TEXEN OIL & GAS INC
Form 10QSB
November 15, 2004

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

FORM 10-QSB

[x] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended

September 30, 2004

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from __________ to ___________

Commission File Number 000-33193

TEXEN OIL & GAS INC.

(Exact name of small business issuer as specified in its charter.)

Nevada	**90-0082485**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2401 Fountain View Drive
Suite 1008
Houston, Texas 77057

(Address of principal executive offices)

(713) 782-5758

(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [ ]

TEXEN OIL & GAS, INC.

CONSOLIDATED BALANCE SHEETS

		September 30, 2004 (Unaudited)		June 30, 2004 (Unaudited)
ASSETS				
CURRENT ASSETS				
Cash	$	95,348	$	46,295
Accounts receivable - related party		436,567		397,717
Accrued oil and gas sales		98,000		43,350
Prepaid insurance		5501		5501
Total Current Assets	$	635,416	$	492,863
OIL AND GAS PROPERTIES, ON THE BASIS OF SUCCESSFUL EFFORTS ACCOUNTING				
Unproved property		147,108		147,108
Proved Property, developed and undeveloped wells, related equipment and facilities		26,015,406		25,854,207
Less accumulated depreciation, depletion, and amortization and impairments		(21,740,606)		(21,530,926)
Net Oil and Gas Properties	$	4,421,908	$	4,470,389
OTHER PROPERTY AND EQUIPMENT				
Other property and equipment		275,867		275,867
Less accumulated depreciation		(88,320)		(86,532)
Total Other Property and Equipment		187,547		189,335
TOTAL ASSETS	$	5,244,871	$	5,152,587

See notes to interim financial statements.

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TEXEN OIL & GAS, INC.

CONSOLIDATED BALANCE SHEETS (continued)

		September 30, 2004 (Unaudited)		June 30, 2004 (Unaudited)
LIABILITIES AND STOCKSHOLDERS' EQUITY (DEFICIT)				
CURRENT LIABILITIES				
Accounts payable	$	1,858,407	$	1,295,327
Accounts payable - related party		555,366		388,266
Advances from affilites		866,920		715,108
Notes payable - related party		150,000		150,000
Total Current Liabilities		3,430,693		2,548,701
TOTAL LIABILITIES	$	3,430,693	$	2,548,701
SHAREHOLDERS' EQUITY				
Common stock, 100,000,000 shares authorized, $0.00001 par value		925		925
Additional paid-in capital		29,886,441		29,886,441
Stock options		95,175		95,175
Accumulated deficit		(28,168,363)		(27,378,655)
TOTAL STOCKHOLDERS' EQUITY		1,814,178		2,603,886
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	5,244,871	$	5,152,587

See notes to interim financial statements.

TEXEN OIL & GAS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30 2004 (Unaudited)	2003 (Unaudited)
REVENUES		
Oil and gas sales	$ 286,640	$ 124,513
Drilling revenues	-	114,127
TOTAL REVENUES	286,640	238,640
COST OF REVENUES		
Drilling costs	25,964	55,229
GROSS PROFITS FROM DRILLING AND PRODUCTION	$ 260,676	$ 183,411
E X P E N S E S		
Lease operating	604,811	195,202
Oil and gas leases	-	1,845
Compensation	25,000	55,000
General and administrative expense	70,831	25,807
Legal and accounting	50,000	64,424
Dry hole costs	-	253,648
Depreciation, depletion and amortization	211,466	161,800
Production taxes included in lease operating)		5,861
TOTAL EXPENSES	$ 962,108	$ 763,587
OPERATING LOSS	$ (701,432)	$ (580,176)
OTHER EXPENSES		
Interest and finance expenses	-	(34,786)
TOTAL OTHER EXPENSES	$ (701,432)	$ (614,962)
LOSS BEFORE INCOME TAXES	$ (701,432)	$ (614,962)
INCOME TAXES	-	-
NET LOSS	$ (701,432)	$ (614,962)
NET LOSS PER COMMON SHARE, BASIC AND DILUTED	$ (0.01)	$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON STOCK SHARES OUTSTANDING, BASIC AND DILUTED	92,517,643	45,271,267

See notes to interim financial statements.

TEXEN OIL & GAS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30, 2004 2004 (Unaudited)	2003 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (701,432)	$ (614,962)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation, depletion and amortization	211,466	161,800
Common stock issued for accrued consulting fees	-	100,000
Increase in accounts receivable - related party	38,850	(82,284)
Decrease in advances receivable from related party	-	3,954
Decrease in accrued oil and gas sales	(54,650)	33,065
Decrease in prepaid insurance	-	1,927
Increase in employee advances	-	(2,500)
Decrease in leasehold costs	-	1,845
Decrease in intangible drilling costs	-	195,736
Increase in accounts payable	563,080	47,415
Increase in accounts payable - related party	179,938	148,718
Decrease in accrued consulting - related party	-	(130,000)
Increase (decrease) in accrued expenses	-	(33,491)
Increase in accrued interest - related party	-	34,532
Decrease in settlements payable	-	(10,750)
Increse in advances from related party	-	38,373
Cash Adjustment	(27,000)	-
Net cash used by operating activities	$ 210,252	$ (106,622)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of wells, related equipment and facilities	161,199	(4,138)
Purchase of machinery and equipment	-	11,248
Net cash used by investing activities	161,199	7,110
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans payable - related parties	-	94,398
Payment to related party payable	-	-
Net cash provided by financing activities	-	94,398
Net increase (decrease) in cash	49,053	(5,114)
Cash, beginning of period	46,295	8,879
Cash, end of period	$ 95,348	$ 3,765

See notes to interim financial statements.

TEXEN OIL & GAS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	Three Months Ended September 30, 2004 2004 (Unaudited)	2003 (Unaudited)
SUPPLEMENTAL DISCLOSURES:		
Interest paid	$ 0	$ 0
Income taxes paid	$ 0	$ 0
NON-CASH INVESTING AND FINANCING TRANSACTIONS:		
Stock issued for accrued consulting fees - related party	$ 0	$ 100,000
Loan payable - related party for payment of delinquent note	$ 0	$ 1,200,000

See notes to interim financial statements.

TEXEN OIL & GAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

Basis of Presentation

The accompanying interim condensed financial statements are prepared in accordance with rules set forth in Regulation SB of the Securities and Exchange Commission. As said, these statements do not include all disclosures required under generally accepted principles and should be read in conjunction with the audited financial statements for the year ended June 30, 2004. In the opinion of management, all required adjustments, which consist of normal re-occuring accruals, have been made to the financial statements. The results of operations for the three months ended September 30, 2004, are not necessarily indicative of the results that may be expected for the year ending June 30, 2005.

TexEn Oil & Gas, Inc. (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").

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.

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TEXEN OIL & GAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Support equipment, trucks etc are other property and equipment and other property equipment are carried at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, which range from five to twenty years. Accumulated Depreciation amounted to $88,320 and $45,552, respectively, for the periods ended September 30, 2004 and 2003.

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 incurred a net loss in the amount of $701,432 during the three months ended September 30, 2004.

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.

Revenue Recognition

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

NOTE 3 - COMMON STOCK

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.

During the three months ended September 30, 2003 and included in the June 30, 2004 summary, a former officer, to whom options with a fair market value of $653,800 had been previously issued, exercised the options and purchased 1,000,000 shares of common stock. The exercise price of the stock of $100,000 was exchanged for accrued consulting fees due to this former officer.

During the three months ended September 30, 2004, the Company issued not additional common stock, options or warrants.

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TEXEN OIL & GAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2004

NOTE 4 - RELATED PARTIES

During 2004 and 2003, Tatiana Golovina, a shareholder and previous President of the Company, advanced and loaned the Company approximately $866,000 and $1,646,000, respectively. The advance totaling $1,646,508 in 2003 was converted into 40,000,000 shares of common stock.

During the three months ended September 30, 2003, the Company converted its past due note with Mathon Fund, LLC in the amount of $1,200,000 to a loan payable to a related party.

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 $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 October 2003. See Note 5.

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 September 30, 2004, the Company is not aware of any pending litigation of regulatory issues.

Farmout Agreements

There were no significant farm out agreements entered into during 2003 or through September 30, 2004.

Consulting Agreements

During the first quarter ending September 30, 2004 no significant consulting agreements were entered into.

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
September 30, 2004

NOTE 5 - COMMITMENTS AND CONTINGENCIES (Continued)

Consulting Agreements

In February 2003, the Company entered into a consulting agreement with Woodburn Holdings Ltd. ("Woodburn") effective June 1, 2002 which calls for monthly consulting fees in the amount of $15,000. Under terms of this agreement, Woodburn's designated consultant provides managerial, administrative and other services as the Company's chief executive officer. The consulting agreement is effective for eighteen months. See Note 4. In the attached financial statements, the Company has recorded $5,000 and $135,000 as accrued consulting fees - related party at September 30, 2003 and June 30, 2003, respectively. This agreement was subsequently terminated during October 2003.

Leases

The Company has a lease on office space requiring payments of $5,584 every six months, which is accounted for as an operating lease. The currently monthly obligations are $1,607.

NOTE 6 - NOTES AND LOANS PAYABLE

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

	September 30, 2004	September 30, 2003
Tatiana Golovina, (an officer and shareholder of the Company), unsecured, interest at 10%, due on February 14, 2004	$ 0	$ 155,347
Tatiana Golovina, (an officer and shareholder of the Company), unsecured, interest at 10%, dated September 17, 2002, due on September 17, 2004.	150,000	150,000
Tatiana Golovina, (an officer and shareholder of the Company), unsecured, interest at 18%, dated August 15, 2003, due on demand.	0	1,200,000
Note payable	150,000	1,505,347
Less current portion of notes and loans payable	150,000	1,200,000
Total long term portion	$ 0	$ 305,347

TEXEN OIL & GAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2004

NOTE 7 - CONCENTRATION OF RISK

The Company derives its sales and accounts receivable from primarily two affiliated customers and these receivables are not collateralized. At September 30, 2004 and June 30, 2004, the Company's accounts receivable from these customers totaled $397,717 and $436,567, respectively.

NOTE 8 - STOCK OPTIONS

The following is a summary of the status of these performance-based options during the year ended June 30, 2004 and the quarter ended September 30, 2004:

	Number of Shares		Weighted Average Exercise Price per share
Outstanding at July 2003	1,500,000	$	0.10
Granted	1,250,000		0.10
Exercised, expired or forfeited	1,500,000		0.10
Outstanding at June 30, 2004	250,000	$	0.10
Options outstanding and exercisable at September 30, 2004	250,000	$	0.10

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 September 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	1.61	250,000	$0.10

TEXEN OIL & GAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2004

NOTE 9 - 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, during the year ended June 30, 2003, the Company recognized an asset impairment loss of $20,407,559 ($0.46 per share). This loss was 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.

NOTE 10 - INCOME TAXES

At September 30, 2003 and June 30, 2003, the Company had net deferred tax assets of approximately $1,216,000 and $778,000, 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. The significant components of the deferred tax assets at September 30, 2004 and June 30, 2004 are as follows:

		September 30, 2003		June 30, 2004
Net operating loss carryforward before adjustments	$	2,877,441	$	3,563,988
Less:				
Loss for quarter		701,432		1,276,250
Stock options issued under non-qualified plans				
Effective net operating loss carryforward		3,578,873		2,287,738
Expected tax rate		34%		34%
Deferred tax asset		1,216,000		777,000
Deferred tax asset valuation allowance		1,216,000		(777,000)
Deferred tax asset after valuation allowance	$	-	$	-

TEXEN OIL & GAS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2004

NOTE 11 - 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.

ITEM 1. - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This discussion includes a number of forward looking statements that reflect our current views with respect to future events and financial performance. Forward looking statements are often identified by words like: believe, expect, estimate, anticipate, intend, project and similar expressions, or words which, by their nature, refer to future events. You should not place undue certainty on these forward looking statements, which apply only as of the date of this discussion. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or our predictions.

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

1) The Company's ability to generate additional capital to complete its planned drilling and exploration activities;

2) Risks inherent in oil and gas acquisitions, exploration, drilling, development and production;

3)

Oil and natural gas prices;

4)

Competition from other oil and gas companies;

5)

Shortages of equipment, services and supplies;

6)

General economic, market or business conditions;

7) Economic, market or business conditions in the oil and gas industry and in the energy business generally;

8)

Environmental matters;

9) 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, the Company may be in position to control costs, safety and timeliness of work as well as other critical factors affecting a producing well or exploration and development activities.

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.

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 to pay our bills. This is because we have generated limited revenues and expected revenues during the ensuing period are subject to fluctuation based on the availability of additional capital necessary in order to fully exploit the unproven potential of our Oil & Gas portfolio. Accordingly, we must raise cash from sources other than from the sale of Oil & Gas found on our properties. Our only other source for cash at this time is investments by others in our company. We must raise cash to implement our project and stay in business.

ITEM 1. - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (continued)

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 & 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 & Gas sales and prices.

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

Overview

Our source of operating revenue is from the sale of produced oil, natural gas, and natural gas liquids. The level of our revenues and earnings are affected by prices at which natural gas, oil and natural gas liquids are sold. Therefore, our operating results for any prior period are not necessarily indicative of future operating results because of fluctuations in price and production levels.

ITEM 1. - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION
(continued)

Oil and Gas

	For the Three Months Ended September 30, 2004	For the Three Months Ended September 30, 2003
Production:		
Oil (bbls)	3,780	3,562
Gas (mcf)	27,720	5,721
Average Sales Price:		
Oil (per bbl)	40.56	18.50
Gas (per mcf)	5.02	4.28
Revenue		
Oil & Gas	286,640	124,513
Drilling	(25,964)	114,127
Total Revenue	260,676	238,640
Costs		
Development Costs	161,199	55,229
Lifting Costs	604,811	195,202
Production Taxes (Including in lifting costs)	0	5,861
Operating Margin	(505,334)	(17,652)

ITEM 1. - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (continued)

Revenue

Oil and gas revenue increased from $124,513 for the three months ended September 30, 2003 to $286,640 for the three months ended September 30, 2004 primarily as a result of increased gas production in the Gohlke Field coupled with the increase in product prices. The oil and gas revenues were offset by a decrease in drilling revenues of $114,127 for the period.

Capital Expenditure

The company had capital expenditures of $161,199 during the period ending September 30, 2004, which included several workovers in the Gohlke Field. All costs incurred were developmental.

Depreciation, Depletion and Amortization

Depreciation, Depletion and Amortization increased for the period ending September 30, 2004 due to increased gas production.

Production Expenses

Production expenses increased to $604,811 for the period. This was a result of accruals made for the contract operator for the period. Management is currently in the process of reviewing all the charges and proposing settlement terms with the contract operator.

General and Administrative Expenses

All cost associated with the general and administrative function remain constant with the prior year.

Exploration Outlook

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

Financial Condition, Liquidity and Capital Resources

Our cash at September 30, 2004 is $95,348. Our current assets at September 30, 2004 is $635,416. Our current liabilities are $3,430,693 at September 30, 2004. Our working capital deficit at September 30, 2004 is $2,795,277. We currently generate approximately $87,000 per month in revenues. Our cost of operations is approximately $201,000. We continue to operate at a loss. In the event we are unable to develop a positive cash flow, we will have to cease operations or sell off sufficient producing properties to begin operating profitably.

ITEM 1. - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (continued)

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, 2004.

ITEM 2. CONTROLS AND PROCEDURES

At September 30, 2004, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic SEC filings. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's controls subsequent to the date of that evaluation, and no corrective actions with regard to significant deficiencies and material weaknesses. Management is currently reevaluating control procedures.

PART II - OTHER INFORMATION

ITEM 3. EXHIBITS AND REPORTS ON FORM 8-K

(a)

Exhibits Item	**Description**
31.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-15 and Rule 15d-15(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).

(b) Reports on Form 8-K

We filed the following reports on Form 8-K during the three months ended September 30, 2004:

On July 21, 2004, we filed a Form 8-K reporting the following events:

Announced that it has named Mr. Michael Sims as President and CEO

On July 22, 2004, we filed a Form 8-K reporting the following events:

Continues its turn around operations by reworking and testing a salt water disposal well required by the Texas Railroad Commission.

On July 30, 2004, we filed a Form 8-K reporting the following events:

Completes the First of Several Re-works as Part of Reorganization Strategy

On August 3,

2004 we filed a Form 8-K reporting the following events:
Michael Sims, is featured in an online interview outlining the company's current drilling program and corporate strategies.

On August 11, 2004 we filed a Form 8-K reporting the following events:

Pleased to announce that it is currently negotiating the acquisition of up to a 25% interest in approximately 1,500 acres of additional oil and gas leases in the Brookshire Salt Dome, a 6.7 million barrel producing field

On August 18, 2004 we filed a Form 8-K reporting the following events:

We have successfully completed the initial rework phase for the Brookshire Property, as part of its ongoing focus to increase production from its existing field operations.

On August 26, 2004 we filed a Form 8-K reporting the following events:

President and CEO Michael Sims, conducted an online interview with Senior Analyst, Mr. Todd Santorelli of WallStreetReporter.com

On August 25, 2004 we filed a Form 8-K reporting the following events:

We have completed the rework program for the Brookshire Property.

On September 27, 2004 we filed a Form 8-K reporting the following events:

Pleased to announce that it has commenced the scheduled workover program in the Helen Gohlke Field, with the initial re-work on the Charles Kuester 20.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 15th day of November 2004.

TEXEN OIL & GAS, INC.
(Registrant)

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