

TEXEN OIL & GAS INC

Form SB-2

August 12, 2003

As filed with the Securities and Exchange Commission on Registration No. _____
_____.

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM SB-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

TEXEN OIL & GAS, INC.

(Name of small business issuer in its charter)

Nevada

1081

88-0474903

(State or Other Jurisdiction of
Organization)

(Primary Standard Industrial
Classification Code)

(IRS Employer Identification #)

TEXEN OIL & GAS, INC.

10603 Grant Road

Suite 209

Houston, Texas 77070

(832) 237-6053

(Address and telephone of registrant's administrative
office)

Conrad C. Lysiak, Esq.

601 West First Avenue

Suite 503

Spokane, Washington 99201

(509) 624-1475

(Name, address and telephone number of agent for
service)

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:

As soon as practicable after the effective date of this Registration Statement.

If this Form is filed to register additional common stock for an offering under Rule 462(b) of the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed under Rule 462(c) of the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed under Rule 462(d) of the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made under Rule 434, please check the following box.

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CALCULATION OF REGISTRATION FEE

Securities to be Registered	Amount To Be Registered	Offering Price Per Share	Aggregate Offering Price	Registration Fee [1]
Common Stock:	17,927,714	\$ 0.965	\$ 17,300,244.01	\$ 1,591.63

[1] Based upon the average bid and asked price of our common stock as reported on the Bulletin Board operated by the National Association of Securities Dealers, Inc. on August 5, 2003.

REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON DATES AS THE COMMISSION, ACTING UNDER SAID SECTION 8(a), MAY DETERMINE.

TEXEN OIL & GAS, INC.
17,927,714 Shares of Common Stock

The 17,927,714 shares of common stock, par value \$0.00001 of TEXEN OIL & GAS, INC., a Nevada corporation, are offered by a Selling Stockholder from time to time. See "Plan of Distribution." The expenses of the offering, estimated at \$35,000, are being paid by us. We will not receive any proceeds from the sale of shares by the Selling Shareholder.

Our shares are traded on the Bulletin Board operated by the National Association of Securities Dealers, Inc. under the symbol "TXEO."

Investing in our common stock involves risks. See "Risk Factors" starting at page 6.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Its illegal to tell you otherwise.

The date of this prospectus is _____.

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SUMMARY OF OUR OFFERING

Our Business

We are an independent oil and gas company engaged in the exploration, exploitation, 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 properties located in Texas. We currently own interest in approximately 44 gross wells, 44 wells net to our interest, in fields located in Waller, Victoria, DeWitt, Calhoun and Concho Counties, Texas region and participated in the drilling and completion of 17 gross wells (17 net wells) for the year. Additionally, we own interests in 5,595.21 net acres in Texas. The properties are titled in the name of TexEn Oil & Gas, Inc., 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 common stock. Brookshire's key assets consist of a 77.75% working interest ownership in about 1,440 gross leasehold acres.

In September 2002, we acquired Texas Gohlke Partners, Inc. by issuing 4,000,000 shares of restricted common stock. Gohlke's key assets consisted of a 100% working interest ownership in about 4,800 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 common stock. The most significant asset of BWC is an 8.70% working interest in the Brookshire Dome Field.

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In the twelve months preceding June 30, 2002, production from the 26 wells located on the property averaged 95 barrels of oil per day. The wells drilled to date on the lease were on an area of less than 40 acres and all were completed in Miocene and Frio sand at a depth between 1,700 feet and 3,300 feet. The shallow drilling will allow for well drilling and completion costs to be kept at an average of less than \$250,000.

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. Also, we acquired a 1.95% working interest in and to the Brookshire Dome Field through the purchase Yegua, Inc.

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

Our administrative office is located at 10603 Grant Road, Suite 209, Houston, Texas 77070, telephone (832) 237-6053. Our fiscal year end is June 30.

The Offering

Following is a brief summary of this offering:

Securities being offered by Selling Shareholder	Up to 17,927,714 shares of common stock, par value \$0.00001.
Offering price per share	At the market
Offering period	The shares are being offered for a period not to exceed 270 days.
Net proceeds to us	None.
Use of proceeds	None.
Number of shares outstanding before the offering	45,184,310
Number of shares outstanding after the offering if all of the shares are sold	45,184,310

Selected Financial Data

The following financial information summarizes the more complete historical financial information at the end of this prospectus.

	As of March 31, 2003 (Unaudited)	As of June 30, 2002 (Audited)
Balance Sheet	\$ 26,511,523	\$ -0-
	\$ 938,734	\$ 4,190
	\$ 597,505	\$ 10,000

Total Assets	\$	24,975,275	\$	(14,190)
Total Current Liabilities				
Long Term Debt				
Stockholders Deficit				
Income Statement				
	\$	475,048	\$	-0-
Revenue	\$	87,440	\$	-0-
Cost of Revenue	\$	1,232,149	\$	22,714
Total Expenses	\$	(844,541)	\$	(22,714)
Net Loss				

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RISK FACTORS

Please consider the following risk factors before deciding to invest in our common stock.

1. *We have a limited operating history and our accountant has expressed concern that we may not be able to stay in business.*

Our accountant has expressed substantial doubt about our ability to continue in business as a going concern. We face all of the risks and uncertainties encountered by a new business. 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 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 planned 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 planned strategy. 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

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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 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.

We have incurred operating losses. 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 writedowns.

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 writedowns 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. 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

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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 U.S. 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.

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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.

USE OF PROCEEDS

We will not receive any of the proceeds from sales of shares by our Selling Shareholder.

PLAN OF DISTRIBUTION

Our Selling Shareholder will sell her shares directly into the market. The prices she will receive will be determined by the market price on the day of sale. We will not enter into any arrangements with any securities dealers or market makers concerning solicitations of offers to purchase the shares.

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Commissions and discounts paid in connection with the sale of shares by our Selling Shareholder will be determined through negotiations between her and the broker/dealers through or to which the securities are to be sold and many vary, depending on the broker/dealer or market makers fee schedule, the size of the transaction and other factors. The separate cost of our Selling Shareholder will be borne by her. Our Selling Shareholder and any broker/dealers, market maker, or agent, that participate with our Selling Shareholder in the sale of the shares by her may be deemed an underwriter with the meaning of the Securities Act of 1933, and any commissions or discounts received by them and any profits on the resale of the shares purchased by them may be deemed to be underwriting commissions under the Securities Act.

Market price for our shares

At June 30, 2003, we had 115 shareholders of record of our common stock, including shares held by brokerage clearing houses, depositories or otherwise in unregistered form. The beneficial owners of such shares are not known to us. Our securities are traded over-the-counter on the Bulletin Board operated by the National Association of Securities Dealers, Inc. under the "TXEO." The table shows the high and low bid of our common stock since April 11, 2001, when our securities began trading.

The price of the shares has been determined by our board of directors. It was selected because it is close to the current ask price for our shares of common stock. If the best asked price drops below the offering price in this registration statement, we will have difficulty selling our shares. That is because a purchaser could buy the same shares of common stock in an open market transaction at a lower price that he could in this offering.

Summary trading for the 2002 and 2001 fiscal years and the first and second quarters of 2003:

	Quarter	High Bid	Low Bid
2003			
	Second Quarter	1.15	0.32
	First Quarter	0.70	0.78
2002			
	Fourth Quarter	0.55	0.11
	Third Quarter	0.76	0.50
	Second Quarter	0.76	0.34
	First Quarter	0.72	0.30
2001			
	Fourth Quarter	0.75	0.51
	Third Quarter	0.98	0.60
	Second Quarter	1.15	0.63
	First Quarter	1.38	0.75

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These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not represent actual transactions. As of June 30, 2003, we had approximately 115 holders of record of our common stock.

We have not declared any cash dividends, nor do we intend to do so. We are not subject to any legal restrictions respecting the payment of dividends, except that they may not be paid to render us insolvent. Dividend policy will be based on our cash resources and needs and it is anticipated that all available cash will be needed for our operations in the foreseeable future.

Section 15(g) of the Exchange Act

Our shares are covered by Section 15(g) of the Securities Exchange Act of 1934, as amended, and Rules 15g-1 through 15g-6 promulgated thereunder. They impose additional sales practice requirements on broker/dealers who sell our 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). While Section 15g and Rules 15g-1 through 15g-6 apply to broker-dealers, they do not apply to us.

Rule 15g-1 exempts a number of specific transactions from the scope of the penny stock rules.

Rule 15g-2 declares unlawful broker-dealer transactions in penny stocks unless the broker-dealer has first provided to the customer a standardized disclosure document.

Rule 15g-3 provides that it is unlawful for a broker-dealer to engage in a penny stock transaction unless the broker-dealer first discloses and subsequently confirms to the customer current quotation prices or similar market information concerning the penny stock in question.

Rule 15g-4 prohibits broker-dealers from completing penny stock transactions for a customer unless the broker-dealer first discloses to the customer the amount of compensation or other remuneration received as a result of the penny stock transaction.

Rule 15g-5 requires that a broker dealer executing a penny stock transaction, other than one exempt under Rule 15g-1, disclose to its customer, at the time of or prior to the transaction, information about the sales persons compensation.

Rule 15g-6 requires broker-dealers selling penny stocks to provide their customers with monthly account statements.

Again, the foregoing rules apply to broker-dealers. They do not apply to us in any manner whatsoever. The application of the penny stock rules may affect the ability of the selling shareholders to resell their shares.

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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 you that may be encountered while reading this Form SB-2 Registration Statement:

"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.

"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.

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"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.

"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.

"MBbl"

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

A

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

"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.

"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.

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"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 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."

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"Royalty interest"

is a right to oil, gas, or other minerals that is 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.

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BUSINESS

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:

- * 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.

Factors that may affect such forward-looking statements include, but are not limited to:

- * Our ability to generate additional capital to complete its planned drilling and exploration activities
- * Risks inherent in oil and gas acquisitions, exploration, drilling, development and production
- * Oil and natural gas prices
- * Competition from other oil and gas companies
- * Shortages of equipment, services and supplies
- * General economic, market or business conditions
- * Economic, market or business conditions in the oil and gas industry and in the energy business generally
- * Government regulation
- * Environmental matters
- * Financial condition and operating performance of the other companies participating in the exploration, development and production of oil and gas ventures that we are involved in. In addition, we may not be in a position to control costs, safety and timeliness of work as well as other critical factors affecting a producing well or exploration and development activities.

General

We are an independent oil and gas company engaged in the exploration, exploitation, 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 its 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, 44 wells net to our interest, in fields located in Waller, Victoria, DeWitt, Calhoun and Concho Counties, Texas region and participated in the drilling and completion of 17 gross wells (17 net wells) for the year. Additionally, we own interests in 5,595.21 net acres in

Texas. The properties are titled in the name of TexEn Oil & Gas, Inc., Texas Brookshire Partners, Inc. and Texas Gohlke Partners, Inc. which are wholly owned subsidiary corporations.

In July 2002, we acquired Texas Brookshire Partners, Inc. by issuing 15,376,103 shares of common stock. Brookshire's key assets consist of a 77.75% working interest ownership in about 1,440 gross leasehold acres (550 net leasehold acres).

Gohlke

In September 2002, we acquired Texas Gohlke Partners, Inc. by issuing 4,000,000 shares of restricted common stock. Gohlke's key assets consisted of a 100% working interest ownership in about 4,800 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 common stock. The most significant asset of BWC is an 8.70% working interest in the Brookshire Dome Field.

In the twelve months preceding June 30, 2002, production from the 26 wells located on the property averaged 95 barrels of oil per day with revenues of \$54,000 per month and expenses of \$36,000. The wells drilled to date on the lease were on an area of less than 40 acres and all were completed in Miocene and Frio sand at a depth between 1,700 feet and 3,300 feet. The shallow drilling will allow for well drilling and completion costs to be kept at an average of less than \$250,000.

Business Strategy

Our overall goal is to maximize its value through profitable growth in its oil and gas reserves. We believe this can be achieved through the exploration and development of our existing prospect inventory base located in Texas. As with any dynamic environment, we must be flexible and adaptive to current economic and sector conditions in executing its growth plan. In 2003, we will supplement our exploration and development program with an acquisition program targeting properties that we believe possess high development potential. Following the 2002 acquisition of the Brookshire and Gohlke properties, we have a base production level in place that can provide consistent 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);
- * and project cost overruns.

By utilizing a "portfolio" approach in its exploration activities, we expect to minimize the overall effect of these risks. We 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 in Texas. Recognizing this, we have aggressively sought to acquire significant acreage blocks in selected areas for targeted, proprietary, 3-D seismic surveys. Using the data generated by initial proprietary seismic surveys, covering over 8.3 square miles, we have identified in excess of 10 potential drill sites net of 2002 activity. In general, when it is not geographically advantageous for us to be the operator, we will rely on agreements with qualified operating oil and gas companies to operate many its projects through the exploratory and production phases.

Summary of Proved Reserve Data

As of June 30, 2003 Gohlke Field

	BBLs Oil	MCF Natural Gas
Proved Producing	61,329	1,173,261
Proved Developed Nonproducing	31,677	1,345,906
Proved Undeveloped	-0-	1,369,164

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As of June 30, 2003 Brookshire

	BBLs Oil	MCF Natural Gas
Proved Producing	255,000	648,000
Proved Developed Nonproducing	12,930,000	-0-
Proved Undeveloped	5,055,000	-0-

Principal Producing Properties

Field	Gross oil wells	Net oil wells	Gross gas wells	Net gas wells	Gross acreage	Net acreage
Brookshire	18	7	0	0	1,440	550
Gohlke	13	3	16	5	4,500	4,500

Current Projects

Texas Brookshire Partners, Inc.

Texas Brookshire Partners, Inc., one of our wholly owned subsidiary corporations, and is engaged in the business of purchasing, developing and operating oil and gas leases in the Brookshire Field of Waller County, Texas, and owns 93.40% working interest ownership in and to approximately 1,440 gross leasehold acres and 550 net acres leasehold

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acres located in the Brookshire Dome Field of Waller County, Texas. The current working interest ownership position owns various interests in 26 wells which have been drilled to date and one water injection well. Current production from these properties over the last nine months has averaged approximately 95 barrels of oil per day.

The following is a summary of the Texas Brookshire production and expenses:

Oil Production

Inception (05/2000) to date

Production Month	100%		.70675 NRI	
	BBLs	Gross Revenue	BBLs	Revenue
5-00	3,725.58	\$ 94,064.94	2,633.05	\$ 66,480.40
6-00	3,520.38	97,661.33	2,488.03	69,022.14
7-00	3,663.27	95,711.73	2,589.02	67,644.27
8-00	2,651.43	72,097.41	1,873.90	50,954.84
9-00	2,071.83	61,757.74	1,464.27	43,647.28
10-00	1,931.99	55,853.28	1,365.43	39,474.31
11-00	1,671.38	50,809.96	1,181.25	35,909.94
12-00	2,026.00	49,290.55	1,431.88	34,836.10
1-01	3,537.40	89,684.43	2,500.06	63,384.47
2-01	1,923.75	49,354.56	1,359.61	34,881.34
3-01	2,809.11	65,126.13	1,985.34	46,027.89
4-01	7,210.71	169,031.25	5,096.17	119,462.84
5-01	6,235.29	154,524.82	4,406.79	109,210.42
6-01	3,817.59	90,381.43	2,698.08	63,877.08
7-01	5,523.63	124,905.30	3,903.83	88,276.82
7-01	3,274.08	74,036.77	2,313.96	52,325.49
8-01	8,211.98	191,790.79	5,803.82	135,548.14
9-01	5,688.36	128,602.41	4,020.25	90,889.75
10-01	6,182.38	112,976.83	4,369.40	79,846.37
11-01	4,442.01	69,815.08	3,139.39	49,341.81
12-01	5,277.30	81,967.01	3,729.73	57,930.18
1-02	4,907.00	77,364.25	3,468.02	54,677.18
2-02	774.74	13,059.81	547.55	9,230.02
3-02	1,367.99	28,154.61	966.83	19,898.27
4-02	2,744.88	60,936.35	1,939.94	43,066.77
5-02	1,956.10	45,068.57	1,382.47	31,852.21
6-02	1,800.26	39,065.65	1,272.33	27,609.65
7-02	1,835.50	42,276.50	1,297.24	29,836.52
8-02	2,110.08	51,068.15	1,491.30	36,092.42
9-02	1,051.89	27,059.88	743.43	19,124.57
10-02	1,963.37	48,909.49	1,387.62	34,566.79
11-02	911.51	21,048.60	644.21	14,876.10
12-02	1,683.19	44,129.88	1,189.60	31,188.80
1-03	2,751.00	81,198.52	1,944.27	57,387.06
2-03	3,054.59	98,919.83	2,158.84	69,911.59
3-03	3,070.84	92,100.65	2,170.32	65,092.14
	117,378.39	2,749,804.49	82,957.23	1,943,381.97

TOTAL

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Gas Production

Inception (05/2000) to date

Production Month	100%	Gross Revenue	70.675 NRI	Revenue
	MCF		MCF	
May-00	141	\$ 361.28	99.65	\$ 255.33
Jun-00	1,281	4,664.92	905.35	3,296.93
Jul-00	1,808	6,582.26	1,277.80	4,652.01
Aug-00	1,662	5,331.63	1,174.62	3,768.13
Sep-00	2,629	10,132.14	1,858.05	7,160.89
Oct-00	5,157	19,095.27	3,644.71	13,495.58
Nov-00	8,971	39,472.82	6,340.25	27,897.42
Dec-00	2,323	11,571.90	1,641.78	8,178.44
Jan-01	11,934	97,775.15	8,577.58	70,282.39
Feb-01	5,379	27,883.14	3,817.18	19,787.71
Mar-01	7,936	33,139.42	5,608.77	23,421.29
Apr-01	10,016	44,796.02	7,209.49	32,247.19
May-01	4,788	19,527.81	3,392.02	13,834.65
Jun-01	5,212	16,357.38	3,683.58	11,560.58
Jul-01	2,853	7,722.77	2,016.36	5,458.07
Aug-01	3,922	10,550.58	2,771.87	7,456.62
Sep-01	2,138	4,241.77	1,511.03	2,997.87
Oct-01	486	750.97	343.48	530.75
Nov-01	1,751	4,534.92	1,237.52	3,205.05
Dec-01	1,301	2,484.81	919.48	1,756.14
Jan-02	1,740	3,769.23	1,229.75	2,663.90
Feb-02	476	809.23	36.41	571.9
Mar-02	306	609.96	216.27	431.09
Apr-02	275	779.71	94.36	551.05
May-02	-0-	-0-	-0-	-0-
Jun-02	-0-	-0-	-0-	-0-
Jul-02	-0-	-0-	-0-	-0-
Aug-02	-0-	-0-	-0-	-0-
Sep-02	-0-	-0-	-0-	-0-
Oct-02	-0-	-0-	-0-	-0-
Nov-02	-0-	-0-	-0-	-0-
Dec-02	-0-	-0-	-0-	-0-
Jan-03	-0-	-0-	-0-	-0-
Feb-03	-0-	-0-	-0-	-0-

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Mar-03	-0-		-0-		-0-		-0-
TOTAL	84,485	\$	372,945.09		59,607.36	\$	265,460.98

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Operating Expenses

From Inception (5/2000) to 6/30/02

100% LOE

5-00	\$ 1,555.00
6-00	\$ 9,512.60
7-00	\$ 3,489.40
8-00	\$ 14,668.00
9-00	\$ 6,474.80
10-00	\$ 16,073.60
11-00	\$ 8,554.60
12-00	\$ 7,332.20
1-01	\$ 9,538.79
2-01	\$ 15,433.35
3-01	\$ 22,855.10
4-01	\$ 13,303.58
5-01	\$ 51,519.58
6-01	\$ 9,644.60
7-01	\$ 19,557.80
8-01	\$ 21,782.80
9-01	\$ 28,288.20
10-01	\$ 17,127.00
11-01	\$ 47,477.00
12-01	\$ 51,236.40
1-02	\$ 41,555.00
2-02	\$ 31,165.20
3-02	\$ 39,690.40
4-02	\$ 36,711.60
5-02	\$ 39,509.00
6-02	\$ 37,607.40
7-02	\$ 55,883.05
8-02	\$ 21,261.73
9-02	\$ 19,144.75
10-02	\$ 19,619.80
11-02	\$ 21,501.61

12-02	\$ 19,618.90
1-03	\$ 30,863.04
2-03	\$ 23,527.74
3-03	\$ 21,058.39
TOTAL	\$ 834,142.01

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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 4,800 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 nine months has averaged approximately 34 barrels of oil per day and 152 mcf per day.

The following is a summary of the Texas Gohlke production and expenses:

Oil Production:

Month	12 Months Revenue Information/LOE			
	BBLs	8/8ths Revenue		Net
		Gross	SEV TAX	
10-01	702	14,406	669	13,737
11-01	539	9,693	451	9,242
12-01	824	14,653	681	13,972
1-02	1,643	29,605	1,375	28,230
2-02	2,109	39,512	1,835	37,677
3-02	1,588	36,245	1,680	34,565
4-02	1,538	37,613	1,741	35,872
5-02	1,569	39,681	1,838	37,843
6-02	863	20,677	958	19,719
7-02	-0-	-0-	0	-0-
8-02	-0-	-0-	0	-0-
9-02	652	18,233	843	17,390
10-02	185	4,997	245	4,752
11-02	-0-	-0-	-0-	-0-
12-02	814	22,003	1,078	20,925
1-03	-0-	-0-	-0-	-0-
2-03	-0-	-0-	-0-	-0-

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3-03	562	17,691	818	16,873
TOTAL	13,588	305,009	14,212	290,797

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Gas Production

Month	MCF	Gross	SEV TAX	Net
10/01	2,756	5,002	4	4,998
11/01	3,917	12,348	5	12,343
12/01	4,959	11,368	4	11,364
1/02	6,198	11,427	599	10,828
2/02	5,512	8,644	389	8,255
3/02	5,790	10,090	498	9,592
4/02	5,745	11,025	568	10,457
5/02	4,076	8,051	344	7,707
6/02	6,495	15,442	900	14,542
7/02	5,379	16,092	948	15,144
8/02	1,585	3,215	1	3,214
9/02	2,254	1,368	2	1,366
10/02	1,490	2,480	-0-	2,480
11/02	1,347	5,050	118	4,932
12/02	1,591	5,913	121	5,792
1/03	1,675	7,775	321	7,454
2/03	1,499	7,067	269	6,798
3/03	1,620	12,601	684	11,917
TOTAL	63,888	154,958	5,775	149,183

October, November and December gas SEV tax is lower because lease use was paid which is a credit when calculating sales severance tax.

Expenses

Month	LOE
10/01	25,265
11/01	23,744
12/01	19,359
1/02	25,546
2/02	24,317
3/02	24,270
4/02	30,952
5/02	49,869
6/02	24,710
7/02	33,760
8/02	19,340
9/02	43,641
10/02	75,404
11/02	23,077
12/02	57,272
1/03	11,748
2/03	11,748

3/03	11,749
TOTAL	535,771

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Other Subsidiary Corporations

In addition to Texas Brookshire Partners, Inc. and Texas Gohlke Partners, Inc., we own the following additional subsidiary corporations:

Brookshire Drilling Service, LLC

We own of the ownership, membership and management 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.

Sanka LLC

We own 100% of the management interest and no ownership interests in Sanka LLC, a Texas Limited Liability Company. Sanka LLC is engaged in the business of drilling, servicing and operating oil and gas wells and leases. Sanka LLC conducts its business in its own name and through one wholly owned Texas subsidiary corporation, chief operating company and one wholly owned Texas Limited Liability Company, Tiger Resources, LLC. The ownership interest is held by three individuals who are shareholders in our company.

We use Brookshire Drilling Services, LLC and Sanka LLC for most of our drilling and rework operations.

Yegua, Inc.

We owns 100% of the outstanding common stock of Yegua, Inc. which is engaged in the business of purchasing and developing oil and gas leases in the Brookshire Field of Waller County, Texas, and owns 1.95% working interest ownership in and to approximately 1,440 gross leasehold acres and 550 net leasehold acres located in the Brookshire Dome field of Waller County, Texas. This interest compliments the 77.75% working interest that we own in this field through our other wholly owned subsidiary corporation Texas Brookshire Partners, Inc.

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 becomes public knowledge through state agencies after a period of years. Through analysis of rock types, fossils and the electrical and chemical characteristics of rocks from existing wells, we can construct a picture of rock layers in the area. We will have access to the well logs and decline curves from existing operating wells. Well logs allow us to calculate an original oil or gas volume in place while decline curves from production history allow us to calculate remaining proved producing reserves. We maintain our own equipment necessary to conduct the geological or geophysical testing referred to herein.

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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. The major oil companies will purchase all crude oil offered for sale at posted field prices. There are price adjustments for quality difference from the Benchmark. Benchmark is Saudi Arabian light crude oil employed as the standard on which

OPEC price changes have been based. Quality variances from Benchmark crude results in lower prices being paid for the variant oil. Oil sales are normally contracted with a purchaser or gatherer as it is known in the industry who will pick-up the oil at the well site. In some instances there may be deductions for transportation from the well head to the sales point. At this time the majority of crude oil purchasers do not charge transportation fees, unless the well is outside their service area. The service area is a geographical area in which the purchaser of crude oil will not charge a fee for picking upon the oil. The purchaser or oil gatherer as it is called within the oil industry, will usually handle all check disbursements to both the working interest and royalty owners. We are a working interest owner. By being a working interest owner, we are responsible for the payment of our proportionate share of the operating expenses of the well. Royalty owners and over-riding royalty owners receive a percentage of gross oil production for the particular lease and are not obligated in any manner whatsoever to pay for the costs of operating the lease. Therefore, we, in most instances, are paying the expenses for the oil and gas revenues paid to the royalty and over-riding royalty interests.

Gas sales are by contract.

The gas purchaser will pay the well operator 100% of the sales proceeds on or about the 25th of each and every month for the previous months sales. The operator is responsible for all checks and distributions to the working interest and royalty owners. There is no standard price for gas. Prices will fluctuate with the seasons and the general market conditions. It is our intention to utilize this market when ever possible in order to maximize revenues. We do not anticipate any significant change in the manner production is purchased, however, no assurance can be given at this time that such changes will not occur.

Acquisition of Future Leases

In the future, we will be the acquiring additional oil and gas leases. The acquisition process may be lengthy because of the amount of investigation which will be required prior to submitting a bid to a major oil company. Currently, we are not engaged in any bidding process. Verification of each property and the overall acquisition process can be divided into three phases, as follows:

Phase 1. Field identification.

In some instances the seller will have a formal divestiture department that will provide a sales catalog of leases which will be available for sale. Review of the technical filings made to the states along with a review of the regional geological relationships, released well data and the production history for each lease will be utilized. In addition a review of the proprietary technical data in the sellers office will be made and calculation of a bid price for the field.

Phase 2. Submission of the Bid.

Each bid will be made subject to further verification of production capacity, equipment condition and status, and title.

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Phase 3. Closing.

Final price negotiation will take place. Cash transfer and issuance of title opinions. Tank gauging and execution of transfer orders.

After closing has occurred, the newly acquired property will be turned over to us for possible work-overs or operational changes which will in our estimation increase each well's production.

In connection with the acquisition of an oil and gas lease for work-over operations, we are able to assume 100% ownership of the working-interest and surface production equipment facilities with only minor expenses. In exchange for an assignment of the lease, we agree to assume the obligation to plug and abandon the well in the event we determines that reworking operations are either too expensive or will not result in production in paying quantities.

Several major oil companies have recently placed numerous oil and gas properties out for competitive bidding. We currently do not have sufficient revenues or funds available to it to make a bid for such properties. We have not initiated a search for additional leases and does not intend to do so until it raises additional capital. We believe that it is not an efficient use of time to search for additional prospects when we do not have sufficient capital to acquire and develop additional leases. We intend to raise additional capital through loans or the sale of equity securities in order to have sufficient funds to make a bid for such properties. There is no assurance that we will ever raise such additional capital and if we are unable to raise such capital, we may have to cease operations.

At the present time, we have not identified any specific oil and gas leases which we intend to acquire in the future and will only be able to make such determination upon raising said capital.

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 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 reimposition might occur and the effect thereof on us cannot be predicted.

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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. 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.

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.

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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 competes 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:

- * 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:

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- * 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.

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.

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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 10603 Grant Road, Suite 209, Houston, Texas 77070. Our telephone number is (832) 237-6053.

Employees

We currently have no employees other than our officers and directors.

Legal proceedings

We are not a party to any pending litigation and to our knowledge, no action, suit or proceeding has been threatened against any of our officers or directors.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

We intend to spend our existing cash on drilling and rework operations on our existing oil and gas leases. We do not intend to acquire any additional oil and gas leases until it completes drilling operations on our existing leases. We intend to initiate our drilling operations within the next twelve months and believe that we will complete our drilling operations within the next eighteen months. We do not believe we will need additional capital to commence our drilling operations, but will need additional capital to complete our wells.

We intend to reduce our dependence on new finances by drilling new wells and reworking existing wells. Income from the sale of oil or gas will be applied to our drilling and reworking plans. There is no assurance, however, our drilling and reworking operation will prove successful. If does not prove successful, we will have to rely upon future new finances in order to continue our operations.

Our auditors have issued a going concern opinion. This means that our auditors believe there is substantial doubt that we can continue as an on-going business for the next twelve months unless we obtains additional capital. This is because 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. That cash must be raised from other sources. Our only other source for cash at this time is investments or loans by others.

We have inadequate cash to maintain operations during the next twelve months. In order to meet our cash requirements, we will have to raise additional capital through the sale of securities or 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.

We do not intend to conduct any research or development during the next twelve months other than as described herein. See "Business."

We do not intend to purchase a plant or significant equipment. We will hire employees on an as needed basis, however, we do not expect any significant changes in the number of employees.

We acquired all of our properties after June 30, 2002. Accordingly, we had no revenues prior thereto.

Limited Operating History: Need for Additional Capital

There is no historical financial information about our company upon which to base an evaluation of our performance. We have limited oil and gas production that has yet to achieve predictable sustained production from operations. We cannot guarantee we will be successful in our business operations. Our business is subject to risks inherent in the establishment of a new business enterprise, including limited capital resources, possible delays in the exploration of

our properties and fluctuations in oil and gas sales and prices.

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To become profitable and competitive, we need to fully exploit the undeveloped potential of our exploration properties. If successful, additional funds will be required in order to complete successful wells and place them on production. We are seeking equity financings to provide for our capital requirements in order to implement our exploration plans.

We have no assurances that future financings will be available to us on acceptable terms. If financings are not available on satisfactory terms, we may be unable to continue, develop or expand our operations. Equity financings could result in additional dilution to existing shareholders.

Results from Operations

June 30, 2002 compared to June 30, 2001

Our expenses for June 30, 2002 were \$23,935 compared with expenses of \$71,387 for June 30, 2001.

Our assets on June 30, 2002 were \$-0- compared with assets of \$12,041 for June 30, 2001.

Our liabilities on June 30, 2002 were \$4,190 compared with liabilities of \$770 for June 30, 2001.

Our stockholder's equity on June 30, 2002 was \$(14,190) compared with stockholders' equity of \$11,271 for June 30, 2001.

We are in an early stage of development with a few proven properties currently producing. Most of our properties are still awaiting additional exploration and development work. For the quarter ending March 31, 2003, we had \$250,502 in total revenues in our third operating quarter.

June 30, 2002 to March 31, 2003

A comparison of our results of operation for the nine month period ending March 31, 2003 in comparison to the result of operations during the same nine month period of the preceding year and for the year ending June 30, 2002 must be prefaced by stating that during the quarter ending September 30, 2002 we changed our business direction from being a mining company to the area of oil and gas exploration and development.

During the period ending June 30, 2002, we had no assets and no revenues. During the period ending March 31, 2003, we had \$26,511,523 in assets and no revenues.

During the nine month period ending March 31, 2003, we had revenues of \$475,048 of which \$363,229 were derived from oil and gas production net of taxes and \$111,819 were derived from drilling revenues.

During the nine months ending March 31, 2003 drilling cost of \$87,440 were incurred by us in exploring our oil and gas properties.

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Expenses relating to lease operation were \$513,117. Legal and accounting costs including such costs incurred in order to conclude our acquisitions of oil and gas properties during the nine month period ending March 31, 2003 were

\$229,018. Legal and accounting costs incurred by the Company for the same period ending March 31, 2002 were \$19,985.

We ended our nine month period ended March 31, 2003 with a working capital deficit of \$284,839.

The value placed on our assets including the unexplored potential of the oil and gas assets may be adjusted downwards during the current fiscal year based on a reserve evaluation which will be commissioned and prepared.

We expect to continue with the development of our current asset portfolio and we will be seeking new opportunities during the current fiscal year.

All of the foregoing changes were a direct result of the change in business purpose from mining to oil and gas exploration, development, production and sales.

MANAGEMENT

The names, addresses, ages and positions of our present officers and directors are set forth below:

Name	Age	Position
Robert M. Baker	49	president, chief executive officer, treasurer, chief financial officer and a member of the board of directors
Kjeld Werbes	57	secretary and a member of the board of directors
John F. Templin II		member of the board of directors

The persons named above have held their offices/positions since inception of our company and are expected to hold their offices/positions until the next annual meeting of our stockholders.

Officer and Director Biographies

Since June 2002, Robert M. Baker has been our president, chief executive officer, treasurer, chief financial officer and a member of the board of directors. Prior to assuming his roles and for the last five years, Mr. Baker was a registered representative with Canaccord Capital Corporation, a Canadian broker/dealer. Mr. Baker devotes full-time to our operation. Mr. Baker is not subject to any anticipated or threatened legal proceedings of a material nature.

Since May 2003, Mr. Werbes has served as our secretary and a member of the board of directors. Since June 1973, Mr. Werbes has been engaged in the private practice of law in Vancouver, British Columbia. Mr. Werbes has served as a member of the board of directors of Petrolia Oil & Gas Ltd. since the late 1980s. Mr. Werbes is not subject to any anticipated or threatened legal proceedings of a material nature.

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Since May 2003, John Templin Ph.D. has been a member of our board of directors and from May 2003 to July 2003 served as our president. Dr. Templin served a president and director of international operations, and then CEO and chairman of the board for Petro Sources International, Inc. Dr. Templin is a petroleum geologist with extensive background and experience in both Gulf Coast USA, Texas, Louisiana, Arkansas, and Australian oil and gas exploration and production. Dr. Templin has been actively involved in the oil and gas industry since 1976.

Executive Compensation

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The following table sets forth information with respect to compensation paid by our chief executive officer and the other highest paid executive officers (the "Named Executive Officer") during the three most recent fiscal years.

Summary Compensation Table

(a)	(b)	Annual Compensation		(e)	Long Term Compensation Awards		(h)	(i)
		(c)	(d)		(f)	(g)		
Name and Principal Position [1]	Year	Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Award(s) (\$)	Securities Underlying Options / SARs (#)	LTIP Payouts (\$)	All Other Compensation (\$)
Robert M. Baker	2002	0	0	0	0	0	0	0
CEO, Treasurer, CFO and Director	2001	0	0	0	0	0	0	0
	2000	0	0	0	0	0	0	0
John F. Templin II	2002	0	0	0	0	0	0	0
Director (Former President)	2001	0	0	0	0	0	0	0
	2000	0	0	0	0	0	0	0
Kjeld Werbes	2002	0	0	0	0	0	0	0
Secretary & Director	2001	0	0	0	0	0	0	0
	2000	0	0	0	0	0	0	0
Hugh Grenfal, Jr.	2002	0	0	0	0	0	0	0
President & Director (resigned)	2001	0	0	0	0	0	0	0
	2000	0	0	0	0	0	0	0
Sergei Stetsenko	2002	0	0	0	0	0	0	0
Secretary & Director (resigned)	2001	0	0	0	0	0	0	0
	2000	0	0	0	0	0	0	0
Harry Gamble IV	2002	0	0	0	0	0	0	0
President & Director (resigned)	2001	0	0	0	0	0	0	0
	2000	0	0	0	0	0	0	0
Paul Lemmon	2002	0	0	0	0	0	0	0
Secretary & Director (resigned)	2001	0	0	0	0	0	0	0
	2000	0	0	0	0	0	0	0

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

There are no stock option, retirement, pension, or profit sharing plans for the benefit of our officers and directors.

Employment Contracts

Mr. Baker has an employment contract, as CEO and President, with us through Woodburn Holdings Ltd., a corporation he owns and controls. Under the terms of the employment contract, we are obligated to pay Mr. Baker \$15,000 per month commencing June 1, 2002 and issue an option to acquire up to 1,000,000 shares of our common stock at \$0.10 per share.

No other officers and directors have employment contracts with us.

Option/SAR Grants

No individual grants of stock options, whether or not in tandem with stock appreciation rights ("SARs") and freestanding SARs have been made to any executive officer or any director since our inception, accordingly, no stock options have been exercised by any of the officers or directors in fiscal 2002.

Option/SAR Grants

The following grants of stock options, whether or not in tandem with stock appreciation rights ("SARs") and freestanding SARs have been made to our officers and directors in 2003:

Name	Number of Securities Underlying Options Granted	Number of Securities Underlying Options/SARs Granted During Last 12 Months	Exercise or Base Price (\$/Sh)	Number of Options Exercised	Expiration Date
Robert M. Baker	1,000,000	1,000,000	\$ 0.10	-0-	April 27, 2006
Kjeld Werbes	250,000	250,000	\$ 0.10	-0-	April 27, 2006
John F. Templin II	250,000	250,000	\$ 0.10	-0-	April 27, 2006

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.

We have adopted a 2003 non-qualified incentive stock option plan which was filed on Form S-8 (SEC file #333-104482). The plan provides for the issuance of stock options to acquire up to 5,000,000 shares of common stock. The terms of the options are to be established by the board of directors. The stock option plan was not submitted to shareholders for their approval. As of the date hereof, we have granted options to acquire up to 1,500,000 shares of common stock.

Compensation of Directors

We do not intend to pay any additional compensation to our directors until such time as it is profitable to do so. As of the date hereof, we have not entered into employment contracts with any of our officers, and we do not intend to enter

into any employment contracts until such time as it profitable to do so.

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 law suit, 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, as amended, 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.

PRINCIPAL STOCKHOLDERS AND SELLING SHAREHOLDER

The following table sets forth, as of the date of this prospectus, the total number of shares owned beneficially by each of our directors, officers and key employees, individually and as a group, and the present owners of 5% or more of our total outstanding shares. The table also reflects what their ownership will be assuming completion of the sale of all shares in this offering . The stockholder listed below has direct ownership of his shares and possesses sole voting and dispositive power with respect to the shares.

Name of owner	Number of Shares Before Offering	Number of Shares After Offering Assuming all of the Shares are Sold	Percentage of Ownership After the Offering Assuming all of the Shares are Sold
and Address of Beneficial Owner			
Robert M. Baker [2] 10603 Grant Road Suite 209 Houston, Texas 77070	1,000,000	1,000,000	
Kjeld Werbes [3] 10603 Grant Road Suite 209 Houston, Texas 77070			