment No. 2, the Statement) by the Reporting Persons with respect to the common stock, par value $0.01 per share (the Emerson Shares), of Emerson Radio Corp. (Emerson). Emerson s principal executive offices are located at 3 University Plaza, Suite 405, Hackensack, New Jersey 07601. Except as specifically provided herein, this Amendment No. 1 does not modify any of the information previously reported in the Initial Statement. Capitalized terms used but not otherwise defined herein shall have the meanings set forth in the Initial Statement, unless otherwise defined herein.

Item 4. Purpose of Transaction.

Item 4 is hereby amended and supplemented as follows:

On September 26, 2017, Sino Bright consummated the Sale Transaction referenced above. After giving effect to the Sale Transaction, THFTL no longer beneficially controls the voting and disposition of the Emerson Shares beneficially owned by Grande Holdings.

Item 5. Interest in Securities of the Issuer.

Item 5(a) is hereby amended and restated to read as follows:

(a) As of the date hereof, each of the Reporting Persons owns zero (0) Shares of Emerson and may no longer be deemed the beneficial owner of any Shares of Emerson.

Item 5(e) is hereby amended and restated to read as follows:

(e) As of September 26, 2017, the Reporting Persons ceased to be the beneficial owners of more than five percent of the common stock of Emerson.

Item 7. Material to Be Filed as Exhibits.

Item 7 of this Statement is hereby supplemented by adding the following exhibit:

Exhibit 4: Announcement by The Grande Holdings Limited, dated September 28, 2017.**

** Filed herewith.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

MR. CHRISTOPHER HO WING ON

Dated: October 2, 2017 /s/ Christopher Ho

ACCOLADE (PTC) INC.

Dated: October 2, 2017

Satellite Services				
Third parties	$	419,247	$	287,190
Drilling Services				
Third parties		7,444		
Related parties		458,750		
Total Revenue		885,441		287,190
Cost of Services Provided				
Satellite Services				
Third parties		588,498		276,454
Drilling Services				
Third parties		787,560		
Related parties		226,611		
Total Cost of Services Provided		1,602,669		276,929
Gross Margin (Loss)		(717,228)		10,736
Selling, general & administrative		5,669,538		3,002,470
Depreciation and amortization		219,692		11,380
Bad debts		172,003		9,368
Debt forgiveness income		(460,235)		
Gain on sale of property		(120,000)		
Interest income		(417)		(21)
Interest expense		1,158,236		116,321
Total expenses		6,638,817		3,139,518
NET LOSS	$	(7,356,045)	$	(3,128,782)
Basic and diluted net loss per share	$	(.33)	$	(.23)
Weighted average shares outstanding		22,180,185		13,553,139

See accompanying summary of accounting policies and notes to financial statements.

VERDISYS, INC.
STATEMENT OF STOCKHOLDERS EQUITY
Years Ended December 31, 2002 and 2003

	Shares		Amount	Shares		Amount
Balances, December 31, 2001	650,000	$	325,000	13,553,139	$	13,553
Series B preferred stock issued for cash	760,000		380,000			
Options issued for services						
Warrants issued for services						
Warrants issued for interest						
Net loss						
Balances, December 31, 2002	1,410,000		705,000	13,553,139		13,553
Series B preferred stock exchanged for common stock	(1,410,000)		(705,000)	1,410,000		1,410
Stock issued for:						
Cash, net of fundraising costs				2,740,733		2,741
Services				4,679,194		4,679
Accounts payable				33,333		33
Notes payable and accrued interest				2,890,688		2,891
Cash exercise of warrants and options				1,995,178		1,995
Cashless exercise of warrants for note payment				200,000		200
Note payment on lease				125,000		125
Reduction of royalty				500,000		500
RDGI merger				1,500,000		1,500
Fair value of options and warrants issued for services						
Contribution to capital						
Net Loss						
Balances, December 31, 2003	-	$	-	29,627,265	$	29,627

VERDISYS, INC.
STATEMENT OF STOCKHOLDERS EQUITY
Years Ended December 31, 2002 and 2003

		Paid-In Capital	Retained Deficit	Totals
Balances, December 31, 2001	$	5,300,833	$(7,815,692)	$(2,176,306)
Series B preferred stock issued for cash				380,000
Options issued for services		401,291		401,291
Warrants issued for services		392,000		392,000
Warrants issued for interest		4,800		4,800
Net loss			(3,128,782)	(3,128,782)

Balances, December 31, 2002	6,098,924	(10,944,474)	(4,126,997)
Series B preferred stock exchanged for common stock	703,590		-
Stock issued for:			
Cash, net of fundraising costs	6,559,409		6,562,150
Services	1,619,660		1,624,339
Accounts payable	16,633		16,666
Notes payable and accrued interest	1,503,299		1,506,190
Cash exercise of warrants and options	366,820		368,815
Cashless exercise of warrants for note payment	19,800		20,000
Note payment on lease	249,875		250,000
Reduction of royalty	2,274,500		2,275,000
RDGI merger	(1,500)		-
Fair value of options and warrants issued for services	1,844,311		1,844,311
Contribution to capital	488,000		488,000
Net Loss		(7,356,045)	(7,356,045)
Balances, December 31, 2003	$ 21,743,321	$ (18,300,519)	$ 3,472,429

VERDISYS, INC.

STATEMENT OF CASH FLOWS
Years Ended December 31, 2003
and 2002

	2003	2002
Cash Flows From Operating Activities		
Net loss	$ (7,356,045)	$ (3,128,782)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock issued for services	1,624,339	
Issuance of options and warrants for services	1,844,311	793,291
Issuance of stock options for interest expense		4,800
Depreciation and amortization	219,692	11,380
Debt forgiveness income	(460,235)	
Guarantee of third party debt	300,000	
Gain on sale of property	(120,000)	
Bad debts	172,003	9,368
Changes in:		
Accounts receivable	(201,747)	47,490
Accounts receivable related party	(23,960)	
Employee advances	42,620	(42,620)
Accounts payable	(277,755)	1,099,557
Accrued expenses	(171,815)	687,435
Deferred revenue	724,648	136,547
Customer deposit	68,282	
Net Cash Used In Operating Activities	(3,615,662)	(381,534)

Cash Flows From Investing Activities		
Purchase of property and equipment	(459,493)	(5,286)
Cash payments for license	(100,000)	
Proceeds from sale of property	120,000	
Deposit on purchase of two (2) new rigs	(340,000)	
Loan to third party	(100,000)	
Net Cash Used In Investing Activities	(879,493)	(5,286)
Cash Flows From Financing Activities		
Proceeds from sales of common stock	6,562,150	
Proceeds from exercise of options and warrants	368,815	
Proceeds from notes payable to stockholders	50,000	3,558
Payments on notes payable to stockholders	(363,558)	
Payments on note payable related to license	(748,760)	
Proceeds from sales of preferred stock		380,000
Net Cash Provided By Financing Activities	5,868,647	383,558
Net change in cash	1,373,492	(3,262)
Cash at beginning of year	135	3,397
Cash at end of year	$ 1,373,627	$ 135
Cash paid during the year for:		
Interest	$ 176,240	$ -
Income taxes	$ -	$ -

VERDISYS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

Business. Verdisys, Inc. (Verdisys) was formed in California on April 7, 1999 as TheAgZone, Inc. In January 2001 the name was changed to Verdisys, Inc. In May 2001, Verdisys began selling secure intra-company and wide-area network satellite communications systems to energy companies to manage distant oil and gas producing wells, power distribution and other equipment sites by remote computer control.

In June 2003, Verdisys began selling a lateral drilling technique using high pressure water jetting for the enhancement and production of oil and gas reserves using licensed technology acquired in April 2003.

On July 18, 2003, Verdisys signed an Agreement and Plan of Merger with Reconstruction Data Group, Inc. (RDGI), a publicly-reporting inactive entity. The shareholders of Verdisys received 25,202,539 shares of RDGI in exchange for all of the 25,202,539 shares of Verdisys then outstanding. Verdisys became a wholly-owned subsidiary of RDGI. As of that transfer, Verdisys shareholders owned 94.4% of the outstanding stock of the combined entity.

Certain amounts in financial statements of prior years have been reclassified to conform to the presentation of the current year for comparative purposes.

Management estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as certain financial statement disclosures. While management believes that the estimates and assumptions used in the preparation of the financial statements are appropriate, actual results could differ from these estimates.

Cash Equivalents. Highly liquid investments with original maturities of three months or less are considered cash equivalents.

Revenue Recognition. All revenue is recognized when persuasive evidence of an arrangement exists, the service or sale is complete, the price is fixed or determinable and collectibility is reasonably assured. Revenue is derived from sales of satellite hardware, satellite bandwidth, satellite service and lateral drilling services. Revenue from satellite hardware is recognized when the hardware is installed. Revenue from satellite bandwidth is recognized evenly over the term of the contract. Revenue from satellite service is recognized when the services are performed. Verdisys provides no warranty but sells commercially obtained 3 to 12 month warranties for satellite hardware. Verdisys has a 30 day return policy. Revenue for lateral drilling services is recognized when the services are performed and collectibility is reasonably assured and when collection is uncertain, revenue is recognized when cash is collected.

Allowance for Doubtful Accounts. Bad debt expense is recognized based on management's estimate of likely losses per year, based on past experience and an estimate of current year uncollectible amounts.

Property and equipment is valued at cost. Additions are capitalized and maintenance and repairs are charged to expense as incurred. Gains and losses on dispositions of equipment are reflected in operations. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which are three to seven years.

Impairment of Long-Lived Assets. Verdisys reviews the carrying value of its long-lived assets annually or whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate. Verdisys assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

VERDISYS, INC.

NOTES TO FINANCIAL STATEMENTS

Stock options and warrants. Verdisys accounts for non-cash stock-based compensation issued to non-employees in accordance with the provisions of SFAS No. 123 and EITF No. 96-18, Accounting for Equity Investments That Are Issued to Non-Employees for Acquiring, or in Conjunction with Selling Goods or Services. Common stock issued to non-employees and consultants is based upon the value of the services received or the quoted market price, whichever value is more readily determinable. Verdisys accounts for stock options and warrants issued to employees under the intrinsic value method. Under this method, Verdisys recognizes no compensation expense for stock options or warrants granted when the number of underlying shares is known and the exercise price of the option or warrant is greater than or equal to the fair market value of the stock on the date of grant. The following table illustrates the effect on net loss and net loss per share if Verdisys had applied the fair value provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

		2003	2002
Net loss as reported		$(7,356,045)	$(3,128,782)
Less:	stock based compensation determined under fair value-based method	(828,737)	
Pro forma net loss		$(8,184,782)	$(3,128,782)
		===========	===========
Basic and diluted net loss per common share:			
As reported		$(.33)	$(.23)
Pro forma		(.37)	(.23)

The weighted average fair value of the stock options granted during 2003 and 2002 was $7.30 and $.50, respectively. Variables used in the Black-Scholes option-pricing model include (1) 1.5% risk-free interest rate, (2) expected option life is the actual remaining life of the options as of each year end, (3) expected volatility is zero, and (4) zero expected dividends.

Income Taxes. Income tax expense is based on reported earnings before income taxes. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes, and are measured by applying tax rates in effect in years in which the differences are expected to reverse.

Basic and diluted earnings per share. Basic earnings per share equals net earnings divided by weighted average shares outstanding during the year. Diluted earnings per share include the impact of common stock equivalents using the treasury stock method when the effect is dilutive. There were no dilutive securities during the periods presented.

Recently issued accounting pronouncements. Verdisys does not expect the adoption of recently issued accounting pronouncements to have a significant impact on their results of operations, financial position or cash flow.

NOTE 2 GOING CONCERN

As shown in the accompanying financial statements, Verdisys incurred recurring net losses of $7,356,045 and $3,128,782 in 2003 and 2002, respectively, has an accumulated deficit of $18,258,759 and a working capital deficit of $1,837,467 as of December 31, 2003. These conditions create an uncertainty as to Verdisys ability to continue as a going concern. Management is trying to raise additional capital through sales of common stock or convertible instruments as well as seeking financing from third parties. The financial statements do not include any adjustments that might be necessary if Verdisys is unable to continue as a going concern.

VERDISYS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 RELATED PARTY ACCOUNTS RECEIVABLE AND REVENUES

In April 2003, Verdisys signed a drilling service contract with Energy 2000 NGC, Inc. of Louisiana ("Energy 2000"), whereby Energy 2000 would have paid Verdisys a minimum of $1,800,000 for lateral drilling of 45 wells. This contract was a fixed amount due to Verdisys dependent upon the number of wells drilled and offshoot lateral bores drilled. In addition, Verdisys would receive an 80 percent interest in the net operating income after payback from these properties and also be reimbursed for 20 percent of its field costs. In September, 2003 Verdisys entered into another contract with Energy 2000 for an additional 57 wells with terms similar to the original contract. This contract was suspended for lack of payment.

In September 2003, Verdisys signed a drilling service contract with Natural Gas Systems, Inc. (NGS), whereby NGS would have paid Verdisys a minimum of $7,800,000 for lateral drilling of 120 wells. This contract was a fixed amount due to Verdisys dependent upon the number of wells drilled and offshoot lateral bores drilled. In addition, Verdisys would receive a 70 percent interest in the net operating income after payback from these properties. This contract was renegotiated in February 2004 to a smaller agreement with an initial four well commitment and removed the Verdisys rights to post-production.

Energy 2000 is a subsidiary of Berg McAfee Energy, LLC, which is a wholly owned subsidiary of Berg McAfee Companies. Natural Gas Systems is an independent company with substantial shareholdings owned by Eric McAfee, a 50 per cent owner of Berg McAfee Companies and former Director of Verdisys, and Berg McAfee Companies. They are beneficially owned 80% and 23% respectively by Berg McAfee or Eric McAfee personally.

Verdisys billed $666,250 and $153,960 to Energy 2000 and NGS, respectively, for services performed in 2003. Verdisys received $397,500 and $130,000, respectively. However, Verdisys has inadequate documentation to substantiate whether some of the services were performed. For Energy 2000, Verdisys was able to substantiate $328,750 of revenue leaving $68,750 in deferred revenue. As of December 31, 2003, deferred revenues totaled $92,710.

Lateral drilling services for these two customers ceased in December 2003 because of a change in Verdisys management, and are expected to resume for NGS in the second quarter of 2004.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2003:

Description	Life	Amount	
Lateral drilling equipment	5 years	$	427,420
Computer equipment	3 years		56,949
Office furniture and equipment	7 years		20,712
			505,081
Less: accumulated depreciation			(65,714)
		$	439,367

========

Lateral drilling equipment consists of two heavy trucks mounted with high powered water compressors, flexible hose and other assorted downhole equipment which is used to conduct the lateral drilling process with high pressure jetting technology.

Depreciation expense totaled $23,881 and $11,380 in 2003 and 2002, respectively.

VERDISYS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 LATERAL DRILLING LICENSE & NOTE PAYABLE ON LICENSE TO RELATED PARTY

In April 2003, an individual licensed his lateral drilling technology and equipment to Verdisys for $2,750,000 plus 10% of related gross revenue from lateral drilling operations. Verdisys paid $100,000 upon signing and signed a note payable for $2,650,000 plus effective interest of 12.14% due in monthly installments from May 2003 through March 2004.

In July 2003, Verdisys issued 125,000 shares in exchange for a $250,000 reduction of the note payable. In August 2003, Verdisys and the licensor amended the agreement whereby, in exchange for 500,000 shares of Verdisys common stock and the grant of a board seat, the licensor agreed to eliminate the 10% royalty and instead receive $500 per well serviced. The stock price at the time of the amendment was $4.55 per share, resulting in a $2,275,000 increase in the carrying value of the license.

At December 31, 2003 the total cost of the license was $5,025,000 with $195,811 of accumulated amortization. The license is amortized over the remaining life of the patent, or 14 years. The balance of the note payable at December 31, 2003 was $1,651,240.

Verdisys did not make the December 2003 or January 2004 payment on the note payable. In February 2004, Verdisys and the licensor agreed to restructure the note payments. Verdisys agreed to issue the licensor 300,000 shares of common stock, $100,000 cash and a note payable for $400,000 due on May 15, 2004 for the unpaid amounts due under the original note. If Verdisys fails to pay the $400,000 by May 15, 2004, the license may be revoked. The 300,000 shares had a value of $1,920,000 with $975,000 reducing the overall note balance and $945,000 recognized as interest expense.

NOTE 6 DEPOSITS ON 2 NEW RIGS

Verdisys paid $340,000 in December 2003 for two flatbed trucks with attached drilling equipment that Verdisys took possession of in January 2004. This brings the total number of lateral drilling units owned by Verdisys to four.

NOTE 7 DEFERRED REVENUE/CUSTOMER DEPOSIT

Typical satellite bandwidth contracts cover 36 months. Verdisys receives the cash in advance and recognizes revenue evenly over the contract. Deferred revenue related to satellite services totaled $271,485. $142,440 will be recognized in 2004 and $129,045 will be recognized during 2005 and 2006.

Verdisys also deferred revenue collected for lateral drilling service contracts. In June 2003, Verdisys signed an agreement to drill wells for Edge Capital (Edge). Edge, through a third party financing source, paid Verdisys $497,000 in 2003. Edge currently disputes whether services were actually performed and is requesting the $497,000 be returned to the third party financing source but has not initiated any court action. Verdisys has inadequate documentation to substantiate what services were actually performed. Management is attempting to substantiate what services were actually performed and continues to gather evidence to substantiate the services. As of December 31, 2003, the $497,000 is included in deferred revenue.

VERDISYS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - GUARANTEE OF THIRD PARTY DEBT

In July 2003, Verdisys guaranteed Edges purchase of oil and gas properties from another entity for $450,000. Edge paid $150,000 and signed a note payable for $300,000 plus 12% interest due in 2004. Edge defaulted on this note and requested Verdisys pay the amounts due. In accordance with FASB Interpretation 45 (FIN 45) Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, Verdisys recorded a liability of $300,000. . In November 2003, Verdisys loaned $100,000 to Cypress Drilling, Inc. (Cypress), with 8% interest and due on demand. Cypress leased drilling equipment from Mixon Bros. Drilling, Inc. (Mixon). Mixon was in default on the equipment note payable to Homeland Federal Savings Bank (Homeland). Cypress agreed to give Mixon $64,384, which Mixon agreed to give to Homeland to bring the note to Homeland current to release the equipment to Mixon. Mixon then released the equipment to Cypress so Cypress could do subcontract work for Verdisys. Verdisys agreed to guarantee

Mixon□s remaining note payments to Homeland which approximated $68,000. The guarantee is for one year beginning October 30, 2003. If Verdisys were required to honor the guarantee, Verdisys would receive the equipment. Verdisys fully reserved the Cypress $100,000 note receivable because collectibility is uncertain. Verdisys has not recorded any liability under the guarantee as of December 31, 2003.

NOTE 9 - NOTES PAYABLE

At the beginning of 2003, Verdisys owed $1,579,562 in notes payable to stockholders. In early 2003, Verdisys issued a convertible promissory note in the amount of $50,000 with 100,000 $.01 warrants that expire in January 2008 to a stockholder.

In 2003, Verdisys settled the entire $1,629,562 of notes payable by paying $360,000 in cash, allowing a cashless exercise of 200,000 $.10 warrants for $20,000, reclassifying $4,562 to accrued interest and issuing 2,890,688 shares of common stock for $1,245,000 of principal plus accrued interest of $261,190.

NOTE 10 - INCOME TAXES

Verdisys uses the liability method, where deferred tax assets and liabilities are determined based on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes. During 2003 and 2002, Verdisys incurred net losses and, therefore, has no tax liability. The net deferred tax asset generated by the loss carry-forward has been fully reserved. The cumulative net operating loss carry-forward is approximately $13,000,000 at December 31, 2003, and will expire in the years 2019 through 2023. At December 31, 2002, deferred tax assets consisted of the following:

			2003
Deferred tax assets			
Net operating losses		$	4,500,000
Less:	valuation allowance		(4,500,000)
Net deferred tax asset			$ 0

VERDISYS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - PREFERRED STOCK

3,436,996 shares of Series A preferred stock were issued in 1999 and 2000 at $1.50 per share, and all were converted prior to 2002 to common stock on a one-for-one basis.

650,000 and 760,000 shares of Series B preferred stock were issued in 2001 and 2002, respectively, for $.50 per share. In early 2003, Verdisys converted all 1,410,000 shares of Series B convertible preferred stock into 1,410,000 shares of common stock.

There are currently no preferred shares issued or outstanding. Verdisys currently has no authorized preferred stock.

NOTE 12 □ COMMON STOCK

In the second quarter of 2003, Verdisys sold 1,239,000 shares of common stock in private placements for between $.50 and $.75 per share for total proceeds of $779,250 before $15,100 costs of fundraising.

In the second quarter of 2003, Verdisys converted $1,506,190 of notes payable and accrued interest to investors to 2,890,688 shares of common stock.

In the second quarter of 2003, director and employee options were exercised at $.10 per share for 2,409,291 shares of common stock. In lieu of cash, Verdisys agreed to expense the exercise price as compensation of $240,929.

In the second quarter of 2003, 1,580,000 warrants were exercised for 1,580,000 shares of common stock. $56,500 in cash was received for the exercise of 430,000 warrants, accounts payable was reduced by $95,000 for the exercise of 950,000 warrants and notes payable to investor was reduced by $20,000 for the exercise of 200,000 warrants.

In April 2003, Verdisys issued 2,000,000 shares of common stock purportedly to acquire the assets of Quikview, Inc. The shares were valued at $1,000,000 and have been accounted for as compensation expense. See Note 19 for details.

In June 2003, 100,000 shares valued at $75,000 were issued to a consultant.

In May 2003, Verdisys issued 33,333 shares of stock for a $16,666 reduction in accounts payable. On July 18, 2003, Verdisys signed an Agreement and Plan of Merger with Reconstruction Data Group, Inc. (RDGI), a publicly-reporting inactive entity. The shareholders of Verdisys received 25,202,539 shares of RDGI in exchange for all of the 25,202,539 shares of Verdisys then outstanding. RDGI was renamed Verdisys and the former Verdisys Entity was extinguished. As of that transfer, Verdisys shareholders owned 94.4% of the outstanding stock and RDGI shareholders owned 1,500,000 shares or 1.6% of the combined entity.

In July and August 2003, Verdisys sold 609,000 shares of common stock at $2.00 per share in a private placement for total proceeds of $1,218,000. Offering costs consisted of 59,400 shares of restricted common stock and 9,501 warrants exercisable at $2 per share anytime through September 5, 2008.

In the third quarter of 2003, 269,547 warrants were exercised for 269,547 shares of common stock. $177,751 in cash was received for the exercise.

In the third quarter of 2003, Verdisys issued 625,000 shares of common stock to the licensor of the lateral drilling license. 125,000 shares were for a reduction of the note payable by $250,000 and 500,000 were for an amendment to the royalty agreement. The 500,000 shares were valued at $2,275,000.

In September 2003, 144,903 shares granted in 2001, but never recorded, were issued to former employees and valued at the 2001 value of $52,160.

VERDISYS, INC.

NOTES TO FINANCIAL STATEMENTS

In October 2003, Verdisys sold 833,333 shares of common stock to Gryphon Master Fund, L.P. at $6.00 per share for $5,000,000 total proceeds. Offering costs associated with the sale were $420,000 in cash, 83,334 warrants at $6 per share that expire October 24, 2008, 9,501 warrants at $2 per share that expire in September 2008 and 20,000 shares of common stock. The warrants are exercisable at any time prior to October 24, 2008 by paying cash at the exercise price or by electing a cashless exercise. If a cashless exercise is elected, the holder would receive a percentage of the shares defined as the market price at the time of exercise less the exercise price multiplied by the number of warrants exercised. If Verdisys fails to meet certain milestones related to registration of such shares, Verdisys is required to pay in cash liquidated damages equal to 1 percent of the purchase price of the shares paid for the first 30 days the event is not cured and 2 percent of the purchase price paid for each thirty day period thereafter until cured. In no event shall Verdisys be required to pay more than aggregate liquidated damages of 8 percent of the purchase price or $400,000. In addition, if in the ten months subsequent to the agreement, the 30 day average closing price of Verdisys common stock drops below $6 per share, such drops could result in the issuance of a maximum of 277,778 additional shares of common stock for no additional compensation. If this occurs, a total of 1,111,111 common shares will have been issued for an average price of $4.50 per share. As of April 2, 2004, Verdisys incurred approximately $283,333 of liquidated damages for failing to file a registration statement timely. In the fourth quarter of 2003, Verdisys issued 25,000 shares of common stock valued at $256,250 to a consultant for services.

In the fourth quarter 2003, 245,631 warrants and 100,000 options were exercised for $29,564 and $10,000, respectively.

NOTE 13 - STOCK OPTIONS AND WARRANTS

Options

In April 2003, Verdisys issued 1,280,000 ten year $.10 options to employees. 30,000 options vest monthly over three months, 750,000 options vest quarterly over four years, 300,000 options vest quarterly over one year and 200,000 options vest quarterly over two years. The intrinsic value of these options totals $512,000 which approximated their fair value.

In August 2003, Verdisys issued an employee 100,000 five year options with an exercise price of $4.10. There was no intrinsic value associated with the issuance. The fair value of the options was $321,024.

In December 2003, Verdisys granted 500,000 options to purchase Verdisys common stock to the chairman and interim CEO. The options expire in 10 years, have an exercise price of $9.55, which equaled the closing price on the date of grant. 50,000 vest immediately, 50,000 were to vest by December 31, 2003 if Verdisys could collect all of the Edge disputed accounts receivable by December 31, 2003 and the remaining 400,000 options vest evenly over 12 months in 2004. Because Verdisys was unable to collect the accounts receivable from Edge, 50,000 of the 500,000 options were forfeited. The fair value associated with these options totaled $4,061,703 of which $507,713 is presented as a pro forma expense. See note 1 for details. $714,524 of intrinsic value associated with options vesting in 2003 was expensed in 2003.

VERDISYS, INC.

NOTES TO FINANCIAL STATEMENTS

In 2002, Verdisys issued 7,155,000 ten year options to employees and directors with exercise prices of $.10. Intrinsic value associated with these options totaled $2,862,000 which will be recognized as the options vest from 2002 to 2006.

Warrants

Verdisys issues warrant to non-employees from time to time. The board of directors has discretion as to the terms under which the warrants are issued. All warrants vest immediately unless specifically noted in warrant agreements.

In April 2003, Verdisys issued 200,000 $.10 warrants, of which 100,000 expire in January 2007 and 100,000 expire in January 2008. The warrants have a fair value of $80,000 which was expensed when the warrants were granted.

During the summer of 2003, Verdisys negotiated settlements with 9 vendors plus the two original founders for various debts carried on the books. One of the founders was issued 150,000 warrants exercisable at $.10 and valued at $.40 or $60,000. The difference resulted in a contribution to capital. See note 18 for details.

During the fall of 2003, Verdisys issued 92,835 warrants, 83,334 at $6 per share that expire October 2008 and 9,501 at $2 per share that expire September 2008. The warrants were issued in connection with raising the $5,000,000 from Gryphon (see note 12) and their fair value of $822,738 was treated as a cost of fundraising. The warrants are exercisable at any time prior to expiration by paying cash at the exercise price or by electing a cashless exercise. If a cashless exercise is elected, the holder would receive a percentage of the shares defined as the market price at the time of exercise less the exercise price multiplied by the number of warrants exercised.

Verdisys issued 2,644,438 in warrants in 2003 at an exercise price $.10. The fair value of $1,050,687 has been expensed accordingly in 2003. 83,133 of the warrants were exercised in 2003.

In early 2003, 232,334 previously expired warrants were extended and exercised. The extension resulted in the granting of 232,334 warrants to purchase Verdisys stock at $.75 when the stock was selling for $.50 in private placements. Using the minimum value method, the modification resulted in no additional compensation expense. The warrants were exercised in the summer of 2003.

During 2002, Verdisys issued 120,000 warrants with an exercise price of $.10 to investors. 100,000 expire in March 2006 and 20,000 expire in November 2007. The fair value of $4,800 was recognized as interest expense for the issuance.

During 2002, Verdisys issued 980,000 warrants with an exercise price of $.10 to consultants. The fair value of $392,000 was recognized as compensation cost.

VERDISYS, INC.

NOTES TO FINANCIAL STATEMENTS

Summary information regarding options and warrants is as follows:

	Options	Weighted average Share Price	Warrants	Weighted average Share Price
Outstanding at December 31, 2001	5,065,161	$ .11	2,668,271	$
Year ended December 31, 2002:				
Granted	7,155,001	.07	1,100,000	
Forfeited	(2,717,973)	.10	(217,362)	
Outstanding at December 31, 2002	9,502,189	.10	3,550,909	
Year ended December 31, 2003:				
Granted	1,880,000	2.83	3,319,607	
Exercised	(2,509,291)	.10	(2,092,961)	
Forfeited	(4,760,522)	.23	(352,840)	
Outstanding at December 31, 2003	4,112,376	$ 1.35	4,424,715	$

Options outstanding and exercisable as of December 31, 2003:

Exercise Price		- - Outstanding - - Number of Shares	Remaining life	Exercisable Number of Shares
$	4.10	100,000	5 years	-
	.10	5,000	7 years	4,247
	.10	138,000	8 years	104,099
	.10	3,369,376	9 years	1,040,021
	9.55	500,000	10 years	-
		4,112,376		1,148,366
		==========		===========

Warrants outstanding and exercisable as of December 31, 2003:

	Exercise Price	- - Outstanding - - Number of Shares	Remaining life	Exercisable Number of Shares
	$	8,331	1 years	8,331
	.15-2.00	1,763,677	2 years	1,763,677
	.10-1.00	494,039	3 years	494,039
	2.00-6.00	92,835	5 years	92,835
	.10-.15	1,190,833	7 years	1,190,833
			.10	375,000
8 years	375,000			
		500,000	9 years	500,000
		4,424,715		4,424,715

VERDISYS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 14 - CONCENTRATIONS

One customer accounted for 38% and 87% of total revenues in 2003 and 2002, respectively. Related parties accounted for 52% of total revenue.

Verdisys maintains its cash balance in one financial institution. The balance is insured by the Federal Deposit Insurance Corporation up to $100,000. At December 31, 2003, Verdisys uninsured cash balance totaled approximately $1,485,000.

NOTE 15 – COMMITMENTS & CONTINGENCIES

Verdisys’ current office is in The Woodlands, Texas. In December 2003, Verdisys renewed the Woodlands lease for 12 months for $6,071 per month. Future minimum lease payments under the lease as of December 31, 2003 are $66,781 in 2004. Rent expense was $42,325 and $47,627 in 2003 and 2002, respectively.

Verdisys has a consulting agreement with its current majority stockholder for $10,000 per month through April 30, 2005, with $120,000 due during 2004 and $40,000 in 2005. $0 was accrued and unpaid under this agreement as of December 31, 2003. The advisory agreement was cancelled with two months notice in February, 2004 effective upon the resignation of the director.

In April 2002, Verdisys entered into a three-year employment agreement with its then CEO. The base salary under the agreement was $250,000 per year with quarterly performance bonuses and 2,000,000 stock options granted in 2002 and exercisable at $.10 per share and vesting quarterly over a two-year period. $400,000 and $175,000 in expense was incurred in 2002 relating to the vested portion of these options and unpaid salary, respectively. In November 2002, this CEO resigned. In 2003 Verdisys agreed to pay accrued salary of $204,320 in cash of which $161,306 was paid as of December 31, 2003 and the balance is accrued as of December 31, 2003. Verdisys is in negotiations over the unvested options.

Verdisys billed Edge $1,496,000 for drilling services in the third and fourth quarters of 2003. Edge disputes services were ever performed and refuses to pay. Verdisys has been unsuccessful to date in substantiating that the work was performed. Due to these uncertainties, the account receivable and the revenue have been removed from the books.

In August 2003, Verdisys obtained a 75% net revenue interest in property located in Monroe, Louisiana from a third party in exchange for agreeing to perform lateral drilling services on the property. In October 2003, Verdisys assigned the net revenue interest to Edge for $200,000. Edge paid Verdisys $120,000 and agreed to pay the balance of $80,000 by March 31, 2004. As of April 2, 2004, Verdisys has not collected the $80,000. Due to the disputes with Edge, Verdisys has not recorded the remaining $80,000 receivable. Verdisys agreed to refund the money to Edge if Verdisys did not deliver a lease between Edge and the original owner within 90 days if Edge desired. As of April 2, 2004, Verdisys has not delivered the necessary lease and Edge has the right under the agreement to request a refund of the $120,000. See Note 21.

If Verdisys fails to pay $400,000 to the licensor of Verdisys’ lateral drilling license by May 15, 2004, he has the right to revoke the license.

VERDISYS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 16 — LITIGATION

In August 2002, Verdisys settled a lawsuit filed against it in late 2001 for breach of promissory note and breach of security agreement, by agreeing to pay $228,494 and issued 400,000 warrants with an exercise price of $.10 per share. Verdisys agreed to pay $15,000 on October 1, 2002 and $5,000 per month from November 2002 through August 2004. Verdisys settled the debt in 2003 by paying $180,000 cash and issuing 200,000 shares of common stock for a cashless exercise of 20,000 warrants at $.10 per share.

Verdisys initiated a lawsuit against Edge Capital that requests a declaratory judgment that a purported agreement between Verdisys and Edge is not enforceable. The lawsuit arises from Edge’s contention that one of Verdisys’ ex-officers committed the company to purchase certain oil and gas properties from Edge. Although Verdisys contends that the alleged agreement is not binding, if the court does not grant Verdisys’ request for declaratory judgment, Edge may seek to enforce the terms of the agreement. An enforcement action may lead to damages for breach of contract or specific performance, either of which may have a material adverse effect on Verdisys’ financial condition. Edge, however, has not asserted any claim to enforce the purported agreement.

Verdisys has learned that it is a defendant in two purported class action lawsuits brought by former shareholders. The lawsuits, which according to press releases about the lawsuits issued by the plaintiffs’ lawyers appear in substance to be practically identical, allege that Verdisys and its former CEO, Dan Williams, and the Company's former CFO, Andrew Wilson, violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. The lawsuits allege that defendants made materially misstatements about Verdisys’ financial results. More specifically, the lawsuits allege that defendants failed to disclose and indicate: (1) that Verdisys had materially overstated its net income and earnings per share; (2) that defendants prematurely recognized revenue from contracts between Verdisys, Edge Capital and Energy 2000 in violation of GAAP and its own revenue recognition policy; (3) that Verdisys lacked adequate internal controls and was therefore unable to ascertain the true financial condition of the company; and (4) that as a result of recognizing revenue prematurely, Verdisys financial results were inflated at all relevant times. Verdisys has not yet been served in the lawsuits and continues to evaluate its defense to these allegations, as well as the potential impact that an adverse judgment would have on it.

Verdisys has received notice that the Securities and Exchange Commission has initiated a formal investigation into its reporting practices and public statements about the Company in 2003. The SEC has requested substantiation and documentary evidence from the Company concerning the performance of certain lateral drilling services by subcontractors in the period from May 2003 to September 2003, supervision of such services by the Company's Executive Management at the time, revenue recognition related to the performance of such services, the third quarter 2003 earnings restatement, public statements concerning the services performed, and related matters. The SEC has also requested information and documentary evidence related to Verdisys acquisition of certain assets of QuikView, Inc., a related party company, in June, 2003. In its letters to Verdisys requesting documents, the SEC stated that the staff's inquiry should not be construed as an indication that any violations of securities laws have occurred or as an adverse reflection on any persons, company or security.

Since December 2003, Verdisys has taken several steps to address issues related to the SEC's inquiries, including the termination and replacement of the previous Chief Executive Officer and Chief Operating Officer and the reassignment of its Chief Financial Officer based upon his desire not to relocate to Houston. Internal controls have been strengthened overall, particularly with respect to the public release of Company information and the recognition of revenue. The Company has also initiated an internal investigation of the matters of concern to the SEC. Consequently, the Company is restating its second and third quarter financial statements and has decided to defer all revenue related to the aforementioned period until such time that it can substantiate whether or not the services were performed. Further, the Company is evaluating its options for rescinding its purchase of certain assets from QuikView, Inc. As such, the Company's purchase consideration of two million common shares may be cancelled.

VERDISYS, INC.

NOTES TO FINANCIAL STATEMENTS

Verdisys is cooperating fully with the investigation, including the provision of numerous documents and testimony by our current executives. Verdisys is not aware of any pending or threatened enforcement or other actions that might be initiated by the SEC. Although the Company is working to bring the matter to a prompt conclusion, it cannot make any assurance that the investigation will be resolved positively or that it will not have negative effects on the Company's limited resources or its ability to raise capital and use its stock as acquisition currency during the period of the investigation. Verdisys has never been in bankruptcy, receivership or any similar legal proceeding. Other than described above, Verdisys is not aware of any other threatened legal proceedings. The foregoing is also true with respect to each officer, director and control shareholder as well as any entity owned by any officer, director and control shareholder, over the last five years.

As part of its regular operations, Verdisys may become party to various pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning its commercial operations, products, employees and other matters. Although Verdisys can give no assurance about the outcome of these or any other pending legal and administrative proceedings and the effect such outcomes may have on the company, except as described above, Verdisys believes that any ultimate liability resulting from the outcome of such proceedings, to the extent not otherwise provided for or covered by insurance, will not have a material adverse effect on Verdisys financial condition or results of operations.

NOTE 17 — NON-CASH TRANSACTIONS ON CASH FLOW STATEMENT

Non-cash transactions for year ended December 31, 2003:	
Seller financed purchase of license with note	$ 2,650,000
Stock issued for license amendment	2,275,000

Stock issued for reduction of note payable on license	250,000
Contributions to capital by founders for debt forgiveness income	488,000
Conversion of notes payable to investors to common stock	1,245,000
Conversion of accrued interest on notes payable to investors to common stock	261,190
Conversion of Series B preferred stock to common	705,000
Stock issued for accounts payable	16,666
Warrants exercised with notes payable to investors	20,000

NOTE 18 - DEBT FORGIVENESS INCOME & CONTRIBUTION TO CAPITAL

During 2003, Verdisys negotiated settlements with 9 vendors for various debts originally recorded on the books at $520,501 for $43,600 cash and 33,333 shares of stock valued at $.50 or $16,666 resulting in debt forgiveness income of $460,235. During the same period, Verdisys negotiated settlements with the two original founders for various debts recorded on the books at $576,000 for $28,000 cash and 150,000 warrants exercisable at $.10 and valued at $.40 or $60,000 resulting in a contribution to capital of $488,000.

NOTE 19 ALLEGED SOFTWARE PURCHASE

In April 2003, Verdisys issued 2,000,000 shares of common stock for what management believed was satellite communications management software pursuant to an asset purchase agreement with a related party. Management in place as of August 2003 maintained the software was not useful and impaired it as of June 30, 2003. In early 2004, following an internal investigation, new management determined that the agreement is likely subject to rescission. Verdisys is evaluating its options to rescind the agreement and cancel the shares issued. The majority shareholder of Verdisys and former director, who was also a principal to the counterparty in the transaction, acquired 11.5% of the 2,000,000 shares.

VERDISYS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 20 - NATURAL GAS FIELD PURCHASE OPTION

On November 10, 2003, Verdisys paid $500,000 for a sixteen day option to place an additional $10,500,000 deposit to purchase a large natural gas field with significant current gas production for a purchase price in excess of $100 million2004. As of December 31, 2003, the $500,000 was forfeited and the option expired.. Verdisys also paid fees to date of $120,000 associated with the transaction. The additional $10,500,000 would have held the purchase option open until February 2004.

NOTE 21 - GAIN ON SALE OF PROPERTY

In August 2003, Verdisys obtained a 75% net revenue interest in property located in Monroe, Louisiana from a third party in exchange for agreeing to perform lateral drilling services on the property. In October 2003, Verdisys assigned the net revenue interest to Edge for $200,000. Edge paid Verdisys $120,000 and agreed to pay the balance of $80,000 by March 31, 2004. Verdisys agreed to refund the money to Edge if Verdisys did not deliver a lease between Edge and the original owner within 90 days if Edge desired. Verdisys recognized a $120,000 gain for the monies received due to a $0 cost basis by Verdisys. As of April 2, 2004, Verdisys has not collected the $80,000. Due to the disputes with Edge, Verdisys has not recorded the remaining $80,000 receivable.

NOTE 22 RESTATEMENTS OF SECOND AND THIRD INTERIM QUARTERS

Second Quarter

In April 2003, Verdisys issued 2,000,000 shares of common stock for what management believed was satellite communications management software pursuant to an asset purchase agreement with a related party. Management in control as of August 2003 maintained the software was not useful and impaired it as of June 30, 2003. In early 2004, following an internal investigation, new management determined that the agreement is likely subject to rescission. Verdisys is evaluating its options to rescind the agreement and cancel the shares issued. The majority shareholder of Verdisys and former director, who was also a principal to the counterparty in the transaction, acquired 11.5% of the 2,000,000 shares. The impairment expense will be reclassified as compensation expense as of June 30, 2003.

In the quarter ending June 30, 2003, Verdisys recognized revenue to Energy 2000 of $60,000, accounts receivable from Energy 2000 of $230,000 and deferred revenue to Energy 2000 of $230,000. Verdisys has been unsuccessful in substantiating and documenting the work was performed. As of June 30, 2003, Verdisys is reversing the deferred revenue, accounts receivable and revenue. The $60,000 received from Energy 2000 will be carried as a customer deposit.

Third Quarter

In 2004, management discovered that accounts receivable and deferred revenue as of September 30, 2003 were both overstated. In June 2003, Verdisys signed an agreement to drill wells for Edge. The contracts contained contingencies disallowing revenue recognition until each contingency was fulfilled. As of September 30, 2003, Verdisys deferred revenues and associated costs of $1,496,000 and $330,000, respectively under this contract. In 2004 Edge disputed whether services were ever performed and refuses to pay. Verdisys has been unsuccessful in substantiating the work was performed. Due to these uncertainties, the account receivable and the deferred revenue were removed from the books as of September 30, 2003.

In 2004, management discovered that revenue recognized for monies received in the quarter ending September 30, 2003 was being disputed. In June 2003, Verdisys signed an agreement to drill wells for Edge. Edge, through a third party financing source, paid Verdisys $497,000 in 2003. Edge is currently disputing services were actually performed and is requesting the $497,000 be returned to the third party financing source. Verdisys has been unsuccessful in substantiating the work was performed. Due to these uncertainties, the $497,000 was reclassified from revenue to deferred revenue as of September 30, 2003.

In the quarter ending September 30, 2003, Verdisys recognized accounts receivable from Energy 2000 of $337,500 and deferred revenue to Energy 2000 of $337,500. Verdisys has been unsuccessful in substantiating whether the work was performed. As of September 30, 2003, Verdisys reversed the deferred revenue and accounts receivable.

NOTE 23 SUBSEQUENT EVENTS

In 2004, 395,022 shares were issued for a cashless exercise of 400,000 warrants.

409,935 shares were issued for the exercise of 409,935 options for cash of $40,994. 300,000 shares of common stock were issued to the licensor of the lateral drilling license as part of a workout on the note payable. The 300,000 shares had a value of $1,920,000 with $975,000 reducing the overall note balance and $945,000 recognized as interest expense.

In March 2004, Verdisys signed an agreement with Maxim Energy (Maxim), a company run by Verdisys former CEO, Dan Williams. Verdisys will drill laterals on Maxims wells on an arms length third party basis. Maxim paid Verdisys $100,000 as an advance on the mobilization and drilling of the first two wells. Verdisys has stipulated that all services to Maxim will be paid for in advance.

Changes In / Disagreements with Accountants on Accounting and Financial Disclosure

The Board of Directors of Verdisys, Inc. approved a change in accounting firm as of September 25, 2003. Dismissing the prior accounting firm and engaging the new accounting firm as of that date. Verdisys, Inc. elected to change from the auditing accountant firm of:

Cordovano and Harvey, P.C.
201 Steele Street, Suite 300
Denver, Colorado
To the auditing accounting firm of:

Malone & Bailey, PLLC
2925 Briar Park, Suite 930
Houston, Texas
The company's management believes the new auditing accounting firm will provide quality service in a timely manner.

The new accounting firm was not consulted prior to engagement on any specific accounting matter either completed or proposed.

Verdisys, Inc. has never had nor anticipates having, nor had during the two most recent fiscal years or any subsequent interim period preceding the date of change any disagreements with accountants on matters of accounting, financial disclosure, matter of accounting principles or practices, or auditing scope or procedure; nor has any principal accountant, currently or in past recent years, resigned or declined to stand for re-election.

The financial statements audited by the principal accountant for the past two years do not contain an adverse opinion or disclaimer of opinion or were modified as to uncertainty, audit scope or accounting principles.

Controls and Procedures

Verdisys, Inc. management, including the Principal Executive Officer and Principal Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14(c) and 15d-14(c). This evaluation was conducted within 90 days prior to the filing of this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this annual report has been made known to them in a timely fashion. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date the Principal Executive Officer and Principal Financial Officer completed their evaluation.

The Audit Committee, along with management, has reinforced internal controls and has implemented stringent policies regarding business engagements and activities. These policies and procedures cover the areas of approval and authority limits, segregation of duties, internal audit procedures, revenue recognition, contractual commitments, documentation and customer acceptance, and staggered levels of internal checks and balances. Operating documents, such as the Verdisys Accounting Operations Manual, Employee Handbook and Approval Authorities have been revised and adopted to describe such policies and train personnel. Since the earnings restatement in November 2003, the Committee has increased the frequency of its meetings and has directly reviewed and approved internal policies and procedures. They have also been directly involved in recruiting key personnel, namely a new CFO, and meeting with the Companys auditors.

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Verdisys, Inc. Annual Report

Directors, Executive Officers, Promoters and Control Persons

The names of our directors and executive officers and certain additional information with respect to each of them are set forth below. The dates set forth under Year First Became Director below indicate the year in which our directors first became a director of our predecessor in interest, Verdisys, Inc., except for Mr. Landers, who was appointed to our board of directors on October 28, 2003.

Name	Age	Current Position	Year First Became Director
Ronald J. Robinson, Ph.D.	57	Chairman of the Board Interim Chief Executive Officer	2002
John R. Block	69	Director	2000
Joseph J. Penbera, Ph.D.	56	Director	1999
Frederick R. Ruiz	60	Director	2000
O. James Woodward, III	68	Director	2000
David M. Adams	52	President Chief Operating Officer	N/A
John OKeefe	55	Executive Vice President Chief Financial Officer	N/A
Andrew G. Wilson	48	Vice President of Finance Treasurer	N/A

Statements below pertaining to the time at which an individual became one of our directors, executive officers or founders refers to the time at which the respective individual achieved his respective status with our predecessor in interest, Verdisys, Inc.

Ronald J. Robinson, Ph.D. was appointed as our interim President and CEO in December 2003 and has served as Chairman of our Board since January 2002. With the appointment of David Adams as President, Dr. Robinson now serves only as Chairman of our Board and interim CEO. From 1996 to 2001, Dr. Robinson served as president of Texaco Technologies, a subsidiary of Chevron Texaco. From 2001 to 2003, Dr. Robinson was head of the Petroleum Engineering Department at Texas A&M University. Dr. Robinson currently serves as a director of Ensyn Group Inc. Dr. Robinson received his Ph.D. in Petroleum Engineering from Texas A&M University, an M.S. in Physics from Baylor University and a B.S. in Physics and Mathematics from the University of Southern Colorado.

John R. Block has served as a director on our Board since May 2000. He currently serves as President of the Food Distributors International, an organization that represents the wholesale grocery and foodservice distribution industry. Prior to that, Mr. Block served as Secretary of Agriculture for the U.S. Department of Agriculture from 1981 to 1986. He currently serves as a director of John Deere and Co. and Hormel Foods Corp.

Joseph J. Penbera, Ph.D. co-founded our company and has served as a director on our Board since its inception in April 1999. Since 1985, he has been a Professor of Business at California State University, Fresno, where he previously served as Dean of the Craig School of Business. Dr. Penbera was Senior Economist at Westamerica Bank, Regency Bancorp and California Bank from 1999 to 2002. Dr. Penbera is on the board of directors of Gottschalks, Inc., a publicly traded regional department store and Rug Doctor, Inc. Dr. Penbera received his Ph.D. from American University, his M.P.A. from Bernard Baruch School and his B.A. from Rutgers University.

Frederick R. Ruiz has served as a director on our Board since its inception in April 1999. He co-founded and is Chairman of the Board of Ruiz Food Products, Inc., a privately held frozen food company. Mr. Ruiz currently serves as a director of McClatchy Newspapers, Inc. and Gottschalks, Inc., each of which are publicly traded, the California Chamber of Commerce and the Hispanic College Fund.

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Verdisys, Inc. Annual Report

O. James Woodward III has served as a director on our Board since its inception in April 1999. From 1992 to 1999, Mr. Woodward was an attorney in private practice in Fresno, California. From 1995 to 2000, he was Chairman of MJ Construction Co., a Fresno, California based construction company, and from 2001 to 2003, he served as a consultant in Fresno, California. Mr. Woodward has been in private practice as an attorney since 2003 and is currently Of Counsel with Baker, Manock and Jensen. He currently serves on the board of directors of Gottschalks, Inc. Mr. Woodward received his M.B.A. from Stanford Graduate School of Business and his J.D. from the University of California, Berkeley Law School.

David M. Adams has served as our President and COO since January 2004. From 1989 to 2001, Mr. Adams served as General Manager of Baker Hughes, E&P Solutions, and from 2001 to 2004; he served as President and General Manager of Subsea Mudlift Drilling Co., LLC, a subsidiary of Hydril Co., LP. Mr. Adams has a degree in petroleum engineering from the University of Texas and is a registered Professional Engineer.

John OKeefe has served as our Executive Vice President and CFO since January 2004. From 1999 to 2000, Mr. OKeefe served as Vice President of Investor Relations of Santa Fe Snyder, and from 2000 to 2003, he served as Executive Vice President and CFO of Ivanhoe Energy. Mr. OKeefe has a B.A. in Business from the University of Portsmouth, is a Chartered Accountant and graduated from the Program for Management Development (PMD) from the Harvard Graduate School of Business. ***Andrew G. Wilson*** has served as our CFO since March 2003, and with the appointment of John OKeefe as CFO in January 2004, he currently serves as Vice President of Finance. From March 1999 to December 2001, Mr. Wilson served as Novare Software, Inc.s Vice President-Business Development and Chief Operating Officer, and from January 2002 to March 2003, he served as its Vice President-Consulting and Client Services. Mr. Wilson received his B.A. in Economics from University of Manchester, England. He is an English Chartered Accountant and passed the American Institute of Certified Public Accountants entry examinations.

All Directors will serve in such capacity until the next annual meeting of our shareholders and until their successors have been elected and qualified. The officers serve at the discretion of the company's Directors. There are no familial relationships among the our officers and directors, nor are there any arrangements or understanding between any of our directors or officers or any other person pursuant to which any officer or director was or is to be selected as an officer or director.

Verdisys, Inc. has group life, health, hospitalization, medical reimbursement or relocation plans in effect. Further, Verdisys, Inc. has a 401K savings plan in effect and agreements which provide compensation on the event of termination of employment or change in control of us.

Verdisys does pay members of our board of Directors fees for attendance at board and other committee meetings in the form of cash compensation or similar remuneration, and reimburses them for any out-of-pocket expenses incurred by them in connection with our business.

Currently, each independent director receives compensation of $1,000 per month with an additional $1,000 per month for chairing a committee with the exception of the audit committee chair who receives an additional $2,000 per month. Meeting fees are paid at a rate of $1,000 per day for regularly scheduled Board meetings. All independent directors receive options to purchase 12,000 shares per year.

The board of directors of Verdisys, Inc. has determined that for the purpose of and pursuant to the instructions of item 401(e) of regulation S-B titled Audit Committee Financial Expert, Joseph J. Penbera, Ph.D possesses the attributes of an Audit committee financial expert. Dr. Penbera is a board member of Verdisys, Inc. and is the Chairman of the Audit Committee. Dr. Penbera is independent as defined by item 401(e)(ii) of regulation S-B. He receives compensation for board service only and is not otherwise an affiliated person.

No non-compete or non-disclosure agreements exist between the management of Verdisys, Inc. and any prior or current employer.

All key personnel are employees or under contracts with of Verdisys, Inc.

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Verdisys, Inc. Annual Report

The directors of Verdisys, Inc. are aware of no petitions or receivership actions having been filed or court appointed as to the business activities, officers, directors, or key personnel of Verdisys, Inc. Verdisys, Inc. has not, nor proposes to do so in the future, make loans to any of its officers, directors, key personnel, 10% stockholders, relatives thereof, or controllable entities. No loans of any kind are currently contemplated between Verdisys, Inc. and any officer or director.

None of Verdisys, Inc.'s officers, directors, key personnel, or 10% stockholders has guaranteed or co-signed any bank debt, obligation, or any other indebtedness pertaining to Verdisys, Inc.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires the company's directors and officers, and persons who own more than ten-percent (10%) of the company's common stock, to file with the Securities and Exchange Commission reports of ownership on Form 3 and reports of change in ownership on Forms 4 and 5. Such officers, directors and ten-percent stockholders are also required to furnish the company with copies of all Section 16(a) reports they file. Based solely on its review of the copies of such forms received by the company and on written representations from certain reporting persons, the company believes that all Section 16(a) reports applicable to its officers, directors and ten-percent stockholders with respect to the fiscal year ended December 31, 2003 were filed.

Code of Ethics

Verdisys, Inc. has adopted a code of ethics that applies to its senior officers such as the principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. This code of ethics is included as an exhibit to this annual report

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Verdisys, Inc. Annual Report

Executive Compensation

Compensation of Executive Officers

Information about two of our executive officers, Dr. Robinson, Chairman of our Board and interim CEO, and Mr. Wilson, Vice President of Finance and Treasurer may be found above under the caption entitled "Directors, Executive Officers and Control Persons" as those officers remain our executive officers. David Mauz served as our COO from June 2003 until January 2004, when David Adams became our COO. Mr. Wilson served as CFO from April 2003 to January 2004 when Mr. O'Keefe became CFO. The information below includes information about Mr. Mauz because he acted as executive officer during part of 2003.

Compensation Summary

The following table provides certain summary information concerning compensation paid or accrued during the last year to our Chairman of the Board and current interim CEO, our former President and CEO, and other officers who had compensation in excess of $100,000 during the last fiscal year (the "Named Executive Officers"):

SUMMARY COMPENSATION TABLE

	Annual Compensation		Award(s)	Payouts

Position	Year	Salary ($)	Bonus ($)	Other Annual Compensation[1] ($)	Restricted Stock Award(s) ($)	Securities Underlying Options/SARs (#)	LTIP Payouts ($)	All Other Compensation ($)
Ronald J. Robinson	2003	70,000				700,000		
Chairman of the Board	2002	0				50,000		
Interim CEO	2001	0				200,000		
Andrew G. Wilson	2003	83,500	10,000			780,000		
Vice President Finance	2002	0						
	2001	0						
David M. Mauz	2003	139,667	10,000					
Former COO	2002	40,608				1,000,000		
	2001	50,765				400,000		

[1] During the periods indicated, perquisites for each individual named in the Summary Compensation Table aggregated less than 10% of the total annual salary and bonus reported for such individual in the Summary Compensation Table.

Accordingly, no such amounts are included in the Summary Compensation Table.

OPTION GRANTS IN 2003

Name	Number of Securities Underlying Options Granted	Percent of Total Granted to Employees in Fiscal Year	Exercise Price	Market Price on Date of Grant	Expiration Date
Ronald J. Robinson	200,000	29%	$ 0.10	$ 0.50	2013
	500,000	71%	$ 9.55	$ 9.55	2013
Andrew G. Wilson	780,000	100%	$ 0.10	$ 0.50	2013
David C. Mauz	0	N/A	N/A		

The preceding table provides certain information with respect to options granted to our Named Executive Officers named in the Summary Compensation Table during the fiscal year ended December 31, 2003 under our stock option plan:

AGGREGATED OPTION EXERCISES IN 2003
AND OPTION VALUES AT DECEMBER 31, 2003

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options Held at December 31, 2003: Exercisable	Unexercisable	Value of Unexercised In-The-Money Options Held at December 31, 2003: Exercisable	Unexercisable
Ronald J. Robinson	300,000		150,000	550,000	$ 784,000	$ 784,000

Andrew G. Wilson	25,208	145,833 598,959	$	1,143,330	$	4,695,839
David C. Mauz	444,222	203,778 752,000	$	1,597,620	$	5,895,680

Note:

Value of Unexercised In-The-Money Options Held at December 31, 2003 computed based on the difference between aggregate fair market value and aggregate exercise price. The fair market value of our common stock on December 31, 2003 was $7.94, based on the closing price on the OTC Bulletin Board on December 31, 2003.

The preceding table sets for the information concerning option exercises and the value of unexercised options held by our Named Executive Officers named in the Summary Compensation Table as of the end of the last fiscal year.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2003 regarding compensation plans (including individual compensation arrangements) under which equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights		Number of securities available for future issuance under equity compensation plans (excluding securities shown in first column)
Equity compensation plans approved by shareholders[1]				
Equity compensation plans not approved by shareholders	8,000,000	$	0.10	3,887,624
Total	8,000,000	$	0.10	3,887,624

[1] Consists of shares of our common stock issued or remaining available for issuance under our stock option plan.

Employments Agreements

Ronald J. Robinson

In July 2003, we entered into an advisory agreement with Dr. Robinson, and we amended the agreement in December 2003. Pursuant to the agreement, as amended, Dr. Robinson agreed to serve as our interim President and CEO until a suitable replacement is found. For his services as interim President and CEO, he received an option to purchase 500,000 shares of our common stock pursuant to a 12 month vesting schedule (except with respect to 50,000 shares that were tied to certain revenue milestones for the fourth quarter of 2003 and which milestones were not met), and he receives monthly compensation of $20,000 and a monthly office allowance of $2,500. Dr. Robinson also serves as Chairman of the Board. In January 2004, David Adams was selected to serve as President thus terminating Dr. Robinson's service as interim President.

David M. Adams

In January 2004, we entered into an employment agreement with David Adams. The term of the agreement is for one year, and it may be renewed at the pleasure of both parties. Pursuant to the agreement, Mr. Adams serves as our President and COO in exchange for a base salary of $185,000 per year. Mr. Adams also received an option to purchase 150,000 shares of common stock to vest quarterly over the initial term of the employment agreement. Mr. Adams also received a signing bonus in the amount of $50,000 on the effective date of the employment agreement, and is also entitled to participate in an annual incentive compensation program of the company with a potential bonus being up to fifty percent of his base salary.

John OKeefe

In January 2004, we entered into an employment agreement with John OKeefe. The term of the agreement is for one year, and it may be renewed at the pleasure of both parties. Pursuant to the agreement, Mr. OKeefe serves in the position of Executive Vice President and Chief Financial Officer in exchange for a base annual salary of $175,000 for the first twelve months of his employment. Mr. OKeefe also received an option to purchase 80,000 shares of common stock to vest quarterly over the initial term of the employment agreement. Mr., OKeefe received a one time payment of $40,000 as a sign-on bonus and will be included in the companys Executive Compensation Program whereby senior management are eligible to receive annual bonuses of up to 50% of their base compensation.

Andrew G. Wilson

In June 2003, we entered into an employment agreement with Andrew Wilson, and we amended the agreement in October 2003. The term of the agreement is for three years, and it may be renewed at the pleasure of both parties. Pursuant to the agreement, Mr. Wilson served as our CFO in exchange for a base salary of $150,000 per year for the first 12 months, $180,000 per year for the second 12 months, and $210,000 per year for the third 12 months. Mr. Wilson also received an option to purchase 500,000 shares of common stock scheduled to vest over a 60 month period. In January 2004, after electing not to relocate to Houston, Texas, Mr. Wilson accepted appointment as Vice President of Finance and Treasurer.

David C. Mauz

In June 2003, we entered into an employment agreement with David Mauz, and we amended the agreement in October 2003. The term of the agreement is for three years, and it may be renewed at the pleasure of both parties. Mr. Mauz served as our COO in exchange for a base salary of $140,000 per year for the first 12 months, $170,000 per year for the second 12 months, and $200,000 per year for the third 12 months. Mr. Mauz also received an option to purchase 1,000,000 shares of common stock scheduled to vest over a 60 month period. In January 2004, with the appointment of David Adams as President and COO, Mr. Mauz service in that capacity was terminated, and he assumed the position of Manager, Satellite Operations. Mr. Mauz has since left the Company.

<u>Holders</u>

As of March 31, 2004 Verdisys, Inc. had 30,792,036 shares of common stock issued and outstanding and held by approximately 763 shareholders.

Security Ownership of Certain Beneficial Owners and Management

The following table presents certain information regarding the beneficial ownership of our common stock as of March 31, 2004 by (i) each person who is known by us to own beneficially more than 5% of the outstanding shares of our common stock, (ii) each of our directors, (iii) our Named Executive Officers, and (iv) all directors and executive officers as a group. Each of the persons listed in the table has sole voting and investment power with respect to the shares listed.

<u>Common Stock</u>

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner	Acquirable	Percentage of Class (1)
Berg McAfee Companies 100600 N. De Anza Blvd., #250 Cupertino, California 95014	8,983,671	808,333	27.4%
Ronald J. Robinson Chairman and CEO	300,000	366,667	2.0%
David Adams President and COO	0	37,500	<1.0%
John O’Keefe Exec.VP & CFO	0	20,000	<1.0%
Andrew Wilson V.P. Finance, Treasurer and Secretary	25,208	507,396	1.6%
John R. Block Director	90,000	70,000	<1.0%
Joseph Penbera Director	863,952	70,000	2.8%
Fred Ruiz Director	265,334	70,000	1.0%
O. James Woodward III Director	122,000	70,000	<1.0%
Total Shares of 5% or more Beneficial Ownership	8,983,165	808,333	27.4%
Total Shares of Officers and Directors as a group	1,666,494	1,211,563	8.8%
Total Shares Issued and Outstanding: 32,811,932	30,792,036, if all exercised per note (1)		

Notes:

(1) Each beneficial owner’s percentage ownership assumes the exercise or conversion of <u>all</u> options, warrants and other convertible securities held by such person and that are exercisable or convertible within 60 days after March 31, 2004.

The following lists such beneficial owners and the amount of shares of common stock, of the number of shares shown in the preceding table, to which such beneficial owners have the right to acquire within the stated 60 day period:

Name of Beneficial Owner	*Number of Shares Acquirable*
Berg McAfee Companies	*808,333*
Ronald J. Robinson	*366,667*
David M. Adams	*37,500*
John O’Keefe	*20,000*
Andrew G. Wilson	*507,396*
John R. Block	*70,000*
Joseph Penbera	*70,000*
Fred Ruiz	*70,000*
O. James Woodward III	*70,000*

Certain Relationships and Related Transactions

Energy 2000 and Natural Gas Systems

In April 2003, Verdisys signed a drilling service contract with Energy 2000 NGC, Inc. of Louisiana ("Energy 2000"), whereby Energy 2000 would have paid Verdisys a minimum of $1,800,000 for lateral drilling of 45 wells. This contract was for a fixed amount due to Verdisys, dependent upon the number of wells serviced and offshoot lateral bores drilled. In addition, Verdisys would receive an 80 percent interest in the net operating income after payback from these properties and also be reimbursed for 20 percent of its field costs. In September, 2003 Verdisys entered into another contract with Energy 2000 for an additional 57 wells with terms similar to the original contract. These contracts have been suspended for lack of payment.

In September 2003, Verdisys signed a drilling service contract with Natural Gas Systems, Inc. (NGS), whereby NGS would have paid Verdisys a minimum of $7,800,000 for lateral drilling of 120 wells. This contract was for a fixed amount with the total price dependent upon the number of wells serviced and offshoot lateral bores drilled. In addition, Verdisys would receive a 70 percent interest in the net operating income after payback from these properties. This contract has been renegotiated in February 2004 for a reduced number of wells but with an initial four well commitment.

Energy 2000 is a subsidiary of Berg McAfee Energy, LLC, which is a wholly owned subsidiary of Berg McAfee Companies. Natural Gas Systems is an independent company with substantial shareholdings owned by Eric McAfee, a 50 per cent owner of Berg McAfee Companies and former Director of Verdisys, and Berg McAfee Companies. They are beneficially owned 80% and 23% respectively by Berg McAfee or Eric McAfee personally.

Verdisys billed $666,250 and $153,960 to Energy 2000 and NGS, respectively, for services performed in 2003. Verdisys received $397,500 and $130,000, respectively. However, for Energy 2000 Verdisys has inadequate documentation to substantiate whether some of the services were performed. For Energy 2000, Verdisys was able to substantiate $328,750 of revenue leaving $68,750 in deferred revenue. Because of the uncertainty of collection, all services not collected are deferred. As of December 31, 2003, deferred revenues total $92,710.

Lateral drilling services for these two customers ceased in December 2003 because of a change in Verdisys management, and are expected to resume for NGS in the second quarter of 2004.

Software Purchase

In April 2003, Verdisys issued 2,000,000 shares of common stock for what management believed was satellite communications management software pursuant to an asset purchase agreement with a related party. Management in place as of August 2003 maintained the software was not useful and impaired it as of June 30, 2003. In early 2004, following an internal investigation, new management determined that the agreement is likely subject to rescission. Verdisys is evaluating its options to rescind the agreement and cancel the shares issued. The majority shareholder of Verdisys and former director, who was also a principal to the counterparty in the transaction, acquired 11.5% of the 2,000,000 shares.

Additional Transactions

In December 2003, Verdisys granted 500,000 options to purchase Verdisys common stock to the chairman and interim CEO. The options expire in 10 years, have an exercise price of $9.55 based upon price at date of grant. 50,000 vested immediately, 50,000 were performance options and did not vest, and the remaining 400,000 options vest evenly over 12 months in 2004.

Verdisys had a consulting agreement with its current majority stockholder for $10,000 per month through April 30, 2005, with $120,000 due during 2004 and $40,000 in 2005. $0 was accrued and unpaid under this agreement as of December 31, 2003. This agreement was cancelled with two months notice in February, 2004 effective upon the resignation of the director.

In April 2002, Verdisys entered into a three-year employment agreement with its then CEO. The base salary under the agreement was $250,000 per year with quarterly performance bonuses and 2,000,000 stock options granted in 2002 and exercisable at $.10 per share and vesting quarterly over a two-year period. $400,000 and $175,000 in expense was incurred in 2002 relating to the vested portion of these options and unpaid salary, respectively. In November 2002, this CEO resigned. In 2003 Verdisys agreed to pay accrued salary of $204,320 in cash of which $161,306 was paid as of December 31, 2003 and the balance is accrued as of December 31, 2003.

Verdisys, Inc. Annual Report

Exhibits and Reports on Form 8-K

Reports on Form 8-K

During the Fiscal Year ending December 31, 2003 and through the date of the filing of this Annual Report on Form 10-KSB; Verdisys, Inc. had filed the following Reports on Form 8-K with the Securities and Exchange Commission on the dates indicated:

March 26, 2004	re: Press Release - New Agreements for Lateral Drilling
March 16, 2004	re: Financial Statements – Expectation for the restatement of Second Quarter and Third Quarter 2003 Financial Statements of Verdisys, Inc.
March 15, 2004	re: Resignation of Registrant's Directors – Carl Landers
March 10, 2004	re: Resignation of Registrant's Directors – Eric A. McAfee
March 2, 2004	re: Licensing Agreement, Second Amendment – Carl Landers
January 6, 2004	re: Press Release - Revised revenue projections
December 12, 2003	re: Appointment of interim President and CEO – Dr. Ron Robinson
December 4, 2003	re: Press Release – Announcing results for Quarter ending September 2003
November 17, 2003	re: Press Release – Expectation of Record Profits and Profitability 3Q2003
November 17, 2003	re: Regulation FD Disclosure – Slide Presentation to investors and analysts
November 12, 2003	re: Regulation FD Disclosure – Slide Presentation to investors and analysts
October 27, 2003	re: Other Events – Sale of Common Stock
October 6, 2003	re: Licensing Agreement, as amended – Carl Landers
October 1, 2003	re: Change in Registrant's Certifying Accountant
September 29, 2003	re: Change in Control of Registrant, as amended
July 18, 2003	re: Change in Control of Registrant
May 1, 2003	re: Announcement of Definitive Agreement for Merger

Exhibits

Index of Exhibits

Verdisys, Inc. includes the following exhibits:

Number	Description
3.1	Restated Articles of Incorporation dated July 15, 2003
3.2	Bylaws, as amended September 25, 2003
10.1	Employment Agreement – John O'Keefe, dated January 6, 2004
10.2	Employment Agreement – David Adams, dated December 31, 2003
10.3	Advisor Agreement – Dr. Ron Robinson, amended December 11, 2003
10.12	Services Contract, Esperada Energy Partners, L.L.C., dated March 2004
10.13	Services Contract, Maxim Energy, Inc., dated March 2004
10.14	Services Contract, Natural Gas Systems, dated January 2004
10.16	Services Contract, Amvest Osage, Inc.; dated January 2004
14.1	Code of Ethics, dated April 2004
31.1	Certification of Principal Executive Officer pursuant to Section 302
31.2	Certification of Principal Accounting Officer pursuant to Section 302
32.1	Certification of Principal Executive Officer pursuant to Section 1350

32.2 Certification of Principal Accounting Officer pursuant to Section 1350

Verdisys, Inc. includes, by reference, the following exhibits:

2.1	Agreement and Plan of Reorganization, dated April 24, 2003, as amended June 30, 2003; Filed July 18, 2003 with the SEC, Report on Form 8-K
10.4	Employment Agreement – Andrew Wilson, dated June 2003; Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.5	License Agreement – Carl W. Landers, dated April 24, 2003; Filed October 6, 2003 with the SEC, Report on Form 8-K
10.5.1	Amendment to License Agreement – Carl W. Landers, dated September 4, 2003; Filed October 6, 2003 with the SEC, Report on Form 8-K
10.5.2	Second Amendment to License Agreement – Carl W. Landers, dated February 28, 2004; Filed February 28, 2004 with the SEC, Report on Form 8-K
10.6	Technology Report, "Landers Technology", dated October 13, 2003; Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.7	Subscription Agreement, Gryphon Master Fund, L.P., dated October 23, 2003 and Registration Rights Agreement dated October 24, 2003; Filed October 27, 2003 with the SEC, Report on Form 8-K
10.8	Form of Registration Rights Agreement, re: Private Placement Offering July/August 2003; Filed December 3, 2003 with the SEC, Form 10-QSB, as amended
10.9	Alternative Form of Registration Rights Agreement, re: Offering July/August 2003; Filed December 3, 2003 with the SEC, Form 10-QSB, as amended
10.10	Placement Agency Agreement, Stonegate Securities, Inc., dated August 26, 2003; Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.11	Independent Contractor Agreement, Terronne Petroleum Corporation, dated August 1, 2003; Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.15	Contract – Natural Gas Systems, "Delhi Field", dated September 22, 2003; Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.17	Acknowledge of amounts owed at September 30, 2003, re: Edge Capital Group contract dated June 16, 2003; Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.18	Contract – Edge Capital Group, "Franklin Field", dated September 27, 2003; Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.19	Contract – Edge Capital Group, "Monroe Field", dated June 16, 2003; Filed August 20, 2003 with the SEC, Form 10-QSB, as amended
10.19.1	Addendum to Contract, Edge Capital Group, "Monroe Field", dated November 19, 2003 Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.20	Contract - Noble Energy, re: Satellite Services, dated September 17, 2003; Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.21	Contract – Apache Corp., re: Satellite Services, dated September 11, 2002; Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.22	Contract – Energy 2000 NGC, "Monroe Field", dated April 30, 2000; Filed August 20, 2003 with the SEC, Form 10-QSB, as amended
10.23	Verdisys, Inc. 2003 Stock Option Plan; Filed November 20, 2003 with the SEC, Form 10-QSB, as amended

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The following lists, by exhibit number, all exhibits included or included by reference, to this annual report for the fiscal year ending December 31, 2003:

Number	Description

2.1	Agreement and Plan of Reorganization, dated April 24, 2003, as amended June 30, 2003
3.1	Restated Articles of Incorporation dated July 15, 2003
3.2	Bylaws, as amended September 25, 2003
10.1	Employment Agreement – John O'Keefe, dated January 6, 2004
10.2	Employment Agreement – David Adams, dated December 31, 2003
10.3	Advisor Agreement – Dr. Ron Robinson, amended December 11, 2003
10.4	Employment Agreement – Andrew Wilson, dated June 2003
10.5	License Agreement – Carl W. Landers, dated April 24, 2003
10.5.1	Amendment to License Agreement – Carl W. Landers, dated September 4, 2003
10.5.2	Second Amendment to License Agreement – Carl W. Landers, dated February 28, 2004
10.6	Technology Report, "Landers Technology", dated October 13, 2003
10.7	Subscription Agreement, Gryphon Master Fund, L.P., dated October 23, 2003 and Registration Rights Agreement dated October 24, 2003
10.8	Form of Registration Rights Agreement, re: Private Placement Offering July/August 2003
10.9	Alternative Form of Registration Rights Agreement, re: Offering July/August 2003
10.10	Placement Agency Agreement, Stonegate Securities, Inc., dated August 26, 2003
10.11	Independent Contractor Agreement, Terronne Petroleum Corporation, dated August 1, 2003
10.12	Master Services Contract, Esperada Energy Partners, L.L.C., dated March 2004
10.13	Services Contract, Maxim Energy, Inc., dated March 2004
10.14	Services Contract, Natural Gas Systems, dated January 2004
10.15	Contract – Natural Gas Systems, "Delhi Field", dated September 22, 2003
10.16	Services Contract, Amvest Osage, Inc.; dated January 2004
10.17	Acknowledge of amounts owed at September 30, 2003, re: Edge Capital Group contract dated June 16, 2003
10.18	Contract – Edge Capital Group, "Franklin Field", dated September 27, 2003
10.19	Contract – Edge Capital Group, "Monroe Field", dated June 16, 2003
10.19.1	Addendum to Contract, Edge Capital Group, "Monroe Field", dated November 19, 2003
10.20	Contract - Noble Energy, re: Satellite Services, dated September 17, 2002
10.21	Contract – Apache Corp., re: Satellite Services, dated September 11, 2002
10.22	Contract – Energy 2000 NGC, "Monroe Field", dated April 30, 2000
10.23	Verdisys, Inc. 2003 Stock Option Plan
14.1	Code of Ethics, dated April 2004
31.1	Certification of Principal Executive Officer pursuant to Section 302
31.2	Certification of Principal Accounting Officer pursuant to Section 302
32.1	Certification of Principal Executive Officer pursuant to Section 1350
32.2	Certification of Principal Accounting Officer pursuant to Section 1350

Principal Accountants Fees and Services

Audit Fees

The aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the registrant's annual financial statements and for services provided by the accountant in connection with statutory and regulatory filings or engagements for the last two fiscal years were: $15,000 for Fiscal Year 2002 and $58,000 for Fiscal Year 2003.

Audit-Related Fees

No aggregate fees were billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit or review of the registrant's financial statements, and are not reported under the prior caption Audit Fees.

Tax Fees

No aggregate fees were billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning.

<u>All Other Fees</u>

No other services were provided, nor aggregate fees billed, other then such services or fees which have been previously disclosed herein.

The registrant’s Audit Committee, or officers performing such functions of the Audit Committee, has approved the principal account’s performance of services for the audit of the registrant’s annual financial statements; and review of financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for the fiscal year ending December 31, 2003. Audit-related fees, tax fees, and all other fees, if any, were approved by the Audit Committee or officers performing such functions of the Audit Committee.

The percentage of hours expended on the principal accountant’s engagement to audit the registrant’s financial statements for the most recent fiscal year that were attributed to work preformed by persons other than the principal accountant’s full-time, permanent employees was less than 50 percent.

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.

Verdisys, Inc.

(Registrant)

By: /s/ Dr. Ron Robinson, CEO

Dr. Ron Robinson
Chief Executive Officer
Principal Executive Officer

Date: April 15, 2004

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By:	/s/ Dr. Ron Robinson, CEO	By:	/s/ David M. Adams, COO
	Dr. Ron Robinson Chief Executive Officer Principal Executive Officer		David M. Adams Chief Operating Officer President
Date:	April 15, 2004	Date:	April 15, 2004
By:	/s/ John O’Keefe, CFO	By:	/s/ Andrew G. Wilson, Treasurer
	John O’Keefe Chief Financial Officer Principal Accounting Officer		Andrew G. Wilson Vice President of Finance Treasurer and Secretary
Date:	April 15, 2004	Date:	April 15, 2004
By:	/s/ John R. Block	By:	/s/ Joseph J. Penbera, Ph.D.
	John R. Block Director		Joseph J. Penbera, Ph.D. Director

Date:	April 15, 2004	Date:	April 15, 2004
By:	/s/ Frederick R. Ruiz	By:	/s/ O. James Woodward III
	Frederick R. Ruiz Director		O. James Woodward III Director
Date:	April 15, 2004	Date:	April 15, 2004