

## 10-Q 1 f10q0618\_texasouthenergy.htm QUARTERLY REPORT

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**FORM 10-Q**

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

For the quarterly period ended **June 30, 2018**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number **333-171064**

**TEXAS SOUTH ENERGY, INC.**  
(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of  
incorporation or organization)

**4550 Post Oak Place, Suite 300  
Houston, Texas**

(Address of principal executive offices)

**99-0362471**

(I.R.S. Employer  
Identification No.)

**77027**

(Zip Code)

**(713) 820-6300**

(Registrant's telephone number)

Indicate by check mark whether the registrant (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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 13, 2018, the registrant's outstanding common stock consisted of 924,880,943 shares.

**TEXAS SOUTH ENERGY, INC.**  
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## PART I - FINANCIAL INFORMATION

### ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

Texas South Energy, Inc. (the “Company”) was incorporated pursuant to the laws of the State of Nevada on March 15, 2010. The Company is engaged in the oil and gas business.

In January, 2017 Texas South Energy, Inc. formed Texas South Operating Company, Inc as a wholly owned subsidiary of the Company. It was incorporated pursuant to the laws of the State of Texas on January 11, 2017.

Texas South Energy, Inc and Texas South Operating Company, Inc. (collectively, the “Company”) began filing consolidated financial statements effective with the March 31, 2017 filing. The consolidated financial statements reflect our accounts after elimination of all significant intercompany transactions and balances.

The accompanying unaudited consolidated financial statements have been prepared in all material respects in accordance with United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information. Pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”), certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The accompanying unaudited consolidated financial statements have been prepared on the same basis as the audited financial statements for the year ended December 31, 2017.

Because certain information and footnote disclosures have been condensed or omitted, these unaudited consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto as of and for the year ended December 31, 2017, which are included in the Company’s annual report for the year ended December 31, 2017 (the “2017 Annual Report”). In management’s opinion, all normal and recurring adjustments considered necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been included. Management believes that the disclosures made in these unaudited financial statements are adequate to make the information not misleading. Interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year.

There have been no changes in the Company’s significant accounting policies from those that were disclosed in the Company’s 2017 Annual Report.

**TEXAS SOUTH ENERGY, INC.  
CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2018**

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**TEXAS SOUTH ENERGY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 1,838,551	\$ 455
Accounts receivable, net	2,857	3,261
Prepaid expenses	50,972	29,555
<b>TOTAL CURRENT ASSETS</b>	<b><u>1,892,380</u></b>	<b><u>33,271</u></b>
<b>PROPERTY AND EQUIPMENT</b>		
Oil and gas properties, undeveloped, net	11,617,168	11,779,201
Furniture, fixtures and equipment	43,195	39,712
Less: Accumulated depreciation	(10,823)	(6,936)
<b>TOTAL PROPERTY AND EQUIPMENT, NET</b>	<b><u>11,649,540</u></b>	<b><u>11,811,977</u></b>
<b>OTHER ASSETS</b>	<b>8,340</b>	<b>8,340</b>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 13,550,260</u></u></b>	<b><u><u>\$ 11,853,588</u></u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 253,547	\$ 159,512
Accounts payable – related party	132,751	201,812
Accrued expenses	14,356	77,279
Advances from joint interest owners	1,277,393	--
Accrued expenses – related party	595,000	385,000
Accrued interest – related party	125,733	40,693
Notes payable	21,081	9,620
Notes payable – related party	250,000	--
Convertible notes payable – related party	869,000	837,000
Due to related party	--	9,828
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>3,538,861</u></b>	<b><u>1,720,744</u></b>
<b>LONG TERM LIABILITIES</b>		
Convertible notes payable – related party	518,355	1,168,355
Notes payable – related party	--	250,000
Accrued expenses – related party	1,346,408	894,272
Accrued interest – related party	433,812	429,814
<b>TOTAL LONG TERM LIABILITIES</b>	<b><u>2,298,575</u></b>	<b><u>2,742,441</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>5,837,436</u></b>	<b><u>4,463,185</u></b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock 50,000,000 shares preferred stock authorized, none issued and outstanding	--	--
Common stock 1,350,000,000 shares common stock authorized, \$0.001 par value, 903,130,943 and 821,790,670 shares of common stock issued and outstanding at June 30, 2018 and December 31, 2017, respectively.	903,130	821,790
Additional paid-in capital	21,058,101	19,445,373
Accumulated deficit	(14,248,407)	(12,876,760)
<b>Total stockholders' equity</b>	<b><u>7,712,824</u></b>	<b><u>7,390,403</u></b>

**TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY**

**\$ 13,550,260**

**\$ 11,853,588**

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

**TEXAS SOUTH ENERGY, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
<b>REVENUE</b>	\$ --	\$ --	\$ --	\$ --
<b>EXPENSES</b>				
Depreciation expense	1,980	1,699	3,887	3,399
Impairment expense	25,079	--	25,079	--
General and administrative expense	664,725	642,481	1,262,152	2,216,668
<b>LOSS FROM OPERATIONS</b>	<u>(691,784)</u>	<u>(644,180)</u>	<u>(1,291,118)</u>	<u>(2,220,067)</u>
<b>OTHER INCOME (EXPENSE)</b>				
Other income	407	455	10,637	43,165
Interest expense	(42,784)	(51,788)	(91,166)	(96,208)
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<u>(42,377)</u>	<u>(51,333)</u>	<u>(80,529)</u>	<u>(53,043)</u>
<b>NET LOSS</b>	<u>\$ (734,161)</u>	<u>\$ (695,513)</u>	<u>\$ (1,371,647)</u>	<u>\$ (2,273,110)</u>
<b>NET LOSS PER COMMON SHARE</b>				
<b>Basic and diluted</b>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>				
<b>Basic and diluted</b>	<u>895,128,766</u>	<u>781,290,670</u>	<u>877,232,475</u>	<u>771,091,222</u>

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

**TEXAS SOUTH ENERGY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Six months ended June 30,	
	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (1,371,647)	\$ (2,273,110)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation expense	3,887	3,399
Impairment expense	25,079	--
Common stock awarded to employees in lieu of cash compensation	77,068	--
Gain on disposal of debt	(9,828)	(42,324)
Stock compensation	--	884,635
Changes in operating assets and liabilities:		
Change in accounts receivable	404	--
Change in prepaid expenses	(21,417)	69,058
Change in accounts payable and accrued expenses	31,112	(341,839)
Change in current accrued liabilities - related party	199,801	269,763
Change in long term accrued liabilities – related party	452,136	392,136
Change in long term accrued interest - related party	30,176	354,432
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b><u>(583,229)</u></b>	<b><u>(683,850)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from participation agreements	810,000	--
Proceeds from settlement of assets	80,000	--
Acquisition of oil and gas properties	(759,136)	(408,009)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b><u>130,864</u></b>	<b><u>(408,009)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on short term debt	(27,620)	--
Proceeds from issuance of notes payable	21,081	500,000
Advances from joint interest owners	1,680,000	--
Proceeds from sale of common stock	617,000	305,000
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b><u>2,290,461</u></b>	<b><u>805,000</u></b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>1,838,096</b>	<b>(286,859)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b><u>\$ 455</u></b>	<b><u>\$ 325,089</u></b>
<b>CASH, END OF PERIOD</b>	<b><u>\$ 1,838,551</u></b>	<b><u>\$ 38,230</u></b>
Supplemental cash flow information and noncash financing activities:		
Cash paid for:		
Interest	\$ --	\$ --
Income taxes	\$ --	\$ --
Noncash activities:		
Assignment of note receivable for note payable	\$ --	\$ 131,645
Issuance of common stock for assets	\$ 400,000	\$ --
Conversion of note payable into common stock	\$ 600,000	\$ --



Issuance of common stock and note payable for assets

\$	--	\$ 1,095,000
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The accompanying notes are an integral part of these consolidated financial statements

**Texas South Energy, Inc.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2018**  
**(Unaudited)**

**NOTE 1 - NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

Texas South Energy, Inc. (the “Company”) was incorporated pursuant to the laws of the State of Nevada on March 15, 2010. The Company is engaged in the oil and gas business.

In January 2017, The Company formed Texas South Operating Company, Inc as a wholly owned subsidiary of the Company. It was incorporated pursuant to the laws of the State of Texas on January 11, 2017.

Texas South Energy, Inc. and Texas South Operating Company, Inc. (collectively, the “Company”) began filing consolidated financial statements effective with the March 31, 2017 filing. The consolidated financial statements reflect our accounts after elimination of all significant intercompany transactions and balances.

The Company has limited operating history and has devoted its activities to the acquisition of oil and gas assets.

The Company had established a fiscal year end of October 31; however, on March 3, 2017 the Company adopted a year end of December 31. A transition 10-K was filed for the period November 2016 through December 2016 to report the change in our year end.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Consolidation and Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared in all material respects in accordance with United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information. Intercompany accounts and transactions are eliminated. Pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”), certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The accompanying unaudited consolidated financial statements have been prepared on the same basis as the audited financial statements for the year ended December 31, 2017.

Because certain information and footnote disclosures have been condensed or omitted, these unaudited consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto as of and for the year ended December 31, 2017, which are included in the Company’s annual report for the year ended December 31, 2017 (the “2017 Annual Report”). In management’s opinion, all normal and recurring adjustments considered necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been included. Management believes that the disclosures made in these unaudited consolidated financial statements are adequate to make the information not misleading. Interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year.

There have been no changes in the Company’s significant accounting policies from those that were disclosed in the Company’s 2017 Annual Report.

**Use of Estimates and Assumptions**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While management believes that such estimates are reasonable when considered in conjunction with the financial position and results of operations taken as a whole, actual results could differ from those estimates, and such differences may be material to the financial statements.

## Basic and Diluted Net Loss per Share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of outstanding common shares during the period. Diluted loss per share gives effect to all dilutive potential common shares outstanding during the period. Dilutive loss per share excludes all potential common shares if their effect is anti-dilutive. Because the Company is operating at a loss, it has no potential dilutive instruments and accordingly basic loss and diluted loss per share are the same.

## Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued its final standard on revenue from contracts with customers. The standard, issued as Accounting Standards Update (“ASU”) No. 2014-09: *Revenue from Contracts with Customers (Topic 606)*, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” ASU 2014-09 becomes effective for reporting periods (including interim periods) beginning after December 15, 2017. Early application is permitted for reporting periods (including interim periods) beginning after December 15, 2016. This new standard permits the use of either the retrospective or cumulative effect transition method. Because the Company has no revenue, the new guidance is not expected to have a material impact on its financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases* (“ASU 2016-02”), which relates to the accounting for leasing transactions. This standard requires a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than twelve months. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. This standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are evaluating the impact the adoption of ASU 2016-02 will have on our consolidated financial statements.

Other new pronouncements issued but not effective until after June 30, 2018 are not expected to have a material impact on the Company’s financial position, results of operations, or cash flows.

## NOTE 3 - GOING CONCERN

The Company’s financial statements are prepared in accordance with generally accepted accounting principles applicable to a going concern. This contemplates the realization of assets and the liquidation of liabilities in the normal course of business. Currently, the Company does not have sufficient cash, nor does it have operations or a source of revenue sufficient to cover its operational costs in order to allow it to continue as a going concern. The Company has accumulated losses as of June 30, 2018, of \$14,248,407. The Company will be dependent upon the raising of additional capital through the best-efforts placement of its equity and/or debt securities in order to implement its business plan. There can be no assurance that the Company will be successful in either situation in order to continue as a going concern. These factors raise substantial doubt regarding the Company’s ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty.

## NOTE 4 - OIL & GAS PROPERTIES

In March 2014, we entered into a farm out letter agreement with GulfSlope Energy, Inc. (“GulfSlope”) relating to certain prospects GulfSlope bid on at the Central Gulf of Mexico Lease Sale 231, located within 2.2 million acres of 3-D seismic licensed and interpreted by GulfSlope. Under the terms of the farm-out letter agreement, as amended, we acquired contractual rights to a 20% working interest in 12 blocks covered in 9 prospects for approximately \$10,720,000 paid to GulfSlope through June 30, 2018. We have agreed to pay our proportionate share of the net rental costs related to the prospects. GulfSlope has conducted extensive seismic work on all of the prospects focusing on the high potential subsalt play at depths of 15,000’ to 25,000’ and will be the operator of record for the initial well on each of the prospects.

In May 2016, we entered into a letter of intent with GulfSlope that set forth terms and conditions of a farm-out arrangement to develop certain shallow-depth oil and gas prospects located on offshore Gulf of Mexico blocks currently leased by GulfSlope. The shallow prospects were located above 5,100 feet vertical depth on the Vermilion Area, South Addition Block 378 (“Canoe Shallow”) and Vermilion Area, South Addition Block 375 (“Selectron Shallow”, and collectively with Canoe Shallow, “Shallow Prospects”). At that time we owned a 70.7% working interest in the Shallow Prospects with a third party owning a 16.8% working interest for which it paid \$400,000 and GulfSlope retaining a 12.5% working interest. Texas South acquired the interest in the two prospects in exchange for (i) cash payments of \$400,000, (ii) the payment of annual rental obligations of \$63,147, and (iii) the agreement to fund, or cause to be funded, the costs for the drilling of two shallow wells prior to December 31, 2017. The farmout on both prospects from GulfSlope expired on December 31, 2017.

On January 8, 2018, the Company entered into a participation agreement dated effective January 1, 2018 (the “Agreement”) with Delek GOM Investments, LLC, a subsidiary of Delek Group Ltd. (“Delek”), and GulfSlope (collectively, the “Parties”) for the partial farm-out of the Company’s interests in its Gulf of Mexico oil and gas leases (the “Farm-out”). The Agreement sets out the terms and conditions of the Parties participation in the drilling of up to a nine well multi-phase exploration program targeting the Company’s prospects (the “Prospects”) located on the Company’s existing leases (the “Leases”).

Under the terms of the Agreement, the Parties have committed to initially drill two of the Company’s prospects in Phase I (the “Initial Phase”) with Delek having the option to participate in two additional two-well drilling phases and a final, three-well drilling phase (collectively, the “Phases”). In each Phase, Delek will earn a 75% working interest upon paying 90% of the exploratory costs associated with drilling each exploratory well. The Company will thus retain a 5% working interest while paying 2% of the exploratory costs associated with drilling each well. In addition, Delek will pay the Company \$405,000 upon the filing of each exploration plan with BOEM and/or BSEE on a Prospect in each Phase. During March 2018 Delek made its first payment of \$405,000 to the Company as the initial plan was filed. Delek made a second payment of \$405,000 to the Company during May 2018. Also, each Party will be responsible for its pro rata share (based on working interest) of delay rentals associated with the Prospects. GulfSlope will be the Operator during exploratory drilling of a Prospect, however, subsequent to a commercial discovery, Delek will have the right to become the Operator. Delek will have the right to terminate this Agreement at the conclusion of any drilling Phase. Delek will also have the option to purchase up to 5% of the Company’s common stock upon fulfilling its obligation for each Phase (maximum of 20% in the aggregate) at a price per share equal to a 10% discount to the 30-day weighted average closing price for the Company’s common stock preceding the acquisition. This option will expire on January 8, 2020. The Company has not recorded any cost associated with the option due to the future performance obligation of Delek. If Delek meets the obligation and exercises its option the Company will record the option value at that time as an increase to Oil and Gas Properties. At June 30, 2018, the potential value of issuing 20% of our outstanding stock is approximately \$6,000,000. The foregoing description of the Agreement does not purport to be a complete description of the terms, provisions and conditions of such document, and represents only a summary of certain of the principal terms, provisions and conditions thereof.

The Company will assign a two-tenths of one percent of 8/8ths net profits interest in certain of the Company’s oil and gas leases in the two Phase I prospects to Hi-View Investment Partners, LLC (“Hi-View”) in consideration for consulting services provided pursuant to a non-exclusive consulting engagement dated October 25, 2017, by and between Hi-View, the Company, and GulfSlope (the “Advisory Agreement”). Hi-View will be entitled to additional assignments on the same terms and conditions as described above related to any of Leases in which Delek elects to participate in the drilling of an exploratory well. In addition, the Company issued an aggregate of twenty million shares of its common stock to Hi-View in consideration for those consulting services provided pursuant to the Advisory Agreement. In the event that Delek has not funded the \$405,000 payment referenced above within six months of execution of this Agreement, then the common stock will be returned by Hi-View to the Company. Delek funded the first \$405,000 payment during March 2018 and the second \$405,000 payment during May 2018.

In January 2017, the Company entered into an asset purchase agreement with Sydson Energy, Inc. (“Sydson Energy”) and Sydson Resources, L.P. (“Sydson Resources” and collectively with Sydson Energy, “Sydson”), where Sydson assigned to us certain onshore oil and gas assets and interests and certain tangible assets and additionally, certain employees and a consultant of Sydson have agreed to become employees and a consultant of the Company. Sydson is a private oil and gas company with land operations in Texas and Louisiana that has been in business since 1982. The oil and gas assets include the following:

- In Texas, we acquired a 50% working interest in the undrilled acreage above 4,500’ in the West Tuleta Field, Bee County, Texas comprised of approximately 1,800 gross acres and 900 net acres with a net revenue interest of approximately 75%. The primary drilling objectives are the Vicksburg and Hockley sands which are structurally high on this acreage compared to the prior down dip production.
- In the adjacent Ray Field, also in Bee County, Texas, we acquired a 50% working interest in the undrilled, acreage on the

Walton, Campbell, and Ray leases comprising approximately 75 gross acres with a net revenue interest of approximately 75%. The primary drilling objectives on this acreage are also the Vicksburg and Hockley sands updip to prior production above 3,700'.

- Southeast of San Antonio, we are acquiring leases with working interest partners covering approximately 4,000 acres or more for horizontal projects above 6,000' in the Austin Chalk, Eagle Ford, and Buda Lime formation. These projects are adjacent to substantial prior production and contain both conventional and unconventional oil targets. We expect to begin drilling operations on the first well during the third quarter of 2018.

The consideration payable by the Company to Sydson and affiliates was (i) 100 million shares of Company common stock to Michael J. Mayell valued at \$845,000 and (ii) \$250,000 through a promissory note originally due March 5, 2017, but was amended to January 1, 2019.

In conjunction with the acquisition, the Company agreed to pay \$1,250,000 of Sydson's future development costs attributable to its retained working interests in the oil and gas prospects conveyed to the Company; carried interests to casing point for Sydson's working interests on the first well in each of the West Tuleta prospect, Ray Field prospect, and the Wilinda prospect to be paid by the Company at the time it pays its associated costs with respect to its ownership interests in such oil and gas prospects.

The purchase price of this asset acquisition is summarized below:

Furniture & Fixtures, Software, Equipment	\$ 35,556
Deposit – office rent	8,340
Prepaid expenses	27,616
Note Payable – insurance	(6,822)
Leasehold rights	1,030,310
Total purchase price	<u>\$ 1,095,000</u>

#### NOTE 5 - COMMON STOCK

The Company had 950,000,000 shares of common stock authorized with a par value of \$0.001, however during April 2018 the holders of a majority of the issued and outstanding shares of common stock consented to action via written consent to adopt an amendment to our amended and restated articles of incorporation to increase the number of authorized shares of common stock from 950,000,000 to 1,350,000,000. The Company filed a Schedule 14C information statement with the Securities and Exchange Commission and mailed a copy to each holder of common stock of record disclosing this consent to take action without a shareholders' meeting. The amendment became effective after (i) 20 days from the mailing of the information statement to the common stock holders of record (May 15, 2018) and (ii) once it is filed with the Nevada Secretary of State (May 17, 2018).

On August 1, 2018 the Company filed a preliminary proxy statement requesting shareholders to vote on increasing the authorized shares of common stock from 1,350,000,000 to 1,500,000,000. Within a few days of filing this report, we expect to file a definitive proxy statement. The results of the vote will not be available until early September.

As of June 30, 2018, the Company had 903,130,943 shares of common stock issued and outstanding. During the six months ended June 30, 2018 the Company sold 30,850,000 shares of stock at a price of \$.02 per share for a total of \$617,000. During the six months ended June 30, 2018 the Company issued 20,000,000 shares in exchange for consulting fees valued at \$400,000, issued 25,000,000 shares in exchange for the conversion of \$600,000 of debt and issued 5,490,273 shares to two employees and a consultant for services rendered for \$77,068.

#### NOTE 6 - RELATED PARTY TRANSACTIONS

Mr. Askew, our former chief executive officer and director for over three years, is currently a consultant to the Company. He resigned effective January 3, 2017 and signed a consulting agreement which is discussed in more detail in footnote 10 "Commitments and Contingencies". As of June 30, 2018, the Company has accrued \$595,000 for Mr. Askew's consulting expenses. This accrual is reported on the balance sheet under current liabilities as "Accrued liabilities – related party".

The Company had received unsecured advances prior to 2014 from a former director in the amount of \$52,152. The amount of \$42,324 due to the related party was written off during the quarter ended March 31, 2017 and recorded as "Other Income" as a result of the expiration of the applicable statute of limitations. The remaining balance of \$9,828 was written off during the quarter ended March 31, 2018, leaving a zero balance reported as 'Due to related party' on the balance sheet.

Mr. Mayell, our current chief executive officer and director effective January 4, 2017, is President of Sydson Energy, Inc. and Managing Partner of the General Partner of Sydson Resources, LP ("Sydson"). Since the Sydson acquisition on January 4, 2017, Sydson and Mr. Mayell have paid invoices on behalf of the Company and advanced loans to the Company. On August 11, 2017, the Company signed a note payable agreement with Sydson for \$70,000 which represents a portion of the balance owed to Sydson, with the remainder reported as "Accounts Payable – related party" on the balance sheet. Also on August 11, 2017, the Company signed a note payable agreement with Mr. Mayell for \$47,000 which represents some of the advances Mr. Mayell made to the Company. The note payable balances as of June 30, 2018 are \$70,000 to Sydson and \$47,000 to Mr. Mayell and are reported on the balance sheet

under current liabilities as “Convertible notes payable – related party”. The accrued interest on these notes as of June 30, 2018 is \$6,228 payable to Sydson and \$4,182 payable to Mr. Mayell.

During the six months ended June 30, 2018, the Company has paid Mr. Mayell a total of \$169,000 toward the outstanding accounts payable balance. As of June 30, 2018, the Company owes Sydson \$17,084 and Mr. Mayell \$630 which are reported on the balance sheet as “Accounts payable - related party”.

During the six months ended June 30, 2018 the Company sold interests in some prospects to several investors, of which the Company owes Sydson Resources, LP its 25% share of the proceeds. Sydson's share totaled \$130,000. The Company made a payment to Sydson for \$14,963 so the balance owed to Sydson as of June 30, 2018 was \$115,037 and is included in the \$132,751 reported as "Accounts payable – related party". During July 2018 the Company converted the accounts payable balance into a convertible note payable.

In January 2017, the Company issued shares of stock to the following related parties: Mr. Askew 27 million shares, Mr. Mayell 100 million shares and Mr. Connally 65.1 million shares. See note 10 "Commitments and contingencies" for additional information.

As discussed in Note 7, the Company owes Sydson \$250,000 plus accrued interest – short term totaling \$40,278 on a note related to the acquisition of Sydson assets.

Also discussed in Note 8, Mr. Mayell and JTB Energy LLC, a company managed by Mr. Mayell, have each loaned the Company \$250,000. The total interest expense of \$55,986 has been accrued as of June 30, 2018. JTB Energy LLC is a related party of Mr. Mayell.

Also discussed in Note 8, Mr. Mayell loaned the Company amounts of \$170,000 and \$50,000 for a total of \$220,000 during October 2017. The accrued interest on these notes payable total \$16,021 as of June 30, 2018.

During December 2017, the Company received a loan of \$50,000 from a shareholder. The note and interest is due January 1, 2019 with an interest rate of 10% per annum. During the outstanding period, the note is convertible at the option of the investor up to the outstanding principal and unpaid interest into common shares at \$0.02 per share. The note is reported as "Convertible Notes Payable – related party" under short term liabilities on the balance sheet.

As discussed in Note 8, an accredited investor loaned the Company \$1,700,000 which has been partially converted into shares of the Company's common stock. Since the investor is now a shareholder of the Company, we are reporting this now as a related party transaction.

Listed below is a table summarizing the amounts owed to Mr. Mayell and his related parties.

Name of Related Party	Original Amount	Amount repaid	Balance owed 6/30/18	Accrued Interest	Interest paid	Interest rate	Convertible into Shares of Stock
Mr. Michael Mayell	686,630	(187,000)	499,630	48,134	0	10%	Partial
Sydson Energy, Inc.	325,354	(238,270)	87,084	6,228	0	10%	Partial
Sydson Resources, LP	380,000	(14,963)	365,037	40,278	0	10%	No
JTB Energy, LLC	250,000	0	250,000	28,056	0	10%	Yes
<b>Total</b>	<b>\$1,641,984</b>	<b>(\$ 440,233)</b>	<b>\$1,201,751</b>	<b>\$ 122,696</b>	<b>\$ 0</b>		

#### NOTE 7 - NOTES PAYABLE

The Company had received advances during 2014 and prior from a prior director in the amount of \$52,152. The amount of \$42,324 due to the related party was written off during the quarter ended March 31, 2017 and recorded as "Other Income" as a result of the expiration of the applicable statute of limitations. During the quarter ended March 31, 2018, the remaining balance of \$9,828 was written off and recorded as "Other Income". These advances were previously recorded within the "Due to related party" line on the balance sheet and now have a zero balance.

In connection with the Sydson asset acquisition, part of the consideration was an unsecured \$250,000 note payable to Sydson due March 1, 2017. The note has been amended effective March 23, 2017 to extend the due date to January 1, 2019 and to charge a fixed rate of 10% interest on the note. The balance of \$250,000 is included in "Notes payable-related party" in the short term section of the balance sheet.

The company financed the current year insurance premiums and that note has a balance of \$21,081 as of June 30, 2018. This note is reported as "Notes payable" under current liabilities on the balance sheet.



## NOTE 8 - CONVERTIBLE NOTES PAYABLE

Effective March 23, 2017 the Company extended an unsecured promissory note with an accredited investor in the amount of \$1,700,000 to a payment date of January 1, 2019. The note was reduced by the assignment of a \$131,645 note receivable from EnerGulf Resources to the investor. On September 18, 2017 the Company converted \$450,000 of the principal amount of the note into 22,500,000 shares of the Company's common stock at a conversion price of \$0.02 per share. As of December 31, 2017 the outstanding principal balance was \$1,118,355 and was reported as "Convertible Notes Payable" under long term liabilities on the balance sheet. During the quarter ending March 31, 2018, the Company converted an additional \$400,000 of the principal balance into 15,000,000 shares of the Company's common stock. The transaction was broken down as follows, the principal balance of \$200,000 was converted at a conversion price of \$0.02 and the principal balance of \$200,000 was converted at a conversion price of \$0.04. During the second quarter of 2018 another \$200,000 of the principal balance was converted into 10,000,000 share of common stock at a conversion price of \$0.02. The amended note agreement now states that the note is convertible into common shares at an average calculated price not to be below \$0.02 or to exceed \$0.04 per share. The conversion is at the option of the investor up to the balance of the outstanding principal and accrued interest. The due date of the note payable was also extended to January 1, 2020. The outstanding principal balance is \$518,355 as of June 30, 2018 and is reported as "Convertible Notes Payable – Related Party" now that the investor is a shareholder of the Company. The accrued interest through June 30, 2018 totaled \$433,812. Effective July 20, 2018, the remaining principal balance plus the accrued interest was converted into 38,198,147 shares of the Company's common stock at a conversion rate of \$0.025 per share.

During April 2017, the Company received a loan of \$125,000 from Mr. Mayell and a loan of \$125,000 from JTB Energy, LLC. Both loans are secured by a 5% interest in the \$10,000,000 offshore leases, payable upon demand with interest rates of 10% per annum. During the outstanding period, the notes are convertible at the option of the investor up to the outstanding principal and accrued interest into common shares at \$0.02 per share. These loans are both considered related party transactions. The notes are reported as "Convertible notes payable – related party" under current liabilities. The notes are convertible up to the outstanding principal and accrued interest into common shares at \$0.02 per share. During June 2018 the Company paid \$18,000 on one of Mr. Mayell's notes payable, leaving a balance of \$107,000 as of June 30, 2018.

During June 2017, the Company received an additional loan of \$125,000 from Mr. Mayell and an additional loan of \$125,000 from JTB Energy, LLC. Both loans are secured by a 5% interest in the \$10,000,000 offshore leases, all payable upon demand with interest rates of 10% per annum. During the outstanding period, the notes are convertible at the option of the investor up to the outstanding principal and accrued interest into common shares at \$0.02 per share. These loans are both considered related party transactions. The notes are reported as "Convertible notes payable – related party" under current liabilities. The notes are convertible up to the outstanding principal and accrued interest into common shares at \$0.02 per share.

During August 2017, the Company converted a portion of the accounts payable balances owed to Sydson and Mr. Mayell to note payable agreements, charging interest at 10% per annum. Both Sydson and Mr. Mayell had advanced money to the Company and paid invoices on behalf of the Company, which had previously been reported as "Accounts payable – related party". The Company converted \$70,000 into a note payable to Sydson and \$47,000 into a note payable to Mr. Mayell. The remaining balances owed to them will continue to be reported as "Accounts payable – related party". The notes are reported as "Convertible notes payable – related party" under current liabilities. The notes are convertible up to the outstanding principal and accrued interest into common shares at \$0.02 per share.

During October 2017, the Company received loans of \$170,000 and \$50,000 from Mr. Mayell. Both loans are secured by a 5% interest in the \$10,000,000 offshore leases, payable upon demand with interest rates of 10% per annum. During the outstanding period, the notes are convertible at the option of the investor up to the outstanding principal and accrued interest into common shares at \$0.02 per share. These loans are both considered related party transactions and are reported as "Convertible notes payable – related party" under current liabilities.

During December 2017, the Company received a loan of \$50,000 from a shareholder. The note and interest is due January 1, 2019 with an interest rate of 10% per annum. During the outstanding period, the note is convertible at the option of the investor up to the outstanding principal and unpaid interest into common shares at \$0.02 per share. The note is reported as "Convertible Notes Payable – related party" under short term liabilities on the balance sheet.

## NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments are cash and accounts payable. The recorded values of cash and accounts payable approximate their fair values based on their short-term nature.



**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

See Note 6 for a discussion of Mr. Askew's employment agreement and the Company's financial obligations with respect thereto. Mr. Askew resigned as an executive officer and director of Texas South in January 2017 and entered into a consulting agreement with the Company that began on January 5, 2017 and terminates on December 31, 2020, and such term shall be extended for an additional one-year period upon December 31 of each calendar year provided that neither the Company nor consultant notify the other on or prior to 90 days before the applicable December 31<sup>st</sup> that either party does not intend to extend this agreement. The Company shall pay to Mr. Askew \$35,000 net per month and issued Mr. Askew 27 million shares of Company common stock. Upon termination of Mr. Askew by the Company other than for cause, Mr. Askew is entitled to receive three years of his then consulting compensation as severance.

The Company entered into an employment agreement with John B. Connally III to serve as chairman of the board that began on January 5, 2017 and terminates on December 31, 2020. Upon December 31 of each calendar year, the term shall be extended for one additional year, provided that neither the Company nor Mr. Connally notify the other on or prior to 90 days before the applicable December 31<sup>st</sup> date that either party does not intend to extend this agreement. The Company shall pay to Mr. Connally a base salary of \$420,000 per annum, issued him 65.1 million shares, and Mr. Connally shall be entitled to standard and customary benefits. Mr. Connally has agreed to standard non-disclosure provisions. Upon termination of Mr. Connally by the Company other than for cause, Mr. Connally is entitled to receive three years of his then compensation as severance.

The Company entered into an employment agreement with Mr. Mayell on January 4, 2017 that terminates on December 31, 2020. Upon December 31 of each calendar year, the term shall be extended for one additional year, provided that neither the Company nor Mr. Mayell notify the other on or prior to 90 days before the applicable December 31<sup>st</sup> date that either party does not intend to extend this agreement. The Company shall pay to Mr. Mayell a base salary of \$420,000 per annum and Mr. Mayell shall be entitled to standard and customary benefits. Mr. Mayell has agreed to standard non-disclosure and non-competition provisions. Upon termination of Mr. Mayell by the Company other than for cause, Mr. Mayell is entitled to receive three years of his then compensation as severance.

During the first quarter of fiscal 2017, the above mentioned agreements with Mr. Connally and Mr. Mayell were amended to extend the due dates. The payments are now due at the end of the terms of the agreements, which is December 31, 2020. These liabilities are accrued in the financial statements for the six months ended June 30, 2018, however they are now reported as long term on the balance sheet.

In April 2018, the employment agreements for Mr. Mayell and Mr. Connally were amended, whereby all or a portion of the compensation owed to Mr. Mayell and Mr. Connally for the period from January 2017 through April 30, 2018 can be paid by the Company, at the option of the employee, in restricted shares of the Company's common stock valued at \$0.02 per share. As of the filing date of this report, neither has elected to convert the compensation owed into common stock. If all of the compensation owed was converted into shares of stock, Mr. Mayell would receive 28,000,000 shares and Mr. Connally would receive 27,500,000 shares.

In July 2018, the consulting agreement for Mr. Askew was amended, whereby all or a portion of the compensation owed to Mr. Askew for the period from February 2017 through April 30, 2018 can be paid by the Company, at the option of the consultant, in restricted shares of the Company's common stock valued at \$0.02 per share. The total owed to Mr. Askew for that period was \$525,000. If all of the compensation owed was converted into shares of stock, Mr. Askew would receive 26,250,000 shares of common stock. Mr. Askew has not elected to convert the currently owed compensation.

**NOTE 11 - SUBSEQUENT EVENTS**

On July 6, 2018 the Company paid \$10,000 of the Note Payable to Mr. Mayell dated April 11, 2017. The remaining balance of the note payable is \$97,000.

In connection with the Company's January 2017 asset acquisition transaction with Sydson Energy, Inc., an affiliate of Mr. Mayell ("Sydson"), the Company acquired a 75% working interest in the Wilinda prospect, with Sydson retaining a 25% working interest. The Company is in the process of farming out its 75% working interest in Wilinda, and Sydson is also farming down its interest on a pro-rata basis. The Company and Sydson expect to farm-out an aggregate of 66.67% of the Wilinda working interest to investors, with the Company ultimately retaining a 25% working interest and Sydson an 8.33% working interest. In connection with the farm-out, the investors will purchase up to 33,333,350 shares of Company common stock for a purchase price of \$666,667, or \$0.02 per share. To date, the Company and Sydson have agreed to farm down an aggregate of 61%, and in connection with the farm out, the Company has sold 30,500,000 shares for \$610,000. Of the total shares sold to date, 4,500,000 shares were purchased after June 30, 2018 for cash proceeds of \$90,000. None of the cash proceeds were paid to Sydson, and effective July 2018 the Company has issued Sydson an

unsecured demand promissory note in the amount of up to \$166,667 that is convertible into Company common stock at a price of \$0.02 per share.

During July 2018 the Company issued an aggregate of 20,600,000 shares of common stock to two third-parties who had entered into participation agreements with the Company, related to the farm-outs of the Shallow Prospects discussed in Note 4, in settlement and extinguishment of all rights and claims in connection therewith.

As discussed in Note 10, Mr. Askew's consulting agreement was amended, allowing him to convert \$525,000 of the consulting fees owed to him into 26,250,000 shares of the Company's common stock. The conversion has not been requested as of the filing date of this report..

As discussed in Note 8, effective July 20, 2018, the remaining principal balance of \$518,355 plus the accrued interest as of July 20<sup>th</sup> was converted into 38,198,147 shares of the Company's common stock at a conversion rate of \$0.025 per share.

## ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis summarizes the significant factors affecting our operating results, financial condition, liquidity and cash flows as of and for the periods presented below. The following discussion and analysis should be read in conjunction with (i) the accompanying unaudited financial statements and notes thereto for the six months ended June 30, 2018 and 2017, and with our audited financial statements and notes thereto for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K (the "2017 Annual Report") and (ii) the discussion under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the 2017 Annual Report.

### Forward Looking Statements

This report on Form 10-Q contains certain forward-looking statements. All statements other than statements of historical fact are "forward-looking statements" for purposes of these provisions, including any projections of earnings, revenues, or other financial items; any statements of the plans, strategies, and objectives of management for future operation; any statements concerning proposed new products, services, or developments; any statements regarding future economic conditions or performance; statements of belief; and any statement of assumptions underlying any of the foregoing. Such forward-looking statements are subject to inherent risks and uncertainties, and actual results could differ materially from those anticipated by the forward-looking statements.

### Business Overview

Our business plan as an oil and gas company is to focus primarily on properties in the Gulf Coast Region. We plan to obtain and manage working and non-working interests in oil and gas properties.

We are currently in the business of exploring for, drilling and producing oil and gas. Our business is subject to multiple factors effecting the production of oil and gas, including, but not limited to: market prices; national and international economic conditions; import and export quotas; availability of drilling rigs, casing, pipe, and other equipment and supplies; availability of and proximity to pipelines and other transportation facilities; the supply and price of competitive fuels; and the regulation of prices, production, transportation, and marketing by domestic and foreign governmental authorities. Additionally, we may not have control over whether the owner or operator of the lease will elect to explore for oil and gas on such properties, or to develop them following discoveries that may occur. Each of these factors may affect the rate at which oil and gas are produced, if ever, on properties in which we may have an interest.

### *Our Current Mineral Interests*

In March 2014, we entered into a farm out letter agreement with GulfSlope Energy, Inc. relating to certain prospects GulfSlope bid on at the Central Gulf of Mexico Lease Sale 231, located within 2.2 million acres of 3-D seismic licensed and interpreted by GulfSlope. Under the terms of the farm-out letter agreement, as amended, we acquired contractual rights to a 20% working interest in 12 blocks covered in 9 prospects and have paid approximately \$10,720,000 to GulfSlope through June 30, 2018. We have agreed to pay our proportionate share of the net rental costs related to the prospects. GulfSlope has conducted extensive seismic work on all of the prospects focusing on the high potential subsalt play at depths of 15,000' to 25,000' and will be the operator of record for the initial well on each of the prospects.

In May 2016, we entered into a letter of intent with GulfSlope that set forth terms and conditions of a farm-out arrangement to develop certain shallow-depth oil and gas prospects located on offshore Gulf of Mexico blocks currently leased by GulfSlope. The shallow prospects were located above 5,100 feet vertical depth on the Vermilion Area, South Addition Block 378 ("Canoe Shallow") and Vermilion Area, South Addition Block 375 ("Selectron Shallow", and collectively with Canoe Shallow, "Shallow Prospects"). At that time we owned a 70.7% working interest in the Shallow Prospects with a third party owning a 16.8% working interest for which it paid \$400,000 and GulfSlope retaining a 12.5% working interest. Texas South acquired the interest in the two prospects in exchange for (i) cash payments of \$400,000, (ii) the payment of annual rental obligations of \$63,147, and (iii) the agreement to fund, or cause to be funded, the costs for the drilling of two shallow wells prior to December 31, 2017. The farmout on both prospects from GulfSlope expired on December 31, 2017.

On January 8, 2018, the Company entered into a participation agreement dated effective January 1, 2018 (the "Agreement") with Delek GOM Investments, LLC, a subsidiary of Delek Group Ltd. ("Delek"), and GulfSlope (collectively, the "Parties") for the partial farm-out of the Company's interests in its Gulf of Mexico oil and gas leases (the "Farm-out"). The Agreement sets out the terms and

conditions of the Parties participation in the drilling of up to a nine well multi-phase exploration program targeting the Company's prospects (the "Prospects") located on the Company's existing leases (the "Leases").

Under the terms of the Agreement, the Parties have committed to initially drill two of the Company's prospects in Phase I (the "Initial Phase") with Delek having the option to participate in two additional two-well drilling phases and a final, three-well drilling phase (collectively, the "Phases"). In each Phase, Delek will earn a 75% working interest upon paying 90% of the exploratory costs associated with drilling each exploratory well. The Company will thus retain a 5% working interest while paying 2% of the exploratory costs associated with drilling each well. In addition, Delek will pay the Company \$405,000 upon the filing of each exploration plan with BOEM and/or BSEE on a Prospect in each Phase. During March 2018 Delek made its first payment of \$405,000 to the Company as the initial plan was filed. Delek made a second payment of \$405,000 to the Company during May 2018. Also, each Party will be responsible for its pro rata share (based on working interest) of delay rentals associated with the Prospects. GulfSlope will be the Operator during exploratory drilling of a Prospect, however, subsequent to a commercial discovery, Delek will have the right to become the Operator. Delek will have the right to terminate this Agreement at the conclusion of any drilling Phase. Delek will also have the option to purchase up to 5% of the Company's common stock upon fulfilling its obligation for each Phase (maximum of 20% in the aggregate) at a price per share equal to a 10% discount to the 30-day weighted average closing price for the Company's common stock preceding the acquisition. This option will expire on January 8, 2020. The Company has not recorded any cost associated with the option due to the future performance obligation of Delek. If Delek meets the obligation and exercises its option the Company will record the option value at that time as an increase to Oil and Gas Properties. At June 30, 2018, the potential value of issuing 20% of our outstanding stock is approximately \$6,000,000. The foregoing description of the Agreement does not purport to be a complete description of the terms, provisions and conditions of such document, and represents only a summary of certain of the principal terms, provisions and conditions thereof.

The Company will assign a two-tenths of one percent of 8/8ths net profits interest in certain of the Company's oil and gas leases in the two Phase I prospects to Hi-View Investment Partners, LLC ("Hi-View") in consideration for consulting services provided pursuant to a non-exclusive consulting engagement dated October 25, 2017, by and between Hi-View, the Company, and GulfSlope (the "Advisory Agreement"). Hi-View will be entitled to additional assignments on the same terms and conditions as described above related to any of Leases in which Delek elects to participate in the drilling of an exploratory well. In addition, the Company issued an aggregate of twenty million shares of its common stock to Hi-View in consideration for those consulting services provided pursuant to the Advisory Agreement. In the event that Delek has not funded the \$405,000 payment referenced above within six months of execution of this Agreement, then the common stock will be returned by Hi-View to the Company. Delek funded the first \$405,000 payment during March 2018 and the second \$405,000 payment during May 2018.

In January 2017, the Company entered into an asset purchase agreement with Sydson Energy, Inc. ("Sydson Energy") and Sydson Resources, L.P. ("Sydson Resources" and collectively with Sydson Energy, "Sydson"), where Sydson assigned to us certain onshore oil and gas assets and interests and certain tangible assets and additionally, certain employees and a consultant of Sydson have agreed to become employees and a consultant of the Company. Sydson is a private oil and gas company with land operations in Texas and Louisiana that has been in business since 1982. The oil and gas assets include the following:

- In Texas, we acquired a 50% working interest in the undrilled acreage above 4,500' in the West Tuleta Field, Bee County, Texas comprised of approximately 1,800 gross acres and 900 net acres with a net revenue interest of approximately 75%. The primary drilling objectives are the Vicksburg and Hockley sands which are structurally high on this acreage compared to the prior downdip production.
- In the adjacent Ray Field, also in Bee County, Texas, we acquired a 50% working interest in the undrilled, acreage on the Walton, Campbell, and Ray leases comprising approximately 75 gross acres with a net revenue interest of approximately 75%. The primary drilling objectives on this acreage are also the Vicksburg and Hockley sands updip to prior production above 3,700'.
- Southeast of San Antonio, we are acquiring leases with working interest partners covering approximately 4,000 acres or more for horizontal projects above 6,000' in the Austin Chalk, Eagle Ford, and Buda Lime formation. These projects are adjacent to substantial prior production and contain both conventional and unconventional oil targets. We expect to begin drilling operations on the first well during the third quarter of 2018.

### *Business and Acquisition Strategy*

Our primary business strategy includes acquiring both working and non-working interests in oil and gas properties throughout the Gulf Coast Region and Texas, including offshore prospects. We will consider acquisitions that serve as a platform for complementary operations. In January, 2017 the Company acquired assets from Sydson Energy, Inc. and Sydson Resources, LP.

The cost of implementing the forgoing programs will depend on what oil and gas interests are identified and available on terms acceptable to us. Even if we identify oil and gas interests that are available, the cost of pursuing and acquiring them could be significant. Our ability to pursue any such opportunities will be dependent on our ability to obtain financings through private equity, debt financings or agreements with joint venture partners. We can provide no assurance that we have the necessary cash available or will be able to successfully obtain the necessary financing or joint venture partners to pursue such opportunities.

We have incurred losses since our inception and expect to incur losses in future periods. We rely primarily upon the sale of our equity securities to fund operations.

### **Liquidity and Capital Resources**

As of June 30, 2018, we had a cash balance of \$1,838,551 and a working capital deficit of \$1,646,481. Our accumulated deficit from inception (March 15, 2010) to June 30, 2018 was \$14,248,407. For the six months ended June 30, 2018, our net loss of \$1,371,647 was mostly funded by proceeds raised from equity financings. During the six months ended June 30, 2018, our cash position increased by \$1,838,096 as a result of the sale of some of our interests in our prospects, receiving prepaid costs from our participation agreement on the Wilinda project, and the sale of the Company's common stock.

During the six months ended June 30, 2018, we issued 81,340,273 shares of common stock, of which 30,850,000 shares were issued for cash in the amount of \$617,000, 20,000,000 shares were issued for lease brokerage fees valued at \$400,000, 25,000,000 shares were issued to convert \$600,000 of a note payable balance into common stock and 5,490,273 shares were issued to two employees and a consultant for services rendered in lieu of cash for \$77,068.

We will need additional financing to carry out our business plan. Specifically, we will need cash to fund our obligations with respect to (i) drilling the Canoe and Tau Prospects in Phase I of the offshore program (ii) funding our drilling obligations with respect to the Wilinda project, and (iii) funding our contingent liabilities under the Sydson agreement. Obtaining additional financing will be subject to a number of factors including market conditions, investor acceptance of our business plan, and other conditions outside of our control. These factors may make the timing, amount, terms and conditions of additional financing unattractive or unavailable to us. If we cannot raise additional funds, we will not be able to carry out our business plans and may cease operations.

### **Results of Operations for the Three months Ended June 30, 2018 compared to the Three months ended June 30, 2017**

We earned revenue of \$0 during the three months ended June 30, 2018 and 2017. Impairment expenses for \$25,079 were recorded during the three months ended June 30, 2018 and zero for the three months ended June 30, 2017. General and administrative expenses were \$664,725 for the three months ended June 30, 2018, compared to \$642,481 for the three months ended June 30, 2017. Interest expense was \$42,784 for the three months ended June 30, 2018, compared to \$51,788 for the three months ended June 30, 2017.

We had a net loss of \$734,161 for the three months ended June 30, 2018, compared to \$695,513 for the three months ended June 30, 2017.

The basic and diluted loss per share for the three months ended June 30, 2018 and 2017 was \$(0.00).

### **Results of Operations for the Six months Ended June 30, 2018 compared to the Six months ended June 30, 2017**

We earned revenue of \$0 during the six months ended June 30, 2018 and 2017. Included in "Other income" is the write off of the shareholder note payable for \$42,324 during the quarter ended March 31, 2017 and \$9,828 during the quarter ended March 31, 2018. General and administrative expenses were \$1,262,152 for the six months ended June 30, 2018, compared to \$2,216,668 for the six months ended June 30, 2017, of which \$845,710 were non-cash expenses. Interest expense was \$91,166 for the six months ended June 30, 2018, compared to \$96,208 for the six months ended June 30, 2017. The decrease in interest expense is primarily a result of the decrease in the note payable balances as a result of the conversion of \$600,000 of debt into shares of common stock.





### **Off-Balance Sheet Arrangements**

As of June 30, 2018, we had no off balance sheet transactions that have or are reasonably likely to have a current or future effect on our financial condition, changes in our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As of June 30, 2018, our exposure to market risk is limited. We do not expect unfavorable changes in concentration of credit risk and interest rates impacting our current balances as of June 30, 2018.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer (who also serves as our principal financial officer) of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the period covered by this Form 10-Q. Based upon that evaluation, our principal executive officer (who also serves as our principal financial officer) concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed by us under the Exchange Act is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

Our management, including our principal executive officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Accordingly, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

#### **Management's Interim Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

#### **Changes in Internal Control over Financial Reporting**

There have been no changes in internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Management is not aware of any legal proceedings contemplated by any governmental authority or any other party against us. None of our directors, officers or affiliates are (i) a party adverse to us in any legal proceedings, or (ii) have an adverse interest to us in any legal proceedings. Management is not aware of any other legal proceedings that have been threatened against us.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Company sold shares of stock for cash and/or converted note payable balances that were not reported on a Current Report on Form 8-K or in Part II, Item 5 of the Annual report on Form 10-K and such transactions are being reported hereby, as follows.

During April 2018, \$200,000 of a note payable balance was converted into 10,000,000 shares of common stock at \$0.02 per share.

In April 2018, the employment agreements for Mr. Mayell and Mr. Connally were amended, whereby all or a portion of the compensation owed to Mr. Mayell and Mr. Connally for the period from January 2017 through April 30, 2018 can be paid by the Company, at the option of the employee, in restricted shares of the Company's common stock valued at \$0.02 per share. As of the filing date of this report, neither has exercised their option to be paid in common stock. If all of the compensation owed was converted into shares of stock, Mr. Mayell would receive 28,000,000 shares and Mr. Connally would receive 27,500,000 shares.

In July 2018, the consulting agreement for Mr. Askew was amended, whereby all or a portion of the compensation owed to Mr. Askew for the period from February 2017 through April 30, 2018 can be paid by the Company, at the option of the consultant, in restricted shares of the Company's common stock valued at \$0.02 per share. The total owed to Mr. Askew for that period was \$525,000. If all of the compensation owed was converted into shares of stock, Mr. Askew would receive 26,250,000 shares of common stock. Mr. Askew has not elected to convert the currently owed compensation.

During April 1 through May 11, 2018 third party investors purchased 4,700,000 shares of common stock for a purchase price of \$0.02 per share totaling \$94,000.

During May 12, 2018 through August 13, 2018 third party investors purchased 9,750,000 shares of common stock for a purchase price of \$0.02 per share totaling \$195,000.

During June 2018 the Company issued a total of 2,467,793 shares of common stock to certain employees and a consultant for services rendered through June 2018.

During July 2018 the Company issued an aggregate of 20,600,000 shares of common stock to two third-parties who had entered into participation agreements with the Company, in settlement and extinguishment of all rights and claims in connection therewith.

As discussed in Note 8, effective July 20, 2018, the remaining principal balance of \$518,355 plus the accrued interest as of July 20, 2018 owed to an accredited investor, was converted into 38,198,147 shares of the Company's common stock at a conversion rate of \$0.025 per share.

Under the terms of our participation agreement with Delek, the parties have committed to initially drill two of the Company's prospects in the "Initial Phase" with Delek having the option to participate in two additional two-well drilling phases and a final, three-well drilling phase (collectively, the "Phases"). In each Phase, Delek will earn a 75% working interest upon paying 90% of the exploratory costs associated with drilling each exploratory well. The Company will thus retain a 5% working interest while paying 2% of the exploratory costs associated with drilling each well. In addition, Delek will pay the Company \$405,000 upon the filing of each exploration plan with BOEM and/or BSEE on a prospect in each Phase. During March 2018 Delek made its first payment of \$405,000 to the Company as the initial plan was filed. Delek made a second payment of \$405,000 to the Company during May 2018. Also, each party will be responsible for its pro rata share (based on working interest) of delay rentals associated with the prospects. Delek will also have the option to purchase up to 5% of the Company's common stock upon fulfilling its obligation for each Phase (maximum of 20% in the aggregate) at a price per share equal to a 10% discount to the 30-day weighted average closing price for the Company's common stock preceding the acquisition. This option will expire on January 8, 2020. The Company has not recorded any cost associated with the option due to the future performance obligation of Delek. As of the date hereof, Delek is not a beneficial holder of Company Common Stock as the future performance event has not occurred to date. If Delek meets the obligation and exercises its option the Company will record the option value at that time as an increase to oil and Gas Properties.

In connection with the Company's January 2017 asset acquisition transaction with Sydson Energy, Inc., an affiliate of Mr. Mayell ("Sydson"), the Company acquired a 75% working interest in the Wilinda prospect, with Sydson retaining a 25% working interest. The Company is in the process of farming out its 75% working interest in Wilinda, and Sydson is also farming down its interest on a pro-rata basis. The Company and Sydson expect to farm-out an aggregate of 66.67% of the Wilinda working interest to investors, with the Company ultimately retaining a 25% working interest and Sydson an 8.33% working interest. In connection with the farm-out, the investors will purchase up to 33,333,350 shares of Company common stock for a purchase price of \$666,667, or \$0.02 per share. To date, the Company and Sydson have agreed to farm down an aggregate of 61%, and in connection with the farm out, the Company has sold 30,500,000 shares for \$610,000. Of the total shares sold to date, 4,500,000 shares were purchased after June 30, 2018 for cash proceeds of \$90,000. None of the cash proceeds were paid to Sydson, and effective July 2018, the Company has issued Sydson an unsecured demand promissory note in the amount of up to \$166,667 that is convertible into Company common stock at a price of \$0.02 per share.

The issuances of these securities did not involve the payment of any sales commissions and were exempt pursuant to Section 4(a)(2) of the Securities Act of 1933.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
31.1 (1)	<a href="#">Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14 or 15d-14 of the Exchange Act pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1 (1)	<a href="#">Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS (1)	XBRL INSTANCE DOCUMENT
101.SCH (1)	XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT
101.CAL (1)	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT
101.DEF (1)	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT
101.LAB (1)	XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT
101.PRE (1)	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT

(1) Filed herewith.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the Registrant has duly caused this Quarterly Report to be signed on its behalf by the undersigned thereunto duly authorized.

**TEXAS SOUTH ENERGY, INC.**

Date: August 13, 2018

By: /s/ Michael J. Mayell

Michael J. Mayell  
Chief Executive Officer and  
Principal Financial Officer

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO RULE 13a – 14 AND RULE 15d – 14  
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Michael J. Mayell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the three months ended June 30, 2018 of Texas South Energy, Inc. (the “Registrant”);
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15(d)-15(f)) for the Registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting.
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: August 13, 2018

/s/ MICHAEL J. MAYELL

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Michael J. Mayell  
Principal Executive Officer  
and Principal Financial Officer

EX-32.1 3 f10q0618ex32-1\_texasouth.htm CERTIFICATION

**EXHIBIT 32.1**

**CERTIFICATION OF  
PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER  
UNDER SECTION 906 OF THE  
SARBANES OXLEY ACT OF 2002, 18 U.S.C. § 1350**

In connection with this quarterly report on Form 10-Q of Texas South Energy, Inc. (the “Company”), as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Michael J. Mayell, Chief Executive Officer and Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2018

/s/ MICHAEL J. MAYELL

Michael J. Mayell  
Principal Executive Officer  
and Principal Financial Officer