

UNITED STATES
SECURITIES AND EXCHANGE
COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE YEAR ENDED DECEMBER 31, 2002.

OR

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

COMMISSION FILE NUMBER 000-10056

ADAIR INTERNATIONAL OIL AND GAS, INC.

(Exact name of registrant as specified in its charter)

Texas	74-2142545
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2425 Fountainview, Suite 215, Houston, TX 77057
(Address of principal executive offices, including zip code)

(713) 977-4662
(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:
None

Securities registered pursuant to 12(g) of the Exchange Act:
Common Stock, no par value

Indicate by check mark whether the registrant (i) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The aggregate market value of common stock held by non-affiliates of the registrant at December 31, 2002, based upon the last closing price on the OTCBB on June 30, 2003, was \$1,500,000. As of June 30, 2003, there were 150,000,000 shares of Common Stock and 1,571,282 shares of Preferred Stock outstanding. The total number of Common shares authorized is 150,000,000 and the total number of Preferred shares authorized is 5,000,000 for the Corporation.

Documents incorporated by reference: Adair International Oil and Gas, Inc. Form 10KSB for the year ending December 31, 2001, Form 8K/A, "Change in Registrants Certifying Accountants" filed February 14, 2002, Form 8K, "Change in Corporate Bylaws", filed May 22, 2002, and Form 8K, "Notice of Change of Control" filed August 16, 2002.

Transitional Small Business Disclosure Format: Yes No

ADAIR INTERNATIONAL OIL AND GAS, INC.
AND SUBSIDIARIES

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

INTRODUCTION AND BUSINESS PLAN

Adair International Oil and Gas, Inc. (the "Company") was originally incorporated in the state of Texas on November 7, 1980, as Roberts Oil and Gas, Inc. Roberts Oil and Gas, Inc. registered its shares of common stock with the Securities and Exchange Commission ("SEC") and began filing periodic reports pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In July 1997, Roberts Oil and Gas, Inc. changed its name to Adair International Oil and Gas, Inc., which is traded on the NASDAQ Over the Counter Bulletin Board ("OTCBB") under the stock symbol AIGI. Following a highly contested proxy battle for control of the Company, the shareholders elected an entirely new Board of Directors August 05, 2002 with the mandate to implement corporate governance and return the Company back to profitability.

Adair International Oil & Gas, Inc. has adopted the following mission statement:

"We will strive to maximize shareholder value through the integration of oil and gas assets with power generation while maintaining the highest ethical standards"

The newly elected Board of Directors is following a business plan designed to recapitalize and revitalize the Company. To achieve this mission, Management has set several short-term priorities.

- **Stabilize the financial condition of the Company**

Currently the Company has limited financial resources to run its daily business. Resulting from the decisions and practices of former management, the Company is party to a significant amount of litigation.

Management has slashed daily overhead to near zero, while at the same time has made significant progress towards reaching negotiated settlements with creditors.

- **Reinstate the Company's exploration interests in Yemen Block 20**

The exploration rights in Yemen Block 20 are the subject of an International Arbitration in Paris, France. The other parties in the Arbitration are requesting the Arbitration Tribunal reassign the Company's 30% interest in this project to them in compensation for financial defaults that the Company has made during the project.

Management has presented a credible legal defense to the issues under Arbitration and has made arrangements for an investor to provide the necessary capital to support the Company's participation in the project in the event that an award is made by the Tribunal in favor of the Company.

- **Assess the viability of all previously announced projects**

During the last five years, a large number of projects have been announced that never resulted in adding asset value to the Company.

Management is working to determine which of these projects are viable and can be pursued by the Company.

- **Accurately report the financial condition of the Company**

Accurate financial reporting will serve as the foundation upon which shareholder confidence will return to this Company.

Management is committed to accurate reporting of the financial condition of the Company.

- **Full disclosure in timely filings with the Securities and Exchange Commission**

The securities markets and the public companies that comprise those markets are currently being tested by the loss of shareholder confidence in the overall system. Sweeping changes in the reporting requirements and corporate governance are being instituted by the Securities and Exchange Commission as a result of the inability of those systems to identify and regulate unprecedented failures such as Enron, TYCO and WorldCom.

Management is committed to full disclosure reporting in accordance with the regulations promulgated by the SEC.

- **Restore investor confidence through release of verifiable information**

In the past, press releases by the Company's previous management were of dubious reliability. Promises were made that were not kept.

Management is working hard to regain shareholder confidence by only releasing accurate verifiable information.

- **Restore shareholder equity by building an energy company with tangible profit producing assets**

Management is working to secure energy projects that the Company can project finance which will add real value to the balance sheet. These projects will only be announced when the Company's ownership can be verified by our shareholders.

ITEM 2. DESCRIPTION OF PROPERTIES

OIL & GAS EXPLORATION

Sabatain Block 20, Republic of Yemen - On April 3, 2000, Adair Yemen Exploration Limited ("Adair Yemen"), a wholly owned subsidiary of the Company, together with Saba Yemen Oil Company Limited ("Saba"), Occidental Yemen Sabatain, Inc. ("Occidental"), The Yemen Company For Investment In Oil and Minerals ("YICOM"), and the Ministry of Oil and Mineral Resources "(MOMR)", entered into a Production Sharing Agreement ("PSA") in the Sabatain Area, Block 20, located in the Marib-Shabwa Governorates, Republic of Yemen. On September 2, 2000, the President of Yemen signed Decree #21, which passed into law the Production Sharing Agreement for Block 20. This decree establishes the effective date for the PSA among Adair Yemen, Saba, and Occidental (the Parties) as September 2, 2000. In addition to the PSA, the Parties are subject to a Joint Operating Agreement ("JOA") and a Joint Management Agreement ("JMA") and a Participation Agreement, which defines certain financial commitments, obligations and operating rules that govern the Parties participation in the project. The division of working interest between the partners is Occidental 50% (Operator), Adair Yemen 30% and Saba 20%. Additionally YICOM is granted a 5% carried interest in the project, such carried burden is proportionally shared by all partners.

The basic financial provisions of the Production Sharing Agreement ("PSA") provides that during the initial three year exploration program, a minimum work program which includes the reprocessing of existing 2D seismic data, the acquisition of 100 square kilometers of 3D seismic data and the drilling of two (2) wells will be completed by the Parties. This work program is valued by the Yemen government in the amount of \$8,300,000, which has been guaranteed by placement of a Letter of Credit by Occidental in favor of the Yemen government on behalf of the Parties. Adair Yemen in turn, has provided a back up Letter of Credit to Occidental in the amount of \$1,290,000 for their proportionate share of the overall work program commitment. This letter of credit will be returned to Adair Yemen upon completion of the minimum work program. The PSA further provides for the annual payment of training, institutional, and social bonuses in the amount of \$250,000, the cost of which is paid annually and shared proportionately by the Parties during the exploration period.

In the event of discovery, oil production derived from the commercial development of the project is subject to a royalty payable to the Yemen government on a sliding percentage scale ranging from 3% on production under 25,000 barrels per day to 10% on production over 100,000 barrels per day. After payment of the government royalty, the remaining oil production is split between "Cost Oil" and "Share Oil". The Block 20 PSA allows for up to 50% of the oil produced after payment of the royalty to be allocated for sale on behalf of the working interest parties for immediate repayment of all investment costs (including exploration, drilling, development, operating costs and general and administrative expenses). The remaining oil not utilized for cost recovery, the "Share Oil", is then allocated on a proportionate basis between the Yemen government and the Working Interest Parties according to each Parties net revenue interest ("NRI"). The Company has a 28.5% NRI in the share oil due to all working interest parties sharing a carried interest to YICOM of 5%.

Block 20 is an onshore exploratory project located in the Marib-Jawf Basin of Yemen. The block is located directly adjacent to oil fields operated by Yemen Hunt Oil Company in Block 18 and Jannah Hunt Oil Company in Block 5. These producing fields are currently exporting approximately 140,000 barrels of oil per day. Since the time of Yemen Hunt's discovery of oil on Block 18 in 1984, the basin's prolific Alif Petroleum System has produced over 700 million barrels of light sweet crude oil.

While Block 20 currently has no oil production, it represents an extraordinary exploration opportunity owing to the fact that identified prospects are in many cases defined by shows of oil and gas in wells drilled during previous exploration efforts. The economic sharing terms of the PSA were negotiated to provide incentive to develop and produce smaller oil fields, which greatly benefit from the shared use of existing pipelines and production infrastructure already installed and paid for during the development of the larger fields currently under production.

Since field activity began on the project in September of 2000, work completed includes the reprocessing of approximately 1,825 kilometers of 2D seismic, acquisition, processing and interpretation of approximately 540 square kilometers of new 3D seismic data and the drilling of three exploratory wildcat wells.

While the results of the drilling to date have been disappointing, Adair Yemen has identified seven prospects in the prolific Alif Petroleum System that it believes have not been adequately evaluated by drilling.

Chimichagua Gas Field, Colombia - On December 31, 2002, the Company's Chimichagua gas field contained proven non-producing gas reserves as described in the note titled, "Supplemental Oil and Gas Disclosures" on Form 10-KSB for the period ended December 31, 2001 filed previously by the Company. This prospect has a cost basis of \$3,000,000 and was purchased in fiscal 1997 by issuing 6,000,000 common shares valued at \$0.50 per share. Options to commercialize this "stranded" gas reserve focus on identifying opportunities for the Company to supply natural gas as fuel to a power plant thereby providing revenues under a long-term gas purchase contract. Realization of the value of these reserves is contingent upon the Company entering an agreement to construct a power plant utilizing gas from the field as fuel to generate electricity. Given the difficult economics of commercializing this gas reserve, the Company may, at any time, also choose to drop the property, or if possible, divest of this property receiving another interest in Colombia, cash, trade or other consideration.

Pointe Noire Gas Feasibility Study, Republic of Congo - The Company and the Republic of Congo government signed a Feasibility Study for the Creation of an Industrial Free Trade Zone at Point Noire (Republic of Congo). The Company's new management has discussed this project personally with the President of the Republic of the Congo and as a result is very committed and excited about bringing this project to completion. A detailed work program has already been developed and experts to assist with the project have been identified, contracted and are currently working on the initial draft of the study for presentation to the Congolese government.

GOVERNMENTAL REGULATION

The Company's current and contemplated activities are in the areas of oil and gas exploration and production, and power generation. Federal, state and local laws and regulations have been enacted regulating these activities. Moreover, "toxic tort" litigation has increased markedly in recent years as persons allegedly injured by chemical contamination seek recovery for personal injuries or property damage. These legal developments present a risk of liability should the Company be deemed to be responsible for contamination or pollution. There can be no assurance that the Company's policy of establishing and implementing proper procedures for complying with environmental regulations will be effective at preventing the Company from incurring a substantial environmental liability. If the Company were to incur a substantial uninsured liability for environmental damage, its financial condition could be materially adversely affected.

EMPLOYEES

The Company currently has three full-time employees. The Company also utilizes outside consultants with the number varying according to project requirements.

TRANSFER AGENT AND REGISTRAR

On July 8, 2003, the Company appointed Superior Stock Transfer, Inc., 2425 Fountainview Drive, Suite 215, Houston, TX 77057 (713) 977-4662 as the Transfer Agent to handle securities transactions for Adair International Oil & Gas, Inc. Superior Stock Transfer, Inc. is a wholly owned subsidiary of Adair International Oil & Gas, Inc.

On March 15, 2002, the Company changed its transfer agent to US Stock Transfer, 1745 Gardena Ave., Glendale, CA 91204 (818) 502-1404.

The Company's prior transfer agent was Chase Mellon Shareholder Services, 400 South Hope Street, 4th Floor, Los Angeles, CA 90071.

RISK FACTORS

The prospects of the Company are subject to a number of risks. There may exist, however, other factors which constitute additional risks, but which are not currently foreseen or fully appreciated by management.

Liquidity and Capital Resources

The Company has incurred net operating losses since the fiscal year ended May 31, 1997 and currently has negative working capital. The Company has no operations at this time that provide working capital. At this time the Company has issued all authorized shares of Common stock and as such has no ability to raise working capital through the sale of its Common stock. The Company is dependent on project based financing to secure the necessary funds to participate in projects. There is no assurance that the Company will be able to secure adequate financing to fund operations.

Insufficiency of Working Capital

As noted above, the Company has a historical working capital deficit and under previous management depended on the sale of its Common stock to obtain working capital. Upon approval by the shareholders to increase the authorization of Common stock for the Company, a Securities Registration Statement will be issued which will allow for the sale of Common stock to raise working capital for the Company. Unless project based funding can be found that will generate capital to allow the Company to begin receiving income from operations, the Company will remain in a relatively inactive state due to the lack of additional working capital. No assurance can be given that funds will be available from any source when needed by the Company or, if available, upon terms and conditions reasonably acceptable to the Company.

Reliance on Efforts of Others

The Company forms joint ventures with industry participants in order to finance and facilitate its activities. In some instances, the Company will depend on other companies to develop, provide financing, and operate its properties and projects. The prospects of the Company will be highly dependent upon the ability of such other parties. As indicated by the nature of the partners, with which the Company is participating in current projects, management believes the risk in relying on such partners is reasonable.

Foreign Political Climate

The Company has direct oil and gas interests in the Republic of Yemen and the Republic of Colombia. Currently world events are reshaping the Middle East and countries that the U.S. government have placed on the list believed to harbor terrorists will be subjected to new scrutiny by U.S. Federal authorities. As these types of events mature, the properties held by the Company in Yemen and Colombia may be subject to embargo or other restrictions in support of U.S. governmental policies.

Yemen-United States Relationship

At the present time, Yemen-U.S. relations are good. This is evidenced by the close cooperation between the U.S. Military and the Yemen government to conduct operations in support of the war on terrorism within the borders of Yemen. Yemen remains the only democratic government in the Middle East. However, Yemen has historically been subject to lawlessness and certain terrorist organizations are known to operate from Yemen. The overall uncertainties of the future of worldwide terrorism and the U.S. led war to eradicate terrorism may affect the Company's ability to conduct business in Yemen.

Colombia

Colombia remains a difficult political climate for the conduct of international business. No political changes are observed on the horizon that will improve either the security or business climate of the country. Any changes in the political climate of Colombia could have a negative impact on the Company, up to and including the complete loss of these interests.

International Operations

The Company anticipates that a significant portion of its future international revenues could be derived from its oil and gas and other investment interests located in Yemen. Currency controls and fluctuations, royalty and tax rates, import and export regulations and other foreign laws or policies governing the operations of foreign companies in the applicable countries, as well as the policies and regulations of the United States with respect to companies operating in the applicable countries, could all have an adverse impact on the operations of the Company.

The Company's interests could also be adversely affected by changes in any contracts applicable to the Company's interests, including the renegotiating of terms by foreign governments or the expropriation of interests.

In addition, the contracts are governed by foreign laws and subject to interpretation by foreign courts. Foreign properties, operations and investments may also be adversely affected by geopolitical developments.

Oil and Gas Price Volatility

Future revenues from oil and gas production that might be generated by the Company will be highly dependent upon the prices of crude oil and natural gas. Fluctuations in the energy market make it difficult to estimate future prices of crude oil and natural gas. Such fluctuations are caused by a number of factors beyond the control of the Company, including regional and international demand, energy legislation of various countries, taxes imposed by applicable countries and the abundance of alternative fuels. International political and economic conditions may also have a significant impact on prices of oil and gas. There can be no assurance of profitable operations even if there is substantial production of oil and gas.

Environmental Regulation

The U.S. oil and gas and power generation industries are subject to substantial regulation with respect to the discharge of materials into the environment, pollution, siting of operations or other factors relating to the protection of the environment. The exploration, development and production of oil and gas are regulated by various governmental agencies with respect to the storage and transportation of the hydrocarbons, the use of facilities for processing, recovering and treating the hydrocarbons and the clean up of drilling sites. Many of these activities require governmental approvals before they can be undertaken. The costs associated with compliance with the applicable laws and regulations have increased the costs associated with the planning, designing, drilling, installing, operating and plugging or abandoning of wells. To the extent that the Company owns an interest in a well it may be responsible for costs of environmental regulation compliance even after the plugging or abandonment of that well.

General Risks of the Oil and Gas and Power Generation Industries

The Company's operations will be subject to those risks generally associated with the oil and gas and power generation industries. Such risks include exploration, development and production

risks, title risks, and weather risks, shortages or delay in delivery of equipment and the stability of operators and contractor companies.

ITEM 3. LEGAL PROCEEDINGS

Legal Proceedings for the Year Ended December 31, 2002:

The Company is a party to various claims and litigation. On August 5, 2002 at the Shareholders Meeting, the Company's shareholders elected an entirely new Board of Directors. On August 8, 2002 the new Board of Directors appointed a Litigation Committee who subsequently engaged independent legal counsel to review the merits and allegations of all current and pending litigation. This Litigation Committee was charged with the duty to ascertain what legal actions are in the best interest of the Company and to make recommendations to the Board of Directors for their review and implementation. Due to the circumstances of being named by prior management as a party adverse to the Company in some of this pending litigation, Mr. Boyce recused himself from the Litigation Committee and its deliberations. Although no assurances can be given, the Company believes that resolution of many of the outstanding legal problems can be reached by direct negotiation with the parties involved.

Occidental Yemen Sabtain, Inc. and Saba Yemen Oil Company Ltd. v. Adair Yemen Exploration, Ltd. - Adair Yemen Exploration, Ltd. is a wholly owned subsidiary of the Company. It was named as the Respondent in the matter of Occidental Yemen Sabtain, Inc. ("Occidental") and Saba Yemen Oil Company Ltd. ("Saba") v. Adair Yemen Exploration, Ltd. ("Adair Yemen") in a Request for Arbitration filed with the International Chamber of Commerce in Paris, France on July 10, 2001. The Claimants, Occidental and Saba assert that Adair Yemen breached various agreements to which Occidental, Saba and Adair Yemen are parties and are requesting that Adair Yemen forfeit and reassign their 30% working interest in the project to Occidental and Saba. Immediately following the election of a new Board of Directors for the Company on August 5, 2002, it was discovered that the legal counsel representing the Company in this proceeding (both in Houston and in Paris, France) had resigned from the case due to non-payment of fees. After being able to review the facts surrounding the case and the arguments presented previously on behalf of the Company, the Company's new management decided to change the course of the legal argument. On September 15, 2002, the Company submitted a legal brief to the Arbitration Tribunal outlining a legal position based in equity. In December 2002, new legal counsel was retained by the Company to prepare and argue the case at the Final Hearing before the Tribunal on January 22-23, 2003 in Paris. At the Final Hearing, on behalf of the Respondent, Mr. Richard G. Boyce presented a witness statement and was examined by the Claimants as well as by the Tribunal. Additionally, witnesses from the Claimants also presented statements and were examined by the Respondent's legal counsel and the Tribunal. During the hearing, legal arguments were presented orally by legal counsel for both Claimant and Respondent. Final written submissions were presented to the Tribunal on March 28, 2003.

The Company received an unfavorable final judgment and notice of award, which the Company is reviewing to determine its next course of action. This unfavorable ruling may result in the Company losing an asset valued in the hundreds of million of dollars and having to pay \$4,455,653 in unpaid cash calls, interest, actual damages, Court costs and Claimant's legal expenses (see Note 13.).

Adair Exploration, Inc. and Adair Yemen Exploration, Ltd. v. Occidental Oil and Gas Corporation, Richard G. Boyce, Gene L. Ackerman, and David C. Crandall. - Adair's wholly owned subsidiaries, Adair Exploration, Inc. ("AEI") and Adair Yemen Exploration, Limited ("Adair Yemen") filed a lawsuit in a Texas State District Court in Houston, Texas against Occidental Oil and Gas Corporation ("Occidental"), and several former employees: Richard G. Boyce, Gene L. Ackerman, and David C. Crandall. The lawsuit alleges that breaches of fiduciary duties and usurpation of corporate opportunities as well as other civil wrongs were committed by the former employees. This lawsuit was removed to Federal Court in the Southern District of Texas by defendants and has been stayed pending the outcome of the arbitration proceedings. After careful review by the Litigation Committee established by the new Board of Directors, it was recommended to the Board that in light of ongoing settlement negotiations with Occidental it would not be in the best interest of the Company to pursue this lawsuit. On October 31, 2002 the Board of Directors authorized this case to be non-suited and dismissed with prejudice. A notice of non-suit was filed with the Court and the case was dismissed with prejudice.

Adair International Oil & Gas, Inc. vs. John W. Adair, Jalal Alghani and Vivian Quintero vs. Adair International Oil & Gas, Inc., etal - Cause No. 2001-63909, 55th District Court, Harris County, Texas. The Company's claims in the suit against John W. Adair ("Adair"), Jalal Alghani ("Alghani") and Vivian Quintero ("Quintero") involve allegations of fraud, conspiracy and breach of fiduciary duties owed to the Company by Mr. Adair and Mr. Alghani while they were officers and directors of the Company prior to their removal from the AIGI Board of Directors at the Company's annual shareholders meeting on August 5, 2002. The Company's claims in the suit against Ms. Quintero involve allegations of fraud, conspiracy and breach of fiduciary duties while she was employed by the Company as office manager and personal assistant to Mr. Adair when he was Chairman of the AIGI Board of Directors.

After the Company's claims were filed in the suit, Mr. Adair, Mr. Alghani and Ms. Quintero filed "counter claims" against the Company alleging standing to sue as shareholders of the Company. Their allegations against the Company and a long list of others include the following counts; "fraud, breaches of fiduciary duties, conspiracy to breach fiduciary duties, defamation, conspiracy to commit defamation, proxy fraud, conspiracy to commit proxy fraud, tortious interference, usurpation of corporate opportunities, vicarious liability/vice principal, unspecified actual and exemplary damages." These counter claims were filed against the Company on November 9, 2002. The Company has vigorously denied and is defending these allegations.

Mr. Adair, Mr. Alghani and Ms. Quintero have also filed the above described "counter claims" against Richard G. Boyce, Larry Swift, Gene Ackerman, David Crandall, Chris Dittmar, John A. Brush, Charles R. Close, and Shareholders Committed to Restoring Equity Group, Inc. ("SCORE"). The Company's Board of Directors has determined that it is in the best interest of the Company to assume the defense of and to indemnify these individuals and SCORE.

On July 11, 2003, the Court ordered the Company's motion for summary judgment be granted as to all claims in Defendant's / Counter Plaintiff's second amended petition, including the claim of conspiracy to commit defamation, with the exception of the common law defamation claim against the Company and Mr. Boyce.

Although some discovery in this case was secured before the change of control of the Company occurred as a result of the Annual Shareholders Meeting on August 5, 2002, there has been no further formal discovery to date other than the Company and Mr. Boyce's responses to requested discovery. The Company will continue to vigorously pursue this complex case.

Briar Patch Partners, Ltd. v. Adair International Oil & Gas, Inc., Adair Exploration, Inc., Partners In Exploration, Inc., Partners In Exploration, L.L.C., and Richard G. Boyce. - The Company was named as the defendant in the matter of Briar Patch Partners, Ltd. v. Adair International Oil & Gas, Inc., Cause No. 01-06351, 95th Judicial District Court, Dallas County, Texas. Briar Patch Partners, the landlord holding the lease on the property in Dallas, Texas where Adair Exploration, Inc., "the lessee", formerly maintained an office, filed a lawsuit against the Company regarding the failure of the lessee to pay the rent as well as other related claims. On February 10, 2003 an Agreed Judgment was signed by all Parties in the total amount of \$235,306.15 against the Defendants. This total amount included the principal amount remaining on the lease, plaintiff's attorney's fees and court costs. Additionally on February 10, 2003, all Parties signed a Settlement Agreement, which outlines the terms of settlement and payment schedule. The Plaintiff filed these documents with the Court.

Adair International Oil & Gas, Inc. v. Richard G. Boyce and Larry Swift. - At the direction of previous management, the Company filed a lawsuit against Messrs. Boyce and Swift in the 55th Judicial District Court in Harris County, Texas, Cause No. 2001-63909. The Company sued Messrs. Boyce and Swift for defamation, tortious interference, conversion, breach of fiduciary duty and conspiracy. Messrs. Boyce and Swift have filed answers denying the Company's allegations. Mr. Boyce filed a counterclaim claiming defamation by the Company. After careful review of the merits of this case by the Litigation Committee established by the new Board of Directors, it was recommended to the Board that this case be non-suited and dismissed with prejudice. A notice of non-suit was filed with the Court and the case was dismissed with prejudice.

L. Bruce Hinton and Billie Turmenne v. John W. Adair, Jalal Alghani, Vivian Llerena Quintero, Adel Alzamir and Alghani Investment Group, Inc. - This case was filed on January 30, 2002 in the 80th Judicial Court, Harris County, Texas (Cause No. 2002-03286). The suit alleged fraud by the Defendants who have each participated in a scheme and course of business that was operated to deliberately deceive the Plaintiffs by disseminating false information and misleading statements, including concealing material adverse facts about the Corporation. The plaintiffs dismissed this case by non-suit, so that the Company can bring suit on behalf of all shareholders against these defendants.

Adair International Oil & Gas, Inc. v. Richard G. Boyce - Under the previous management, the Company filed a lawsuit against Mr. Richard G. Boyce in the 55th Judicial District Court in Harris County, Texas, Cause No. 2002-37894. The Company sued Mr. Boyce alleging fraudulent misrepresentation of the value of Partners In Exploration, Inc. during the merger of that entity with the Company. After careful review of the merits of this case, the Litigation Committee established by the new Board of Directors, it was recommended to the Board that this case be non-suited and dismissed with prejudice. A notice of non-suit was filed with the Court and the case was dismissed with prejudice.

3000 Richmond Limited Partnership v. Superior Geophysical, Inc. - Adair International Oil & Gas, Inc., Superior Geophysical, Inc. ("Superior") John W. Adair, Jalal Alghani, Bill Wiseman, and Gary Tolar, Cause No. 2002-15641, in the 333rd Judicial District Court in Harris County, Texas were sued by Superior's landlord, 3000 Richmond Limited Partnership, as co-tenants for breach of the lease agreement and for back rent owed on Superior's leasehold. Subsequently, the Company has signed a Settlement Agreement with 3000 Richmond Limited Partnership, which outlines terms of payment acceptable to all parties.

Declaratory Judgment, Pace Global Energy Services, LLC v. Adair International Oil & Gas, Inc. - On December 26, 2001, John W. Adair signed a confessed promissory note in the amount of \$281,458.21 stating that the Company owed that amount to Pace Global Energy Services, LLC ("Pace") in payment for certain consulting services related to the Teaway Energy project and/or other power projects in the U.S. As a result of non-payment by the Company on that promissory note, in February 2002, Pace sued Adair International Oil & Gas, Inc. in Federal District Court in the Eastern District of Virginia (Cause No. 02-133-A) for unpaid consulting service expenses. On September 9, 2002 Pace received a declaratory judgment against the Company in the amount of \$281,485.21 payable with interest at nine (9%) per annum until paid plus all attorney's fees and other costs actually incurred for the collection of the judgment. Subsequently, the Company has signed a Settlement Agreement with Pace which outlines terms of payment acceptable to all parties.

The Company is a party to various claims and litigation. Although no assurances can be given, the Company believes, based on its experience to date, that the ultimate resolution of such items, individually or in the aggregate, will not have a material adverse impact on the Company's financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Results of Proxy Contest

On August 5, 2002, Adair International Oil & Gas, Inc. (the "Company or "AIGI") held it's 2001 Annual Shareholders Meeting. At this meeting, the AIGI shareholders, who had previously been properly noticed and informed by opposing proxy statements distributed by the Company's management and the SCORE Group, Inc. (" SCORE Group"), voted to select a new Board of Directors for the Company's current calendar year. Judge Richard P. Bianchi, a former Texas State District Judge from the Houston area, was appointed the Inspector of Election by the opposing parties. Herein enclosed is a summary of the "Inspector's Report of the Validity of Proxies and the Canvass of Votes on Proposals".

I, as duly appointed Inspector of Election, authorized to act at the 2001 Annual Shareholders Meeting of Adair International Oil & Gas, Inc., held at Chase Center Auditorium, 601 Travis, Houston, Texas 77002 at 9:00 am local time, on August 5, 2002, (the "Meeting") do hereby certify that:

1. Having examined the list of the holders of the outstanding shares of the Company's Common Stock, \$.00 par value per share (the "Shares"), as of June 17, 2002 (the record date fixed by the Board of Directors for determining shareholders entitled to notice of,

and to vote at, the Meeting), certified by the transfer agent of the Company, which list was in our custody at the Meeting, that list shows 142,394,131 Shares to have been issued and outstanding on June 17, 2002, and thus, the total number of Shares eligible to vote at the meeting is 142,394,131.

2. Having examined the Company's Articles of Incorporation and By-Laws, each as amended, and finding that each Share entitles the holder thereof to one vote on each item of business listed in the notice of the Meeting, and that a majority of the outstanding Shares constitutes a quorum for the transaction of business at the Meeting. There were submitted at the meeting proxies and ballots for an aggregate of 84,861,913 Shares (representing 59% of the issued and outstanding Shares on June 17, 2002).

3. Upon examination, these proxies and ballots were found to be in all respects regular; the signers of such proxies and ballots were, at the close of business on June 17, 2002, the record holders of such Shares as shown upon the referenced certified list of holders of Shares or the representatives of such holders; and the proxies listed thereon were entitled to vote at the Meeting upon all matters properly before the Meeting, in accordance with said proxies, the number of Shares held of record by the shareholders by for whom such proxies were executed.

The Shares represented by said proxies and ballots constituted a quorum for the transaction of business at the Meeting. A vote of the shareholders was taken with respect to the Election of Directors, which was canvassed and tabulated by the Inspector of Election. The following votes were cast for the Election of Directors:

Management Nominees	For	Withhold
John W. Adair	36,948,202	534,590
Jalal Alghani	36,951,980	530,812
John Eftekhari PhD	36,951,780	531,012
 SCORE Group Nominees		
Richard G. Boyce	45,390,465	1,988,656
John A. Brush	45,379,465	1,999,656
Charles R. Close	45,379,465	1,999,656

Upon announcement of the results of the balloting, by the Inspector of Election at approximately 5:00 pm local time, the SCORE Group Nominees were determined to be duly elected by the Company's shareholders to each serve as Directors for a term of one year.

The Inspector of Election has submitted a notarized copy of this report to the duly elected Board of Directors and has signed an Oath stating that "I shall faithfully execute my duties as such

Inspector of Election with strict impartiality and according to the best of my ability, and shall faithfully and diligently canvass the votes cast upon the proposal to Elect the Directors and truthfully report the results thereof".

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF COMMON STOCK

The Company's Common Stock is currently traded on the over the counter bulletin board ("OTCBB") symbol "AIGI." The following table sets forth, for the periods indicated, the high and low closing bid prices for the Common Stock of the Company as reported on the OTCBB. The bid prices reflect inter-dealer quotations, do not include retail mark ups, markdowns or commissions and do not necessarily reflect actual transactions.

COMMON STOCK PRICE RANGE			
Quarter Ended	High Bid	Low Bid	Shares Outstanding
2002			
Dec 31	\$ 0.02	\$ 0.01	150,000,000
Sep 30	\$ 0.03	\$ 0.01	
Jun 30	\$ 0.04	\$ 0.01	
Mar 31	\$ 0.07	\$ 0.02	
2001			
Dec 31	\$ 0.06	\$ 0.06	97,080,295
Sep 30	\$ 0.09	\$ 0.08	
Jun 30	\$ 0.18	\$ 0.02	
Mar 31	\$ 0.33	\$ 0.30	
2000			
Dec 31	\$ 0.73	\$ 0.19	66,590,882
Sep 30	\$ 0.88	\$ 0.25	
Jun 30	\$ 1.13	\$ 0.39	
Mar 31	\$ 2.56	\$ 0.41	

On December 31, 2002, the closing price for the Common Stock of the Company on the OTCBB was \$ 0.01. Also on December 31, 2002, there were approximately 9,500 stockholders of record of the Common Stock, including broker/dealers holding shares beneficially owned by their customers.

Comments regarding stock performance - The Company's stock price reached an all time high during the first quarter of 2000, which was directly attributable to the signing of a Production Sharing Agreement for exploration rights in Yemen Block 20 and signing of a Development Agreement with Calpine for the Teaway Energy Center. The sharp decline in the price of the

Company's stock during fiscal 2001 is attributable to the financial default of the Company's interest in Yemen Block 20 (See ITEM 6 - Block 20 Financial Default). During 2001 and into 2002 the Company continued to suffer from an increased amount of litigation brought by business partners, creditors and shareholders. Beginning in mid 2001 and continuing through August 2002, shareholders suffered massive share dilution at the direction of the Board of Directors of the Company, comprised solely of Mr. Adair and Mr. Alghani.

Shareholders suffer massive dilution - Beginning in 1997, concurrent with the installation of John W. Adair as CEO and Chairman of the Board and Jalal Alghani as CFO and Vice Chairman, the Company devised a process whereby unregistered securities were being issued by the Company through an elaborate scheme which were ultimately sold through two Canadian brokerage firms into the open market. The following table, compiled from the Company's Form 10K filings, details the annual dilution suffered by the shareholders as a result of these activities.

TOTAL SHARES OUTSTANDING

Dec 31, 2002	150,000,000
Apr 02, 2001	68,438,786
Sep 01, 2000	66,590,882
Sep 01, 1999	50,938,038
Aug 21, 1998	28,859,672
Jul 31, 1997	21,200,000

During 2001 and continuing through 2002, the Board of Directors was comprised solely of Mr. Adair and Mr. Alghani. During this timeframe, unchecked by any form of corporate governance, the total number of shares outstanding more than doubled. Based on internal accounting by the Company since August 2002, it has been determined that a total of 98,195,384 shares were wrongfully issued for less than fair market value and subsequently the Company incurred a loss calculated to be \$8,647,542.

**SCHEDULE OF CERTAIN SHARES ISSUED AT FAIR MARKET VALUE
RECONCILED TO DEPOSITS IN COMPANY ACCOUNTS**

FOR THE PERIOD 1998 THROUGH 2002

Year	Shares	Fair Market Value (FMV)	Gross Deposits	AIGI Income	Deposits Net Of AIGI Income	Net Deposits Less FMV
1998	14,801,600	\$ 2,851,346.50	\$ 1,085,570.09	\$ 38,453.00	\$ 1,047,117.09	\$ (1,804,229.41)
1999	12,726,256	1,200,382.61	642,564.33	33,008.00	609,556.33	(590,826.28)
2000*	5,542,108	4,644,102.52	1,754,544.06	1,250,312.00	504,232.06	(4,139,870.46)
2001	25,519,551	3,798,025.52	2,876,582.41	807,695.00	2,068,887.41	(1,729,138.11)
2002	39,605,869	1,238,176.07	855,697.99	--	855,697.99	(382,478.09)
TOTALS	98,195,384	\$ 13,732,033.22	\$ 7,214,958.88	\$ 2,129,468.00	\$ 5,085,490.88	\$ (8,646,542.34)

***Note: during the year 2000 the company changed from FYE 05/31/00 to a calendar year. Calendar year 2000 in this schedule includes the results from the first 7 months of FYE 05/31/00.**

Identified Parties	Shares	FMV	Remarks
125% R-144 Stock Scheme	2,655,610	\$ 722,523.45	These shares were issued to John W. Adair and Jalal Alghani in exchange for free trading shares.
AIG Inc.	55,657,822	6,980,359.62	Alghani Investment Group, Inc. (AIG, Inc.) is a Bahamian company created by Jalal Alghani.
Gibca Investments, Inc.	19,105,869	573,176.07	Gibca Investments, Inc. is a Bahamian company created by Jalal Alghani.
Mohammed Y. I. Al-Akwa	10,300,000	1,069,000.00	Mohammed Y. I. Al-Akwa is Jalal Alghani's brother-in-law.
Adel Alzamir	10,476,083	4,386,974.08	Adel Alzamir is Jalal Alghani's cousin and President of AIG, Inc.
Totals	98,195,384	\$ 13,732,033.22	

The Company is pursuing Mr. Adair and Mr. Alghani directly through certain legal proceedings (See ITEM 3 - Legal Proceedings) and indirectly through cooperation with appropriate Federal agencies to seek restitution of these shares of Common Stock and the value they represent.

Shareholders Install Corporate Governance - At the Annual Shareholders Meeting held on August 5, 2002, the shareholders elected an entirely new Board of Directors (see ITEM 4 - Results of Proxy Contest). Since that time, the new Board of Directors terminated the employment of Mr. Adair and Mr. Alghani and has installed Richard G. Boyce as President and Chris A. Dittmar as Chief Financial Officer. This new executive management team is working to resolve the myriad legal and financial issues facing the Company at this time.

Notice of Future Dilution of Shareholders - As a direct result of the activities described above and considering the fact that the Company has no additional Common Stock that can be used to raise capital to support the activities of the Company; future dilution of existing shareholders is very likely. It is anticipated that at the next scheduled Annual Shareholders Meeting, the shareholders will be requested to consider proposals that will lead to additional issuance of Common Stock.

The Board of Directors passed a Corporate Resolution that reads, "Pursuant to and in accordance with Article 2.13 of the Texas Business Corporation Act of the State of Texas the Company does hereby certify that, pursuant to the authority conferred on the Board of Directors by the Articles of Incorporation of the Corporation, and pursuant and in accordance with Article 2.13 of the Texas Business Corporation Act of the State of Texas, said Board of Directors, pursuant to unanimous written consent dated December 9, 2002, duly adopted a resolution providing for the authorization and issuance of 5,000,000 shares of "Series A" Convertible Preferred Stock, \$0.01 par value per share (the "Series A" Preferred Stock).

Each share of "Series A" Preferred Stock which is then outstanding shall at the sole election of the holder be converted into fully paid and non-assessable shares of Common Stock of the Corporation at a conversion rate of 1,000 shares of Common Stock for each share of "Series A" Preferred Stock. The holders of the issued and outstanding shares of Preferred Stock shall have the equivalent of 1,000 Common Stock votes for each share of "Series A" Preferred Stock.

DIVIDEND POLICY

The Company has not paid, and the Company does not currently intend to pay cash dividends on its Common Stock in the foreseeable future. The current policy of the Company's Board of Directors is for the Company to retain all earnings, if any, to provide funds for operation and expansion of the Company's business. The declaration of dividends, if any, will be subject to the discretion of the Board of Directors.

SALES OF UNREGISTERED SECURITIES DURING 2002

During the year ended December 31, 2002, the following transactions were effected by the Company in reliance upon exemptions from registration under the Securities Act of 1933 as amended (the "Act") as provided in Section 4(2) thereof. Each certificate issued for unregistered securities contained a legend stating that the securities have not been registered under the Act

and setting forth the restrictions on the transferability and the sale of the securities. No underwriter participated in nor did the Company pay any commissions or fees to any underwriter in connection with any of these transactions. None of the transactions involved a public offering.

The Company issued stock in lieu of cash in transactions summarized as follows for the year ended December 31, 2002. The Summary Compensation Table included as Item 10, "Executive Compensation", details the number of shares issued for compensation to each Company officer during the respective time period that they have been employed by the Company.

Nature of Transaction	December 31, 2002			December 31, 2001	
	Common Stock	Preferred Stock	Amount	Common Stock	Amount
Director's Compensation					
Employee's Salaries	5,553,594		447,667	10,745,060	\$ 1,201,500
Other Costs and Expenses	558,086		477,923	6,447,344	278,254
	<u>6,111,680</u>	<u> </u>	<u>\$ 963,090</u>	<u>17,192,404</u>	<u>\$ 1,479,754</u>
	=====	=====	=====	=====	=====

All Common Stock issued in 2001 and 2002 was issued by Mr. Adair and Mr. Alghani.

Included in the 2001 Common Stock amount listed under "Other Costs and Expenses" above are 4,000,000 shares of Common Stock granted to Mr. Adair and Mr. Alghani. It is the Company's position that this Common Stock was granted improperly. Furthermore, it is the Company's position that Mr. Adair and Mr. Alghani improperly doubled their salaries in 2001 and 2002. The Company will pursue all legal remedies to recover this Common Stock and the value that these shares represent.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, includes certain forward-looking statements. The forward-looking statements reflect the Company's expectations, objectives and goals with respect to future events and financial performance. They are based on assumptions and estimates, which the Company believes are reasonable. However, actual results could differ materially from anticipated results. Important factors that may impact actual results include, but are not limited to, commodity prices, political developments, market and economic conditions, industry competition, the weather, changes in financial markets and changing legislation and regulations. The forward-looking statements contained in this report are intended to qualify for the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. The notes to Consolidated Financial Statements sections contain information that is pertinent to the following analysis.

GENERAL COMMENTS ON COMPANY BUSINESS PLAN

In a proxy statement filed with the SEC and dated May 31, 2002 the SCORE Group disclosed a Business Plan for the Company based on publicly available information that had been released

by the former management. Since the Annual Shareholder's Meeting on August 5, 2002, the Company's new management has been focused on resolving the myriad of short-term issues that faced the Company. The Company's Officers and Directors have also established good corporate governance and full disclosure of information surrounding the key factors that effect investment decisions. However not all of management's efforts have gone into those endeavors at the expense of implementing that stated Business Plan on behalf of the shareholders. As market conditions change, the Company's management will adapt to the dynamics of the market while continuing to follow the general outline of that stated Business Plan as directed by the Board of Directors. The following discussions are intended to inform shareholders regarding the status of each of the identified projects that the Company has previously announced.

Financing

Financing plans announced in the proxy statement utilizing the Company's interest in the Teaway Energy Center as collateral for a short-term loan of up to \$5,000,000 are not viable in today's market. In addition due to the external circumstances discussed more fully below, the Teaway Energy Center project may not be built. These facts preclude any further discussion of financing based on this project.

Discussions have been underway with investment entities since August 2002 to secure the financing necessary to support the Yemen Block 20 project. Contingent on an award in favor of the Company by the Arbitration Tribunal regarding the Yemen Block 20 interest, the Company has negotiated an agreement with an investor to secure and support this project. This commitment is subject to the investor's due diligence, terms of the final award and the state of world affairs at the time of possible closing. There is no assurance that the Company will be able to secure this financing. Due to the uncertainties of the negotiation process, the material terms of such financing arrangements ultimately might not be acceptable to the Company's Board of Directors, the financing entities, Occidental or Saba or the Yemen Government therefore, there is a risk that this financing may not be obtained. Depending on the terms of award, a judgment in favor of the Claimants (Occidental and Saba) might result in material damage to the Company.

Producing Property Acquisition - Gulf of Mexico

As previously announced in the proxy statement, negotiations have continued between the Company and a privately held oil company in Houston, Texas that operates a gas-producing platform in the Gulf of Mexico. These discussions have focused on several strategies utilizing a portion of this property to revitalize the Company. Initial discussions have centered on the concept of the Company earning an equity interest in the property. The cash flow generated from this investment is projected to be sufficient to cover ongoing overhead costs and to provide working capital for the Company. Due to the uncertainties of the negotiation process, the final terms of this project ultimately might not be acceptable to the Company's Board of Directors, and therefore, there is risk that this project may not be obtained.

Power Development

The Company intends to pursue the development of power projects in both domestic and international venues. The business model for this industry is currently undergoing a

transformation. The Company's new management is currently investigating several new opportunities in addition to those discussed below and has identified qualified individuals that will be hired at an appropriate time to identify and pursue power development projects.

Teaway Energy Center, Southern California - The Company and Calpine Corporation of San Jose, California signed a Site Development Agreement in July 1999, with respect to a power plant site located on the Torres Martinez Indian reservation which is near Palm Springs, California. Located half way between the major population centers of Los Angeles and San Diego, the \$275 million dollar 600 megawatt Teaway Energy Center (TEC) was to be sited on reservation land belonging to the Torres Martinez Desert Cahuilla Indians.

Since the signing of the Site Development Agreement, power industries as a whole and the California markets specifically have suffered tremendous turmoil and change. In the wake of the Enron Corp. scandal, the power shortages experienced in California during the summer of 2001 now appear to be more contrived than real. In addition, over the last year, the finances and share prices of many large power companies have drastically declined. These factors and other negative trends in the overall economy, have profoundly affected investor confidence in all aspects of the power industry. The net effect of these outside factors has placed the Teaway Energy Center project on indefinite hold. While many of the essential elements of the project are now permitted and Calpine maintains a substantial investment in the Teaway site including the costs of pre-construction engineering, permitting, purchase of right of way and air quality credits, Calpine has informed the Company that they do not intend to pursue the development of this site.

The Company continues to believe that the long-term need for new power plants will be significant, particularly as the national economy recovers and older, less efficient generating assets need to be replaced. Currently, the Company does not anticipate any near term positive economic impact from this project.

Pointe Noire Gas Feasibility Study, Republic of Congo - The Company and the Republic of Congo government signed a Feasibility Study for the Creation of an Industrial Free Trade Zone at Point Noire, Republic of Congo. The Company's new management has discussed this project personally with the President of the Republic of Congo and as a result is very committed and excited about bringing this project to completion. A detailed work program has already been developed and technical experts to assist with the project have been identified, contracted and are currently working on the initial draft of the study for presentation to the Congolese government.

Oil and Gas Exploration

Block 20, Republic of Yemen - In April 2000, Adair Yemen, Occidental, Saba and YICOM signed a Production Sharing Agreement with the Ministry of Oil in Yemen for exploration rights in Yemen Block 20. Since that time an aggressive exploration program has been conducted by the Operator of the project, first by Adair Yemen and then by Occidental, the current Operator of the project. Approximately 1,825 kilometers of existing 2D seismic data was reprocessed and approximately 550 square kilometers of new 3D seismic was acquired, processed and interpreted in 2001 and 2002. As of March 31, 2003, Occidental as operator of the block has drilled three (3) dry exploratory wells on the block. Due to the conditions of financial default (see discussion below) Adair Yemen has not had access to the 3D seismic data nor did the Company have any

technical input into the selection of these drilling locations. It is the considered technical opinion of the Company that none of these three wells tested any of the seven prospects identified and discussed in ITEM 2. Therefore the Company still believes that the Yemen Block 20 project is viable, prospective and is well worth the effort required to reinstate the working interest.

Block 20 Financial Default - Owing to the fact that a Letter of Credit, required by Yemen Block 20 project agreements was not posted in a timely fashion by the Company while under the sole financial management of John W. Adair and Jalal Alghani, the previous Directors and Officers of the Company, Adair Yemen suffered financial default on their previously agreed commitments to the project. Further, as a result of the financial default, the Company currently stands to lose its entire 30% participating interest in the project. This participating interest is now the subject of a lawsuit filed by project partners Occidental and Saba which are seeking reassignment of Adair Yemen's interest in the project to the other two parties as a result of the Company's financial default under terms of the partnership's operating agreement, the Joint Management Agreement ("JMA"). As is required by the JMA, this lawsuit was filed with the International Chamber of Commerce ("ICC") in Paris, France for settlement by arbitration.

Block 20 Legal Proceedings - Immediately following the election of a new Board of Directors for the Company on August 5, 2002, it was discovered that the legal counsel representing the Company in this proceeding (both in Houston and in Paris, France) had resigned from the case due to non-payment of fees. After being able to review the facts surrounding the case and the arguments presented previously on behalf of the Company, the Company's new management decided to change the course of the legal argument. On September 15, 2002, the Company submitted a legal brief to the Arbitration Tribunal outlining a legal position based in equity. The case relates to Claimants (Occidental and Saba) seeking an ICC award whereby Adair Yemen forfeits its 30% working interest in Block 20 in the Republic of Yemen. Respondent (Adair Yemen) argues that such forfeiture is illegal since it is based upon enforcement of a provision, which under English law is penal and therefore void; alternatively, under English laws of equity, the ICC tribunal should grant equitable relief subject to Adair Yemen paying all outstanding moneys owed in accordance with the JMA currently in force between the parties.

In December 2002, new legal counsel was retained by the Company to prepare and argue the case at the Final Hearing before the Tribunal on January 22-23, 2003 in Paris. At the Final Hearing, on behalf of the Respondent, Mr. Boyce presented a witness statement and was examined by the Claimants as well as by the Tribunal. Additionally, witnesses from the Claimants also presented statements and were examined by the Respondent's legal counsel and the Tribunal. During the hearing, legal arguments were presented orally by legal counsel for both Claimant and Respondent. Final written submissions were presented to the Tribunal on March 28, 2003.

The Company received an unfavorable final judgment and notice of award, which the Company is reviewing to determine its next course of action. This unfavorable ruling may result in the Company losing an asset valued in the hundreds of million of dollars and having to pay \$4,455,653 in unpaid cash calls, interest, actual damages, Court costs and Claimant's legal expenses.

Chimichagua Prospect, Colombia - Immediately following the election of a new Board of Directors for the Company on August 5, 2002, it was discovered that while under the sole financial management of Mr. Adair and Mr. Alghani, the previous Directors and Officers of the Corporation, the minimum capital required (\$30,000) for the registration and incorporation of Adair Colombia Oil & Gas, S.A. had not been funded. Furthermore, none of the general and administrative expenses for the Company had been paid. Consequently, the Colombia government was in the process of revoking the Company's Chimichagua concession. As of the end of this reporting period, the Company's new management has commenced negotiations with the Colombia national oil company, Ecopetrol, S.A., to legalize the Company in Colombia and present a program of activities for the concession. Due to the difficult economics of commercializing this stranded gas reserve there is a substantial risk that the process of negotiation will not lead to a successful conclusion. There is also a substantial risk that financing will not be found to support this venture.

STATUS OF COMPANY UPON CHANGE OF MANAGEMENT

On August 5, 2002, Adair International Oil & Gas, Inc. (the "Company" or "AIGI") held its Annual Shareholders Meeting. At this meeting, the AIGI shareholders, who had previously been properly noticed and informed by opposing proxy statements distributed by the Company's management and the SCORE Group, Inc. ("SCORE Group"), voted to select a new Board of Directors for the Company's current calendar year. Upon announcement of the results of the balloting, by the Inspector of Election at approximately 5:00 pm local time, the SCORE Group Nominees were duly elected by the Company's shareholders to each serve as Directors for a term of one year. Elected to serve were Mr. Richard G. Boyce, Mr. John A. Brush and Mr. Charles R. Close.

Immediately upon election, the Board of Directors met on August 5, 2002 and by resolution of the Board appointed Richard G. Boyce as Acting President and Chris A. Dittmar as Acting Chief Financial Officer and Corporate Secretary. These individuals were duly authorized to conduct the daily business of the corporation, subject to review and approval by the Board of all significant commitments and decisions. The Board issued specific instructions to the newly appointed acting officers to immediately secure all bank accounts, stock issuance and corporate financial records.

On August 6, 2002, Mr. Boyce, Mr. Dittmar and Mr. Larry Swift arrived at the Company's offices located at 3000 Richmond Avenue, Suite 100, Houston Texas 77098 to find that the landlord had changed the locks to the offices and was denying further access due to rent deficiencies. Upon negotiations with the landlord, an agreement was reached to allow the Company's new management team access to the property. An initial walk through of the offices with the landlord indicated that computers, files and certain company property had been removed from the premises. Photographic evidence of the status of the office was taken at that time. Upon additional investigation it was found that the corporate computer network was not accessible due to password control. A review of the video tape retrieved from the surveillance cameras operated by the building security revealed that most of the property missing had been removed from the building by the Company's previous management and employees beginning in the early afternoon of August 5, 2002 while the shareholders meeting was still underway. As recorded by the surveillance tapes, these activities continued until approximately 7:00 pm that same evening.

Upon discovery of this situation the Company's new management contacted John W. Adair's and Jalal Alghani's personal attorney, Mr. Paul D. Smith, of the firm of Axelrod, Smith and Kirshbaum, LLP and requested return of those items removed from the office that were believed to be the property of the Company. Mr. Smith informed the Company that his clients believed that everything taken was their personal property and that nothing belonging to the Company was missing. Mr. Adair and Mr. Alghani were immediately terminated with cause from their positions as executives with the Company, and all other employees were informed that the Company no longer required their services. Mr. Smith has since resigned as the attorney for the Company as well as for Mr. Adair and Mr. Alghani.

The Company's new management then completed a complete physical inventory of the office. Once access was gained to the corporate computer network, it was determined that digital financial accounting records and key stock issuance records had been deleted from the network server and that the backup tapes had been confiscated by previous management. In addition, many physical files had been removed from the office. During the ensuing weeks, the Company's new management worked diligently to inform creditors and financial institutions of the Corporation's situation. Additionally, Company bank accounts and stock issuance authorizations have been secured.

The decision was made to immediately downsize any and all overhead costs and to attempt to minimize outstanding liabilities due to numerous ongoing commitments made by previous management. Actions taken in this regard include:

- Return of five (5) leased luxury automobiles to the leasing entity.
- Return of leased office and residential furniture to the leasing entity.
- Cancellation of John W. Adair's personal apartment lease in Houston.
- Cancellation of any credit cards or charge accounts in the name of the Corporation or guaranteed by the Company.
- Return of leased computer equipment to the leasing entity.
- Return of leased telephone equipment to the leasing entity.
- Moved the physical contents of the Company's offices at 3000 Richmond to a shared office location at 2425 Fountainview Drive, Suite 215, Houston, Texas 77057.
- Vacated the Company's offices at 3000 Richmond to allow building management the opportunity to mitigate the Company's damages by re-leasing the office space.

Mr. Dittmar, in his capacity as Chief Financial Officer, reported the following key facts to the Board of Directors:

- All of the Corporation's 150 million authorized Common Stock shares have been issued while under the sole financial management of John W. Adair and Jalal Alghani, the previous Directors and Officers of the Corporation. This leaves the Company without any means to raise capital through the sale of Common Stock until such time as additional shares are authorized by a vote of the shareholders.
- John W. Adair and Jalal Alghani wrongfully issued a total of 98,195,384 shares of Common Stock to individuals and entities valued at \$13,732,033 with the Company receiving only \$5,085,490. (Reference NOTE 12 to the consolidated financial statements.)
- A total amount of \$859.00 was found in the Company's checking accounts on August 6, 2002.
- An inventory of the physical assets of the office indicated that property valued at \$42,649 was missing and removed by previous management. Police reports have been filed with the Houston Police Department and are under review by their Burglary and Theft Division.
- Digital and physical financial records of the Company had been deleted or removed from the office by previous management. However, the Company's new management has been able to restore the deleted computer files and is in the process of completing its investigation and compiling evidence supporting the U.S. Securities and Exchange Commission ("SEC") and Racketeer Influenced and Corrupt Organization ("RICO") Federal statute violations committed by the previous management.

RESULTS OF OPERATIONS

This report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, includes certain forward-looking statements. The forward-looking statements reflect the Company's expectations, objectives and goals with respect to future events and financial performance. They are based on assumptions and estimates, which the Company believes are reasonable. However, actual results could differ materially from anticipated results. Important factors that may impact actual results include, but are not limited to, commodity prices, political developments, market and economic conditions, industry competition, the weather, changes in financial markets and changing legislation and regulations. The forward-looking statements contained in this report are intended to qualify for the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. The notes to Consolidated Financial Statements sections contain information that is pertinent to the following analysis.

YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001

In 2002 versus 2001, revenues decreased from \$807,695 to \$2,286, a decrease of \$805,409. Revenue from technical services fees decreased from \$434,869 to zero in 2002 due to loss of operatorship of Block 20 in Yemen. Consulting fees decreased from \$156,000 in 2001 to zero in 2002. This decrease is due to the Teayawa project being put on permanent hold by Calpine, which resulted in the loss of the associated monthly consulting fees to the Company. Other

revenues decreased from \$216,826 in 2001, to \$2,286 in 2002, a decrease of \$214,540. This decrease is primarily the result of a decrease in fees earned by the Company's now closed equipment sales division.

Costs and Expenses - Expenses increased from \$5,029,023 during the fiscal period ended December 31, 2001 to \$11,184,841 for the year ended December 31, 2002, an increase of \$6,158,104. There were several reasons for this increase. General and Administrative Expense increased from \$1,720,828 in 2001 to \$2,454,944 in 2002. This increase of \$734,116 is due primarily to legal bills incurred by previous management. Salaries and wages paid in stock decreased from \$1,201,500 for 2001 to \$187,667 in 2002. This decrease of \$1,013,833 is due to a decrease in personnel expense instituted by the Company's new management. Other Expenses Paid in Stock decreased from \$278,254 in 2001 to \$27,923 in 2002. This decrease of \$250,331 is due to new management's efforts to reduce overhead wherever possible. Impairment Loss on Assets increased from zero in 2001 to \$7,325,716 in 2002. This increase is due to recognition of impairment relating to Block 20 in Yemen of \$2,747,508, Geophysical Data of \$1,578,208, and Colombia of \$3,000,000. Loss on Abandonment of Assets increased from zero in 2001 to \$728,834 in 2002. This increase is due to Capitalized Lease Equipment returned to the lessors and furniture and equipment taken by Cameron Management for past due rent on the 3000 Richmond offices. Depreciation and depletion expense decreased from \$146,106 in 2001 to zero in 2002. This decrease is due to the above abandonment of associated assets during 2002. Management's Estimated Loss on Improper Common Stock Sales increased from zero in 2000 to \$1,729,138 in 2001 and then decreased to \$382,478 in 2002. The sum of these two items, \$2,111,616 is the market value of stock issued by the Company in the secondary market for which the Company did not receive any proceeds or services rendered during 2001 and 2002. Interest expense increased from \$35,217 in 2001 to \$101,276 in 2002. This increase of \$66,059 is due primarily to interest on cash calls for Block 20 in Yemen left unpaid by previous management. Other Expenses increased from \$78,980 in 2001 to \$100,406 in 2002. This increase of \$21,426 is due to various costs associated with the change in management.

Other Income and Expenses - Interest Income increased from \$10,439 in 2001 to \$11,308 in 2002. This increase of \$869 is due to earnings from the Investment - Letter of Credit on Deposit. The Board of Directors curtailed all activities of Superior Geophysical, Inc., Adair Exploration, Inc. and Adair Power, LLC to end the financial drain on the Company from these subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

The Company currently has nominal cash reserves, no cash flow from operations, and no ability to secure financing through the sale of securities without further shareholder authorization.

The Company has historically suffered from a working capital deficit and until the shareholders replaced the Board of Directors at the Annual Shareholders Meeting on August 5, 2002, the Company's previous management depended almost entirely on illegal activities involving the sale of common stock to obtain working capital. During the first eight months of 2002, previous management placed 52,919,705 shares of Common stock into the public market place. This unprecedented dilution of the existing shareholders of the Company resulted in all 150,000,000 of the Company's authorized shares of Common stock being issued. As a result of the previous Board's actions, the Company will not be able to raise capital through the sale of Common stock

until such time as the shareholders authorize additional shares of stock at the next scheduled Annual Shareholders Meeting. It is the intent of new management to hold the next Annual Shareholders Meeting during the third quarter of 2003.

During the interim period, the Company's Directors and Officers have agreed to manage the company deferring cash compensation until such time as the financial condition of the Company improves.

The Company continues to investigate financing opportunities to support new projects through project based financing.

There are no assurances, however, that the Company can raise the necessary capital to enable it to continue to develop its Business Plan or that it will be able to generate sufficient revenue growth and improvements in working capital. As no revenue is currently generated from operations, the Company will have to raise additional working capital. No assurance can be given that funds will be available from any source when needed by the Company or, if available upon terms and conditions reasonably acceptable to the Company.

ITEM 7. FINANCIAL STATEMENTS

The information required hereunder is included in this report as set forth on pages 42 - 65.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

As reported on a Form 8-K/A dated April 10, 2003, on March 28, 2003 the Company appointed the accounting firm of Clyde Bailey, P.C. ("Bailey") as independent certifying accountant for fiscal 2002 to replace Malone & Bailey, PLLC ("M&B") effective with such appointment. This action is a result of the Board's desire to insure shareholders of reliable and independent financial disclosure and as part of that strategy, to make a "clean break" from those optional relationships established by previous management. The Board believes that this action is consistent with the mandate received from the shareholders at the Company's last Annual Shareholders Meeting held on August 5, 2002, which resulted in the installation of an entirely new Board of Directors.

M&B reported on the Company's financial statements for fiscal year 2001 and for the periods ended March 31, 2002, June 30, 2002 and September 30, 2002. The reports of M&B for these periods did not contain any adverse opinion, disclaimer of opinion, or any other modification.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

The following table sets forth the directors and executive officers of the Company.

Name	Age	Title
Richard G. Boyce	48	Director - President
John A. Brush	48	Director
Charles R. Close	43	Director
Chris A. Dittmar	56	Chief Financial Officer

Directors are elected annually and hold office until the next Annual Shareholders Meeting of the Company or until their successors are elected and qualified. Officers serve at the discretion of the Board of Directors. There is no family relationship between or among any of the directors and executive officers of the Company.

BIOGRAPHIES

Richard G. Boyce - Director - President, Adair International Oil and Gas, Inc. - Mr. Boyce is currently serving on the Board of Directors of Adair International Oil & Gas, Inc. and additionally in the capacity as President with responsibilities for all activities of the Company. In addition to his activities with the Company, Mr. Boyce maintains an active geological consulting practice in Dallas, Texas.

In 1998, under the auspices of his privately held company, Partners In Exploration, LLC ("PIE"), Mr. Boyce negotiated a Memorandum of Understanding ("MOU") relating to an exploration and production agreement with the Ministry of Oil and Mineral Resources in the Republic of Yemen on the highly competitive Blocks 20 and 42 located adjacent to major oil production. While looking for partners to join his efforts in Yemen, Mr. Boyce, responded to an AIGI press release in July 1999 that indicated that the Company had secured financing for exploration projects in Yemen. That contact resulted in PIE and AIGI signing a 50/50 joint venture agreement in July 1999, to pursue Yemen Block 20. This joint venture arrangement resulted in both companies signing a MOU with the Yemen Ministry of Oil in October 1999, which gave the companies an exclusive right to negotiate a Production Sharing Agreement ("PSA") for Yemen Block 20. Subsequently, Mr. Boyce merged his privately held company with Adair International Oil and Gas, Inc. and he became a substantial shareholder in the Company.

Prior to his involvement with the Company, Mr. Boyce began his career as a geophysicist for The Superior Oil Company ("Superior") with early training at the Geoscience Laboratory in Houston, Texas. In 1980, Mr. Boyce transferred to Midland, Texas subsequently leaving Superior to work for both Conquest Exploration Inc. and Hunt Oil Company during his ten-year stay in the Permian Basin. In 1991, Mr. Boyce served as the Chief Geophysicist for Hunt Oil Company ("Hunt Oil") based in Dallas, Texas and in 1992 was appointed the Exploration Manager for the

Yemen Hunt Oil Company ("Yemen Hunt"), the Operator of the Marib Production Sharing Area in Yemen which daily produces 140,000 barrels of oil. During this time he also served as the Exploration Vice President of the Hunt Oil subsidiaries, Ethiopia Hunt Oil and Jannah Hunt Oil. In addition to managing the daily exploration drilling operations and prospect generation activities, his responsibilities included the negotiation of international contracts, partner relationships, and representation of industry operating groups with foreign governments. Under Mr. Boyce's leadership of the Yemen-Jannah exploration program, several new fields were discovered, resulting in the addition of booked reserves of over 200 million barrels of oil. At Yemen Hunt, Mr. Boyce was responsible for the introduction of the first 3-D seismic program in the Marib Area, resulting in production increases of 50,000 barrels of oil per day. In 1996, Mr. Boyce left Hunt Oil and started Partners In Exploration, LLC, an exploration consulting partnership that provided seismic and geological interpretation services for clients on a worldwide basis.

Mr. Boyce graduated from the Colorado School of Mines in 1978 with a Bachelor of Science degree in Geophysical Engineering and currently maintains active membership in the American Association of Petroleum Geologists, the Society of Exploration Geophysicists and the Association of International Petroleum Negotiators professional organizations.

John A. Brush - Director - Currently Mr. Brush is employed as Senior Contracts Administrator for Computer Sciences Corporation located in Houston, Texas. Computer Sciences Corporation ("CSC") is a large information technology corporation that is a leader in the field of outsourcing information technology to a worldwide client base.

Prior to joining CSC, Mr. Brush was in private practice for approximately five years. His clients included large and small oil and gas exploration and production companies, entrepreneurs and foreign government agencies. Earlier, Mr. Brush served as Vice President and General Counsel for Forcenergy Inc. While serving in this capacity, Mr. Brush designed and implemented corporate contract litigation strategies and managed day to day legal issues on a corporate level that included coordination of multiple outside legal firms in a wide variety of cases. In addition, Mr. Brush evaluated government marketing, transportation and royalty regulations that had a significant impact on company operations and profitability. During his tenure at Forcenergy, Mr. Brush coordinated a \$60 million dollar initial public offering ("IPO") of the company's stock and simultaneously coordinated the merger of the company with a privately held independent oil company.

Mr. Brush has extensive experience in business development activities having worked over nineteen years with several premier independent oil and gas companies including Apache Corporation, Hamilton Brothers Oil Co., The Superior Oil Company and Michigan Wisconsin Pipe Line Company. Areas of experience in this environment include dealing with multinational corporations, various U.S. and foreign government agencies and ministries, opposing counsels, co-venturers, insurers and financial institutions. Mr. Brush's legal experience during this time include joint operating agreements, oil and gas exploration concessions, natural gas, oil, sulfur and liquids sales royalties, processing plant agreements, joint bidding agreements, farmout agreements, settlement agreements, public offerings and private financing, risk management including hedging strategies, acquisitions, divestitures and mergers. Mr. Brush, also has extensive experience marketing oil, natural gas, liquids and sulfur in the United States, Asia,

Canada and Europe, having been responsible for marketing over 12,500 barrels of crude oil and 120 million cubic feet of gas production daily that generated annual revenues in excess of \$175 million dollars.

In addition to his domestic experience, Mr. Brush's international experience includes review and negotiation of deals in Albania, Aruba, Australia, Bangladesh, Belize, Brazil, Canada, Cameroon, Chile, Croatia, Dagastan, Ecuador, Egypt, England, Equatorial Guinea, Eritrea, Gabon, Ghana, India, Indonesia, Malaysia, Netherlands, Norway, Peru, Scotland, Suriname, Thailand, Turkey and Venezuela.

John A. Brush graduated from the South Texas College of Law, Houston, Texas with a Juris Doctorate in Corporate Law and Contracts. Mr. Brush completed his undergraduate studies at the University of Michigan, receiving a Bachelor of Arts degree in Political Science. Mr. Brush has been admitted to the State Bar of Texas and is a member of the American Bar Association and the Houston Bar Association. He is also a member of the American Corporate Counsel Association, the American Association of Professional Landmen, the Association of International Petroleum Negotiators, the Natural Gas Association of Houston and New Orleans and the Houston Producers Forum.

Charles R. Close - Director - Mr. Close is the owner of Close & Associates, a Certified Public Accounting practice located in Houston, Texas that specializes in the energy industry. The business activities of Close & Associates focus on tax financial reporting issues, federal and state tax planning and compliance, transaction analysis and support, and federal and state audit support for several large public independent oil and gas companies and drilling and oilfield service companies. Close & Associates also provides full financial support for a privately owned energy service company, including the oversight and preparation of the daily accounting operations, preparation of the monthly financial package, preparation of annual operating budgets, and management of working capital. Other management duties include business development, contract negotiations, and strategic planning.

Prior to starting Close & Associates in 1993, Mr. Close enjoyed a successful tenure at Price Waterhouse in Texas. During his time at Price Waterhouse, Mr. Close advanced from the position of Staff Accountant through the positions of Consultant, Manager and ultimately served as the Senior Tax Manager in the Petroleum Industry Services Group. Responsibilities included tax planning, consultation and compliance for large oil and gas exploration and production companies and for a wide variety of oil field service companies.

Mr. Close graduated from the University of Texas in 1980 with a Bachelor's Degree of Business Administration (Accounting) and is a Certified Public Accountant. He is an active member of the American Institute of Certified Public Accountants and the Texas Society of Certified Public Accountants.

Chris A. Dittmar - Chief Financial Officer - Mr. Dittmar is currently serving as Chief Financial Officer and Corporate Secretary of Adair International Oil and Gas, Inc. Mr. Dittmar is the Chief Executive Officer of Alliance Energy Corporation. Alliance is a privately held corporation currently engaged in oil and gas exploration and production activities, and power development on an international basis.

Mr. Dittmar was the Chairman, President and CEO of Xavier Corporation from 1993-1997. Xavier was an independent exploration and production corporation principally engaged in the acquisition and development of natural resources in the Former Soviet Union ("FSU"). It entered into joint ventures and technical service agreements with Russian entities for the exclusive exploration, development, production, processing and marketing of oil and gas reserves in excess of two billion barrels. While with Xavier, Mr. Dittmar developed the corporate business plan and raised \$100 million dollars of debt and equity financing for its implementation. Mr. Dittmar also has extensive experience recruiting and managing senior management teams required to implement large-scale international operations.

Prior to 1993, Mr. Dittmar operated a private investment entity for family oil and gas investments and has held previous positions as Assistant Controller for Occidental Chemical Company and Audit Manager for Occidental Petroleum Corporation as well as a Senior Accountant at Aluminum Company of America.

Mr. Dittmar graduated from Cleveland State University, Cleveland, Ohio with a Juris Doctor. Mr. Dittmar completed his undergraduate studies at Iowa State University graduating with a Bachelor of Science in Economics and Finance.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

John W. Adair and Jalal Alghani filed FORM 4 reports during 2002 concerning receipt of restricted Common stock as compensation from the Company.

ITEM 10. EXECUTIVE COMPENSATION

DIRECTOR COMPENSATION

Beginning in August 2002, Director's annual compensation has been set at \$30,000, such compensation to be payable with Preferred stock.

EXECUTIVE COMPENSATION

Beginning in January 2001, Mr. Adair and Mr. Alghani improperly doubled their annual salaries increasing them from one hundred twenty thousand dollars (\$120,000) to two hundred forty thousand dollars (\$240,000) each.

As a result of the outcome of the proxy contest (see Item 4) at a special meeting of the Board of Directors on August 13, 2002, the newly elected Directors, by way of a corporate resolution, terminated the services of Mr. Adair and Mr. Alghani effective as of that date. At that same meeting the Board of Directors passed a corporate resolution (with Mr. Boyce recusing himself) appointing Mr. Boyce, President and Mr. Dittmar, Chief Financial Officer and Corporate Secretary. The Board determined that the Company shall only owe compensation to Mr. Boyce and Mr. Dittmar for their services in the event the Company receives funds or regains the ability to issue stock in lieu of cash.

Executives have no 401(k) or retirement plan through the Company.

The following table reflects executive officer compensation for services to the Company for the year ended December 31, 2002.

SUMMARY COMPENSATION TABLE								
NAME/POSITION	YEAR	ANNUAL COMPENSATION			LONG TERM COMPENSATION			
		SALARY	BONUS	TOTAL CMPSN	RESTRICTED STOCK AWARDS	SECURITIES OPTIONS/SARS	LTIP PAYOUTS	OTHER
John W. Adair CEO	2002	\$ 140,000 (1)	----	\$ 140,000	----	----	----	----
	2001	\$ 240,000 (2)	----	\$ 240,000	----	----	----	----
	2000	\$ 190,000 (3)	----	\$ 190,000	----	----	----	----
Jalal Aghani CFO	2002	\$ 140,000 (1)	----	\$ 140,000	----	----	----	----
	2001	\$ 240,000 (2)	----	\$ 240,000	----	----	----	----
	2000	\$ 190,000 (3)	----	\$ 190,000	----	----	----	----
Richard G. Boyce President	2002	\$ 100,000 (4)	----	\$ 100,000	----	----	----	----
	2001	\$ 55,000 (2)	----	\$ 55,000	----	----	----	----
	2000	\$ 70,000 (3)	----	\$ 70,000	----	----	----	----
Chris A. Dittmar CFO	2002	\$100,000 (4)	----	\$ 100,000	----	----	----	----
	2001	----	----	----	----	----	----	----
	2000	----	----	----	----	----	----	----

(1) 2002 Salary paid in kind with 5,553,594 shares of restricted Common stock for Mr. Adair and Mr. Alghani, which represents amount for seven months of employment beginning on January 1, 2002 and ending with termination of Mr. Adair and Mr. Alghani's employment on August 8, 2002.

(2) 2001 Salary paid in-kind with 1,818,518 shares of restricted Common stock for Mr. Adair and for Mr. Alghani and 187,795 shares for Mr. Boyce.

(3) 2000 Salary paid in-kind with 145,487 shares of restricted Common stock for Mr. Adair and Mr. Alghani and 145,487 shares for Mr. Boyce.

(4) 2002 Salary paid in-kind with 100,000 shares of Preferred stock for Mr. Boyce and Mr. Dittmar, which represents amount for five months of employment beginning August 6, 2002 through December 31, 2002.

SCORE GROUP, INC. REIMBURSEMENT

SCORE Group, Inc. was reimbursed for its direct and indirect expenses for the proxy battle in the amount of \$450,000.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of March 31, 2003, with respect to the beneficial ownership of shares of Common stock by (i) each person who is known to the Company to beneficially own more than 5% of the outstanding shares of Common stock, (ii) each director of the Company, (iii) each officer of the Company and (iv) all officers and directors of the Company as a group. Unless otherwise indicated, each stockholder has sole voting and investment power with respect to the shares shown.

Title of Class	Name and Address* of Beneficial Owner	Amount and Nature of Beneficial Owner	Percent of Class
Common Stock	Richard G. Boyce – Director	2,503,752	1.8%
Common Stock	John A. Brush – Director	None	0.0%
Common Stock	Charles R. Close – Director	None	0.0%
Common Stock	Chris A. Dittmar – CFO	None	0.0%
Common Stock	John W. Adair – Stockholder	9,895,101	6.6%
Common Stock	Jalal Alghani – Stockholder	8,304,005	5.5%

* All Directors and the CFO address is 2425 Fountainview Dr. Suite 215, Houston, TX 77057.

All officers and directors of the Company as a group hold 2,503,752 shares, which represents 1.8% of the total outstanding shares of Common stock. As of the date of this report, the Company knows of no arrangement or understanding that will result in a change of control within the Company.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Board of Directors of the Company has adopted a policy that Company affairs will be conducted in all respects by standards applicable to publicly-held corporations and that the Company will not enter into any transactions and/or loans between the Company and its officers, directors and 5% stockholders.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

CERTIFICATIONS

I, Richard G. Boyce, certify that:

1. This report fully complies with the requirements of Section 13(a) or a5(d) of the Exchange Act;

and

2. the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

/s/ Richard G. Boyce

President and Director

August 11, 2003

I, Chris A. Dittmar, certify that:

1. This report fully complies with the requirements of Section 13(a) or a5(d) of the Exchange Act;

and

2. the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

/s/ Chris A. Dittmar

Chief Financial Officer

August 11, 2003

The following table details the events reported in Fiscal 2002 by the Company on Form 8-K. Each filing is incorporated herein by reference.

Filing Date	Description
2-14-2002	Change in the Registrant's Certifying Accountant
5-22-2002	Change in Corporate By-Laws
8-16-2002	Notice of Change of Control

ITEM 14. CONTROLS AND PROCEDURES

As required by Rule 13a-15(b), Company's executive management, including the President and Chief Financial Officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of the Company's disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the President and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. As required by Rule 13a-15(d), the Company's executive management, including the President and Chief Financial Officer, also conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the period covered by this report.

SIGNATURES

In accordance with the requirements of Section 13 of 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 11, 2003.

ADAIR INTERNATIONAL OIL AND GAS, INC.

By:/s/ Richard G. Boyce
Richard G. Boyce
Director and President

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons in the capacities and on the dates indicated:

/s/ Richard G. Boyce
Director and President
August 11, 2003

/s/ John W. Brush
Director
August 11, 2003

/s/ Charles R. Close
Director
August 11, 2003

/s/ Chris A. Dittmar
Chief Financial Officer
August 11, 2003

/s/ Larry Swift
Controller
August 11, 2003

CERTIFICATIONS

I, Richard G. Boyce, certify that:

1. I have reviewed this annual report on Form 10-KSB of Adair international Oil & Gas, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 08/11/03

/s/ Richard G. Boyce

President and Director

I, Chris A. Dittmar, certify that:

1. I have reviewed this annual report on Form 10-KSB of Adair international Oil & Gas, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 08/11/03

/s/ Chris A. Dittmar

Chief Financial Officer

FINANCIAL STATEMENTS
(RE: PART II ITEM 7)

ADAIR INTERNATIONAL OIL AND GAS, INC. AND SUBSIDIARIES
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DECEMBER 31, 2002 AND 2001

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Board of Directors
Adair International Oil & Gas, Inc. and Subsidiaries
Houston, Texas

Report of Independent Public Accountant

We have audited the accompanying balance sheets of Adair International Oil & Gas, Inc. and Subsidiaries (Company) as of December 31 2002 and 2001 and the related statement of income and expenses, statement of changes in stockholders' equity, and the statement of cash flows for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these statements based on our audit.

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

The accompanying financial statements have been restated based on Company records, in which we found a loss to the Company resulting from the wrongful issuance of Company shares for less than full market value. This loss is explained in NOTE 12 of the Notes to Financial Statements.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has limited operations currently and suffered recurring losses from operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. This is further explained in the notes to financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31 2002 and 2001 and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States.

Clyde Bailey, P.C.
Certified Public Accountant

San Antonio, Texas
March 23, 2003
Except for Note 13, 14, and
Restated Financial Statements
August 7, 2003

ADAIR INTERNATIONAL OIL & GAS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
YEAR ENDED DECEMBER 31, 2002
(RESTATED)

	2002	2001
Assets		
Current Assets		
Cash and cash equivalents	\$ 251	\$ 5,103
Accounts receivable	527,080	2,000,000
Other current assets	25,000	25,000
Prepaid expenses	1,628,215	
Total current assets	2,180,546	2,030,103
Investment - letter of credit deposit	867,094	855,786
Property and equipment		
Oil and gas properties and equipment	4,368,377	7,794,444
Furniture and equipment	--	997,981
Less accumulated depreciation	--	(269,147)
Net property and equipment	4,368,377	8,523,278
Other Assets:		
Geophysical data and intellectual property	--	1,578,208
Other		-
Total other assets	--	1,578,208
Total Assets	\$ 7,416,017	\$ 12,987,375
	=====	=====
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 2,592,494	\$ 522,256
Joint Venture cash calls payable	2,321,441	--
Current portion of notes payable	425,886	55,000
Current portion of capital leases	--	203,429

Unearned revenue	2,000,000	2,000,000
Accrued expenses	64,262	--
Taxes payable	160,501	80,539
	-----	-----
Current liabilities	7,564,584	2,861,224
Non-current liabilities		
Notes payable	--	394,608
Non-current portion of capital leases	--	-
Commitments and contingencies		
Total liabilities	7,564,584	3,255,832
Shareholders' equity		
Preferred Stock, \$.01 par value, 5,000,000 shares authorized, no shares issues	-0-	-0-
Common stock, w/o par, 150,000,000 shares authorized. 150,000,000 and 97,080,295 shares outstanding at December 31, 2002 and 2001 respectively	33,228,461	31,812,922
Accumulated deficit	(33,377,029)	(22,081,379)
	-----	-----
Total shareholders' equity	(148,568)	9,731,543
	-----	-----
	\$ 7,416,017	\$ 12,987,375
	=====	=====

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

ADAIR INTERNATIONAL OIL & GAS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATION
YEAR ENDED DECEMBER 31, 2002 AND 2001
(RESTATED)

	2002	2001
Revenues		
Development fees		-
Technical services		\$ 434,869
Consulting fees		156,000
Other revenue	\$ 2,286	216,826
	-----	-----
	2,286	807,695
Costs and expenses		
General and administrative	2,454,944	1,720,828
Salaries and wages paid in stock	187,667	1,201,500
Other expenses paid in stock	27,923	278,254
Impairment loss on assets	7,325,716	--
Loss on abandonment of assets	728,834	--
Loss on improper Common stock sales	382,478	1,729,138
Depreciation and depletion	--	146,106
Interest expense	101,276	35,217
Other expenses	100,406	78,980
	-----	-----
Total expenses	11,309,244	5,190,023
Net income (loss) from operations	(11,306,958)	(4,382,328)
Other income and expenses		
Interest and other income	11,308	10,439
	-----	-----
Net income (loss)	\$ (11,295,650)	\$ (4,371,889)
	=====	=====
Earnings per share		
Net loss per share - basic and diluted	\$ (0.08)	\$ (0.05)
Weighted average shares outstanding	136,653,702	83,575,573

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

ADAIR INTERNATIONAL OIL & GAS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2002 AND 2001
(RESTATED)

	Common Stock		Accumulated	
	Shares	Amount	Deficit	Total
(As Reported)				
December 31, 2000	68,391,460	\$ 20,142,182	\$ (11,174,565)	\$ 8,967,617
Prior years shares issued for reduced value		6,534,925	(6,534,925)	
(As Restated)				
December 31, 2000	68,391,460	\$26,677,109	\$ (17,709,490)	\$ 8,967,617
Issuances of shares				
For cash	11,496,431	1,926,923	--	1,926,923
For salaries	10,745,060	1,201,500	--	1,201,500
Other obligations	6,447,344	278,254	--	278,254
Shares issued for reduced value		1,729,138	--	1,729,138
Net loss	--	--	(4,371,889)	(4,371,889)
	-----	-----	-----	-----
December 31, 2001	97,080,295	\$ 31,812,922	\$ (22,081,379)	\$ 9,731,543
Issuances of shares				
For cash	33,109,591	\$ 817,471		\$ 817,471
For salaries	5,553,594	187,667		187,667
Other obligations	558,086	27,923		27,923
Shares issued for reduced value	13,698,434	382,478		382,478
Net income (loss)			(11,295,650)	(11,295,650)
December 31, 2002	150,000,000	\$ 33,228,461	\$ (33,377,029)	\$ (148,568)

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

ADAIR INTERNATIONAL OIL & GAS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2002 AND 2001
(RESTATED)

	2002	2001
Cash flows from operating activities		
Net loss	\$ (11,295,650)	\$ (4,371,889)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and depletion		146,106
Issuance of stock for expenses	215,590	1,479,754
Estimated loss on improper stock sales	382,478	1,729,138
Impairment loss on assets	7,325,716	
Changes in working capital accounts		
Accounts receivable	1,472,920	(1,963,900)
Prepaid expenses	(1,628,215)	--
Unearned revenue		2,000,000
Accounts payable	2,070,238	415,214
Taxes payable	79,962	72,045
Increase in accrued expenses	64,262	--
Current portion notes payable	370,886	--
Other		1,299
Total adjustments	10,353,837	3,879,656
Net cash provided by (used in) operating activities	(941,813)	(492,233)
Cash flows from investing activities		
Purchase of oil and gas property	--	(532,096)
Abandonment of assets	525,405	

Purchase of pledged investment account	(11,308)	(855,786)
	-----	-----
Net cash used in investing activities	514,097	(2,096,619)
Cash flows from financing activities		
Capital leases payable		187,229
Common shares issued for cash	817,471	1,926,923
Borrowings under note and credit agreements	(394,608)	449,608
	-----	-----
Net cash provided by financing activities	422,864	2,563,760
	-----	-----
Net change in cash and cash equivalents	(4,852)	(25,092)
Cash and cash equivalents		
Beginning of the period	5,103	30,195
	-----	-----
End of the period	\$ 251	\$ 5,103
	-----	-----
Supplemental Cash Flow information		
Interest paid	--	--
Income taxes paid	--	--
Stock issued for services	215,590	1,479,754

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

ADAIR INTERNATIONAL OIL AND GAS, INC. AND SUBSIDIARIES

Notes To Consolidated Financial Statements December 31, 2002

NOTE 1 Summary of Significant Accounting Policies

Basis of Presentation -- Adair International Oil and Gas, Inc., ("the Company") was incorporated under the laws of the state of Texas on November 7, 1980. The consolidated financial statements include the accounts of Adair International Oil and Gas, Inc. and its wholly owned subsidiaries, Adair Exploration, Inc., Adair Yemen Exploration Limited, Superior Geophysical Inc, and Adair Colombia Oil and Gas, S.A. ("The Company") All material inter-Company balances and transactions have been eliminated, as necessary, in consolidation.

Cash and cash equivalents -- The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Oil and Gas Properties -- The Company follows the full cost method of accounting for its oil and gas properties. Accordingly, all costs associated with acquisition, exploration and development of oil and gas reserves, including directly related overhead costs, are capitalized. All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimates of proved reserves. Investments in unproved properties and major development projects are not amortized until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is deducted from the capitalized costs to be amortized, and recorded in an impairment expense.

In addition, the capitalized costs are subject to a "ceiling test" which limits such costs to the aggregate of the "estimated present value" discounted at a 10-percent interest rate of future net revenues from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties. Depletion of oil and gas properties is computed using all capitalized costs and estimated future development and abandonment costs, exclusive of oil and gas properties not yet evaluated, on a unit of production method based on estimated proved reserves.

Property and equipment -- The cost of other categories of property and equipment are capitalized at cost and depreciated using the "straight-line" method over their estimated useful lives for financial statement purposes as follows: Furniture / office equipment - 7 years; Computer software / equipment 5 - years.

No depreciation and amortization was expensed for the year ending December 31, 2002 due to a loss incurred from the abandonment of property and equipment during the year.

Long-Lived Assets -- Statement of Financial Accounting Standards No. 121 "*Accounting for Impairment of Long-Lived Assets to be "Disposed Of"*" requires, among other things, impairment loss of assets to be held and gains or losses from assets that are expected to be disposed of be included as a component of income from continuing operations before taxes on income.

An impairment loss was recognized on its holdings of oil and gas properties and its geophysical data in the amount \$4,325,716.

Income Taxes -- The Company accounts for income taxes pursuant to the asset and liability method of computing deferred income taxes. Deferred tax assets and liabilities are established for the temporary differences between the financial reporting bases and the tax bases of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. When necessary, valuation allowances are established to reduce deferred tax assets to the amount expected to be realized. No provision is made for current or deferred income taxes because the Company has an excess net operating loss carry-forward.

Earnings Per Share -- Basic earnings per share are computed by dividing earnings (loss) by the weighted average number of common shares outstanding adjusted for conversion of common stock equivalents, where applicable, outstanding during the period. The Company had no stock options or other common stock equivalents outstanding as of December 31, 2002 or for the year then ended.

Use of Estimates -- Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates. In 2002, the management estimated sales prices, costs, and statutory income tax rates in calculating future net cash flows of proven oil and gas reserves.

Impairment of Long-Lived Assets -- The Company follows SFAS No. 144, "*Accounting for Impairment or Disposal of Long-Lived Assets*" for the fiscal year ended December 31, 2002. The Statement requires that an impairment loss be recognized when the carrying value of long lived assets (asset group) exceeds its fair value for long-lived assets, liabilities and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events of changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Under SFAS No 144, the Company considered long-lived assets consisting primarily of oil and gas leases and geophysical data. The assets not covered by SFAS 144 that are included in an asset group are adjusted in accordance with other applicable accounting standards prior to testing the asset group for recoverability. The recoverability of long-lived assets is evaluated at the operating unit level by an analysis of operating results and consideration of other significant events or changes in the business environment. If an operating unit has indications of impairment, such as current operating losses, the Company will evaluate whether impairment exists on the basis of undiscounted expected future cash flows from operations before interest for the remaining amortization period. If impairment exists, the carrying amount of the long-lived assets is reduced to its estimated fair value.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*" which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, "*Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of*", and the accounting and reporting provisions of APB Opinion No. 30, "*Reporting the Results of Operations for a Disposal of a Segment of a Business*". The Company was required to adopt SFAS 144 in the first quarter of 2002 and the Company does not expect the adoption of SFAS 144 to have a material effect on the Company's financial statements. The asset groups not covered by SFAS 144 that are included in an asset group are adjusted in

accordance with other applicable accounting standards prior to testing the asset group for recoverability. The Company has categorized all of its long-lived assets as being held and used and not to be sold. During the year ended December 31, 2002, the Company recognized an impairment loss of \$7,325,716 relating to the following assets:

	Yemen	Geophysical	Colombia	Total
Oil and Gas Properties	\$ 1,394,444		\$ 3,000,000	\$ 4,394,444
Geophysical data and other property	3,400,000	\$1,578,208		4,978,208
Capitalized Costs (Cash Calls)	2,321,441			2,321,441
Less accumulated depletion And depreciation	-		-	-
Less Impairment Loss	(2,747,508)	(1,578,208)	(3,000,000)	(7,325,716)
	\$ 4,368,377	\$ -	\$ -	\$ 4,368,377

Recent Accounting Pronouncements -- In June 2001, the FASB issued SFAS No. 143, *"Accounting for Asset Retirement Obligations"*. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company does not expect that there will be a material impact from the adoption of SFAS No. 143 on its financial position, results of operations, or cash flows.

In August 2001, the FASB issued SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets"*. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. It supersedes SFAS No. 121, *"Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of"*, and the accounting and reporting provisions of Accounting Principles Board Statement ("APB") 30, *"Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions"*, for the disposal of a segment of a business. The Company is required to adopt SFAS No. 144 on October 1, 2002. The Company does not expect that the adoption of SFAS No. 144 will have a material effect on its financial position, results of operations or cash flows.

In April 2002, the FASB issued SFAS No. 145, *"Rescission of FASB Statements No. 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections"*. SFAS No. 145 requires the classification of gains and losses from extinguishments of debt as extraordinary items only if they meet certain criteria for such classification in APB No. 30, *"Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions"*. Any gain or loss on extinguishments of debt classified as an extraordinary item in prior periods that does not meet the criteria must be reclassified to other income or expense. These provisions are effective for fiscal years beginning after May 15, 2002. Additionally, SFAS No. 145 requires sale-leaseback

accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. These lease provisions are effective for transactions occurring after May 15, 2002. The Company does not expect the adoption of SFAS No. 145 to have a material effect on its financial position, results of operations or cash flows.

In July 2002, the FASB issued SFAS No. 146 *"Accounting for Costs Associated with Exit or Disposal Activities"*. SFAS No. 146 replaces Emerging Issues Task Force Issue No. 94-3, *"Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)"*. SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of SFAS No. 146 to have a material effect on its financial position, results of operations or cash flows.

NOTE 2 – Oil & Gas Operations

Colombia - At December 31, 2001, the Company's Chimichagua gas field contained proven non-producing gas reserves as described in the Note titled, "Supplemental Oil and Gas Disclosures" and filed with the SEC on Form 10K/SB of that year. This prospect has a cost basis of \$3,000,000 and was purchased in fiscal 1997 by issuing 6,000,000 common shares valued at \$0.50 per share.

The Company has identified several options for the Columbia investment. One option involves Adair supplying gas to fuel a power plant providing revenues under a long-term gas purchase contract. Realization of the value of reserves is contingent upon the Company concluding an agreement to construct a power plant utilizing gas from the field. Another option involves selling the Company's interest in Columbia for cash, trade or other consideration.

Since the Company has not started any development of this property and considering the political climate in Columbia, an impairment loss in the amount of \$3,000,000 has been recognized for this asset during the year ended December 31, 2002.

Yemen - The Company's interest in the Republic of Yemen consists of a 30% working interest in Sabatain Block 20. The project is exploratory in nature with no proved reserves or production established. Adair Yemen was designated as the original exploration operator for the contractor group. In the event of a commercial discovery, existing pipelines and production infrastructure are planned to be utilized to allow for early production exports and timely cash flow. The project has assessed the company for "cash calls" in the amount of \$2,321,441, which were due as of December 31, 2002. As of the balance sheet date, the Company was being litigated for alleged default of the joint operating agreement.

NOTE 3 – Industrial Free Trade Zone (IFTZ), Republic of Congo

The Company signed a \$5 million contract with the Republic of Congo in 2001 to develop an Industrial Free Trade Zone (“IFTZ”). The development of the IFTZ would be fueled by utilizing “associated” natural gas that is currently being flared offshore of the Republic of Congo. The natural gas could be converted to electrical power, which is the first step to industrial development. West African countries desperately need industrial products to support economic development. Most have been importing these products from Europe and the United States. It is envisioned that many of these products, including cement, fertilizers, plastics, manufactured steel and wood products and other industrial products could be produced in the IFTZ.

Republic of Congo

The Industrial Free Trade Zone contract for \$5 million USD provided for initial funding of \$2 million USD to conduct a feasibility study of gas utilization for the IFTZ. An additional amount payable under the contract, of up to \$3 million USD is scheduled to be received by the Company upon the signed commitment of each new industrial partner that commits to develop an industrial sector in the IFTZ. Payments are made to the Company by the Republic of Congo at the rate of \$500,000 per industrial sector commitment. The contract was signed by President Denis Sassou-Nguesso of the Republic of Congo and confirmed by the U.S. Ambassador to the Congo. During 2002, the Company received initial funding in the amount of \$1,472,920 and entered into a contract with a consulting services company to provide the technical and administrative employees and equipment necessary to perform the aforementioned study for a turnkey lump sum amount of \$1,750,000. The Company has paid the company an amount of \$1,492,920 to date. Since the contract with the Republic of Congo was not started in 2002, the contract and the initial payment have been placed in Prepaid Expenses and Deferred Revenue.

NOTE 4 Non-monetary Stock Transactions

Included in the Company's consolidated statement of operations for the periods ended December 31, 2002 were expenses that were paid with Company stock. The Company issued stock in lieu of cash in transactions summarized as follows for the year ended December 31, 2001 and 2002.

	December 31, 2002		December 31, 2001	
	Shares Issued	Value	Shares Issued	Value
For Salaries	5,553,594	\$187,667	10,745,060	\$1,201,500
Other Company Obligations	558,086	27,923	6,447,340	278,254
	6,111,680	\$215,590	17,192,400	\$1,479,754

NOTE 5 Revenues

The Company received royalty income in the amount of \$2,286 during the year.

NOTE 6 Common Stock

During 2002, the Company issued 6,111,680 common shares for salaries, consulting fees and commission and other services that were valued at \$215,590.

During 2002, the Company's previous management wrongfully issued for less than full market value a total of 39,605,869 shares of common stock, resulting in a loss to the Company calculated to be \$382,478, which has been recorded.

During 2001, the Company issued 17,192,404 common shares for salaries, consulting fees and commission and other services. The common shares were issued as follows:

- The Company issued 1,818,518 common shares to its CEO in lieu of his 2001 salary of \$240,000.
- During 2001, the Company issued 1,191,159 common shares to its CEO as compensation for the CEO providing free trading shares to be sold in the secondary market in a scheme to raise cash for the Company.
- The Company issued 2,000,000 shares valued at \$100,000 to its CEO for his personal guarantee of Company obligations.
- The Company issued 1,818,518 common shares to its CFO in lieu of his 2001 salary of \$240,000.

- During 2001, the Company issued 687,500 common shares to its CFO as compensation for the CFO providing free trading shares to be sold in the secondary market in a scheme to raise cash for the Company.
- The Company issued 2,000,000 shares valued at \$100,000 to its CFO for his personal guarantee of Company obligations.
- The Company issued 932,824 common shares to other former employees in lieu of their salaries of \$160,000.

During 2001, the Company's previous management reported issuing 11,496,431 shares of common stock for cash in the amount of \$1,926,923. However, during 2001, the Company's previous management wrongfully issued the Company's stock for less than full market value. A total of 25,519,551 shares of common stock were issued in this manner resulting in a loss to the Company calculated to be \$1,729,138, which has been recorded.

At December 31, 2001, the Company's previous management had 2,957,768 shares of common stock in its possession that it had ordered its transfer agent to issue, but for which the Company had received no compensation. The Company's previous management did not include these shares as issued in its financial statements.

The Company's current management has prepared an analysis of the Company's previous management's prior year common stock issuances of common stock for the years of 1998, 1999, and 2000 and has determined that the Company's previous management wrongfully issued the Company's stock for less than full market value. A total of 33,069,964 shares were issued in this manner resulting in a loss to the Company calculated to be \$6,534,926, which has been recorded.

The Board of Directors passed a Corporate Resolution that reads, "Pursuant to and in accordance with Article 2.13 of the Texas Business Corporation Act of the State of Texas the Company does hereby certify that, pursuant to the authority conferred on the Board of Directors by the Articles of Incorporation of the Corporation, and pursuant and in accordance with Article 2.13 of the Texas Business Corporation Act of the State of Texas, said Board of Directors, pursuant to unanimous written consent dated December 9, 2002, duly adopted a resolution providing for the authorization and issuance of 5,000,000 shares of "Series A" Convertible Preferred Stock, \$0.01 par value per share (the "Series A" Preferred Stock). As of December 31, 2002, there were no shares issued.

Each share of "Series A" Preferred Stock which is then outstanding shall at the sole election of the holder be converted into fully paid and non-assessable shares of Common Stock of the Corporation at a conversion rate of 1,000 shares of Common Stock for each share of "Series A" Preferred Stock. The holders of the issued and outstanding shares of Preferred Stock shall have the equivalent of 1,000 Common Stock votes for each share of "Series A" Preferred Stock.

NOTE 7 Commitments and Contingencies

Exploration of Block 20 in the Republic of Yemen

On April 3, 2000, Adair Yemen Exploration Limited (Adair Yemen), a wholly owned subsidiary of the Company, together with Saba Yemen Oil Company Limited (Saba), Occidental Yemen Sabatain, Inc. (Occidental), The Yemen Company For Investment In Oil and Minerals (YICOM), and the Ministry of Oil and Mineral Resources (MOMR), entered into a Production Sharing Agreement (PSA) in the Sabatain Area, Block 20, in the Marib-Shabwa Governates, Republic of Yemen. On September 2, 2000, the President of Yemen signed decree number 21, which passes into law the Production Sharing Agreement for Block 20. This decree establishes the effective date for the Participation Agreement among Adair Yemen, Saba, and Occidental (the Parties).

The Participation Agreement was signed by the Parties on March 31, 2000. The agreement provides for the general financial arrangements among the parties with regard to the PSA and other joint management and operating agreements. The basic financial provisions of all the agreements are discussed below. The PSA provides for a signature bonus in the amount of \$400,000, which was secured by an irrevocable letter of credit to the MOMR and to be drawn on the effective date. The Parties affected the letter of credit on May 3, 2000, through the Yemen Commercial Bank. The Company's obligation in the amount of \$120,000 was secured by the personal guarantees of John W. Adair and Jalal Alghani. The PSA further provides for the annual payment of a training, institutional, and social bonus to be paid annually over the six year exploration period: the first being payable on the effective date. The PSA requires a basic work program in the amount of \$8,300,000 to be secured by an irrevocable letter of credit with the MOMR within 30 days of the effective date.

The Parties are to provide for the instrument in proportion to their respective interests (Occidental 50%, Adair Yemen 30%, and Saba 20%) except for the first \$4,000,000 cost of 3D seismic, which is to be paid by Occidental. The Company's previous management failed to timely arrange for an acceptable letter of credit resulting in the Company defaulting on its obligation.

Under the PSA, revenues derived from the commercial development of the project are in the form of royalties on a sliding percentage scale of from 3% on production under 25,000 barrels per day to 10% on production over 100,000 barrels per day. The royalties are further defined as "Cost Oil" and "Share Oil." Cost oil is up to 50% of the royalty to reimburse exploration, development, operating costs, pipeline tariffs, and general and administrative expense to the Parties. Share oil is payable to the Parties on a sliding scale of from 37% on production under 12,500 barrels per day to 18% on production over 100,000 barrels per day. The share oil is subject to a carried interest to YICOM of 5% born by the Parties in proportion to their interest. Adair Yemen, therefore, has a net revenue interest ("NRI") of 28.5% under the PSA.

Under the terms of the Participation Agreement signed by the Parties, Adair Yemen received a payment of \$750,000 from Occidental, which is to be paid back to Occidental plus \$250,000 out of production when and if production occurs. Under the terms of the joint operating and management agreements among the Parties, Adair Yemen is to be the operator in the exploration phase. As such, Adair Yemen is to receive a general and administrative fee based on a

percentage of the total work program expenditures on an annual basis. The annual percentages and amounts are 4% on the first \$5,000,000, 2% on the second \$5,000,000, and 1% of annual amounts in excess of \$10,000,000.

Adair Exploration, Inc. was to provide technical services to the Parties as part of the work program while Adair Yemen was operator. This phase of the program was projected to last a period of 18 to 24 months until a declaration of commerciality for Block 20 was announced, at which time Occidental would become the operator.

Legal Proceedings for the Year Ending December 31, 2002

The Company is a party to various claims and litigation. On August 5, 2002 at the Shareholders Meeting, the Company's shareholders elected an entirely new Board of Directors. On August 8, 2002 the new Board of Directors appointed a Litigation Committee who subsequently engaged independent legal counsel to review the merits and allegations of all current and pending litigation. This Litigation Committee was charged with the duty to ascertain what legal actions are in the best interest of the Company and to make recommendations to the Board of Directors for their review and implementation. Due to the circumstances of being named by prior management as a party adverse to the Company in some of this pending litigation, Mr. Boyce recused himself from the Litigation Committee and its deliberations. Although no assurances can be given, the Company believes that resolution of many of the outstanding legal problems can be reached by direct negotiation with the parties involved.

Occidental Yemen Sabtain, Inc. and Saba Yemen Oil Company Ltd. v. Adair Yemen Exploration, Ltd. - Adair Yemen Exploration, Ltd. is a wholly owned subsidiary of the Company. It was named as the Respondent in the matter of Occidental Yemen Sabatain, Inc. ("Occidental") and Saba Yemen Oil Company Ltd. ("Saba") v. Adair Yemen Exploration, Ltd. ("Adair Yemen") in a Request for Arbitration filed with the International Chamber of Commerce in Paris, France on July 10, 2001. The Claimants, Occidental and Saba assert that Adair Yemen breached various agreements to which Occidental, Saba and Adair Yemen are parties and are requesting that Adair Yemen forfeit and reassign its 30% working interest in the project to Occidental and Saba. Immediately following the election of a new Board of Directors for the Company on August 5, 2002, it was discovered that the legal counsel representing the Company in this proceeding (both in Houston and in Paris, France) had resigned from the case due to non-payment of fees. After being able to review the facts surrounding the case and the arguments presented previously on behalf of the Company, the Company's new management decided to change the course of the legal argument. On September 15, 2002, the Company submitted a legal brief to the Arbitration Tribunal outlining a legal position based in equity. In December 2002, new legal counsel was retained by the Company to prepare and argue the case at the Final Hearing before the Tribunal on January 22-23, 2003 in Paris. At the Final Hearing, on behalf of the Respondent, Mr. Richard G. Boyce presented a witness statement and was examined by the Claimants as well as by the Tribunal. Additionally, witnesses from the Claimants also presented statements and were examined by the Respondent's legal counsel and the Tribunal. During the hearing, legal arguments were presented orally by legal counsel for both Claimant and Respondent. Final written submissions were presented to the Tribunal on March 28, 2003.

The Company received an unfavorable final judgment and notice of award, which the Company is reviewing to determine its next course of action. This unfavorable ruling may result in the

Company losing an asset valued in the hundreds of million of dollars and having to pay \$4,455,653 in unpaid cash calls, interest, actual damages, Court costs and Claimant's legal expenses.

Adair Exploration, Inc. and Adair Yemen Exploration, Ltd. v. Occidental Oil and Gas Corporation, Richard G. Boyce, Gene L. Ackerman, and David C. Crandall. - Adair's wholly owned subsidiaries, Adair Exploration, Inc. ("AEI") and Adair Yemen Exploration, Limited ("Adair Yemen") filed a lawsuit in a Texas State District Court in Houston, Texas against Occidental Oil and Gas Corporation ("Occidental"), and several former employees: Richard G. Boyce, Gene L. Ackerman, and David C. Crandall. The lawsuit alleges that breaches of fiduciary duties and usurpation of corporate opportunities as well as other civil wrongs were committed by the former employees. This lawsuit was removed to Federal Court in the Southern District of Texas by defendants and has been stayed pending the outcome of the arbitration proceedings.

After careful review by the Litigation Committee established by the new Board of Directors, it was recommended to the Board that in light of ongoing settlement negotiations with Occidental it would not be in the best interest of the Company to pursue this lawsuit. On October 31, 2002 the Board of Directors authorized this case to be non-suited and dismissed with prejudice. A notice of non-suit was filed with the Court and the case was dismissed with prejudice.

Adair International Oil & Gas, Inc. vs. John W. Adair, Jalal Alghani and Vivian Quintero vs. Adair International Oil & Gas, Inc., etal - Cause No. 2001-63909, 55th District Court, Harris County, Texas. The Company's claims in the suit against John W. Adair ("Adair"), Jalal Alghani ("Alghani") and Vivian Quintero ("Quintero") involve allegations of fraud, conspiracy and breach of fiduciary duties owed to the Company by Mr. Adair and Mr. Alghani while they were officers and directors of the Company prior to their removal from the AIGI Board of Directors at the Company's annual shareholders meeting on August 5, 2002. The Company's claims in the suit against Ms. Quintero involve allegations of fraud, conspiracy and breach of fiduciary duties while she was the Company's office manager and personal assistant to Adair when he was Chairman of the AIGI Board of Directors.

After the Company's claims were filed in the suit, Mr. Adair, Mr. Alghani and Ms. Quintero filed "counter claims" against the Company alleging standing to sue as shareholders of the Company. Their allegations against the Company and a long list of others include the following counts; "fraud, breaches of fiduciary duties, conspiracy to breach fiduciary duties, defamation, conspiracy to commit defamation, proxy fraud, conspiracy to commit proxy fraud, tortuous interference, usurpation of corporate opportunities, vicarious liability/vice principal, unspecified actual and exemplary damages." These counter claims were filed against the Company on November 9, 2002. The Company has vigorously denied and is defending these allegations.

Mr. Adair, Mr. Alghani and Ms. Quintero have also filed the above described "counter claims" against Richard G. Boyce, Larry Swift, Gene Ackerman, David Crandall, Chris Dittmar, John A. Brush, Charles R. Close, and Shareholders Committed to Restoring Equity Group, Inc. ("SCORE"). The Company's Board of Directors has determined that it is in the best interest of the Company to assume the defense of and to indemnify these individuals and SCORE.

On July 11, 2003, the Court ordered the Company's motion for summary judgment be granted as to all claims in Defendant's / Counter Plaintiff's second amended petition, including the claim of

conspiracy to commit defamation, with the exception of the common law defamation claim against the Company and Mr. Boyce.

Although some discovery in this case was secured before the change of control of the Company occurred as a result of the Annual Shareholders Meeting on August 5, 2002, there has been no further formal discovery to date other than the Company and Mr. Boyce's responses to requested discovery. The Company will continue to vigorously pursue this complex case.

Briar Patch Partners, Ltd. v. Adair International Oil & Gas, Inc., Adair Exploration, Inc., Partners In Exploration, Inc., Partners In Exploration, L.L.C., and Richard G. Boyce. - The Company was named as the defendant in the matter of Briar Patch Partners, Ltd. v. Adair International Oil & Gas, Inc., Cause No. 01-06351, 95th Judicial District Court in Dallas County, Texas. Briar Patch Partners, the landlord holding the lease on the property in Dallas, Texas where Adair Exploration, Inc., "the lessee", formerly maintained an office, filed a lawsuit against the Company regarding the failure of the lessee to pay the rent as well as other related claims. On February 10, 2003 an Agreed Judgment was signed by all Parties in the total amount of \$235,306.15 against the Defendants. This total amount included the principal amount remaining on the lease, plaintiff's attorney's fees and court costs. Additionally on February 10, 2003, all parties signed a Settlement Agreement, which outlines the terms of settlement and payment schedule. The Plaintiff has filed these documents with the Court.

Adair International Oil & Gas, Inc. v. Richard G. Boyce and Larry Swift. - At the direction of previous management, the Company filed a lawsuit against Messrs. Boyce and Swift in the 55th Judicial District Court in Harris County, Texas, Cause No. 2001-63909. The Company sued Messrs. Boyce and Swift for defamation, tortuous interference, conversion, breach of fiduciary duty and conspiracy. Messrs. Boyce and Swift have filed answers denying the Company's allegations. Mr. Boyce filed a counterclaim claiming defamation by the Company. After careful review of the merits of this case by the Litigation Committee established by the new Board of Directors, it was recommended to the Board that this case be non-suited and dismissed with prejudice. A notice of non-suit was filed with the Court and the case was dismissed with prejudice.

L. Bruce Hinton and Billie Turmenne v. John W. Adair, Jalal Alghani, Vivian Llerena Quintero, Adel Alzamir and Alghani Investment Group, Inc. - This case was filed on January 30, 2002 in the 80th Judicial Court, Harris County, Texas (Cause No. 2002-03286). The suit alleged fraud by the Defendants who have each participated in a scheme and course of business that was operated to deliberately deceive the Plaintiffs by disseminating false information and misleading statements, including concealing material adverse facts about the Corporation. The Plaintiffs dismissed this case by non-suit, so that the Company can bring suit on behalf of all shareholders against these defendants.

Adair International Oil & Gas, Inc. v. Richard G. Boyce - Under the previous management, the Company filed a lawsuit against Mr. Richard G. Boyce in the 55th Judicial District Court in Harris County, Texas, Cause No. 2002-37894. The Company sued Mr. Boyce alleging fraudulent misrepresentation of the value of Partners In Exploration, Inc. during the merger of that entity with the Company. After careful review of the merits of this case, the Litigation Committee established by the new Board of Directors, it was recommended to the Board that this case be

non-suited and dismissed with prejudice. A notice of non-suit was filed with the Court and the case was dismissed with prejudice.

3000 Richmond Limited Partnership v. Superior Geophysical, Inc. - Adair International Oil & Gas, Inc., Superior Geophysical, Inc. ("Superior") John W. Adair, Jalal Alghani, Bill Wiseman, and Gary Tolar, Cause No. 2002-15641, in the 333rd Judicial District Court in Harris County, Texas were sued by Superior's landlord, 3000 Richmond Limited Partnership, as co-tenants for breach of the lease agreement and for back rent owed on Superior's leasehold. Subsequently, the Company has signed a Settlement Agreement with 3000 Richmond Limited Partnership, which outlines terms of payment acceptable to all parties.

Declaratory Judgment, Pace Global Energy Services, LLC v. Adair International Oil & Gas, Inc. - On December 26, 2001, John W. Adair signed a confessed promissory note in the amount of \$281,458.21 stating that the Company owed that amount to Pace Global Energy Services, LLC ("Pace") in payment for certain consulting services related to the Teaway Energy project and/or other power projects in the U.S. As a result of non-payment by the Company on that promissory note, in February 2002, Pace sued Adair International Oil & Gas, Inc. in Federal District Court in the Eastern District of Virginia (Cause No. 02-133-A) for unpaid consulting service expenses. On September 9, 2002 Pace received a declaratory judgment against the Company in the amount of \$281,485.21 payable with interest at nine (9%) per annum until paid plus all attorney's fees and other costs actually incurred for the collection of the judgment. Subsequently, the Company has signed a Settlement Agreement with Pace which outlines terms of payment acceptable to all parties.

The Company is a party to various claims and litigation. Although no assurances can be given, the Company believes, based on its experience to date, that the ultimate resolution of such items, individually or in the aggregate, will not have a material adverse impact on the Company's financial position or results of operations.

Unrecorded Notes and Liabilities

The following claims were made against the Company by its prior officers, employees and other third parties:

Payee	Date	Amount	Type
John W. Adair	07/30/2002	\$133,517	Promissory Note
Jalal Alghani	07/30/2002	188,395	Promissory Note
Vivian Quintero	07/30/2002	33,800	Salary
Bryan Yarnell	07/30/2002	7,500	Legal Services
Dr. John Eftehar	07/30/2002	10,000	Salary
Emmanuel Okoro	01/17/2002	90,000	Salary & Bonus
Dr. Ike Igbo	01/17/2002	78,000	Salary & Bonus
Total		\$541,212	

The Company's current management has elected not to recognize these claims. Included in the claims are a total of 18,779,738 shares of common stock that were approved by the Company's previous Board that were not issued.

Lease Commitments

Historically the Company has leased property and equipment under various operating leases. Aggregate minimum lease payments under existing non-capitalized long-term leases are estimated to be \$220,867, \$221,331, \$200,031, and \$127,075 for the years 2003 - 2006, respectively. During 2002, the Company's new management canceled the leases and the Company is pursuing a settlement of any future claims resulting from these leases.

Concentrations

The Company maintains a cash balance at a financial institution. At certain times, the company's cash balances exceed the federally insured amounts. The Company has not experienced losses relating to its cash.

NOTE 8 - Supplemental Oil and Gas Information (Unaudited)

Costs Incurred and Capitalized Costs in Oil and Gas Producing Activities are as follows:

	Yemen	Geophysical	Colombia	Total
Oil and Gas Properties	\$1,394,444		\$3,000,000	\$4,394,444
Geophysical data and other property	3,400,000	\$1,578,208		4,978,208
Capitalized Costs (Cash Calls)	2,321,441			2,321,441
Less accumulated depletion And depreciation	-		-	-
Less Impairment Loss	(2,747,508)	(1,578,208)	(3,000,000)	(7,325,716)
	\$4,368,377	\$ -	\$ -	\$4,368,377

Since there is doubt about any future production to be derived from these properties, the normal disclosures included in this note are not being included.

NOTE 9 – Going Concern

The Company's financial statements are prepared using generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company does not have significant cash or other material assets, and is in default of its office leases, which raises substantial doubt about its ability to continue as a going concern. Also, the Company's previous management issued all of the Company's authorized and available common stock; consequently the Company is currently not able to raise capital by issuing shares to fund operations.

NOTE 10 - Income Taxes

Presented below are the differences between the effective rates presented for financial statement purposes and the amounts, which would be determined by applying the statutory federal rates to earnings before provision for federal income taxes for the year ended December 31, 2002 and seven months ended December 31, 2001,

	Year ended December 31,	
	2002	2001
Federal income tax at statutory rate	\$ (1,396,781)	\$ (660,535)
Valuation allowance	1,396,781	660,535
	-----	-----
Income tax expense	\$ -	\$ -
	=====	=====

The sources of deferred tax assets are as follows

	Year ended December 31,	
	2002	2001
Effect of net operating losses	\$ 2,678,997	\$ 1,942,751
Valuation allowance	(2,678,997)	(1,942,751)
	-----	-----
Deferred tax assets	\$ -	\$ -
	=====	=====

Deferred tax assets result from net operating losses in 1998 and forward. Net operating losses incurred in 1997 and prior no longer exist because of a greater than 50% ownership change in 1997. Unused net operating losses may be carried forward for 20 years from the year incurred and affect future income. Because of the uncertainty of realization, the Company's management established a valuation allowance equal to the deferred tax asset.

NOTE 11 – Notes Payable

The Company is currently in default of several notes payable in the amount of \$425,886 as of December 31, 2002. The Company is currently exploring its options to work out a settlement with these debtors.

NOTE 12 – SAS No. 99 Alleged Management Fraud

The Company had a change of directors of the Company's Board on August 5, 2002 at 5:00 pm. Subsequent to this change of directors, the new management in its review of corporate documents and the issuance of the Company's stock, identified the wrongful issuance of Company shares by the Company's previous management for less than full market value during the period July 1997 to August 2002. The Company's loss due to the wrongful issuance of Company shares for less than full market value during this period was calculated to be approximately \$8,646,542.

In the application of SAS No. 99, the initial tests to determine that fraud might be likely are:

- (1) Management operating under pressure.
- (2) An absence of controls and management has the ability to override internal controls.
- (3) An attitude on the part of management to rationalize and allow for the commission of a dishonest act.

It was determined that all of these conditions were present during the year ending December 31, 2002 while the Company was under prior management.

Adair International Oil & Gas, Inc.
Schedule of Certain Shares Issued FMV Reconciled to Deposits
Period - 1998 through 2002

Year	Shares	FMV	Deposits	Misappropriated Stock Proceeds
1998	14,801,600	\$ 2,851,346.50	\$ 1,047,117.09	\$ (1,804,229.41)
1999	12,726,256	1,200,382.61	609,556.33	(590,826.28)
2000	5,542,108	4,644,102.52	504,232.06	(4,139,870.46)
2001	25,519,551	3,798,025.52	2,068,887.41	(1,729,138.11)
2002	39,605,869	1,238,176.07	855,697.99	(382,478.09)
Totals	98,195,384	\$ 13,732,033.22	\$ 5,085,490.88	\$ (8,646,542.34)

NOTE 13 – Subsequent Events

Block 20 – Republic of Yemen

Adair Yemen Exploration Limited, ("AYEL") a wholly owned subsidiary of Adair International Oil and Gas, Inc. ("AIGI" and/or "Company") was notified by the ICC International Court of Arbitration that the Final Award in the matter brought before the Tribunal (ICC Arbitration No.

11663/ESR/MS) by Occidental Yemen Sabatain, Inc. and Saba Yemen Oil Company Limited ("Claimants") v. Adair Yemen Exploration Limited ("Respondent") has been decided in favor of the Claimants.

The Final Award requires AYEL to assign all of its rights concerning its 30% Working Interest in the Yemen Block 20 Production Sharing Agreement to Occidental Yemen Sabatain, Inc. Additionally the Award directs AYEL to pay Claimants the following amounts:

Category	Amount USD
Unpaid Cash Calls	\$2,841,108
Accrued Interest on Unpaid Cash Calls*	\$ 78,445
Damages	\$ 111,255
Court Costs	\$ 250,000
Claimants Legal Expenses	<u>\$1,174,845</u>
Total	\$4,455,653

**Respondent is ordered to pay interest at a rate of 3.338%, compounded monthly, from 16 March 2003 to the date of payment by it to the Claimants.*

NOTE 14 - Restatement

Subsequent to the first issuance of the Company's December 31, 2002 financial statements, the Company's current management determined that it was required to restate the Company's December 31, 2001 and 2002 financial statements and related disclosures due to the discovery of improper valuation of stock issued for the years from 1998 to 2002. The Company's current management has prepared an analysis of prior year common stock issuances for the years of 1998 to 2002, which revealed that the Company's previous management wrongfully issued the Company's for less than full market value. A total of 98,195,384 shares were issued in this manner resulting in a loss to the Company calculated to be \$8,646,542, which has been recorded in the restated financial statements.

A summary of the significant effects of the restatement is as follows:

December 31, 2001:

	<u>As Previously Reported</u>	<u>As Restated</u>
Common Stock	\$23,548,859	\$31,651,922
Prior Years:		
Management's estimated loss on Misappropriated stock sale proceeds	-0-	6,534,926
Management's estimated loss on Misappropriated stock sale proceeds	-0-	1,729,138
Income (Loss) from Operations	(\$2,653,190)	(\$ 4,382,328)
Net Income	(\$2,642,751)	(\$ 4,371,889)