

TEXEN OIL & GAS INC
Form 10QSB
February 19, 2003

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

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **December 31, 2002**

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from Commission file number _____ to _____

TEXEN OIL & GAS, INC.

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

Nevada
(State or other jurisdiction of incorporation or
organization)

88-0435904
(IRS Employer Identification No.)

10603 Grant Road
Suite 209
Houston, Texas 77070

(Address of principal executive offices)

(604) 925-0220

(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 No

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PART I.

Item 1. Financial Statements

Board of Directors
TexEn Oil & Gas, Inc.
West Vancouver, B.C.
Canada

ACCOUNTANT'S REVIEW REPORT

We have reviewed the accompanying consolidated balance sheet of TexEn Oil & Gas, Inc. (formerly Palal Mining Corporation) as of December 31, 2002, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the six months ended December 31, 2002 and 2001. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The financial statements for the year ended June 30, 2002 were audited by us and we expressed an unqualified opinion on it in our report dated November 5, 2002, but we have not performed any auditing procedures since that date.

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

/s/ Williams & Webster, P.S.
Williams & Webster, P.S.
Certified Public Accountants
Spokane, Washington
February 13, 2003

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TEXEN OIL & GAS, INC.
(Formerly Palal Mining Corporation)
CONSOLIDATED BALANCE SHEETS

	December 31, 2002 (Unaudited)	June 30, 2002
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,391	\$ -
Accounts receivable	341,233	-
Receivable from affiliated entities	141,110	-
Advances receivable	207,834	-
Accrued oil and gas runs	43,894	-
Prepaid insurance	6,502	-
Employee advances	135	-
	742,099	-
OIL AND GAS PROPERTIES, USING SUCCESSFUL EFFORTS ACCOUNTING		
Proved properties	979,451	-
Unproved properties	23,341,831	-
Leasehold costs	1,387,209	-
Wells, related equipment and facilities	3,023,648	-
Intangible drilling costs	1,136,333	-
Less accumulated depreciation, depletion, amortization and impairment	(328,541)	-
	29,539,931	-
OTHER PROPERTY AND EQUIPMENT		
Machinery and equipment	256,064	-
Less accumulated depreciation	(8,647)	-
	247,417	-
OTHER ASSETS		
Management rights	1,500,000	-
	1,500,000	-

TOTAL ASSETS	\$	32,029,447	\$	-
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See accompanying accountant's review report and notes to interim financial statements.

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TEXEN OIL & GAS, INC.
(Formerly Palal Mining Corporation)
CONSOLIDATED BALANCE SHEETS (CONTINUED)

	December 31, 2002 (Unaudited)	June 30, 2002
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	\$ 548,017	\$ 3,817
Accounts payable - related party	181,782	-
Accrued expenses	28,033	373
	<u>757,832</u>	<u>4,190</u>
LONG-TERM DEBT		
Related party payable	570,455	-
Loan payable	139,988	10,000
	<u>710,443</u>	<u>10,000</u>
COMMITMENTS AND CONTINGENCIES		
	<u>-</u>	<u>-</u>
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, 100,000,000 shares authorized, \$0.00001 par value; 43,448,879 and 45,448,879 shares issued and outstanding respectively	433	454
Additional paid-in capital	31,492,261	380,924
Accumulated deficit	(931,522)	(395,568)
	<u>30,561,172</u>	<u>(14,190)</u>
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	30,561,172	(14,190)

TOTAL LIABILITIES AND STOCKHOLDERS'
EQUITY (DEFICIT)

	\$ 32,029,447	\$ -
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See accompanying accountant's review report and notes to interim financial statements.

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TEXEN OIL & GAS, INC.
(Formerly Palal Mining Corporation)
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,		Six Months Ended December 31,	
	2002 (Unaudited)	2001 (Unaudited)	2002 (Unaudited)	2001 (Unaudited)
REVENUES				
Oil and gas sales net of production taxes	\$ 92,317	\$ -	\$ 167,965	\$ -
Drilling revenues	30,063	-	56,581	-
	122,380	-	224,546	-
TOTAL REVENUES				
COST OF REVENUES				
Drilling costs	30,486	-	46,775	-
	91,894	-	177,771	-
GROSS PROFITS FROM DRILLING AND PRODUCTION				
	91,894	-	177,771	-
EXPENSES				
Lease operating	231,187	-	348,186	-
Intangible drilling	7,367	-	15,517	-
General and administrative expense	18,368	605	24,758	632
Legal and accounting	105,125	2,400	160,498	8,412
Travel	854	-	854	-
Dry hole costs	10	-	417	-
Depreciation, depletion and amortization	107,720	82	157,722	164
Stock transfer expenses	2,065	25	2,065	68

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TOTAL EXPENSES	472,696	3,112	710,017	9,276
OPERATING LOSS	(380,802)	(3,112)	(532,246)	(9,276)
OTHER EXPENSES				
Interest expense	(3,382)	-	(3,708)	-
LOSS BEFORE INCOME TAXES	(384,184)	(3,112)	(535,954)	(9,276)
INCOME TAXES	-	-	-	-
NET LOSS	\$ (384,184)	\$ (3,112)	\$ (535,954)	\$ (9,276)
NET LOSS PER COMMON SHARE, BASIC AND DILUTED	\$ (0.01)	\$ nil	\$ (0.01)	\$ nil
WEIGHTED AVERAGE NUMBER OF COMMON STOCK SHARES OUTSTANDING, BASIC AND DILUTED	44,549,422	30,299,250	44,999,151	30,299,250

See accompanying accountant's review report and notes to interim financial statements.

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TEXEN OIL & GAS, INC.
(Formerly Palal Mining Corporation)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
Common Stock

	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance, June 30, 2001	30,299,250	\$ 303	\$ 380,924	\$ (369,956)	\$ 11,271
Issuance of common stock for 50% stock dividend at par value	15,149,629	151	-	(151)	-
Net loss for the year ending June 30, 2002	-	-	-	(25,461)	(25,461)

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Balance, June 30, 2002	45,448,879	454	380,924	(395,568)	(14,190)
Common stock issued for acquisition of subsidiaries at \$0.97 to \$1.40 per share	21,149,950	211	27,126,965	-	27,127,176
Common stock issued for acquisition of management rights of related entity at \$1.00 per share	1,500,000	15	1,499,985	-	1,500,000
Common stock issued for assignments of working interests and net revenue interests at \$1.06 per share	2,338,000	23	2,484,117	-	2,484,140
Rescission of common stock by officer at par value	(26,987,950)	(270)	270	-	-
Net loss for the period ending December 31, 2002 (Unaudited)	-	-	-	(535,954)	(535,954)
Balance, December 31, 2002 (Unaudited)	<u>43,448,879</u>	<u>\$ 433</u>	<u>\$ 31,492,261</u>	<u>\$ (931,522)</u>	<u>\$ 30,561,172</u>

See accompanying accountant's review report and notes to interim financial statements.

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TEXEN OIL & GAS, INC.
(Formerly Palal Mining Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended
December 31,

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	2002 (Unaudited)	2001 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (535,954)	\$ (9,276)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation, depletion and amortization	157,722	164
Increase in accounts receivable	(12,164)	-
Increase in receivable from affiliated entities	(135,435)	-
Increase in accrued oil and gas runs	(14,383)	-
Increase in prepaid insurance	(2,140)	-
Decrease in employee advances	10	-
Increase in accounts payable	212,116	1,695
Increase in accounts payable - related parties	181,782	-
Decrease in accrued payroll and payroll taxes	1,034	-
Increase in accrued sales taxes	1,194	-
Increase in accrued interest	3,538	-
Increase in accrued insurance	4,716	-
Net cash used by operating activities	<u>(137,964)</u>	<u>(7,417)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash used by investing activities	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	129,988	-
Proceeds from related party payable	10,000	-
Payments to related party payable	(633)	(770)
Net cash provided (used) by financing activities	<u>139,355</u>	<u>(770)</u>
Increase in cash	1,391	(8,187)
Cash, beginning of period	-	10,231
Cash, end of period	<u>\$ 1,391</u>	<u>\$ 2,044</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -
NON-CASH TRANSACTIONS:		
Stock issued for acquisition of subsidiaries	\$ 27,127,176	\$ -
Stock issued for acquisition of management rights	\$ 1,500,000	\$ -
Stock issued for acquisition of working interest		

and net revenue interest \$ 2,484,140 \$ -

See accompanying accountant's review report and notes to interim financial statements.

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TEXEN OIL & GAS, INC.
 (Formerly Palal Mining Corporation)
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2002

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

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

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

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

Texas Brookshire Partners, Inc.

On July 11, 2002, the Company issued 15,376,103 shares of its common stock in exchange for all the common stock of Texas Brookshire Partners, Inc. ("Brookshire"). This transaction was considered to be with a related party as Brookshire's president is also a shareholder of TexEn. The transaction was valued at the fair market value of the Company's common stock on the settlement date. Brookshire's major assets consist of 77.75% working interest ownership in approximately 1,440 gross leasehold acres and 550 net leasehold acres located in the Brookshire Dome Field of Waller County, Texas. This working interest ownership position consists of various interests in 26 wells drilled to date and one water injection well. Brookshire plans additional development before expiration of the leasehold.

Brookshire Drilling Service, L.L.C.

On July 26, 2002, the Company entered into an agreement to acquire all of the outstanding common stock of Brookshire Drilling Service, L.L.C. ("Drilling") in exchange for 1,400,000 shares of the Company's common stock.

The transaction was valued at the fair market value of the Company's common stock on the date of acquisition. Drilling's major assets consists of oil and gas drilling equipment and related transportation equipment. Drilling conducts business as a well service provider including, workover units for completed wells.

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TEXEN OIL & GAS, INC.
(Formerly Palal Mining Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS (continued)

Yegua, Inc.

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

Texas Gohlke Partners, Inc.

On September 18, 2002, the Company purchased Texas Gohlke Partners, Inc. ("Gohlke") in exchange for 4,000,000 shares of TexEn Oil & Gas, Inc.'s restricted common stock. The transaction is considered to be with a related party as Gohlke's president and principal shareholder is also a shareholder of TexEn. The transaction was valued at the fair market value of the Company's common stock on the settlement date. Gohlke's major assets consist of a 100% working interest and a 70% net revenue interest in the Helen Gohlke Field located in Victoria and DeWitt Counties, Texas. This working interest ownership position consists of various interests in 60 wells, which have been drilled to date. Gohlke plans additional development before expiration of the leasehold.

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.
(Formerly Palal Mining Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration Stage Activities

The Company entered the exploration stage upon its formation in September 1999 and in this stage had not yet realized any revenues from its planned operations. It was primarily engaged in the acquisition, exploration and development of mining properties. In July 2002, the Company 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 is considered to have been in the exploration stage from its formation through June 30, 2002. The six months ended December 31, 2002 is the first period during which it is considered an operating company.

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

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

Exploration Costs

In accordance with accounting principles generally accepted in the United States of America, the Company expensed exploration costs of mineral properties as incurred.

Compensated Absences

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

Basic and Diluted Loss Per Share

Net loss per share was computed by dividing the net loss by the weighted average number of shares outstanding during the period. The weighted average number of shares was calculated by taking the number of shares outstanding and weighting them by the amount of time that they were outstanding. Basic and diluted net loss per share are the same, as there are no common stock equivalents outstanding.

Property and Equipment

Wells and related equipment and facilities, support equipment and facilities and other property and 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 ten years. Depreciation amounted to \$148,649 and \$164, respectively, for the six months ended December 31, 2002 and 2001.

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TEXEN OIL & GAS, INC.
(Formerly Palal Mining Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative Instruments

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB No. 133", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", which is effective for the Company as of January 1, 2001. These standards establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. They require that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value.

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

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

At December 31, 2002, the Company has not engaged in any transactions that would be considered derivative instruments or hedging activities.

Oil and Gas Properties

The Company uses the successful efforts method of accounting for oil and gas producing activities. Costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells that find proved reserves, and to drill and equip development wells are capitalized. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed.

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

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TEXEN OIL & GAS, INC.
(Formerly Palal Mining Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Oil and Gas Properties (continued)

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

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

Capitalized Interest

The Company capitalizes interest on expenditures for significant exploration and development projects while activities are in progress to bring the assets to their intended use. No amounts of interest were capitalized in the six months ended December 31, 2002 and 2001.

Provision for Taxes

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

At December 31, 2002, the Company had net deferred tax assets of approximately \$220,000, principally arising 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 established at December 31, 2002.

At December 31, 2002, the Company has net operating loss carryforwards of approximately \$650,000, which expire in the years 2020 through 2022. The net operating loss carryforwards could be limited due to a change in ownership. The Company recognized approximately \$273,000 of losses from the issuance of common stock for services in 2000, which were not deductible for tax purposes and are not included in the above calculation of the deferred tax asset.

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TEXEN OIL & GAS, INC.
(Formerly Palal Mining Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 an accumulated deficit during exploration stage in the amount of \$395,568 for the period of September 2, 1999 (inception) to June 30, 2002 and a net loss in the amount of \$535,954 during the six months ended December 31, 2002. In addition, most of the Company's assets are unproved oil and gas properties. These unproven oil and gas properties include approximately \$14,800,000 acquired by the issuance of common stock. These acquisitions may be subject to adjustment based upon the structure of the transactions and the related companies acquired. The recorded cost of the unproven oil and gas properties may be adjusted downwards during the covered fiscal year based on a reserve evaluation, which will be commissioned and prepared. The future of the Company is dependent upon its ability to obtain financing and upon future successful explorations for and profitable operations from the development of oil and gas properties.

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

Environmental Remediation and Compliance

Expenditures for ongoing compliance with environmental regulations that relate to current operations are expensed or capitalized as appropriate. Expenditures resulting from the remediation of existing conditions caused by past operations that do not contribute to future revenue generations are expensed. Liabilities are recognized when environmental assessments indicate that remediation efforts are probable and the costs can be reasonably estimated. Estimates of such liabilities are based upon currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors, and include estimates of associated legal costs. These amounts also reflect prior experience in remediating contaminated sites, other companies' clean-up experience and data released by the Environmental Protection Agency (EPA) or other organizations. Such estimates are by their nature imprecise and can be expected to be revised over time because of changes in government regulations, operations, technology and inflation.

Recoveries are evaluated separately from the liability and, when recovery is assured, the Company records and reports an asset separately from the associated liability. At December 31, 2002, the Company had no accrued liabilities for compliance with environmental regulations.

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TEXEN OIL & GAS, INC.
(Formerly Palal Mining Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of Consolidation

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

Interim Financial Statements

The interim financial statements as of and for the six months ended December 31, 2002 included herein have been prepared by the Company without audit. They reflect all adjustments, which are, in the opinion of management, necessary to present fairly the results of operations for these periods. All such adjustments are normal recurring adjustments. The results of operations for the periods presented are not necessarily indicative of the results to be

expected for the full fiscal year.

Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 provides for the elimination of the pooling-of-interests method of accounting for business combinations with an acquisition date of July 1, 2001 or later. SFAS No. 142 prohibits the amortization of goodwill and other intangible assets with indefinite lives and requires periodic reassessment of the underlying value of such assets for impairment. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. An early adoption provision exists of companies with fiscal years beginning after March 15, 2001. On July 1, 2001, the Company adopted SFAS No. 142. Application of the nonamortization provision of SFAS No. 142 did not affect the Company's results of operations in the fiscal year ended June 30, 2002 or in the six months ended December 31, 2002.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 establishes guidelines related to the retirement of tangible long-lived assets of the Company and the associated retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived assets. This statement is effective for financial statements issued for the fiscal years beginning after June 15, 2002 and with earlier application encouraged. The Company adopted SFAS No. 143 and does not believe that the adoption will have a material impact on the financial statements of the Company at December 31, 2002.

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TEXEN OIL & GAS, INC.
(Formerly Palal Mining Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Pronouncements (continued)

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). SFAS No. 144 replaces SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This standard establishes a single accounting model for long-lived assets to be disposed of by sale, including discontinued operations. SFAS No. 144 requires that these long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations. This statement is effective beginning for fiscal years after December 15, 2001, with earlier application encouraged. The Company adopted SFAS No. 144 and does not believe that the adoption of this statement will have a material impact

on the financial statements of the Company at December 31, 2002.

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145, "Recission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections", which updates, clarifies and simplifies existing accounting pronouncements. FASB No. 4, which required all gains and losses from the extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related tax effect was rescinded, and as a result, FASB 64, which amended FASB 4, was rescinded as it was no longer necessary. SFAS No. 145 amended FASB 13 to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The Company has adopted SFAS 145 and does not believe that the adoption will have a material effect on the financial statements of the Company at December 31, 2002.

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

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TEXEN OIL & GAS, INC.
(Formerly Palal Mining Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

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

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

Accrued oil and gas runs consist of amounts due as of December 31, 2002, but not collected until January 2003.

NOTE 3 - COMMON STOCK

In May 2002, the Company declared a 50% stock dividend payable on May 29, 2002 to stockholders of record on May 28, 2002. Per share amounts in the accompanying financial statements have been restated for the stock dividend. The Company issued 15,149,629 shares of common stock in payment of this stock dividend on May 29, 2002.

During the six months ended December 31, 2002, the Company issued 21,149,950 shares of its common stock for acquisition of its fully owned subsidiaries. In addition, the Company had the following issuances of common stock: 1,500,000 shares of its common stock to Sanka, L.L.C. ("Sanka") in exchange for the management rights of Sanka, L.L.C.; 588,000 shares of its common stock in exchange for an assignment of a 98% working interest in, and a 75% net revenue interest in approximately 255.21 gross leasehold acres and net leasehold acres in a certain oil and gas lease located in Concho County, Texas; 500,000 shares of its common stock in exchange for the conveyance of a 100% working interest with a 75% net revenue interest in and to the leasehold ownership at the Trull Heirs #1 well bore located in Calhoun County, Texas; and 1,250,000 shares of its common stock in exchange for a 5% working interest in the Brookshire Dome Field located in Waller County, Texas.

The shares were valued at their fair market value on the date of issuance. A major shareholder of the Company rescinded 26,987,950 shares of the Company's common stock in order to prevent dilution of stockholders interest from these issuances. The rescission of these shares was recorded at the stock's par value.

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TEXEN OIL & GAS, INC.
(Formerly Palal Mining Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002

NOTE 4 - RELATED PARTIES

Three stockholders of the Company have advanced monies to the Company for operating expenses. These advances are uncollateralized and recorded as long-term debt, bearing no interest and having no specific due date.

A prior officer of the Company advanced monies to the Company for the payment of professional fees. This amount was uncollateralized and was previously recorded as a short-term loan, bearing no interest and having no specific due date. This loan was satisfied in the year ending June 30, 2002.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

The Company was originally engaged in the exploration and development of mineral properties, but had no feasibility studies establishing proven and probable reserves. Subsequent to June 30, 2002, the Company became engaged in the exploration and development of oil and gas properties.

Although the oil and gas exploration and development industry is inherently speculative and subject to complex environmental regulations, the Company is unaware of any pending litigation or of any specific past or prospective environmental matters which could impair the value of its properties.

NOTE 6 - LOAN PAYABLE

At December 31 and June 30, 2002, the Company's loan payable consisted of the following:

	December 31, 2002	June 30, 2002
	<u> </u>	<u> </u>
Tatiana Golovina, unsecured, interest at 10%, due on February 14, 2004	\$ 139,988	\$ 10,000
	<u> </u>	<u> </u>

NOTE 7 - MANAGEMENT RIGHTS

On August 10, 2002, the Company issued 1,500,000 shares of its common stock to Sanka, L.L.C. ("Sanka") in exchange for the management rights of Sanka, L.L.C., a Texas limited liability company. The transaction was valued at \$1,500,000, which represents the fair market value of the Company's common stock on the transaction date. Management will evaluate the management control of this LLC for any further impairment of value.

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TEXEN OIL & GAS, INC.
(Formerly Palal Mining Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002

NOTE 8 - OIL AND GAS PROPERTIES

The Company's oil and gas producing activities are subject to laws and regulations controlling not only their exploration and development, but also the effect of such activities on the environment. Compliance with such laws

and regulations may necessitate additional capital outlays, affect the economics of a project, and cause changes or delays in the Company's activities. The Company's oil and gas properties are valued at the lower of cost or net realizable value.

Brookshire Dome Field

During the six months ended December 31, 2002, the Company acquired a 77.75% working interest ownership in approximately 1,440 gross leasehold acres and 550 net leasehold acres located in the Brookshire Dome Field of Waller County, Texas through acquisition of Texas Brookshire Partners, Inc. as a wholly owned subsidiary. The Company also acquired an additional 5% working interest ownership in this field through the issuance of 1,250,000 shares of its common stock. (See Note 3.) This working interest ownership position consists of 26 wells drilled to date and one water injection well. Brookshire plans to drill additional developmental wells on the existing Brookshire leasehold acreage and to purchase, farm-in or participate in the acquisition of additional leasehold acreage on which to drill more wells. At the present time, Brookshire has not targeted any new oil and gas leases for acquisition, however, Brookshire intends to acquire additional oil and gas leases from other entities which own mineral rights.

Helen Gohlke Field

During the six months ended December 31, 2002, the Company acquired a 100% working interest and a 70% net revenue interest in the Helen Gohlke Field located in Victoria and DeWitt Counties, Texas through acquisition of Texas Gohlke Partners, Inc. as a wholly owned subsidiary. This field comprises approximately 4,800 gross and net leasehold acres which are located under nine different oil, gas and mineral leases in Victoria and DeWitt Counties, Texas. Over 60 wells have been drilled in this field, with 7 wells currently producing. Gohlke intends to drill and develop seismic leads from this field within the next few months.

Other Oil and Gas Properties

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

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

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NOTE 8 - OIL AND GAS PROPERTIES (continued)

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

NOTE 9 - OIL AND GAS PRODUCING ACTIVITIES

The Securities and Exchange Commission defines proved oil and gas reserves as those estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recovered in future years from known reservoirs under existing economic and operating conditions. Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Natural gas reserves and petroleum reserves are estimated by independent petroleum engineers. The estimates include reserves in which TexEn and its wholly owned subsidiaries hold an economic interest under lease and operating agreements.

Reserves attributable to certain oil and gas discoveries are not considered proved as of December 31, 2002 due to geological, technical or economic uncertainties. Proved reserves do not include amounts that may result from extensions of currently proved areas or from application of enhanced recovery processes not yet determined to be commercial in specific reservoirs.

TexEn and its subsidiaries have no supply contracts to purchase petroleum or natural gas from foreign governments.

The changes in proved reserves for the six months ended December 31, 2002 were as follows:

	Petroleum Liquids (barrels) United States	Natural Gas (cubic feet) United States
Reserves at July 1, 2002	-	-
Purchases	506,543	409,501
Sales	(6,835)	(6,824)
Reserves at December 31, 2002	499,408	402,677

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NOTE 9 - OIL AND GAS PRODUCING ACTIVITIES (continued)

The aggregate amounts of capitalized costs relating to oil and gas producing activities and the related accumulated depreciation, depletion and amortization as of December 31, 2002 were as follows:

	December 31, 2002
Proved properties	\$ 6,626,641
Unproved properties	23,341,831
Accumulated depreciation, depletion and amortization	(328,541)
Total capitalized costs	\$ 29,539,931

Costs, both capitalized and expensed, incurred in oil and gas-producing activities during the period ended December 31, 2002 are set forth below. Property acquisition costs represent costs incurred to purchase or lease oil and gas properties. Exploration costs include costs of geological and geophysical activity and drilling exploratory wells. Development costs include costs of drilling and equipping development wells and construction of production facilities to extract, treat and store oil and gas.

	December 31, 2002
Property acquisition costs:	
Proved properties	\$ 295,340
Unproved properties	1,292,437
Exploration costs	-
Development costs	-
Total expenditures	\$ 1,587,777

Results of operations for oil and gas producing activities (including operating overhead) for the six months ended December 31, 2002 were as follows:

Revenues	\$ 167,965
Exploration expenses	-
Depreciation, depletion and amortization	160,498
Other operating expenses	348,186
Loss before income taxes	(340,719)

reserves prescribed by the SEC as well as probable reserves, and on different price and cost assumptions from those used here.

It should be recognized that applying current costs and prices and a 10% standard discount rate does not convey absolute value. The discounted amounts arrived at are only one measure of the value of proved reserves.

NOTE 10 - CONCENTRATION OF RISK

The Company derives its accounts receivable from primarily one customer. Although the customer is considered creditworthy and has not experienced any known losses on its operations, at December 31, 2002 the Company's accounts receivable from this customer totaled \$341,233.

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TEXEN OIL & GAS, INC.
(Formerly Palal Mining Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002

NOTE 11 - SUBSEQUENT EVENTS

BWC Minerals, LLC

Subsequent to the date of these financial statements, the Company began negotiations to issue approximately 1,740,000 shares of its common stock in exchange for all the common stock of BWC Minerals, LLC ("BWC"). BWC's major assets consist of 8.7% working interest ownership in approximately 1,440 gross leasehold acres and 550 net leasehold acres located in the Brookshire Dome Field of Waller County, Texas. Upon finalization of this transaction, the Company and its subsidiaries will own approximately 91.45% working interest ownership in the Brookshire Dome field. The transaction will be valued at the fair market value of the Company's common stock on the settlement date. Finalization of this acquisition is still pending as of the date of these financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS.

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. For the quarter ending December 31, 2002, we had \$122,380 in total revenues in our second operating quarter.

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.

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

A comparison of our results of operation for the three month period ending December 31, 2002 in comparison to the result of operations during the same three month period of the preceeding year and for the year ending June 30, 2002 must be prefaced by stating that during the quarter ending September 30, 2002 the Company changed its business direction from being a mining Company to the area of Oil & Gas exploration and development.

During the periods ending December 31, 2001 and June 30, 2002 the Company had no assets and no revenues.

During the six month period ending December 31, 2002, the Company had revenues of \$224,546 of which \$167,965 were derived from Oil & Gas production net of taxes and \$56,581 were derived from drilling revenues.

During the six months ending December 31, 2002 drilling cost of \$46,775 were incurred by us in exploiting our Oil & Gas properties.

Expenses relating to lease operation were \$348,186. Legal and accounting costs incurred in order to conclude our acquisitions of Oil & Gas properties during the six month period ending December 31, 2002 were \$160,498. Legal and accounting costs incurred by the Company for the same period ending December 31, 2001 were \$8,412.

We ended our six-month period ended December 31, 2002 with a working capital deficit of \$15,733.

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.

Item 3. Controls and Procedures.

Robert M. Baker, Principal Executive Officer and Principal Financial Officer of Texen Oil & Gas Inc., has established and is currently maintaining disclosure controls and procedures for the Company. The disclosure controls and procedures have been designed to ensure that material information relating to the Company is made known to them as soon as it is known by others within the Company.

Our Principal Executive Officer and Principal Financial Officer conducts an update and a review and evaluation of the effectiveness of the Company's disclosure controls and procedures and have concluded, based on their evaluation within 90 days of the filing of this Report, that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the previously mentioned evaluation.

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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 19th day of February, 2003.

Texen Oil & Gas, Inc.
(Registrant)

BY:

/s/ Robert Baker
Robert Baker, President, Principal Executive Officer,
Treasurer, Principal Financial Officer and a member
of the Board of Directors.

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CERTIFICATION PURSUANT TO
18 U.S.C. Section 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Texen Oil & Gas, Inc. (the "Company") on Form 10-QSB for the period ended December 31, 2002 as filed with the Securities and Exchange Commission on the date here of (the "report"), I, Bob Baker, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated this 19th day of February, 2003.

/s/ Robert Baker
Robert Baker
Chief Executive Officer and Chief Financial Officer

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CERTIFICATION

I, Robert Baker, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Texen Oil & Gas, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which

such statements were made, not misleading with respect to the period covered by this quarterly report;

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

Dated this 19th day of February, 2003.

/s/ Robert Baker
Robert Baker
Principal Executive Officer and Principal Financial Officer

