

TEXEN OIL & GAS INC
Form 10KSB
November 08, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-KSB

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
FOR THE QUARTERLY PERIOD ENDED **JUNE 30, 2004**
OR
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

COMMISSION FILE NUMBER 000-33193

TEXEN OIL & GAS, INC.

(Exact name of registrant as specified in its charter)

NEVADA

(State of other jurisdiction
of incorporation or organization)

90-0082485

(IRS Employer Identification
Number)

**2401 Fountain View
Suite 1008**

Houston, Texas 77057

(Address of principal executive offices)

(713) 782-5758

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of JUNE 30, 2004; 92,517,643.

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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.

Issuer's revenues for the year ended June 30, 2004 were \$587,791. Aggregate market value of voting stock held by non-affiliates of 45,351,979 shares outstanding at November 3, 2004 was approximately \$4,535,198. Amount was computed using the closing market price as of November 3, 2004, which was \$0.10. As of November 3, 2004, a total of 92,517,643 shares of common stock were outstanding.

Forward Looking Statements

The words "believes," "intends," "expects," "anticipates," "projects," "estimates," "predicts" and similar expressions are also intended to identify forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations reflected in such forward-looking statements will prove to have been correct. All forward looking statements contained in this section are based on assumptions believed to be reasonable. These forward looking statements include statements regarding:

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Estimates of proved reserve quantities and net present values of those reserves

- Reserve potential
- Business strategy
- Capital expenditures - amount and types
- Expansion and growth of our business and operations
- Expansion and development trends of the oil and gas industry
- Production of oil and gas reserves
- Exploration prospects
- Wells to be drilled, and drilling results
- Operating results and working capital

We can give no assurance that our expectations and assumptions will prove to be correct. Reserve estimates of oil and gas properties are generally different from the quantities of oil and natural gas that are ultimately recovered or found. This is particularly true for estimates applied to exploratory prospects and new production. Additionally, any forward-looking statements are subject to various known and unknown risks, uncertainties and contingencies, many of which are beyond our control. Such things may cause actual results, performance, achievements or expectations to differ materially from what we anticipated.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Glossary of Terms

We are engaged in the business of exploring for and producing oil and natural gas. Oil and gas exploration is a specialized industry. Many of the terms used to describe our business are unique to the oil and gas industry. The following glossary clarifies certain of these terms that may be encountered while reading this report:

"Acquisition costs of properties" means the costs incurred to obtain rights to production of oil and gas. These costs include the costs of acquiring oil and gas leases and other interests. These costs include lease costs, finder's fees, brokerage fees, title costs, legal costs, recording costs, options to purchase or lease interests and any other costs associated with the acquisitions of an interest in current or possible production.

"Area of mutual interest" means, generally, an agreed upon area of land, varying in size, included and described in an oil and gas exploration agreement which participants agree will be subject to rights of first refusal as among themselves, such that any participant acquiring any minerals, royalty, overriding royalty, oil and gas leasehold estates or similar interests in the designated area, is obligated to offer the other participants the opportunity to purchase their agreed upon percentage share of the interest so acquired on the same basis and cost as purchased by the acquiring participant. If the other participants, after a specific time period, elect not to acquire their pro-rata share, the acquiring participant is typically then free to retain or sell such interests.

"Back-in interests" also referred to as a carried interest, involve the transfer of interest in a property with provision to the transferor to receive a reversionary interest in the property after the occurrence of certain events.

"Bbl" means barrel, 42 U.S. gallons liquid volume, used in this annual report in reference to crude oil or other liquid hydrocarbons.

"Bcf" means billion cubic feet, used in this annual report in reference to gaseous hydrocarbons.

"BcfE" means billions of cubic feet of gas equivalent, determined using the ratio of six thousand cubic feet of gas to one barrel of oil, condensate or gas liquids.

"Casing point" means the point in time at which an election is made by participants in a well whether to proceed with an attempt to complete the well as a producer or to plug and abandon the well as a non-commercial dry hole. The election is generally made after a well has been drilled to its objective depth and an evaluation has been made from drill cutting samples, well logs, cores, drill stem tests and other methods. If an affirmative election is made to complete the well for production, production casing is then generally cemented in the hole and completion operations are then commenced.

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"Development costs" are costs incurred to drill, equip, or obtain access to proved reserves. They include costs of drilling and equipment necessary to get products to the point of sale and may entail on-site processing.

"Exploration costs" are costs incurred, either before or after the acquisition of a property, to identify areas that may have potential reserves, to examine specific areas considered to have potential reserves, to drill test wells, and drill exploratory wells. Exploratory wells are wells drilled in unproven areas. The identification of properties and examination of specific areas will typically include geological and geophysical costs, also referred to as G&G, which include topological studies, geographical and geophysical studies, and costs to obtain access to properties under study. Depreciation of support equipment, and the costs of carrying unproved acreage, delay rentals, ad valorem property taxes, title defense costs, and lease or land record maintenance are also classified as exploratory costs. "Farmout" involves an entity's assignment of all or a part of its interest in or lease of a property in exchange for consideration such as a royalty.

"Future net revenue, before income taxes" means an estimate of future net revenue from a property, based on the production of the proven reserves of oil and natural gas believed to be recoverable at a specified date, after deducting production and ad valorem taxes, future capital costs and operating expenses, before deducting income taxes. Future net revenue, before income taxes, should not be construed as being the fair market value of the property.

"Future net revenue, net of income taxes" means an estimate of future net revenue from a property, based on the proven reserves of oil and natural gas believed to be recoverable at a specified date, after deducting production and ad valorem taxes, future capital costs and operating expenses, net of income taxes. Future net revenues, net of income taxes, should not be construed as being the fair market value of the property.

"Gross" oil or gas well or "gross" acre is a well or acre in which we have a working interest.

"Mcf" means thousand cubic feet, used in this annual report to refer to gaseous hydrocarbons.

"McfE" means thousands of cubic feet of gas equivalent, determined using the ratio of six thousand cubic feet of gas to one barrel of oil, condensate or gas liquids.

"MMcf" means million cubic feet, used in this annual report to refer to gaseous hydrocarbons.

"MBl" means thousand barrels, used in this annual report to refer to crude oil or other liquid hydrocarbons."

"Net" oil and gas wells or "net" acres are determined by multiplying "gross" wells or acres by our percentage interest in such wells or acres.

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"Oil and gas lease" or *"Lease"* means an agreement between a mineral owner, the lessor, and a lessee which conveys the right to the lessee to explore for and produce oil and gas from the leased lands. Oil and gas leases usually have a primary term during which the lessee must establish production of oil and or gas. If production is established within the primary term, the term of the lease generally continues in effect so long as production occurs on the lease. Leases generally provide for a royalty to be paid to the lessor from the gross proceeds from the sale of production.

"Overpressured reservoir" are reservoirs subject to abnormally high pressure as a result of certain types of subsurface conditions.

"Present value of future net revenue, before income taxes" means future net revenue, before income taxes, discounted at an annual rate of 10% to determine their "present value." The present value is shown to indicate the effect of time on the value of the revenue stream and should not be construed as being the fair market value of the properties.

"Present value of future net revenue, net of income taxes" means future net revenue, net of income taxes discounted at an annual rate of 10% to determine their "present value." The present value is shown to indicate the effect of time on the value of the revenue stream and should not be construed as being the fair market value of the properties. Also known as the "Standardized Measure of Discounted Future Net Cash Flows" if SEC pricing assumptions are used.

"Production costs" means operating expenses and severance and ad valorem taxes on oil and gas production.

"Prospect" means a location where both geological and economical conditions favor drilling a well.

"Proved oil and gas reserves" are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Reservoirs are considered proved if economic recovery by production is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, and (B) the immediately adjoining portions not yet drilled, but which can reasonably be judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

"Proved developed oil and gas reserves" are those proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas reserves expected to be obtained through the application of fluid injection or other improved secondary or tertiary recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included as "proved developed reserves" only after testing by a pilot project or after the operation of an installed recovery program has confirmed through production response that increased recovery will be achieved. "Proved undeveloped oil and gas reserves" are those proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units are claimed only where it can be demonstrated with reasonable certainty that there is continuity of production from the

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existing productive formation. Estimates for proved undeveloped reserves attributable to any acreage do not include production for which an application of fluid injection or other improved recovery technique is required or contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir. "Reserve target" see "Prospect."

"*Royalty interest*" is a right to oil, gas, or other minerals that are not burdened by the costs to develop or operate the related property. "Seismic option" generally means an agreement in which the mineral owner grants the right to acquire seismic data on the subject lands and grants an option to acquire an oil and gas lease on the lands at a predetermined price. "Trend" means a geographical area along which a petroleum pay occurs (fairway).

"*Working interest*" is an interest in an oil and gas property that is burdened with the costs of development and operation of the property. Disclosure Regarding Forward-Looking Statements Included in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included in this Form 10-KSB which address activities, events or developments which we expect or anticipate will or may occur in the future are forward-looking statements.

General

We are an independent oil and gas company engaged in the exploration, development, production and acquisition of natural gas and crude oil. We conduct our operations through subsidiary corporations. We are a Nevada corporation incorporated on September 2, 1999, as Palal Mining Corporation. In February 2002, we discontinued mining operations, changed our focus, and are currently focused on the exploration and development of oil and gas trends situated in Texas. We currently own interests in approximately 44 gross wells, in fields located in Waller, Victoria, DeWitt, Calhoun and Concho Counties, Texas region, with an average of a 70% net revenue interest in these wells. Additionally, we own interests in 4,871.7 net acres in Texas. The properties are titled in the name of Texas Brookshire Partners, Inc. and Texas Gohlke Partners, Inc. which are wholly owned subsidiary corporations.

In July 2002, we acquired Texas Brookshire Partners, Inc. ("Brookshire") by issuing 15,376,103 shares of restricted common stock. Brookshire's key assets consist of a 77.75% working interest ownership in about 525 gross leasehold acres (95.73 net leasehold acres).

In September 2002, we acquired Texas Gohlke Partners, Inc. ("Gohlke"), by issuing 4,000,000 shares of restricted common stock. Gohlke's key assets consisted of a 100% working interest ownership in approximately 4,346.7 gross leasehold acres.

Further in November 2002, we purchased an additional 5% working interest in a field located in Waller County, Texas for \$1.3 million which amount was paid and satisfied with an issuance of 1,250,000 shares of common stock. We also acquired a 1.95% working interest in and to the Brookshire Dome Field through the purchase of Yegua, Inc.

Effective in February 2003, we acquired BWC Minerals LLC for 1,735,431 shares of restricted common stock. The most significant asset of BWC is an 8.70% working interest in the Brookshire Dome Field.

Business Strategy

The Company's goal is to maximize Share value through profitable operations and through growth in our oil and gas reserves. We believe this can be achieved through the exploration and development of our existing prospect inventory located in Texas. The Company intends to supplement its exploration and development program with a well work-over program targeting certain of its existing properties that have potential for increased production. The Company intends to implement an acquisition program targeting properties that enhance the Company's reserve and production positions. The Company plans for additional capital expenditures are subject to the Company being successful in raising additional capital

The Company has a base production level in place from the Brookshire and Gohlke properties that can provide cash flow to assist in funding our exploration efforts. Exploration and development activities have higher associated risks than those associated with acquisitions of producing properties. Two of the largest risks associated with exploration and development activities are:

- geological risks (the subject property does not hold recoverable oil or natural gas);
- risk of project cost overruns.

By utilizing a "portfolio" approach in our exploration activities, we expect to minimize the overall effect of these risks. We intend to participate in a larger number of exploratory and development activities by diversifying our ownership positions. We utilize available advanced technology, such as 3-dimensional ("3-D") seismic modeling to further reduce risk and enhance our success rates. We believe that the availability of economical 3-D seismic surveys fundamentally changed the risk profile of oil and gas exploration. Recognizing this, we will aggressively seek to acquire significant acreage blocks in selected areas for targeted 3-D seismic surveys. Using the data generated by initial proprietary seismic surveys, covering over 8.3 square miles, we have identified 6 potential drill sites in the Gohlke lease areas.

Oil and Gas Estimates and Producing Activities

The following table sets forth information as to the Company's net proved and proved developed reserves as of June 30, 2004 and 2003 and the present value as of such dates (based on an annual discount rate of 10%) of the estimated future net revenues from the production and sales of those reserves.

The Company does not currently believe that the calculation of estimated future net revenues using the assumptions prescribed by the Commission guidelines and generally described below is representative of the true value of future net revenues from the Company's proved reserves. The future prices received by the Company for the sales of its production may be higher or lower than the prices used in calculating the estimates of future net revenues, and the operating costs and other costs relating to such production may also increase or decrease from existing levels.

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Oil and Gas Estimates and Producing Activities
(continued)

| | As of June 30, | |
|---|---------------------|---------------------|
| | 2004 | 2003 |
| Oil and Gas Estimates | | |
| Total Proved Reserves | | |
| Oil, condensate and natural gas liquids | | |
| (Bbls) | | |
| Located in Brookshire | 120,291 | 116,922 |
| Located in Gohlke | 17,938 | 22,377 |
| Total Company | 138,229 | 139,299 |
| Natural Gas (Mcf) | | |
| Located in Brookshire | 0 | 0 |
| Located in Gohlke | 209,800 | 248,116 |
| Total Company | 209,800 | 248,116 |
| Present Value of estimated future net revenues, before income taxes | | |
| Located in Brookshire | 4,113,947 | 3,332,277 |
| Located in Gohlke | 1,714,101 | 1,720,701 |
| Total Company | \$ 5,828,048 | \$ 5,052,978 |
| Total Proved Developed Reserves: | | |
| Oil, condensate and natural gas liquids | | |
| (Bbls) | | |
| Located in Brookshire | 18,061 | 33,400 |
| Located in Gohlke | 17,938 | 22,377 |
| Total Company | 35,999 | 55,777 |
| Natural Gas (Mcf) | | |
| Located in Brookshire | 0 | 0 |
| Located in Gohlke | 5,814 | 44,130 |
| Total Company | 5,814 | 44,130 |
| Present Value of estimated future net revenues, before income taxes | | |
| Located in Brookshire | 617,697 | 951,900 |
| Located in Gohlke | 585,187 | 802,764 |
| Total Company | \$ 1,202,884 | \$ 1,754,664 |

Oil and Gas Estimates and Producing Activities
(continued)
Expenditure Analysis

| | June 2004 | June 2003 |
|---|------------------|------------------|
| Undeveloped Leasehold Costs | \$ 147,108 | \$ 147,108 |
| Producing Properties | 25,854,207 | 1,939,950 |
| Accumulated depreciation, depletion and amortization | (21,530,926) | (569,717) |
| Total capitalized costs | \$ 4,470,389 | \$ 5,178,205 |

| | June 2004 | June 2003 |
|-----------------|-------------------|------------------|
| Revenues | \$ 423,769 | 619,271 |

EXPENSES

| | | |
|--|-------------|--------------|
| Production costs | 711,762 | 1,046,829 |
| Dry hole costs | 262,002 | 0 |
| Depreciation, depletion and amortization | 541,471 | 328,284 |
| Production taxes | 20,697 | 79,889 |
| Settlement loss | 0 | 10,750 |
| Impairment loss | 0 | 20,407,559 |
| | (1,112,163) | (21,254,040) |

| | June 2004 | June 2003 |
|---|------------------|------------------|
| Future cash flows | \$ 3,500,000 | \$ 3,600,000 |
| Future development and production costs | (1,100,000) | (1,200,000) |
| Future income tax expense | (330,000) | (350,000) |
| Future net cash flows | 2,070,000 | 2,050,000 |
| 10% annual discount | (1,200,000) | (1,300,000) |
| Standardized measure of discounted future net cash flows | \$ 870,000 | \$ 750,000 |

Future net cash flows were computed using year-end prices and gas to year-end quantities of proved reserves. Future price changes are considered only to the extent provided by contractual arrangements. Estimated future development and production costs are determined by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions. Estimated future income tax expense is calculated by applying year-end statutory tax rates (adjusted for permanent differences and tax credits) to estimated future pretax net cash flows related to proved oil and gas reserves, less the tax basis of the properties involved.

These estimates are furnished and calculated in accordance with requirements of the Financial Accounting Standards Board and the Securities and Exchange Commission, and do not represent management's assessment of future profitability or future cash flows to Texen. Management's investments and operating decisions are based on reserves estimated that include proved reserves prescribed by the SEC as well as probable reserves, and on different price and cost assumptions from those used here.

Corporate Subsidiaries

Texas Brookshire Partners, Inc.

Texas Brookshire Partners, Inc., one of our wholly owned subsidiary corporations is engaged in the business of purchasing, developing and operating oil and gas leases in the Brookshire Dome of Waller County, Texas, and owns a 93.40% working interest ownership in and to approximately 525 gross leasehold acres and 95.73 net acres leasehold acres. The current working interest ownership position owns various interests in 18 wells which have been drilled to date and one water injection well. Current production from these properties over the last 12 months has averaged approximately 36 barrels of oil per day.

Texas Gohlke Partners, Inc.

Texas Gohlke Partners, Inc. is another of our wholly owned subsidiary corporations and is engaged in the business of purchasing, developing and operating oil and gas leases in the Helen Gohlke Field located in Victoria and DeWitt Counties, Texas and owns a 100% working interest ownership, 70% net revenue interest in and to approximately 4,346.7 gross leasehold acres. There are currently eight producing wells on the property, eighteen shut-in wells and two salt water disposal wells. Current production from these properties over the last 12 months has averaged approximately 10 barrels of oil per day and 90 mcf per day.

Brookshire Drilling Service, LLC

The Company owns 100% of the membership and management interests of Brookshire Drilling Service LLC, a Texas Limited Liability Company which is engaged in the business of drilling, servicing and reworking oil and gas wells and leases owned and /or operated by the Company.

Yegua, Inc.

The Company owns 100% of the outstanding common stock of Yegua, Inc. which owns 1.95% working interest ownership in and to approximately 525 gross leasehold acres and 95.73 net leasehold acres located in the Brookshire Dome field of Waller County, Texas. This interest compliments the 77.75% working interest owned by Texas Brookshire Partners, Inc , a wholly owned subsidiary of the Company.

BWC Minerals, L.L.C.

The Company owns 100% of the outstanding common stock of BWC Minerals, L.L.C. which owns 8.7% working interest ownership in and to approximately 525 gross leasehold acres and 95.73 net leasehold acres located in the Brookshire Dome field of Waller County, Texas. This interest compliments the 77.75% working interest owned by Texas Brookshire Partners, Inc, a wholly owned subsidiary of the Company.

Geological and Geophysical Techniques

Geological interpretation is based upon data recovered from existing oil and gas wells in an area and other sources. Such information is either purchased from the entity that drilled the wells or that becomes public knowledge information through filings required by state agencies. Through analysis of rock types, fossils and the electrical and chemical characteristics of rocks from existing wells, geologists engaged by the Company can construct a picture of rock layers in the area and predict possible sites of hydrocarbon accumulation. Well logs available to the Company facilitate the calculation of an estimate of initial oil or gas volume in place while decline curves from recorded production history facilitate the calculation of remaining proved producing reserves.

Market for Oil and Gas Production

The market for oil and gas production is regulated by both the state and federal governments. The overall market is mature and with the exception of gas, all producers in a producing region will receive the same price. Purchasers (or "Gatherers") will typically purchase all crude oil offered for sale at posted field prices which are adjusted for quality difference from the "Benchmark". Benchmark is the price of Saudi Arabian light crude oil employed as the standard on which OPEC price changes have been based. The Purchaser normally picks up the oil at the well site but in some instances there may be deductions for transportation from the well head to the sales point. The purchaser will usually handle all payment disbursements to both the working interest owners and the royalty interest owners. The Company is a working interest owner and is therefore responsible with other working interest owners if any, for the payment of its proportionate share of the operating expenses of the well. Royalty owners and over-riding royalty owners receive a percentage of gross oil and gas production revenue for a particular lease and are not responsible for the costs of operating the lease. Working interest owners, such as the Company, are typically responsible for all lease operating and production expenses.

Gas sales are by contract. Gas purchasers pay well operators 100% of the sale proceeds of gaseous hydrocarbons on or about the 25th of each month for the previous month's sales. The operator is responsible for all distributions to the working interest and royalty owners. There is no standard price for gas and prices will fluctuate with the seasons and the general market conditions.

Competition

The oil and gas industry is highly competitive. Our competitors and potential competitors include major oil companies and independent producers of varying sizes of which are engaged in the acquisition of producing properties and the exploration and development of prospects. Most of our competitors have greater financial, personnel and other resources than we do and therefore have a greater leverage to use in acquiring prospects, hiring personnel and marketing oil and gas. Accordingly, a high degree of competition in these areas is expected to continue.

Governmental Regulation

The production and sale of oil and gas is subject to regulation by state, federal and local authorities. In most areas there are statutory provisions regulating the production of oil and natural gas under which administrative agencies may set allowable rates of production and promulgate rules in connection with the

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operation and production of such wells, ascertain and determine the reasonable market demand of oil and gas, and adjust allowable rates with respect thereto

The sale of liquid hydrocarbons was subject to federal regulation under the Energy Policy and Conservation Act of 1975 which amended various acts, including the Emergency Petroleum Allocation Act of 1973. These regulations and controls included mandatory restrictions upon the prices at which most domestic crude oil and various petroleum products could be sold. All price controls and restrictions on the sale of crude oil at the wellhead have been withdrawn. It is possible, however, that such controls may be reimposed in the future but when, if ever, such re-imposition might occur and the effect thereof on us cannot be predicted.

The sale of certain categories of natural gas in interstate commerce is subject to regulation under the Natural Gas Act and the Natural Gas Policy Act of 1978 ("NGPA"). Under the NGPA, a comprehensive set of statutory ceiling prices applies to all first sales of natural gas unless the gas is specifically exempt from regulation (i.e., unless the gas is "deregulated"). Administration and enforcement of the NGPA ceiling prices are delegated to the FERC. In June 1986, the FERC issued Order No. 451, which, in general, is designed to provide a higher NGPA ceiling price for certain vintages of old gas. It is possible, though unlikely, that we may in the future acquire significant amounts of natural gas subject to NGPA price regulations and/or FERC Order No. 451.

Our operations are subject to extensive and continually changing regulation because legislation affecting the oil and natural gas industry is under constant review for amendment and expansion. Many departments and agencies, both federal and state, are authorized by statute to issue and have issued rules and regulations binding on the oil and natural gas industry and its individual participants. The failure to comply with such rules and regulations can result in large penalties. The regulatory burden on this industry increases our cost of doing business and, therefore, affects our profitability. However, we do not believe that we are affected in a significantly different way by these regulations than our competitors are affected.

Transportation and Production

Transportation and Sale of Oil and Natural Gas. We can make sales of oil, natural gas and condensate at market prices which are not subject to price controls at this time. Condensates are liquid hydrocarbons recovered at the surface that result from condensation due to reduced pressure or temperature of petroleum hydrocarbons existing initially in a gaseous phase in the reservoir. The price that we receive from the sale of these products is affected by our ability to transport and the cost of transporting these products to market. Under applicable laws, the Federal Energy Regulatory Commission ("FERC") regulates:

- the construction of natural gas pipeline facilities, and
- the rates for transportation of these products in interstate commerce.

Our possible future sales of natural gas are affected by the availability, terms and cost of pipeline transportation. The price and terms for access to pipeline transportation remain subject to extensive federal and state regulation. Several major regulatory changes have been implemented by Congress and the FERC from 1985 to the present. These changes affect the economics of natural gas production, transportation and sales. In addition, the FERC is continually proposing and implementing new rules and regulations affecting these segments of the natural gas industry that remain subject to the FERC's jurisdiction. The most notable of these are natural gas transmission companies.

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The FERC's more recent proposals may affect the availability of interruptible transportation service on interstate pipelines. These initiatives may also affect the intrastate transportation of gas in some cases. The stated purpose of many of these regulatory changes is to promote competition among the various sectors of the natural gas industry. These initiatives generally reflect more light-handed regulation of the natural gas industry. The ultimate impact of the complex rules and regulations issued by the FERC since 1985 cannot be predicted. In addition, some aspects of these regulatory developments have not become final but are still pending judicial and FERC final decisions. We cannot predict what further action the FERC will take on these matters. However, we do not believe that any action taken will affect us much differently than it would affect other natural gas producers, gatherers and marketers with which we might compete against.

Effective as of January 1, 1995, the FERC implemented regulations establishing an indexing system for transportation rates for oil. These regulations could increase the cost of transporting oil to the purchaser. We do not believe that these regulations will affect us any differently than other oil producers and marketers with which we compete with.

Regulation of Drilling and Production. Our proposed drilling and production operations are subject to regulation under a wide range of state and federal statutes, rules, orders and regulations. Among other matters, these statutes and regulations govern:

- the amounts and types of substances and materials that may be released into the environment,
- the discharge and disposition of waste materials,
- the reclamation and abandonment of wells and facility sites, and
- the remediation of contaminated sites,

and require:

- permits for drilling operations,
- drilling bonds, and
- reports concerning operations.

Texas law contains:

- provisions for the unitization or pooling of oil and natural gas properties,
- the establishment of maximum rates of production from oil and natural gas wells, and
- the regulation of the spacing, plugging and abandonment of wells.

Environmental Regulations

General. Our operations are affected by the various state, local and federal environmental laws and regulations, including the:

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- Clean Air Act,
- Oil Pollution Act of 1990,
- Federal Water Pollution Control Act,
- Resource Conservation and Recovery Act ("RCRA"),
- Toxic Substances Control Act, and
- Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA").

these laws and regulations govern the discharge of materials into the environment or the disposal of waste materials, or otherwise relate to the protection of the environment. In particular, the following activities are subject to stringent environmental regulations:

- drilling,
- development and production operations,
- activities in connection with storage and transportation of oil and other liquid hydrocarbons, and
- use of facilities for treating, processing or otherwise handling hydrocarbons and wastes.

Violations are subject to reporting requirements, civil penalties and criminal sanctions. As with the industry generally, compliance with existing regulations increases our overall cost of business. The increased costs cannot be easily determined. Such areas affected include:

- unit production expenses primarily related to the control and limitation of air emissions and the disposal of produced water,
- capital costs to drill exploration and development wells resulting from expenses primarily related to the management and disposal of drilling fluids and other oil and natural gas exploration wastes, and
- capital costs to construct, maintain and upgrade equipment and facilities and remediate, plug and abandon inactive well sites and pits.

Environmental regulations historically have been subject to frequent change by regulatory authorities. Therefore, we are unable to predict the ongoing cost of compliance with these laws and regulations or the future impact of such regulations on its operations. However, we do not believe that changes to these regulations will have a significant negative affect on our operations.

A discharge of hydrocarbons or hazardous substances into the environment could subject us to substantial expense, including both the cost to comply with applicable regulations pertaining to the clean up of releases of hazardous substances into the environment and claims by neighboring landowners and other third parties for personal injury and property damage. We do not maintain insurance for protection against certain types of environmental liabilities.

The Clean Air Act requires or will require most industrial operations in the United States to incur capital expenditures in order to meet air emission control standards developed by the EPA and state environmental agencies. Although no assurances can be given, we believe the Clean Air Act requirements will not have a material adverse effect on our financial condition or results of operations.

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RCRA is the principal federal statute governing the treatment, storage and disposal of hazardous wastes. RCRA imposes stringent operating requirements, and liability for failure to meet such requirements, on a person who is either:

- a "generator" or "transporter" of hazardous waste, or
- an "owner" or "operator" of a hazardous waste treatment, storage or disposal facility.

At present, RCRA includes a statutory exemption that allows oil and natural gas exploration and production wastes to be classified as non-hazardous waste. As a result, we will not be subject to many of RCRA's requirements because its operations will probably generate minimal quantities of hazardous wastes.

CERCLA, also known as "Superfund," imposes liability, without regard to fault or the legality of the original act, on certain classes of persons that contributed to the release of a "hazardous substance" into the environment. These persons include:

- the "owner" or "operator" of the site where hazardous substances have been released, and
- companies that disposed or arranged for the disposal of the hazardous substances found at the site.

CERCLA also authorizes the EPA and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. In the course of our ordinary operations, we could generate waste that may fall within CERCLA's definition of a "hazardous substance." As a result, we may be liable under CERCLA or under analogous state laws for all or part of the costs required to clean up sites at which such wastes have been disposed.

Under such law we could be required to:

- remove or remediate previously disposed wastes, including wastes disposed of or released by prior owners or operators,
- clean up contaminated property, including contaminated groundwater, or
- perform remedial plugging operations to prevent future contamination.

We could also be subject to other damage claims by governmental authorities or third parties related to such contamination.

The foregoing regulations do not and will not have any material adverse affect upon us.

Company's Office

Our offices are located at 2401 Fountain View, Suite 1008, Houston, Texas 77057. Our telephone number is (713) 782-5758.

Employees

We currently have six full time employees other than our officers and directors.

Risks Factors

1. *We have a limited operating history and in our auditor's opinion, we may not be able to stay in business.* In our auditor's opinion, there is doubt about our ability to continue in business as a going concern. Because we have a limited operating history we cannot reliably forecast our future operations. As a result we may not be able to stay in business.

2. *Our actual drilling results are likely to differ from our estimates of proved reserves.* We may experience production that is less than estimated in our reserve reports and drilling costs that are greater than estimated in our reserve reports. Such differences may be material. Estimates of our natural gas and oil reserves and the costs associated with developing these reserves may not be accurate. Development of our reserves may not occur as scheduled and the actual results may not be as estimated. Drilling activity may result in downward adjustments in reserves or higher than estimated costs. Our estimates of our proved natural gas and oil reserves and the estimated future net revenues from such reserves are based upon various assumptions, including engineering data furnished by petroleum engineers, including assumptions required by the Securities and Exchange Commission relating to natural gas and oil prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. This process requires significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir. Therefore, these estimates are inherently imprecise and the quality and reliability of this data can vary. Our properties may also be susceptible to hydrocarbon drainage from production by other operators on adjacent properties. In addition, we may adjust estimates of proved reserves to reflect production history, results of development, prevailing oil and natural gas prices and other factors, many of which are beyond our control. Actual production, revenues, taxes, development expenditures and operating expenses with respect to our reserves will likely vary from the estimates used. These variances may be material.

3. *If we are not able to generate sufficient funds from our operations and other financing sources, we will not be able to finance our development activity or future acquisitions.* We have experienced and expect to continue to experience substantial capital expenditure and working capital needs to finance our acquisition and development program. Low commodity prices, production problems, disappointing drilling results and other factors beyond our control could reduce our funds from operations. We will also require future financing transactions to support our future operations. Additional financing may not be available to us in the future on acceptable terms or at all. In the event additional capital resources are unavailable, we may curtail our acquisition, drilling, development and other activities or be forced to sell some of our assets on an untimely or unfavorable basis.

4. *Natural gas and oil prices are volatile, and low prices have had in the past and could have in the future a material adverse impact on our business.* Our revenues, profitability and future growth and the carrying value of our properties depend substantially on the prices we realize for our natural gas and oil production. Our realized prices also affect the amount of cash flow available for capital expenditures and our ability to borrow and raise additional capital. Natural gas and oil are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for natural gas and oil have been volatile, and they are likely to continue to be volatile in the future. Among the factors that can cause this volatility are: worldwide or regional demand for energy, which is affected by economic conditions; the domestic and foreign supply of natural gas and oil;

weather conditions; domestic and foreign governmental regulations; political conditions in natural gas or oil producing regions; the ability of members of the Organization of Petroleum Exporting Countries to agree upon and maintain oil prices and production levels; and the price and availability of alternative fuels. It is impossible to predict natural gas and oil price movements with certainty. Lower natural gas and oil prices may not only decrease our revenues on a per unit basis but also may reduce the amount of natural gas and oil that we can produce economically. A substantial or extended decline in natural gas and oil prices may materially and adversely affect our future business, financial condition, results of operations, liquidity and ability to finance planned capital expenditures. Further, oil prices and natural gas prices do not necessarily move together.

5. Because we have incurred significant losses from operations in recent years, our future operating results are difficult to forecast. Our failure to achieve or sustain profitability in the future could adversely affect the market price of our common stock. Our failure to achieve or sustain profitability in the future could adversely affect the market price of our common stock. In considering whether to invest in our common stock, you should consider the historical financial and operating information available on which to base your evaluation of our performance.

6. We may incur substantial impairment write-downs. If management's estimates of natural gas and oil prices decline or if the recoverable reserves on a property are revised downward, we may be required to record additional impairment write-downs in the future, which would result in a negative impact to our financial position. We review our proved oil and gas properties for impairment on a depletable unit basis when circumstances suggest there is a need for such a review. A depletable unit is equal to the cost of the natural resource divided by estimated units of resource. For each property determined to be impaired, we recognize an impairment loss equal to the difference between the estimated fair value and the carrying value of the property on a depletable unit basis. Fair value is estimated to be the present value of expected future net cash flows computed by applying estimated future oil and gas prices, as determined by management, to the estimated future production of oil and gas reserves over the economic life of a property. Future cash flows are based upon our independent engineer's estimate of proved reserves. In addition, other factors such as probable and possible reserves are taken into consideration when justified by economic conditions and actual or planned drilling.

7. The natural gas and oil business involves many uncertainties and operating risks that can prevent us from realizing profits and can cause substantial losses. Our development activities may be unsuccessful for many reasons, including weather, cost overruns, equipment shortages and mechanical difficulties. Moreover, the successful drilling of a natural gas or oil well does not ensure a profit on investment. A variety of factors, both geological and market-related, can cause a well to become uneconomical or only marginally economic. In addition to their cost, unsuccessful wells can hurt our efforts to replace reserves. The natural gas and oil business involves a variety of operating risks, including: fires; explosions; blow-outs and surface cratering; uncontrollable flows of natural gas, oil and formation water; natural disasters, such as tornados and other adverse weather conditions; casing collapses; embedded oil field drilling and service tools; abnormally pressured formations; and environmental hazards, such as natural gas leaks, oil spills, pipeline ruptures and discharges of toxic gases. If we experience any of these problems, it could affect well bores and gathering systems, which could adversely affect our ability to conduct operations. We could also incur substantial losses as a result of: injury or loss of life; severe damage to and destruction of property, natural resources and equipment; pollution and other environmental damage; clean-up responsibilities; regulatory investigation and penalties; suspension of our operations; and repairs to resume operations. These conditions can cause substantial damage to facilities and interrupt production. As a result, we could incur substantial liabilities that could reduce or eliminate the funds available for development or leasehold acquisitions, or result in loss of equipment and properties.

8. Our insurance coverage may not be sufficient to cover some liabilities or losses which we may incur. The occurrence of a significant accident or other event not fully covered by our insurance could have a material adverse effect on our operations and financial condition. Our insurance does not protect us against all operational risks. We do not carry business interruption insurance at levels that would provide enough funds for us to continue operating without access to other funds. For some risks, we may not obtain insurance if we believe the cost of available insurance is excessive relative to the risks presented. Because third party drilling contractors are used to drill our wells, we may not realize the full benefit of workmen's compensation laws in dealing with their employees. In addition, pollution and environmental risks generally are not fully insurable.

9. We may be unable to identify liabilities associated with the properties that we acquire or obtain protection from sellers against them. The acquisition of properties with proved undeveloped reserves requires us to assess a number of factors, including recoverable reserves, development and operating costs and potential environmental and other liabilities. Such assessments are inexact and inherently uncertain. In connection with the assessments, we perform a review of the subject properties, but such a review will not reveal all existing or potential problems. In the course of our due diligence, we may not inspect every well or pipeline. We cannot necessarily observe structural and environmental problems, such as pipeline corrosion, when an inspection is made. We may not be able to obtain contractual indemnities from the seller for liabilities that it created. We may be required to assume the risk of the physical condition of the properties in addition to the risk that the properties may not perform in accordance with our expectations.

10. We are subject to complex laws and regulations, including environmental regulations, that can adversely affect the cost, manner or feasibility of doing business. Development, production and sale of natural gas and oil in the United States are subject to extensive laws and regulations, including environmental laws and regulations. We may be required to make large expenditures to comply with environmental and other governmental regulations. Matters subject to regulation include: discharge permits for drilling operations; bonds for ownership, development and production of oil and gas properties; reports concerning operations; and taxation. Under these laws and regulations, we could be liable for personal injuries, property damage, oil spills, discharge of hazardous materials, remediation and clean-up costs and other environmental damages. Failure to comply with these laws and regulations also may result in the suspension or termination of our operations and subject us to administrative, civil and criminal penalties. Moreover, these laws and regulations could change in ways that substantially increase our costs. Accordingly, any of these liabilities, penalties, suspensions, terminations or regulatory changes could materially adversely affect our financial condition and results of operations.

11. Title to Properties may be defective and as a result, we could lose our right to explore on them. It is customary in the oil and gas industry that upon acquiring an interest in a property, that only a preliminary title investigation be done at that time. We intend to follow this custom. If the title to the prospects should prove to be defective, we could lose the costs of acquisition, or incur substantial costs for curative title work.

12. Shut-in wells will curtail production and our revenues. Production from gas wells in many geographic areas of the United States has been curtailed or shut-in for considerable periods of time due to a lack of market demand, and such curtailments may continue for a considerable period of time in the future. There may be an excess supply of gas in areas where our operations will be conducted. In such event, it is possible that there will be no market or a very limited market for our prospects. It is customary in many portions of Oklahoma and Texas to shut-in gas wells in the spring and summer when there is not sufficient demand for gas.

13. Operating and environmental hazards could impair revenues. Hazards incident to the operation of oil and gas properties, such as accidental leakage of petroleum liquids and other unforeseen conditions, may be encountered by us if we participate in developing a well and, on occasion, substantial liabilities to third parties or governmental entities may be incurred. We could be subject to liability for pollution and other damages or may lose substantial portions of prospects or producing properties due to hazards which cannot be insured against or which have not been insured against due to prohibitive premium costs or for other reasons. We currently do not maintain any insurance for environmental damages. Governmental regulations relating to environmental matters could also increase the cost of doing business or require alteration or cessation of operations in certain areas.

14. Because our common stock is a "penny stock," investors may not be able to resell their shares and will have access to limited information about us. Our common stock is defined as a "penny stock," under the Securities Exchange Act of 1934, and its rules. Because our common stock is a "penny stock," investors may be unable to resell their shares. This is because the Securities Exchange Act of 1934 and the penny stock rules impose additional sales practice and disclosure requirements on broker/dealers who sell our securities to persons other than accredited investors. As a result, fewer broker/dealers are willing to make a market in our common stock and investors may not be able to resell their shares. Further, news coverage regarding penny stock is extremely limited, if non-existent. As a result, investors only information will be from reports filed the with the Securities and Exchange Commission.

ITEM 2. DESCRIPTION OF PROPERTIES

Our principal properties consist of developed and undeveloped oil and gas leases and the reserves associated with these leases which are described in Item 1 of this report. Generally, developed oil and gas leases remain in force so long as production is maintained. Undeveloped oil and gas leaseholds are generally for a primary term of three to five years. In most cases, the term of our undeveloped leases can be extended by paying delay rentals or by producing reserves that are discovered under our leases.

We lease our office space at 2401 Fountain View Drive, Suite 1008, Houston, Texas 77057 pursuant to a written lease agreement with Insite Realty. The lease is paid monthly at a rate of \$1606.50. Management believes that additional office space will be required as our business grows.

ITEM 3. LEGAL PROCEEDINGS

We are not subject to any legal proceedings.

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

No matters were submitted to a vote of shareholders in the fiscal year ending June 2004.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common shares are traded on the Bulletin Board operated by the National Association of Securities Dealers, Inc. under the symbol "TXEO." Our shares began trading on April 11, 2001. The following table sets forth the closing high and low bid prices of the common stock for each quarter within the last two years. The quotations reflect inter-dealer prices and do not represent retail mark-ups, markdowns, commissions, and may not reflect actual transactions.

| Quarter ended | High Bid | Low Bid |
|----------------------|-----------------|----------------|
| 2002 | | |
| March 31 | \$0.72 | \$0.30 |
| June 30 | \$0.76 | \$0.34 |
| September 30 | \$0.76 | \$0.50 |
| December 31 | \$0.55 | \$0.11 |
| 2003 | | |
| March 31 | \$0.70 | \$0.78 |
| June 30 | \$1.15 | \$0.32 |
| September 30 | \$1.06 | \$0.18 |
| December 31 | \$0.55 | \$0.23 |
| 2004 | | |
| March 31 | \$0.39 | \$0.09 |
| June 30 | \$0.31 | \$0.12 |

As of June 30, 2004 there were approximately 164 shareholders of record of our common shares. This does not reflect persons or entities that hold stock through various brokerage firms or depositories.

The market price of our common shares may be the object of significant fluctuations related to a number of events and reasons, such as variations in our operating results, publication of technological developments or new products or services by us or our competitors, recommendations of securities analysts on us or our competitors, the operating and stock performance of other companies that the market may view as related to our business, and news reports relating to trends in our activities. In addition, the stock market in recent years has experienced significant price and volume fluctuations that have particularly affected the market prices of many high technology companies that may have often been not related or inconsistent to the operating performance of those companies. These fluctuations, as well as general political, economic and market conditions and other factors, may adversely affect the market price for our common stock.

Dividend Policy

We have never paid any cash dividends on our common shares and at present we do not intend to pay any cash dividends in the foreseeable future. Our plan is to retain earnings, if any, to fund our future growth.

Section 15(g)

) of the Securities Exchange Act of 1934

Our company's shares are covered by Section 15(g) of the Securities Exchange Act of 1934, as amended that imposes additional sales practice requirements on broker/dealers who sell such securities to persons other than established customers and accredited investors (generally institutions with assets in excess of \$5,000,000 or individuals with net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouses). For transactions covered by the Rule, the broker/dealer must make a special suitability determination for the purchase and have received the purchaser's written agreement to the transaction prior to the sale. Consequently, the Rule may affect the ability of broker/dealers to sell our securities and also may affect your ability to sell your shares in the secondary market.

Section 15(g) also imposes additional sales practice requirements on broker/dealers who sell penny securities. These rules require a one page summary of certain essential items. The items include the risk of investing in penny stocks in both public offerings and secondary marketing; terms important to in understanding of the function of the penny stock market, such as "bid" and "offer" quotes, a dealers "spread" and broker/dealer compensation; the broker/dealer compensation, the broker/dealers duties to its customers, including the disclosures required by any other penny stock disclosure rules; the customers rights and remedies in causes of fraud in penny stock transactions; and, the NASD's toll free telephone number and the central number of the North American Administrators Association, for information on the disciplinary history of broker/dealers and their associated persons.

Securities authorized for issuance under equity compensation plans

The 2003 Nonqualified Stock Option Plan provides for the issuance of up to 5,000,000 stock options for services rendered to the Company. As of June 30, 2004, 1,500,000 have been granted and 1,250,000 have been exercised and 3,500,000 options are available for issuance.

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|--|--|---|--|
| Equity compensation plans approved by security holders | 0 | 0 | 0 |
| Equity compensation plans not approved by securities holders | 250,000 | \$ 0.10 | 3,500,000 |
| Total | 250,000 | \$ 0.10 | 3,500,000 |

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

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. At each balance sheet date, management evaluates its estimates, including, but not limited to, those related to accounts receivable, inventories, and deferred revenue. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The estimates and critical accounting policies that are most important in fully understanding and evaluating our financial condition and results of operations are discussed below.

Our auditors have issued a going concern opinion. This means that our auditors believe there is doubt that we can continue as an on-going business for the next twelve months unless we obtain additional capital. We have not generated enough revenues from operations to drill, complete and rework wells on our leases accordingly we must raise cash from sources other than the sale of oil or gas found on our property. The Company expects to raise capital through the sale of securities or the arrangement of loans. As of the date hereof, we have not made sales of additional securities and there is no assurance that we will be able to raise additional capital through the sale of securities in the future. Further, we have not initiated any negotiations for loans to us and there is no assurance that we will be able to raise additional capital in the future through loans. In the event that we are unable to raise additional capital, we may have to suspend or cease operations.

MANAGEMENT DISCUSSION OF RESULTS OF OPERATIONS

KEY COMPARISONS

| | Revenues | Expenses | Assets | Liabilities | Stockholders Equity |
|-------------|-----------------|-----------------|---------------|--------------------|--------------------------------|
| 2001 | \$ 0 | \$ 71,387 | \$ 10,231 | \$ 770 | \$ 11,271 |
| 2002 | 0 | 25,088 | 0 | 4,190 | (141,90) |
| 2003 | 863,501 | 23,326,465 | 5,880,802 | 2,636,086 | 3,244,716 |
| 2004 | 587,791 | 3,425,374 | 5,152,587 | 2,548,701 | 2,603,886 |

INCOME STATEMENT

Oil and Gas Revenues

For the year ending June 30, 2004, oil and gas revenues decreased from \$619M to \$424M due to a 54% decrease in volumes. This is partially offset by a 7% increase in oil and gas prices.

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Drilling Income

For the year ending June 30, 2004, drilling income decreased from \$95M to a loss of \$18M, a 119% decrease. This is a result of non-utilization of drilling assets.

Executive Compensation

For the year ending June 30, 2004, executive compensation was increased by 13% due to the engagement of consultants pursuant to the development of the business strategy of the Company.

Lease Operating Expense

For the year ending June 30, 2004, lease operating expense decreased by 21%. This is primarily a result of decreased workovers and decreased production.

Dry Hole Costs

For the year ending June 30, 2004, dry hole costs of \$262M was recorded as a result of unsuccessful drilling operations on the Mitchell #3 Well in Waller County, Texas.

Depreciation, Depletion and Amortization

For the year ending June 30, 2004, a 64% increase of depreciation, depletion and amortization was recorded resulting from higher per unit expenses.

Interest and Finance Expenses

For the year ending June 30, 2004, interest and finance expenses decreased by 33% resulting from funds being advanced by a related party at reduced expense to the company.

BALANCE SHEET

Accounts Payable Related Party

For the year ending June 30, 2004, accounts payable of affiliates increased from \$196M to \$1,295M as a result of year end accruals and amount owed to company management.

Workovers

The company did not undertake any substantial workovers during 2004. As of the date of this filing, no substantial workovers have been undertaken pending receipt of additional capital.

Financial Condition, Liquidity and Capital Resources

The Company continues to incur operating expenses in excess of net revenue and will require capital infusions to sustain the company until operating results improve. The Company may not be able to obtain such infusions in a timely manner and as a result may incur liquidity imbalances.

This discussion should be read in conjunction with other discussions included in this document and with prior year's financial statements. Some of the statements are "Forward Looking Statements" and are thus prospective. As discussed, these forward-looking statements are subject to risks, uncertainties and other factors that could cause results to differ materially for the results expressed or implied by such statements.

Recent Accounting Pronouncements

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (hereinafter "SFAS No. 150"). SFAS No. 150 establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those instruments were classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has not yet determined the impact of the adoption of this statement.

In April 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (hereinafter "SFAS No. 149"). SFAS No. 149 amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 is not expected to have a material impact on the financial position or results of operations of the Company as the Company has not issued any derivative instruments or engaged in any hedging activities as of June 30, 2003.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS No. 148"). SFAS 148 amends SFAS 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of SFAS 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of the statement are effective for financial statements for fiscal years ending after December 15, 2002. The Company currently reports stock issued to employees under the rules of SFAS 123. Accordingly, there is no change in disclosure requirements due to SFAS 148 as adopted by the Company during the year ended June 30, 2003.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"). SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS No. 146 also addresses recognition of certain costs related to terminating a contract that is not a capital lease, costs to consolidate facilities or relocate employees, and termination benefits provided to employees that are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS No. 146 was issued in June 2002 and is effective December 31, 2002 with early application encouraged. The Company adopted SFAS during the year ended June 30, 2002 and there has been no impact on the Company's financial position or results of operations from adopting SFAS 146.

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ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Table of Contents

| | |
|--|-----|
| INDEPENDENT AUDITOR'S REPORT | F-1 |
| CONSOLIDATED FINANCIAL STATEMENTS | |
| Consolidated Balance Sheets | F-2 |
| Consolidated Statements of Operations | F-4 |
| Consolidated Statements of Stockholders' Equity (Deficit) | F-5 |
| Consolidated Statements of Cash Flows | F-7 |
| NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | F-9 |

Board of Directors
Texen Oil and Gas, Inc,
Houston, Texas
USA

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated balance sheets of TexEn Oil & Gas, Inc. as of June 30, 2004 and 2003 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TexEn Oil & Gas, Inc. as of June 30, 2004 and 2003 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2, the Company's operating losses and significant impairment of oil and gas properties raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Williams & Webster,
P.S. Williams & Webster, P.S.

Certified Public Accountants
Spokane, Washington
November 4, 2004

F - 1

26

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TEXEN OIL & GAS, INC.

CONSOLIDATED BALANCE SHEETS

| | June 30, 2004 | June 30, 2003 |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 46,295 | \$ 8,879 |
| Accounts receivable - affiliates | 397,717 | 407,805 |
| Accrued oil and gas sales | 43,350 | 74,697 |
| Prepaid insurance and other assets | 5,501 | 6,975 |
| Total Current Assets | 492,863 | 498,356 |
| PROPERTY AND EQUIPMENT | | |
| Oil and gas, on the basis of successful efforts accounting: | | |
| Unproved property | 147,108 | 147,108 |
| Proved properties, developed and undeveloped | 25,854,207 | 25,861,305 |
| Less accumulated depreciation, depletion, amortization and impairments | (21,530,926) | (20,977,316) |
| Net Oil and Gas Assets | 4,470,389 | 5,031,097 |
| OTHER PROPERTY AND EQUIPMENT | | |
| Other property and equipment | 275,867 | 410,232 |
| Less accumulated depreciation | (86,532) | (58,883) |
| Net Other Property and Equipment | 189,335 | 351,349 |
| TOTAL ASSETS | \$ 5,152,587 | \$ 5,880,802 |

F-2

The accompanying notes are an integral part of these financial statements.

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TEXEN OIL & GAS, INC.

CONSOLIDATED BALANCE SHEETS

(continued)

| | June 30, 2004 | June 30, 2003 |
|---|---------------------|---------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 1,295,327 | \$ 218,861 |
| Accounts payable - related party | 388,266 | 328,593 |
| Accrued interest - related party | - | 22,484 |
| Advances from affiliates | 715,108 | 560,801 |
| Notes payable | - | 1,200,000 |
| Notes payable - related party | 150,000 | - |
| Total Current Liabilities | 2,548,701 | 2,330,739 |
| Long term debt - notes payable -related party | - | 305,347 |
| TOTAL LIABILITIES | 2,548,701 | 2,636,086 |
| COMMITMENTS AND CONTINGENCIES | - | - |
| STOCKHOLDERS' EQUITY | | |
| Common stock, 100,000,000 shares authorized, \$0.00001 par value; 92,517,643 and 45,184,310 shares issued and | | |
| outstanding, respectively | 925 | 451 |
| Additional paid-in capital | 29,886,441 | 26,214,782 |
| Stock options | 95,175 | 844,150 |
| Accumulated deficit | (27,378,655) | (23,814,667) |
| Total Stockholders' Equity | 2,603,886 | 3,244,716 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 5,152,587 | \$ 5,880,802 |

F-3

The accompanying notes are an integral part of these financial statements.

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TEXEN OIL & GAS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

| | Years Ended June 30 | |
|---|------------------------|------------------------|
| | 2004 | 2003 |
| REVENUES | | |
| Oil and gas sales | \$ 423,769 | \$ 619,271 |
| Drilling revenues | 164,022 | 244,230 |
| TOTAL REVENUES | 587,791 | 863,501 |
| COST OF REVENUES | | |
| Drilling costs | 181,985 | 148,970 |
| GROSS PROFIT FROM DRILLING AND PRODUCTION | | |
| | 405,806 | 714,531 |
| EXPENSES | | |
| Impairment loss | - | 20,407,559 |
| Compensation | 1,188,867 | 1,049,150 |
| Production costs | 711,762 | 899,026 |
| Intangible drilling | - | 40,298 |
| General and administrative expense | 350,096 | 143,048 |
| Legal and accounting | 310,690 | 296,752 |
| Dry hole costs | 262,002 | 107,505 |
| Depreciation, depletion and amortization | 581,260 | 353,611 |
| Production taxes | 20,697 | 29,516 |
| TOTAL EXPENSES | 3,425,374 | 23,326,465 |
| OPERATING LOSS | (3,019,568) | (22,611,934) |
| OTHER EXPENSES | | |
| Interest and finance expenses | (544,420) | (807,316) |
| TOTAL OTHER EXPENSES | (544,420) | (807,316) |
| LOSS BEFORE INCOME TAXES | (3,563,988) | (23,419,250) |
| INCOME TAXES | - | - |
| NET LOSS | \$ (3,563,988) | \$ (23,419,250) |
| NET LOSS PER COMMON SHARE, BASIC AND DILUTED | \$ (0.05) | \$ (0.52) |
| WEIGHTED AVERAGE NUMBER OF COMMON STOCK SHARES | | |
| OUTSTANDING, BASIC AND DILUTED | 69,117,169 | 44,829,466 |

The accompanying notes are an integral part of these financial statements.

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TEXEN OIL & GAS, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

| | Common Stock | | Additional | Stock | Accumulated | Total |
|---|--------------|--------|--------------------|---------|--------------|--------------|
| | Shares | Amount | Paid-in Capital | Options | Deficit | |
| Balance, June 30, 2002 | 45,448,879 | \$ 454 | \$ 380,773 | - | \$ (395,417) | (14,190) |
| Issuances of common stock as follows: | | | | | | |
| - for cash acquisition of subsidiaries at \$0.97 to \$1.40 per share | 22,885,381 | 229 | 23,349,622 | - | - | 23,349,851 |
| - for acquisition of management rights of related party for par value | 1,500,000 | 15 | - | - | - | 15 |
| - for assignment of working interest and net revenue interests at \$1.06 per share | 2,338,000 | 23 | 2,484,117 | - | - | 2,484,140 |
| Rescission of common stock by officer at par value | (26,987,950) | (270) | 270 | - | - | - |
| Issuance of options as follows: | | | | | | |
| - to officers for services | - | - | - | 748,975 | - | 748,975 |
| - to consultant for services | - | - | - | 95,175 | - | 95,175 |
| Net loss for the year ended June 30, 2003 | - | - | - | - | (23,419,250) | (23,419,250) |
| Balance, June 30, 2003 | 45,184,310 | 451 | 26,214,782 | 844,150 | (23,814,667) | 3,244,716 |

F-5

The accompanying notes are an integral part of these financial statements.

TEXEN OIL & GAS, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(continued)

Issuances of common stock as follows:

- for exercise of options and accrued consulting to

| | | | | | | |
|--|-----------|----|---------|-----------|---|---------|
| officer at \$0.10 per share | 1,250,000 | 10 | 753,790 | (653,800) | - | 100,000 |
| - issuance of stock for consulting at an average of \$0.27 per share | 1,500,000 | 18 | 447,482 | - | - | 447,500 |
| - issuance of stock for consulting at an average of \$0.15 per share | 1,333,333 | 13 | 199,987 | - | - | 200,000 |

Issuance of common stock for settlement of debt and forgiveness of interest

| | | | | | |
|------------|-----|-----------|---|---|-----------|
| 40,000,000 | 400 | 1,646,508 | - | - | 1,646,908 |
|------------|-----|-----------|---|---|-----------|

- issuance of stock for consulting at an average

| | | | | | | |
|---------------------|---------|---|---------|---|---|---------|
| of \$0.29 per share | 500,000 | 5 | 144,995 | - | - | 145,000 |
|---------------------|---------|---|---------|---|---|---------|

Issuance of stock for financing fees at \$0.14 per share

| | | | | | |
|-----------|----|---------|---|---|---------|
| 2,500,000 | 25 | 337,475 | - | - | 337,500 |
|-----------|----|---------|---|---|---------|

Issuance of stock for financing fees at \$0.18 per share

| | | | | | |
|---------|---|--------|---|---|--------|
| 250,000 | 3 | 46,247 | - | - | 46,250 |
|---------|---|--------|---|---|--------|

Rescission of options granted to officer for services

| | | | | | |
|---|---|--------|----------|---|---|
| - | - | 95,175 | (95,175) | - | - |
|---|---|--------|----------|---|---|

Net loss for the year ended June 30, 2004

| | | | | | |
|---|---|---|---|-------------|-------------|
| - | - | - | - | (3,563,988) | (3,563,988) |
|---|---|---|---|-------------|-------------|

| | | | | | | |
|------------------------|------------|--------|---------------|-----------|-----------------|--------------|
| Balance, June 30, 2004 | 92,517,643 | \$ 925 | \$ 29,886,441 | \$ 95,175 | \$ (27,378,655) | \$ 2,603,886 |
|------------------------|------------|--------|---------------|-----------|-----------------|--------------|

F-6

The accompanying notes are an integral part of these financial statements.

31

TEXEN OIL & GAS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended | |
|---|----------------|-----------------|
| | June 30, | 2003 |
| | 2004 | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net | | |
| loss | \$ (3,563,988) | \$ (23,419,250) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation, depletion and amortization | 581,260 | 353,611 |
| Impairment loss | - | 20,407,559 |
| Forgiveness of related party interest | 156,920 | - |
| Stock issued for consulting | 792,500 | - |
| Stock issued for financing costs | 383,750 | - |
| Expenses paid with officer loans | 98,403 | - |
| Dry hole costs-Non-cash portion | 197,697 | - |
| Interest and finance cost paid by note payable | - | 785,000 |
| Options issued for services | - | 844,150 |
| Decrease in accounts receivable - affiliates | 10,088 | (78,736) |
| Decrease in advances receivable from affiliates | - | 42,399 |
| Decrease in accrued oil and gas sales | 31,347 | (39,385) |
| Decrease in prepaid insurance | 1,474 | (2,468) |
| Increase in accounts payable and accrued expenses | 1,098,950 | (92,107) |
| Increase in accounts payable and advances to related parties | 37,189 | 932,462 |
| Decrease in interest payable | (22,484) | - |
| Net cash used by operating activities | (196,894) | (266,765) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of wells, related equipment and facilities | (9,162) | (9,231) |
| Purchase of machinery and equipment | (12,073) | (14,794) |
| Net cash used by investing activities | (21,235) | (24,025) |

F-7

The accompanying notes are an integral part of these financial statements.

TEXEN OIL & GAS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(continued)

CASH FLOWS FROM FINANCING

ACTIVITIES

| | | |
|---|-----------|-----------|
| Proceeds from note payable - related party | | 295,347 |
| Proceeds from note payables | 500,000 | |
| Payments on notes payable | (500,000) | |
| Proceeds from loans payable - related parties | 255,545 | 113,284 |
| Payments to loans payable - related parties | - | (108,962) |
| Net cash provided by financing activities | 255,545 | 299,669 |
| | | |
| Increase (decrease) in cash | 37,416 | 8,879 |
| | | |
| Cash, beginning of period | 8,879 | - |
| | | |
| Cash, end of period | \$ 46,295 | \$ 8,879 |

SUPPLEMENTAL CASH FLOW

DISCLOSURES:

| | | |
|-------------------|------------|------|
| Interest paid | \$ 110,695 | \$ - |
| Income taxes paid | \$ - | \$ - |

NON-CASH TRANSACTIONS:

| | | |
|---|--------------|---------------|
| Stock issued for acquisition of subsidiaries | \$ - | \$ 23,349,851 |
| Stock issued for acquisition of management rights | \$ - | \$ 15 |
| Stock issued for acquisition of working interest and net revenue interest | \$ - | \$ 2,484,140 |
| Stock issued for stock dividend | | |
| Stock issued for debt settlement | \$ 1,646,908 | \$ - |
| Stock options issued to officer for services | \$ - | \$ 844,150 |
| Impairment loss on oil and gas producing properties | \$ - | \$ 20,407,559 |
| Interest and finance costs paid by note payable | \$ - | \$ 785,000 |
| | | |
| Advance to affiliate paid by note payable | | 415,000 |
| Stock issued for consulting services | \$ 792,500 | |
| | | |
| Expenses paid by officers loans | \$ 98,403 | \$ - |
| Stock Issued for financing costs | \$ 383,750 | |

F-8

The accompanying notes are an integral part of these financial statements.

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TEXEN OIL & GAS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

TexEn Oil & Gas, Inc. (formerly Palal Mining Corporation) (hereinafter "TexEn" or "the Company") filed for incorporation on September 2, 1999 under the laws of the State of Nevada primarily for the purpose of acquiring, exploring, and developing mineral properties. The Company changed its name from Palal Mining Corporation to TexEn Oil & Gas, Inc. on May 15, 2002 upon obtaining approval from its shareholders and filing an amendment to its articles of incorporation. The Company shall be referred to as "TexEn" or "TexEn Oil & Gas, Inc." even though the events described may have occurred while the Company's name was Palal Mining Corporation. The Company's fiscal year end is June 30.

On July 1, 2002, TexEn developed a plan for acquisition, development, production, exploration for, and the sale of, oil, gas and natural gas liquids and accordingly ended its exploration stage as a mineral properties exploration company. The Company sells its oil and gas products primarily to domestic pipelines and refineries. These acquisitions were accounted for using the purchase method. Prior to this, TexEn conducted its business as an exploration stage company, meaning that it intended to acquire, explore and develop mineral properties.

The Company's wholly owned subsidiaries consist of Texas Brookshire Partners, Inc. ("Brookshire"), Texas Gohlke Partners, Inc. ("Gohlke"), Brookshire Drilling Services, Inc. ("Drilling"), Yegua, Inc. ("Yegua") and BWC Minerals, LLC ("BWC").

Texas Brookshire Partners, Inc.

On July 15, 2002, the Company issued 15,376,103 shares of its common stock in exchange for all the common stock of Texas Brookshire Partners, Inc. ("Brookshire"). Common stock issued and outstanding was not affected because of a major shareholder rescinding shares of stock equal in number to the shares of stock issued for this acquisition. This transaction was considered to be with a related party as Brookshire's president is also a shareholder of TexEn. The Company recognized an increase of \$8,107,131 in unproved properties due to the value of Texen stock given to non-affiliated shareholders exceeding the carryover basis by that amount. The market value of Texen Oil and Gas, Inc. common stock was \$1.40 on July 15, 2002. Non-affiliates represented 77% of these shareholders while affiliates and promoters represented 23% of the shareholders. The nonaffiliated shares represented \$16,575,439 at the value of the stock and the affiliated shareholders represented \$739,064 at their basis. Liabilities assumed, including accounts payable and payable to related party, totaled \$153,988 as of July 15, 2002. Brookshire's major assets consist of a 77.75% working interest ownership in approximately 1,440 gross leasehold acres and 550 net leasehold acres located in the Brookshire Dome Field of Waller County, Texas. This working interest ownership position consists of various interests in 26 wells drilled to date and one water injection well. Brookshire plans additional development before expiration of the leasehold.

F-9

34

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TEXEN OIL & GAS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS (continued)

Brookshire Drilling Service, L.L.C.

On July 26, 2002, the Company entered into an agreement to acquire all of the outstanding common stock of Brookshire Drilling Service, L.L.C. ("Drilling") in exchange for 1,400,000 shares of the Company's common stock. The transaction was valued at the fair market value of the Company's common stock on the date of acquisition. Drilling's major assets consist of oil and gas drilling equipment and related transportation equipment. Drilling conducts business as a well service provider including, workover units for completed wells.

Yegua, Inc.

On July 22, 2002, the Company issued 373,847 shares of its common stock in exchange for all of the common stock of Yegua, Inc. (hereinafter "Yegua"). This transaction was valued at \$486,001, which represents the fair market value of the Company's common stock on the transaction date. Yegua's major asset consists of a 1.95% working interest in the Brookshire Dome Field.

Texas Gohlke Partners, Inc.

On September 18, 2002, the Company purchased Texas Gohlke Partners, Inc. ("Gohlke") in exchange for 4,000,000 shares of TexEn Oil & Gas, Inc.'s restricted common stock. Common stock issued and outstanding was not affected because of a major shareholder rescinding shares of stock equal in number to the shares of stock issued for this acquisition. The transaction is considered to be with a related party as Gohlke's president and principal shareholder is also a shareholder of TexEn. The Company recognized an increase of \$456,805 in unproved properties due to the value of TexEn stock given to non-affiliated shareholders exceeding the carryover basis by that amount. The market value of Texen Oil and Gas, Inc. common stock was \$0.97 on September 18, 2002. The Company issued 4,000,000 shares of common stock as part of this acquisition. Non-affiliates represented 51% of these shareholders while affiliates and promoters represented 49% of the shareholders. The nonaffiliated shares represented \$1,978,800 at the value of the stock and affiliated shareholders represented \$459,374 at their basis. Liabilities assumed, including accounts payable totaled \$120,000 as of September 18, 2002. Gohlke's major assets consists of a 100% working interest and a 70% net revenue interest in the Helen Gohlke Field located in Victoria and DeWitt Counties, Texas. This working interest ownership position consists of various interests in 60 wells, which have been drilled to date. Gohlke plans additional development before expiration of the leasehold.

BWC Minerals, L.L.C.

On February 27, 2003, the Company purchased BWC Minerals, L.L.C. ("BWC") in exchange for 1,735,431 shares of TexEn Oil & Gas, Inc.'s restricted common stock. The transaction was valued at \$1,943,582, which represents the fair market value of the Company's common stock on the transaction date. BWC's major asset consists of a 6.15% working interest in the Brookshire Dome Field.

F-10

35

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TEXEN OIL & GAS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, and have been consistently applied in the preparation of the financial statements.

Accounting Method

The Company uses the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Cash and Cash Equivalents

For purposes of its statement of cash flows, the Company considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The carrying amounts for cash, accounts receivable, accrued oil and gas runs, accounts payable, accrued liabilities and loans and notes payable approximate their fair value.

F-11

36

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TEXEN OIL & GAS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

The Company's policy is to recognize the cost of compensated absences when earned by employees. If the amount were estimatable, it would not be currently recognized as the amount would be deemed immaterial.

Basic and Diluted Loss Per Share

Net loss per share was computed by dividing the net loss by the weighted average number of shares outstanding during the period. The weighted average number of shares was calculated by taking the number of shares outstanding and weighting them by the amount of time that they were outstanding. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity similar to fully diluted earnings per share. Outstanding options were not included in the computation of net loss per share because they would be antidilutive.

Property and Equipment

Wells and related equipment and facilities, support equipment and facilities and other property and equipment are carried at cost. Oil and gas assets are subject to depreciation, depletion and amortization utilizing a unit of production method. Depreciation for drilling equipment and other assets are subject to the straight-line method over the estimated useful lives of the related assets, which range from five to ten years.

Future Development and Abandonment Costs

Future development costs include costs incurred to obtain access to proved reserves such as drilling costs and the installation of production equipment. Future abandonment costs include costs to dismantle and relocate or dispose of our production platforms, gathering systems and related structures and restoration costs of land. In reviewing the assets in Brookshire and Gohlke, we have determined that the costs to plug and abandon these wells are approximately equal to the salvage value of associated production facilities. We will continue to review these estimates and the Statement of Financial Accounting Standards (SFAS) No 143 requirements on an annual basis.

Derivative Instruments

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB No. 133", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" and SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities".

F-12

37

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative Instruments (Continued)

These standards establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. They require that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value.

If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

Historically, the Company has not entered into derivatives contracts to hedge existing risks or for speculative purposes.

At June 30, 2004 and 2003, the Company had not engaged in any transactions that would be considered derivative instruments or hedging activities.

Successful Efforts Accounting

The company accounts for its oil and gas exploration and development activities utilizing the successful efforts method of accounting. Under this method, cost of productive exploratory wells, developmental dry hole and productive wells and undeveloped leases are capitalized. Oil and gas acquisition costs are also capitalized. Exploration costs, including personnel costs, certain geological and geophysical expenses and delay rentals for oil and gas leases, are charged to expense as incurred. Exploratory drilling costs are initially capitalized, but such costs are charged to expense if and when the well is determined not to have found reserves in commercial quantities.

Unproved oil and gas properties that are individually significant are periodically assessed for impairment of value and a loss is recognized at the time of impairment by providing an impairment allowance. Other unproved properties are amortized based on the Company's experience of successful drilling and average holding period. Capitalized costs of producing oil and gas properties, after considering estimated dismantlement and abandonment costs and estimated salvage values, are depreciated and depleted by the units-of-production method. Support equipment and other property and equipment are depreciated over their estimated useful lives.

On the sale or retirement of a complete unit of a proved property, the cost and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and the resultant gain or loss is recognized. On the retirement or sale of a partial unit of proved property, the cost and related accumulated depreciation, depletion, and amortization of this partial unit are eliminated from the property account and the resulting gain or loss is recognized in income.

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TEXEN OIL & GAS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Successful Efforts Accounting (Continued)

On the sale of an entire interest in an unproved property, gain or loss on the sale is recorded, with recognition given to the amount of any recorded impairment if the property has been assessed individually. If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained.

Capitalized Interest

The Company capitalizes interest on expenditures for significant exploration and development projects while activities are in progress to bring the assets to their intended use. No amounts of interest were capitalized in the years ended June 30, 2004 and 2003.

Provision for Taxes

Income taxes are provided based upon the liability method of accounting pursuant to Statement of Financial Accounting Standards (SFAS) No. 109 "Accounting for Income Taxes." Under this approach, deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the "more likely than not" standard imposed by SFAS No. 109 to allow recognition of such an asset. See Note 13.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern.

As shown in the accompanying financial statements, the Company has incurred an accumulated deficit during exploration stage in the amount of \$27,378,655 for the period of September 2, 1999 (inception) to June 30, 2004 and a net loss in the amount of \$3,563,988 during the year ended June 30, 2004. The future of the Company is dependent upon its ability to obtain financing and upon future successful explorations for and profitable operations from the development of oil and gas properties.

Management has plans to seek additional capital through a private placement at market value and public offering of its common stock as well as obtaining additional financing in the form of loans. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

Environmental Remediation and Compliance

Expenditures for ongoing compliance with environmental regulations that relate to current operations are expensed or capitalized as appropriate. Expenditures resulting from the remediation of existing conditions caused by past operations that do not contribute to future revenue generations are expensed. Liabilities are recognized when environmental assessments indicate that remediation efforts are probable and the costs can be reasonably estimated.

F-14

39

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TEXEN OIL & GAS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Environmental Remediation and Compliance (Continued)

Estimates of such liabilities are based upon currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors, and include estimates of associated legal costs. These amounts also reflect other companies' clean-up experience and data released by the Environmental Protection Agency (EPA) or other organizations. Such estimates are by their nature imprecise and can be expected to be revised over time because of changes in government regulations, operations, technology and inflation. At June 30, 2004, the Company accrued \$10,750 for compliance with environmental regulations.

Recoveries are evaluated separately from the liability and, when recovery is assured, the Company records and reports an asset separately from the associated liability.

Principles of Consolidation

The financial statements include those of TexEn Oil & Gas, Inc., Texas Brookshire Partners, Inc., Texas Gohlke Partners, Inc., Brookshire Drilling Services, Inc., Yegua, Inc., and BWC Minerals, L.L.C. All significant inter-company accounts and transactions have been eliminated.

Recent Accounting Pronouncements

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (hereinafter "SFAS No. 150"). SFAS No. 150 establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those instruments were classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has determined that there is no impact upon the adoption of this statement.

In April 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (hereinafter "SFAS No. 149"). SFAS No. 149 amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement is effective for contracts entered into or modified after June 30, 2004 and for hedging relationships designated after June 30, 2004. The adoption of SFAS No. 149 is not expected to have a material impact on the financial position or results of operations of the Company as the Company has not issued any derivative instruments or engaged in any hedging activities as of June 30, 2004 or 2003.

F-15

40

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TEXEN OIL & GAS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (Continued)

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS No. 148"). SFAS 148 amends SFAS 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of SFAS 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of the statement are effective for financial statements for fiscal years ending after December 15, 2002. The Company currently reports stock issued to employees under the rules of SFAS 123. Accordingly, there is no change in disclosure requirements due to SFAS 148 as adopted by the Company during the year ended June 30, 2004.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"). SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS No. 146 also addresses recognition of certain costs related to terminating a contract that is not a capital lease, costs to consolidate facilities or relocate employees, and termination benefits provided to employees that are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS No. 146 was issued in June 2002 and is effective December 31, 2002 with early application encouraged. The Company adopted SFAS during the year ended June 30, 2002 and there has been no impact on the Company's financial position or results of operations from adopting SFAS 146.

Revenue Recognition

Oil and gas revenues are recorded using the accrual method. Under this method, the Company recognizes revenues based on actual volumes of oil and gas produced.

Accounts Receivable

The Company carries its accounts receivable at cost. On a periodic basis, the Company evaluates its accounts receivable and writes off receivables that are considered non-collectible.

The Company's policy is to accrue interest on trade receivables 30 days after invoice date. A receivable is considered past due if payments have not been received by the Company within 90 days of invoicing. At that time, the Company will discontinue accruing interest and pursue collection. If a payment is made after pursuing collection, the Company will apply the payment to the outstanding principal first and resume accruing interest. Accounts are written off as non-collectible if no payments are received within 90 days after initiating collection efforts.

F-16

41

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TEXEN OIL & GAS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable (continued)

Accrued oil and gas sales consist of amounts due as of June 30, 2004, but not collected until July 2004.

NOTE 3 - COMMON STOCK

During the year ended June 30, 2003, the Company issued 22,885,381 shares of its common stock for acquisition of its fully owned subsidiaries. In addition, the Company had the following issuances of common stock: 1,500,000 shares of its common stock to Sanka, L.L.C. ("Sanka") in exchange for the management rights of Sanka, L.L.C.; 588,000 shares of its common stock in exchange for an assignment of a 98% working interest in, and a 75% net revenue interest in approximately 255.21 gross leasehold acres and net leasehold acres in a certain oil and gas lease located in Concho County, Texas; 500,000 shares of its common stock in exchange for the conveyance of a 100% working interest with a 75% net revenue interest in and to the leasehold ownership at the Trull Heirs #1 well bore located in Calhoun County, Texas; and 1,250,000 shares of its common stock in exchange for a 5% working interest in the Brookshire Dome Field located in Waller County, Texas. The shares issued in acquisitions were valued at their fair market value on the date of issuance, except for shares issued to affiliates which were valued at the carryover basis in the assets acquired. A major shareholder of the Company rescinded 26,987,950 shares of the Company's common stock in order to prevent dilution of stockholders' interest, from these issuances. The rescission of these shares was recorded at the stock's par value. As of June 30, 2003, the company had 45,184,310 shares issued and outstanding.

During the year ended June 30, 2004, the Company issued a total of 47,333,333 shares of its common stock as follows: 40,000,000 shares issued to Tatiana Golovina for conversion of debt; 1,333,333 shares issued to Crescent Fund for public relations consulting; 2,500,000 shares issued to non-associated financing parties for additional compensation on financing; 500,000 shares issued to Pinnacle Research for consulting services; 1,250,000 to Woodburn Holdings for consulting services; 1,500,000 shares issued to associated consultants for consulting services, and 250,000 shares issued to MJB Limited for consulting services. As of June 30, 2004, the Company had 92,517,643 shares issued and outstanding.

NOTE 4 - RELATED PARTIES

In 2003, Tatiana Golovina, a shareholder of the Company and previous President and CEO loaned the Company approximately \$1,646,000 for operations. In December of 2003, Ms. Golovina's loan of \$1,646,508 was forgiven in exchange for 40,000,000 shares of Company stock. In 2004, Ms. Golovina loaned the company \$715,108.

In February 2003, the Company entered into a consulting agreement with Woodburn Holdings Ltd.

("Woodburn") which was made effective June 1, 2002 and calls for monthly consulting fees in the amount of

F-17

42

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE 4 - RELATED PARTIES (continued)

\$15,000. Under terms of this agreement, Woodburn's designated consultant provides managerial, administrative and other services as the Company's chief executive officer. Although the consulting agreement had an original length of eighteen months, the agreement was rescinded subsequent to the date of these financial statements in June 2004. In December 2003, Woodburn entered into a new agreement to advise the Company in its oil and gas operations. The agreement is for a period of one year, with successive six-month renewable terms by mutual agreement of the parties. Options to purchase 250,000 shares of common stock were given as compensation and exercised.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Regulatory Issues

The oil and gas exploration and development industry is inherently speculative and subject to complex environmental regulations. As of June 30, 2003, the Company has accrued \$10,750 as a settlement loss for environmental cleanup as assessed by the Texas Railroad Commission, which was paid in 2004. The Company is unaware of any other pending litigation or of past or prospective environmental matters which could impair the value of its properties. As of June 30, 2004, the Company is not aware of any pending litigation of regulatory issues.

Farmout Agreements

There were no significant farmout agreements entered into during the years ending June 30, 2004 or 2003.

Consulting Agreements

During the year ending June 30, 2004, the Company entered into a consulting agreement with Pinnacle Research and Consulting Group Ltd. ("Pinnacle") to provide consulting services for oil and gas operations. This agreement became effective December 18, 2003 and options to acquire 500,000 shares of common stock were given as compensation and exercised. During the year ending June 30, 2004, the Company entered into consulting agreements with Woodburn Holdings Ltd. ("Woodburn") to provide consulting services for oil and gas operations. Stock options to acquire 1,250,000 shares of common stock were given as compensation and exercised. During the year ending June 30, 2004, the Company entered into a consulting agreement with Crescent Fund, Inc. to provide public relations consulting services. 1,333,333 shares of common stock were issued under the SEC Rule 144. Subsequently, the Company rescinded and canceled its agreement with Crescent Fund, Inc., and issued an administrative order to cancel the 1,333,333 shares and demanded the return of said stock certificate. The outcome of this situation has yet to be determined. In addition, during the year ending June 30, 2004, the Company entered into various consulting agreements and issued 1,500,000 shares for field operating consulting and accounting consulting.

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TEXEN OIL & GAS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004

NOTE 5 - COMMITMENTS AND CONTINGENCIES (continued)

Leases

The Company has a lease beginning in June 2004 on office space requiring payments of \$1,607 every month, which is accounted for as an operating lease and is through November 2005. Future lease obligations are \$19,284 and \$8035 for 2005 and 2006.

NOTE 6 - NOTES PAYABLE

At June 30, 2004 and 2003, the Company's notes payable consisted of the following:

| | 2004 | 2003 |
|---|---------|------------|
| Tatiana Golovina, (a shareholder of the Company), unsecured, interest at 10%, due on February 14, 2004 | \$ - | \$ 155,347 |
| Tatiana Golovina, (an officer and shareholder of the Company), unsecured, interest at 10%, dated September 17, 2002. | 150,000 | 150,000 |
| Mathon Fund I, LLC, secured by deed of trust on real property and personal guarantee, finance charges in the amount of \$785,000 included in principal, original agreements dated January 31, 2003 and February 7, 2003, extended on April 28, 2003, due on August 15, 2003. Note was retired in the second quarter of year ending December 2003. | - | 1,200,000 |
| Total | 150,000 | 1,505,347 |
| Less current portion of notes payable | 150,000 | 1,200,000 |
| Total long term portion | \$ - | \$ 305,347 |

F-19

TEXEN OIL & GAS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE 7 - MANAGEMENT RIGHTS

On August 10, 2002, the Company issued 1,500,000 shares of its common stock to Sanka, L.L.C. ("Sanka") in exchange for the management rights of Sanka, L.L.C., a Texas limited liability company, which is owned by a shareholder of the Company. A second Company shareholder, who is the manager of Sanka L.L.C., rescinded 1,500,000 shares of his common stock, at par value, upon completion of this transaction. The Company accounted for this transaction by using the par value of the Company's common stock. During the year ended June 30, 2003, Sanka, L.L.C. acquired Chief Operating Company ("Chief") and Tiger Operating Company ("Tiger") as wholly owned subsidiaries. Chief and Tiger are the operators of the oil and gas properties held by the Company and its wholly owned subsidiaries.

NOTE 8 - OIL AND GAS PROPERTIES

The Company's oil and gas producing activities are subject to laws and regulations controlling not only their exploration and development, but also the effect of such activities on the environment. Compliance with such laws and regulations may necessitate additional capital outlays, affect the economics of a project, and cause changes or delays in the Company's activities. The Company's oil and gas properties are valued at the lower of cost or net realizable value.

Brookshire Dome Field

During the year ended June 30, 2003, the Company acquired a 77.75% working interest ownership in approximately 1,440 gross leasehold acres and 550 net leasehold acres located in the Brookshire Dome Field of Waller County, Texas through acquisition of Texas Brookshire Partners, Inc. as a wholly owned subsidiary. The Company also acquired an additional 5% working interest ownership in this field through the issuance of 1,250,000 shares of its common stock, and another 8.70% working interest ownership in this field through the acquisition of BWC Minerals, L.L.C. as a wholly owned subsidiary. As of June 30, 2003, the Company has effectively acquired a total working interest of 91.45% in this field. (See Note 3.) This working interest ownership position consists of 26 wells drilled to date and one water injection well. As of June 30, 2004, 6 wells were producing oil.

Brookshire plans to drill additional developmental wells on the existing Brookshire leasehold acreage and to purchase, farm-in or participate in the acquisition of additional leasehold acreage on which to drill more wells.

Helen Gohlke Field

During 2003, the Company acquired a 100% working interest and a 70% net revenue interest in the Helen Gohlke Field located in Victoria and DeWitt Counties, Texas through acquisition of Texas Gohlke Partners, Inc. as a wholly owned subsidiary. This field comprises approximately 4,800 gross and net leasehold acres which are located under nine different oil, gas and mineral leases in Victoria and DeWitt Counties, Texas.

F-20

45

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TEXEN OIL & GAS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE 8 - OIL AND GAS PROPERTIES (continued)

Helen Gohlke Field

Over 60 wells have been drilled in this field, with 8 wells currently producing. The Company intends to drill and develop seismic leads from this field within the next few months.

Other Oil and Gas Properties

On September 23, 2002, the Company issued 588,000 shares of its common stock to Sanka, Ltd. ("Limited") in exchange for an assignment from Sanka Exploration Company ("Exploration") of a 98% working interest in, and a 75% net revenue interest in approximately 255.21 gross leasehold acres and net leasehold acres in oil and gas leases located in Concho County, Texas.

On September 21, 2002, the Company issued 500,000 shares of its common stock for 100% working interest with a 75% net revenue royalty interest in the leasehold ownership at the Trull Heirs #1 well bore located in Calhoun County, Texas.

These transactions were valued at the fair market value of the Company's common stock on the date of the acquisitions.

NOTE 9 - CONCENTRATION OF RISK

The Company derives its sales and accounts receivable from primarily two affiliated customers and these receivables are not collateralized. At June 30, 2004 and 2003, the Company's accounts receivable from these customers totaled \$397,717 and \$405,805, respectively.

NOTE 10 - STOCK OPTIONS

In April 2003, the Company and Board of Directors adopted the 2003 Nonqualified Stock Option Plan of Texen Oil & Gas, Inc. under which 5,000,000 shares of common stock are available for issuance with respect to awards granted to officers, directors, management, employees and other consultants of the Company and/or its subsidiaries. None of the stock options issued by the company were under a shareholder approval plan.

The Company estimates the fair value of each stock option at the grant date by using the Black-Scholes option-pricing model with the following weighted-average assumptions used during the year ended June 30, 2004: dividend yield of zero percent; expected volatility of one hundred and fifty eight percent; risk-free interest rate of four percent.

F-21

46

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TEXEN OIL & GAS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE 10- STOCK OPTIONS (Continued)

Following is a summary of the status of these performance-based options during the years ending June 30, 2004 and 2003:

| | Number of Shares | | Weighted Average Exercise Price per share |
|--|---------------------|----|---|
| Outstanding at July 1, 2002 | 0 | \$ | - |
| Granted | 1,500,000 | | 0.10 |
| Outstanding at June 30, 2003 | 1,500,000 | \$ | 0.10 |
| Options exercisable at June 30, 2003 | 1,500,000 | \$ | 0.10 |
| Weighted average for value of options granted during the year ended June 30, 2003 | | \$ | 0.56 |

| | Number of Shares | | Weighted Average Exercise Price per share |
|--|---------------------|----|---|
| Outstanding at July 1, 2003 | 1,500,000 | \$ | 0.10 |
| Revised Grant | 250,000 | \$ | 0.10 |
| Exercised | 1,250,000 | \$ | 0.10 |
| Forfeited | 250,000 | \$ | 0.10 |
| Outstanding at June 30, 2004 | 250,000 | \$ | 0.10 |
| Options exercisable at June 30, 2004 | 250,000 | \$ | 0.10 |
| Weighted average for value of options granted during the year ended June 30, 2004 | | \$ | 0.00 |

F-22

47

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TEXEN OIL & GAS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE 10- STOCK OPTIONS (Continued)

The following table gives information about the Company's common stock that may be issued upon the exercise of options under all of the Company's existing stock option plans as of June 30, 2004.

| Exercise Prices | Number of Options | Weighted Average Exercise Price | Remaining Contractual Life (in years) | Number Exercisable | Weighted Average Exercise Price |
|-----------------|-------------------|---------------------------------|---------------------------------------|--------------------|---------------------------------|
| \$0.10 | 250,000 | \$0.10 | 1.91 | 250,000 | \$0.10 |

NOTE 11 - IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Corporation recorded an impairment loss on its oil and gas proved and unproved properties and its leasehold costs of oil and gas producing properties. The engineering reports on the oil and gas properties indicated that the undiscounted future cash flows from these properties would be less than the carrying value of the long-lived assets. The engineer reports also indicated that net leasehold acreage did not support the value carried by the Company. Accordingly, on June 30, 2003, the Company recognized an asset impairment loss of \$20,407,559 (\$0.46 per share). This loss is the difference between the carrying value of the oil and gas properties and the fair value of these properties based on discounted estimated future cash flows.

No additional impairment was deemed necessary by the Company for the year ended June 30, 2004.

NOTE 12 - INCOME TAXES

At June 30, 2004 and 2003, the Company had net deferred tax assets of approximately \$1,620,000 and \$842,000, calculated at projected income tax rates of 34%. The deferred tax assets are principally derived from net operating loss carryforwards for income tax purposes. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the net deferred tax asset, a valuation allowance equal to the net deferred tax asset has been recorded at June 30, 2004 and 2003. The significant components of the deferred tax assets at June 30, 2004 and 2003 are as follows:

F-23

48

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TEXEN OIL & GAS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

NOTE 12 - INCOME TAXES (continued)

| | June 30, 2004 | June 30, 2003 |
|--|---------------|---------------|
| Net operating loss carryforward before adjustments | \$ 3,563,988 | \$ 23,541,000 |
| Less: | | |
| Stock options issued under an unqualified plan | (1,276,250) | (844,150) |
| Impairment of assets | 0 | (20,407,559) |
| Effective net operating loss carryforward | 2,287,738 | 2,289,291 |
| Expected tax rate | 34% | 34% |
| Deferred tax asset | 777,000 | 778,000 |
| Deferred tax asset valuation allowance | (777,000) | (778,000) |
| Deferred tax asset after valuation allowance | \$ - | \$ - |

At June 30, 2004 and 2003, the Company has net operating loss carryforwards of approximately \$4,700,000 and \$2,400,000 respectively. These net operating losses would begin to expire in the year 2020.

NOTE 13 - SUBSEQUENT EVENTS

Officers and Directors

During the year ending 2004, the Company appointed Tatiana Golovina as the new President and Secretary. Subsequent to these financial statements, in July 2004, Tatiana Golovina resigned and Michael Sims was appointed as the new President and Secretary.

Stock Options

Subsequent to the date of these financial statements, outstanding and exercisable stock options were exercised for 1,250,000 shares of the Company's common stock at \$0.10. The options were exercised in payment of accrued consulting fees.

Workovers

The company did not undertake any substantial workovers during 2004. As of the date of this filing, no substantial workovers have been undertaken pending receipt of additional capital.

F-24

49

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

None.

ITEM 8A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 reports are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective in connection with the filing of this Annual Report on Form 10-KSB for the year ended June 30, 2004.

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any significant deficiencies or material weaknesses of internal controls that would require corrective action.

PART III

ITEM 9. DIRECTORS, OFFICERS, PROMOTERS AND CONTROL PERSONS COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Directors and Officers

The directors and officers, their ages and positions held as of October 22, 2004 are listed below. Each director serves until our next annual meeting of the stockholders or unless they resign earlier. The Board of Directors elects officers and their terms of office are at the discretion of the Board of Directors.

| Name | Position Held |
|--------------|---|
| Michael Sims | President, Principal Executive Officer, Secretary, Treasurer, Principal Financial Officer and sole member of the Board of Directors |

The following describes the business experience during the past five years of our directors and executive officers, including for each director, other directorships held in reporting companies.

Michael Sims has been our President since July 21,2004.

Mr. Sims has been involved with Texen Oil and Gas most recently as Vice President of the Company from November 11, 2003 to July 21, 2004 and was involved as a consultant to the company prior to that. During the last 5 years Mr. Sims has been self-employed as an advisor for oil and gas exploration companies.

Tatiana Golovina was our Secretary and Director from October 8, 2003 to November 11 2003 and our President, Principal Executive, Treasurer and Principal Financial Officer from November 11, 2003 to July 21,2004. During the previous five years, Ms. Golovina has been self-employed.

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On November 10, 2003, Donald Beckman resigned as an officer and director. At the time of resignation, Mr. Beckman was paid \$8,000 for services rendered.

On June 26, 2003, John F. Templeton resigned as a member of the board of directors and was removed as president.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "1934 Act") requires officers and directors of a company with securities registered pursuant to Section 12 of the 1934 Act, and persons who own more than 10% of the registered class of such company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC"). Ms. Golovina is delinquent in filing her Form 3 and multiple Form 4s. Mr. Beckham did not file a Form 3 which was due upon his appointment as an officer and director on October 15, 2003. Mr. Beckman has since resigned as an officer and director.

Audit Committee and Charter

We have an audit committee and audit committee charter. Our audit committee is comprised of all of our officers and directors. None of the directors are deemed independent. All directors also hold positions as our officers. A copy of our audit committee charter is filed as an exhibit to this report. Our audit committee is responsible for: (1) selection and oversight of our independent accountant; (2) establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls and auditing matters; (3) establishing procedures for the confidential, anonymous submission by our employees of concerns regarding accounting and auditing matters; (4) engaging outside advisors; and, (5) funding for the outside auditors and any outside advisors engagement by the audit committee. A copy of our audit committee charter is filed as an exhibit to this report.

Audit Committee Financial Expert

We have no financial expert. We believe the cost related to retaining a financial expert at this time is prohibitive. Further, because of our limited operations, we believe the services of a financial expert are not warranted.

Code of Ethics

We have adopted a corporate code of ethics. A copy of the code of ethics is filed as an exhibit to our June 2003 10KSB filed on November 12, 2003. We believe our code of ethics is reasonably designed to deter wrongdoing and promote honest and ethical conduct; provide full, fair, accurate, timely and understandable disclosure in public reports; comply with applicable laws; ensure prompt internal reporting of code violations; and provide accountability for adherence to the code. We have not made any changes in year ending 2004.

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Disclosure Committee and Charter

We have a disclosure committee and disclosure committee charter. Our disclosure committee is comprised of all of our officers and directors. The purpose of the committee is to provide assistance to the Chief Executive Officer and the Chief Financial Officer in fulfilling their responsibilities regarding the identification and disclosure of material information about us and the accuracy, completeness and timeliness of our financial reports. A copy of our disclosure committee charter is filed with this report.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth information with respect to compensation paid by us to our officers and directors during the three most recent fiscal years.

Summary Compensation Table

| (a) Name and Principal Position [1] | Annual Compensation | | | (e) Other Annual Compensation (\$) | Long Term Compensation Awards | | (h) LTIP Payouts (\$) | (i) All Other Compens ation (\$) |
|--|---------------------|--------------------|-------------------|---|--|--|--------------------------------|---|
| | (b) Year | (c) Salary (\$) | (d) Bonus (\$) | | (f) Restricted Stock Award(s) (\$) | (g) Securities Underlying Options / SARs (#) | | |
| Michael Sims President, CEO, Secretary/Treasurer, CFO and Director | 2004 | 120,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2003 | | 0 | 0 | 0 | 0 | 0 | 0 |
| Tatiana Golovina President, CEO, Secretary, Treasurer, CFO and Director (resigned) | 2004 | 80,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2003 | | 0 | 0 | 0 | 0 | 0 | 0 |
| Donald Beckham President, CEO, Treasurer, CFO and Director (resigned) | 2003 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Robert M. Baker President, CEO, Treasurer, CFO and Director (resigned) | 2004 | 25,000 | 0 | 0 | 0 | 1,250,000 | 0 | 0 |
| | 2003 | 15,000 | | | | | | |

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| | | | | | | | | |
|---|------|---|---|---|---|---|---|---|
| Kjeld Werbes Secretary Director (resigned) | 2003 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
|---|------|---|---|---|---|---|---|---|

| | | | | | | | | |
|--|------|---|---|---|---|---|---|---|
| John F. Templin President (terminated as President, resigned as Director | 2003 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
|--|------|---|---|---|---|---|---|---|

[1] All compensation received by the officers and directors has been disclosed.

Option/SAR Grants

There are no stock option, retirement, pension, or profit sharing plans for the benefit of our officers and directors, other than our 2003 Incentive Stock Option Plan. Under this Plan, the board of directors is vested with discretionary authority to grant options to persons furnishing services to us. There were 5,000,000 shares in the plan. 1,250,000 shares have been issued as a result of the exercise of options. 3,750,000 shares remain in the plan.

Option Grants to Officers and Directors During the Last Fiscal Year

| Name | Number of Securities Underlying Options/SARs Granted (#) | % of Total Options/SARs Granted to Employees in Fiscal Year | Exercise of Base Price (\$/Sh) | Expiration Date |
|---------------------|--|---|--------------------------------|-----------------|
| Robert M. Baker [1] | 1,250,000 | 100% | \$ 0.10 | April 27, 2006 |

[1] Mr. Baker exercised his options. The exercise price was offset against money owed to Mr. Baker.

Aggregated option/SAR Exercised by Officers and Directors in Last Fiscal Year and FY-End Option/SAR Values

| Name | Shares Acquired on Exercised (#) | Value Realized (\$) | Number of Securities Underlying Unexercised Options/SARs at FY-End (#) | | Value of Unexercised In-the-Money Options/SARs at FY-End (\$) | |
|--------------|----------------------------------|---------------------|--|---------------|---|---------------|
| | | | Exercisable | Unexercisable | Exercisable | Unexercisable |
| Robert Baker | 1,250,000 | Unknown | 0 | 0 | \$ 0 | \$ 0 |

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Future Compensation of Our Officers

For the fiscal year ending June 30, 2004, we intend to pay Michael Sims, our president, chief executive officer, secretary, treasurer and chief financial officer a base salary of \$120,000. We have not determined if options will be granted to him in the fiscal year ending June 30, 2004.

Long-Term Incentive Plan Awards

We do not have any long-term incentive plans that provide compensation intended to serve as incentive for performance to occur over a period longer than one fiscal year, whether such performance is measured by reference to our financial performance, our stock price, or any other measure other than our 2003 Incentive/or Nonqualified Stock Option Plan.

Compensation of Directors

We do not have any plans to compensate our directors in the immediate future. We do intend to grant our directors options for serving on our Board of Directors. For fiscal year ending June 30, 2004, we have not determined the compensation that we may grant our directors.

Indemnification

Pursuant to the articles of incorporation and bylaws of the corporation, we may indemnify an officer or director who is made a party to any proceeding, including a lawsuit, because of his position, if he acted in good faith and in a manner he reasonably believed to be in our best interest. In certain cases, we may advance expenses incurred in defending any such proceeding. To the extent that the officer or director is successful on the merits in any such proceeding as to which such person is to be indemnified, we must indemnify him against all expenses incurred, including attorney's fees. With respect to a derivative action, indemnity may be made only for expenses actually and reasonably incurred in defending the proceeding, and if the officer or director is judged liable, only by a court order. The indemnification is intended to be to the fullest extent permitted by the laws of the state of Nevada.

Regarding indemnification for liabilities arising under the Securities Act of 1933 which may be permitted to directors or officers pursuant to the foregoing provisions, we are informed that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy, as expressed in the Act and is, therefore unenforceable.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of October 22, 2004, the beneficial shareholdings of persons or entities holding five percent or more of our common stock, each director individually, each named executive officer and all directors and officers of our company as a group. Each person has sole voting and investment power with respect to the shares of common stock shown, and all ownership is of record and beneficial.

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| Name of owner and Address of Beneficial Owner | Number of Shares | Position | Percentage of Ownership |
|--|-------------------------|-----------------|--------------------------------|
| Tatiana Golovina 181 Kensington High Street London W86SH United Kingdom Changes in Control | 47,165,664 | Director | 51% |

To the knowledge of management, there are no present arrangements or pledges of our securities which may result in a change in control of our company.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On July 11, 2002, we issued 15,376,103 restricted shares of common stock to the shareholders of Texas Brookshire Partners, Inc in exchange for 777.50 shares of common stock of Texas Brookshire Partners, Inc., a Texas corporation. This transaction is evidenced by a Share Exchange Agreement dated as of June 24, 2002. The 777.50 shares of Texas Brookshire Partners, Inc. constituted 100% of the total outstanding shares of Texas Brookshire Partners, Inc.

On September 12, 2002, we issued 500,000 restricted shares of common stock to Sanka Ltd. in exchange for an assignment of a 100% working interest with a 75%, net revenue interest in and to approximately 40 gross leasehold acres and 40 net leasehold acres which contains the Trull Heirs # 1 well.

On September 12, 2002, we issued 373,847 restricted shares of common stock to the shareholders of Yegua, Inc. in exchange for 10,000 shares of Yegua, Inc. common stock which represents a 1.95% working interest with various net revenue interests in and to approximately 1,440 gross leasehold acres and 550 net leasehold acres in the Brookshire Salt Dome Field of Waller County, Texas.

On September 12, 2002, we issued 1,400,000 restricted shares of common stock to Tatiana Golovina in exchange for a 100% of the ownership, membership and management of Brookshire Drilling Service, LLC, a Texas Limited Liability Company. This transaction is evidenced by a Stock Subscription Agreement dated as of July 26, 2002.

On September 12, 2002, we issued 4,000,000 restricted shares of common stock to the shareholders of Texas Gohlke Partners, Inc. in exchange for 1,000 shares of common stock of Texas Gohlke Partners, Inc., a Texas corporation. The 1,000 shares of Texas Gohlke Partners, Inc. constituted 100% of the total outstanding shares of Texas Gohlke Partners, Inc.

On September 12, 2002, we issued 1,500,000 restricted shares of common stock to Sanka, LLC, a Texas Limited Liability Corporation in exchange for a 100% of the management of Sanka, LLC. This transaction is evidenced by a Stock Subscription Agreement dated as of August 10, 2002. Sanka is controlled by Tatiana Golovina, our sole director.

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On September 12, 2002, Mr. Harry P. Gamble IV returned 7,773,847 shares of our common stock to us which was cancelled.

On September 23, 2002, we issued 580,000 restricted shares of common stock to Sanka, Ltd. in exchange for an assignment of a 98% working interest with a 75% net revenue interest in and to approximately 255.21 gross and net leasehold acres in Concho County, Texas, which contains two (2) shut-in oil wells and one (1) saltwater disposal well.

On September 23, 2002, Harry P. Gamble, IV returned 580,000 shares of our common stock to us.

On February 13, 2003, we entered into a written an employment contract with our president, Robert Baker. The employment agreement is retroactively effective to June 1, 2002. Because Mr. Baker is a citizen of Canada, in order to make the contract most advantageous to him and us, the employment contract was entered into as a Consulting Agreement and the parties were us and Woodburn Holdings Ltd., ("Woodburn") a corporation owned and controlled entirely by Mr. Baker.

In 2003, Tatiana Golovina, a shareholder of the company and previous President and CEO lent us approximately \$1,646,508 for our operations. In December of 2003, Ms. Golovina's loan of \$1,646,508 was forgiven in exchange of 40,000,000 shares of the Company stock. In 2004, Ms. Golovina loaned the company \$715,108.

Mr. Robert Baker had an employment contract, as CEO and President, with us through Woodburn Holdings Ltd., a corporation he owns and controls. The company issued Woodburn Holdings Ltd., stock options to acquire up to 1,250,000 shares of our common stock at \$0.10 per share, which exercised. The company also paid Woodburn Holdings Ltd. \$25,000 in compensation.

ITEM 13. Reports on Form 8-K

and Exhibits

Reports on Form 8-K

The following reports on Form 8-K were filed during the fourth quarter of 2004:

On March 5, 2004, the Company reported that it has hired Houston based Coastline Operating, llc to manage all field operations for its oil and gas properties.

On April 13, 2004, the Company reported that the Editorial Board of Standard and Poor's ("S&P") has approved Texen Oil and Gas for a complete corporate listing and description in Standard and Poor's Corporation Records.

On April 15, 2004, the Company reported the addition of Michael McAdams, former associate group policy advisor to Lord John Browne, Chief Executive Officer of BP, as a new member of the Texen Oil and Gas team.

On April 30, 2004, the Company reported that Coastline Operations has identified 7 workover candidates on the company's properties to begin reservoir analysis.

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On May 18, 2004, the Company reported that we have retained Larry Lenig Jr., as a strategic consultant for Texen Oil and Gas.

On June 21, 2004, the Company reported that they have completed the relocation of the company's new corporate offices to 2401 Fountain View Drive, Suite 1008, Houston, Texas, 77057.

On July 22, 2004, the Company reported that Michael Sims was named as President and CEO, replacing Tatiana Golovina.

On July 30, 2004, the Company reported that they completed the rework of a well on the Gohlke fiels and a well on the on Brookshire property.

On August 3, 2004, the Company reported that the CEO conducts interview on PRBroadcast.com

On August 11, 2004, the Company reported that the CEO conducts interview on CEOCast and is in talks regarding additional leases on Brookshire property.

On August 18, 2004, the Company reported that they completed reworks on two wells on the Brookshire property.

On August 25, 2004, the Company reported that they completed reworks on an additional well on the Brookshire property and plan to begin reworks on the Helen Gohlke field.

On August 26, 2004, the Company reported that the CEO conducts interview with WallStreeReporter.com

On September 27, 2004, the Company reported that they have commenced plans to rework a well on the Helen Gohlke field.

Exhibits

The following Exhibits are incorporated herein by reference from our Form SB-2 Registration Statement filed with the Securities and Exchange Commission, SEC file #333-94631 on January 13, 2000. Such exhibits are incorporated herein by reference pursuant to Rule 12b-32:

| Exhibit No. | Document Description |
|--------------------|-----------------------------|
| 3.1 | Articles of Incorporation. |
| 3.2 | Bylaws. |
| 4.1 | Specimen Stock Certificate. |

The following Exhibits are incorporated herein by reference from our Form 8-K Registration Statement filed with the Securities and Exchange Commission, on February 22, 2002. Such exhibits are incorporated herein by reference pursuant to Rule 12b-32:

| | |
|------|--------------------------|
| 99.2 | Stock Purchase Agreement |
|------|--------------------------|

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The following Exhibits are incorporated herein by reference from our Form 8-K Registration Statement filed with the Securities and Exchange Commission, on May 17, 2002. Such exhibits are incorporated herein by reference pursuant to Rule 12b-32:

- 3.3 Amended to the Articles of Incorporation

The following Exhibits are incorporated herein by reference from our Form 8-K Registration Statement filed with the Securities and Exchange Commission, on July 26, 2002. Such exhibits are incorporated herein by reference pursuant to Rule 12b-32:

- 10.1 Share Exchange Agreement

The following Exhibits are incorporated herein by reference from our Form 8-K Registration Statement filed with the Securities and Exchange Commission, on September 17, 2002. Such exhibits are incorporated herein by reference pursuant to Rule 12b-32:

- 10.2 Stock Purchase Agreement and Assignment of Interest from Sanka, LTD. (Trull Heirs #1 Well)
- 10.3 Stock Subscription Agreement from Yegua, Inc.
- 10.4 Stock Subscription Agreement - Brookshire Drilling Service LLC
- 10.5 Share Exchange Agreement - Texas Gohlke Partners, Inc.
- 10.6 Stock Subscription Agreement - Sanka LLC
- 10.7 Assignment of Oil - Sanka Exploration Company

The following Exhibits are incorporated herein by reference from our Form 8-K Registration Statement filed with the Securities and Exchange Commission, on October 4, 2002. Such exhibits are incorporated herein by reference pursuant to Rule 12b-32:

- 10.8 Stock Subscription Agreement - Sanka Ltd.
- 10.9 Assignment of Oil - Sanka Exploration Company

The following Exhibits are incorporated herein by reference from our Form 8-K Registration Statement filed with the Securities and Exchange Commission, on October 4, 2002. Such exhibits are incorporated herein by reference pursuant to Rule 12b-32:

- 3.4 Articles of Incorporation of Texas Brookshire Partners, Inc.
- 3.5 Bylaws of Texas Brookshire Partners
- 3.6 Articles of Incorporation of Texas Gohlke Partners, Inc.
- 3.7 Bylaws of Texas Gohlke Partners, Inc.

The following Exhibits are incorporated herein by reference from our Form S-8 Registration

Statement filed with the Securities and Exchange Commission, on April 11, 2003, SEC file no. 333-104482. Such exhibits are incorporated herein by reference pursuant to Rule 12b-32:

- 10.1 2003 Nonqualified Stock Option Plan.

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The following Exhibits are incorporated herein by reference from our Form 8-K Registration Statement filed with the Securities and Exchange Commission, on July 9, 2003. Such exhibits are incorporated herein by reference pursuant to Rule 12b-32:

10.1 Marketing Contract

The following Exhibits are incorporated herein by reference from our Form 10KSB Annual Report filed with the Securities and Exchange Commission, on November 12, 2003. Such exhibits are incorporated herein by reference pursuant to Rule 12b-32:

14.1 Code of Ethics
99.1 Audit Committee Charter
99.2 Disclosure Committee Charter

The following exhibits are filed with this report:

23.1 Consent of Williams & Webster, P.S. Certified Public Accountants.
31.1 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended.
32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer and Chief Financial Officer).
99.3 Lease agreement with Insite Realty for office space
99.4 Stock Purchase Agreement

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 5th day of November, 2004.

TEXEN OIL & GAS, INC.
(Registrant)

BY: /s/ Michael Sims
Michael Sims, President, Principal Executive
Officer, Secretary, Treasurer, Principal Financial
Officer, and sole member of the Board of
Directors

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

| Signatures | Title | Date |
|----------------------------------|---|------------------|
| /s/ Michael Sims Michael Sims | President, Principal Executive Officer, Secretary, Treasurer, Principal Financial Officer, and sole member of the Board of Directors | November 5, 2004 |