10-Q 1 f10q0319_texassouth.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 **March 31, 2019**

☐ **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	**99-0362471**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
4550 Post Oak Place, Suite 300 Houston, Texas	**77027**
(Address of principal executive offices)	*(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 require 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 ☒

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Trading Symbol(s)**	**Name of Each Exchange on Which Registered**
Common Stock	TXSO	OTCPK

As of May 20, 2019, the registrant's outstanding common stock consisted of 999,199,769 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, 2018.

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, 2018, which are included in the Company’s annual report for the year ended December 31, 2018 (the “2018 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 2018 Annual Report.

TEXAS SOUTH ENERGY, INC.
CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019

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

	March 31, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS		
Cash	$ 185,169	$ 1,501,766
Prepaid expenses	19,758	33,300
Accounts receivable – joint interest billings	583,246	1,262,311
Accounts receivable – related party	4,315	4,302
TOTAL CURRENT ASSETS	**792,488**	**2,801,679**
PROPERTY AND EQUIPMENT		
Oil and gas properties, full cost method, net	13,902,187	14,094,438
Furniture, fixtures and equipment	43,195	43,195
Less: Accumulated depreciation	(17,099)	(15,018)
TOTAL PROPERTY AND EQUIPMENT, NET	**13,928,283**	**14,122,615**
OTHER ASSETS	**8,340**	**8,340**
TOTAL ASSETS	**$ 14,729,111**	**$ 16,932,634**
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 4,676,786	$ 4,739,908
Accrued expenses	102,039	34,154
Accrued expenses – related party	910,000	805,000
Accrued interest – related party	67,606	183,515
Advances from joint interest owners	296,809	307,628
Notes payable	3,947	9,773
Convertible notes payable – related party	1,142,667	809,000
TOTAL CURRENT LIABILITIES	**7,199,854**	**6,888,978**
LONG TERM LIABILITIES		
Convertible notes payable – related party	--	300,000
Asset retirement obligations	43,632	40,380
Accrued expenses	1,952,766	1,798,543
TOTAL LONG TERM LIABILITIES	**1,996,398**	**2,138,923**
TOTAL LIABILITIES	**9,196,252**	**9,027,901**
STOCKHOLDERS' EQUITY		
Preferred stock 50,000,000 shares preferred stock authorized, none issued and outstanding	--	--
Common stock 1,500,000,000 shares common stock authorized, $0.001 par value, 999,199,769 and 998,449,769 shares of common stock issued and outstanding at March 31, 2019 and December 31, 2018, respectively.	999,199	998,449
Additional paid-in capital	22,900,688	22,893,788
Accumulated deficit	(18,367,028)	(15,987,504)
Total stockholders' equity	5,532,859	7,904,733
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 14,729,111**	**$ 16,932,634**

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

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

	Three months ended	
	March 31, 2019	March 31, 2018
REVENUE	$ --	$ --
EXPENSES		
Workover expense	37,221	--
Impairment expense	1,778,000	--
Depreciation expense	2,081	1,907
Accretion expense	3,252	--
General and administrative expense	530,721	597,427
LOSS FROM OPERATIONS	(2,351,275)	(599,334)
OTHER INCOME (EXPENSE)		
Other income	81	10,230
Interest expense	(28,330)	(48,382)
TOTAL OTHER INCOME (EXPENSE)	(28,249)	(38,152)
NET LOSS	**$ (2,379,524)**	**$ (637,486)**
NET LOSS PER COMMON SHARE		
Basic and diluted	**$ (0.00)**	**$ (0.00)**
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
Basic and diluted	**999,191,436**	**859,137,337**

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

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

	Three months ended March 31, 2019	Three months ended March 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (2,379,524)	$ (637,486)
Adjustments to reconcile net loss to net cash used in operating activities		
Impairment expense	1,778,000	--
Depreciation expense	2,081	1,907
Accretion expense	3,252	--
Common stock awarded to employees in lieu of cash compensation	7,650	39,610
Gain on disposal of debt	--	(9,828)
Changes in operating assets and liabilities:		
Change in accounts receivable	679,052	--
Change in prepaid expenses	13,542	(14,458)
Change in accounts payable and accrued expenses	4,763	(11,098)
Change in current accrued liabilities - related party	(10,909)	160,426
Change in long term accrued liabilities – related party	154,223	226,068
Change in long term accrued interest	--	16,606
Change in long term accrued interest - related party	--	(26,178)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**252,130**	**(254,431)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from participation agreements	--	485,000
Acquisition of oil and gas properties	(1,585,749)	(125,711)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**(1,585,749)**	**359,289**
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on short term debt	(52,159)	(5,737)
Proceeds from issuance of notes payable	80,000	--
Advances from joint interest owners	--	251,250
Advances applied against joint interest bills	(10,819)	--
Proceeds from sale of common stock	--	213,000
Proceeds from sale of common stock (to be issued)	--	185,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	**17,022**	**643,513**
NET INCREASE (DECREASE) IN CASH	**(1,316,597)**	**748,371**
CASH, BEGINNING OF PERIOD	**$ 1,501,766**	**$ 455**
CASH, END OF PERIOD	**$ 185,169**	**$ 748,826**
Supplemental cash flow information and noncash financing activities:		
Cash paid for:		
Interest	$ 144,127	$ --
Income taxes	$ --	$ --
Noncash activities:		
Issuance of common stock for assets	$ --	$ 400,000
Conversion of note payable into common stock and accrued interest	$ --	$ 400,000

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

Texas South Energy, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(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, 2018.

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, 2018, which are included in the Company’s annual report for the year ended December 31, 2018 (the “2018 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 2018 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 March 31, 2019 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 March 31, 2019, of $18,367,028. 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

Oil and Gas Properties

The Company's capitalized oil and gas properties comprised the following:

	March 31, 2019	December 31, 2018
Unproved leasehold costs	$ 13,307,670	$ 12,659,884
Uncompleted wells, equipment and facilities	594,517	1,434,554
Total costs	$ 13,902,187	$ 14,094,438

The majority of the assets are undeveloped offshore leases in the Gulf of Mexico. Included are onshore properties which were acquired during the Sydson acquisition. Both are currently being developed. At December 31, 2018, the properties were evaluated for impairment and the Company recorded $452,018 to impairment expense primarily for the Canoe Prospect. Additional impairment of $1,778,000 was recorded during the first quarter of 2019 due to the subsequent activity of the Tau drilling prospect.

Participation Agreement

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. 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. The likelihood of Delek exercising its options to purchase shares of the Company's common stock will be dependent on the drilling results from Phase 1 and the Company's operating results which will affect the price of the Company's common stock. We currently do not anticipate Delek fully exercising this option before the expiration date. At March 31, 2019, the potential value of issuing 20% of our outstanding stock is approximately $5,800,000. 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.

Acquisition

In January 2017, the Company entered into an asset purchase agreement with 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.

In connection with the asset acquisition, the Company acquired a variety of proprietary seismic data, computer equipment, furniture and fixtures and other office equipment.

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, was extended to January 1, 2019, and recently extended to January 1, 2020.

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 and 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.

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	$ 1,095,000

Other Property

The Company has $43,195 of furniture and fixtures, software and equipment. The majority of the assets were acquired during the Sydson acquisition in January 2017. The accumulated depreciation as of March 31, 2019 is $17,099. Depreciation is being recorded using the straight line method of depreciation.

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. We filed a definitive proxy statement on August 14, 2018 and the proposal passed.

As of March 31, 2019, the Company had 999,199,769 shares of common stock issued and outstanding. January 2019 the Company issued 750,000 shares of common stock to an employee for services totaling $7,650.

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 March 31, 2019, the Company has accrued $910,000 for Mr. Askew's consulting expenses. This accrual is reported on the balance sheet under current liabilities as "Accrued expenses – related party".

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. 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 March 31, 2019 are $23,667 to Sydson and $47,000 to Mr. Mayell as discussed further in Note 8. The accrued interest on these notes as of March 31, 2019 is $421 payable to Sydson and $1,175 payable to Mr. Mayell. On April 8, 2019 the remaining balance on this $70,000 note payable and the accrued interest was paid to Sydson.

During the three months ended March 31, 2019, the Company has paid Mr. Mayell $72,598, Sydson Energy $10,895 and Sydson Resources, LP $55,097 toward the accrued interest balances.

As discussed in Note 8, the Company owes Sydson Resources, LP $250,000 on a note related to the acquisition of Sydson assets. The accrued interest on this note is $6,302 as of March 31, 2019.

Also discussed in Note 8, Mr. Mayell and JTB Energy LLC, a company managed by Mr. Mayell, have each loaned the Company $250,000. As of March 31, 2019, the balance on the notes total $472,000. The accrued interest on these notes total $52,356 as of March 31, 2019.

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 $5,500 as of March 31, 2019.

Also discussed in Note 8, during December 2017, the Company received a loan of $50,000 from a shareholder. The accrued interest on this note totals $1,250 as of March 31, 2019.

Also discussed in Note 8, during March 2019, the Company received a loan of $80,000 from a shareholder/employee. The accrued interest on this note totals $602 as of March 31, 2019.

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 3/31/19	Accrued Interest	Total owed	Interest rate	Convertible into Shares of Stock
Mr. Michael Mayell	686,630	(197,630)	489,000	12,225	501,225	10%	Yes
Sydson Energy, Inc.	363,116	(339,449)	23,667	421	24,088	10%	Yes
Sydson Resources, LP	381,300	(131,300)	250,000	6,302	256,302	10%	Yes
JTB Energy, LLC	250,000	0	250,000	46,806	296,806	10%	Yes
Total	$ 1,681,046	($ 668,379)	$ 1,012,667	$ 65,754	$ 1,078,421		

NOTE 7 - NOTES PAYABLE

The Company financed the current year insurance premiums and that note has a balance of $3,947 as of March 31, 2019. This note is reported as “Notes payable” under current liabilities on the balance sheet.

NOTE 8 - CONVERTIBLE NOTES PAYABLE

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 was 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. During January 2019, the due date was extended to January 1, 2020 and the note was amended to allow for the conversion of the note into shares of common stock. During the outstanding period, the note is convertible at the option of the Sydson up to the outstanding principal and unpaid interest into common shares at $0.02 per share. The balance of $250,000 is included in “Convertible Notes payable-related party” under current liabilities on the balance sheet.

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 majority of the 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. The notes are reported as “Convertible notes payable – related party” under current liabilities on the balance sheet. 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 July 2018 the Company paid an additional $10,000 on this note payable leaving a balance of $97,000 as of March 31, 2019.

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 majority of the 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. The notes are reported as "Convertible notes payable – related party" under current liabilities on the balance sheet. 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. The Company converted $70,000 into a note payable to Sydson and $47,000 into a note payable to Mr. Mayell. The notes are reported as "Convertible notes payable – related party" under current liabilities on the balance sheet. 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 majority of the 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 reported as "Convertible notes payable – related party" under current liabilities on the balance sheet.

During December 2017, the Company received a loan of $50,000 from a shareholder. The note and interest is due January 1, 2020 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 current liabilities on the balance sheet.

During March 2019, the Company received a loan of $80,000 from a shareholder/employee. The note carries an interest rate of 10% per annum. 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 current 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 31st 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 31st 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 31st 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 and included in the caption "Accrued expenses" as long term liabilities 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. In October 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 May 2018 through September 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. In January 2019, 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 October 2018 through December 31, 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 42,000,000 shares and Mr. Connally would receive 41,500,000 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.

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. The likelihood of Delek exercising its options to purchase shares of the Company's common stock will be dependent on the drilling results from Phase 1 and the Company's operating results which will affect the price of the Company's common stock. We currently do not anticipate Delek fully exercising this option before the expiration date. At March 31, 2019, the potential value of issuing 20% of our outstanding stock is approximately $5,800,000. 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.

NOTE 11 – STOCK-BASED INCENTIVE PLAN

At the September 6, 2018 annual meeting, the stockholders approved the adoption of the Texas South Energy, Inc. 2018 Omnibus Incentive Plan (the "2018 Plan"), effectively July 28, 2018. The 2018 Plan authorizes the issuance of 100,000,000 share of common stock prior to its expiration on July 28, 2028. Incentives under the 2018 Plan may be granted to employees, directors, and consultants of the Company in any one or a combination of the following forms: incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards or performance stock awards which are valued in whole or in part by reference to, or otherwise based on, our common stock, including its appreciation in value. As of March 31, 2019, no awards were granted.

NOTE 12 – ASSET RETIREMENT OBLIGATIONS

During the fourth quarter of 2018 the Company began recording liabilities for the estimated cost to plug, dismantle and abandon our wells. These liabilities will be adjusted annually based on changes to the estimated date to retire the assets or changes to the estimated costs to retire the assets. Accretion expense is recorded quarterly as the discounted liability is accreted to its expected settlement value. A summary of the changes in our asset retirement obligation is included in the table below:

Asset Retirement Obligations	**Quarter Ended March 31, 2019**	**Quarter Ended March 31, 2018**
Balance, beginning of quarter	$ 40,380	$ --
Liabilities recorded	--	--
Accretion expense	3,252	--
Balance, end of quarter	43,632	--
Less: Current portion	--	--
Long-term portion	$ 43,632	$ --

NOTE 13 - SUBSEQUENT EVENTS

On April 8, 2019 the remaining balance of $23,667 on the $70,000 note payable to Sydson Energy, Inc. and the accrued interest of $473 were paid.

During April and May 2019 the Company paid Mr. Mayell the principal balance of the $50,000 note payable dated October 2017.

During April and May 2019 the Company paid Mr. Mayell $10,500 of the principal balance of the $47,000 note payable dated August 2017.

As of April 30, 2019, Texas South Energy, Inc. (the "Company") has received a Default Notice and Demand for Payment under the terms of its joint operating agreement with GulfSlope Energy, Inc. ("GulfSlope") and Delek GOM Investments, LLC as a result of its payment failure of $2,870,183 due as of April 18, 2019 with respect to drilling the Tau Prospect in the Gulf of Mexico Outer Continental Shelf. GulfSlope, the operator of the Tau Prospect, previously informed the Company on February 12, 2019 of an event of default with respect to the payment failure of $1,299,229, which amount is included in the $2,870,183 amount due as of April 18, 2019. The Company filed a Form 8-K on May 6, 2019 with respect to this event.

On May 13, 2019 GulfSlope provided an update on drilling the Tau Prospect on Ship Shoal blocks 336 and 351. Their press release stated that they had elected to abandon this well due to various factors but that they may re-enter at a later time. As a result of the well performance, the Company has recognized impairment expense of $1,778,000 of the drilling costs as of March 31, 2019.

On May 15, 2019, the Company received a loan of $50,000 from a shareholder. The note and interest is due May 14, 2020 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 $0.01 per share.

On May 16, 2019 the Company was authorized to issue 10,000,000 shares of its common stock to a company for services rendered, however the shares have not yet been issued as of the date of this report.

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 three months ended March 31, 2019 and 2018, and with our audited financial statements and notes thereto for the year ended December 31, 2018 included in the Company's Annual Report on Form 10-K (the "2018 Annual Report") and (ii) the discussion under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the 2018 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 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. ("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 September 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 August 2017, the Company acquired a 20% working interest from GulfSlope in Ship Shoal Block 351 and in Ship Shoal Block 336, which are collectively referred to as the Tau Prospect. In October 2017, the Company acquired a 20% working interest from GulfSlope in Eugene Island Block 397 and Green Canyon Block 4, which are collectively referred to as the Quark Prospect. In January 2018, the Company acquired a 20% working interest in the Vermilion South Addition Block 378 ("Canoe Prospect") from GulfSlope.

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. The likelihood of Delek exercising its options to purchase shares of the Company’s common stock will be dependent on the drilling results from Phase 1 and the Company’s operating results which will affect the price of the Company’s common stock. We currently do not anticipate Delek fully exercising this option before the expiration date. At March 31, 2019, the potential value of issuing 20% of our outstanding stock is approximately $5,800,000. 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.

In accordance with the Delek Agreement and on behalf of the Company and the other working interest owners, GulfSlope as operator, spudded the OCS-G-35589 # 1 well on the Canoe Prospect on Vermilion Block 378 where the Company holds a 5% working interest in July 2018. The well was drilled and evaluated to a total depth of 5,765’ MD (5,700’ TVD). Based on LWD and other test results, thin oil bearing sands were encountered which require further study. As a result, open-hole plugs were set across several intervals in accordance with governmental regulations and the well is now plugged and abandoned at this time. Since the well is equipped with a mud-line suspension system, it is available for future re-entry as warranted.

At the beginning of September 2018, the Company and the other working interest owners began drilling operations at the Tau Prospect on Ship Shoal Blocks 336 and 351 offshore Louisiana. The well, OCS-G 36121 #1, is planned to test Miocene reservoirs beneath thick salt sheets in approximately 300' of water depth. Operated by GulfSlope, the well is currently drilling below 14,500' to an expected total depth below 16,500' TVD. As a result of drilling difficulties on the well there have been substantial cost over-runs to date which the Company has not yet fully funded. As of April 30, 2019, Texas South Energy, Inc. (the "Company") has received a Default Notice and Demand for Payment under the terms of its joint operating agreement with GulfSlope Energy, Inc. ("GulfSlope") and Delek GOM Investments, LLC as a result of its payment failure of $2,870,183 due as of April 18, 2019 with respect to drilling the Tau Prospect in the Gulf of Mexico Outer Continental Shelf. GulfSlope, the operator of the Tau Prospect, previously informed the Company on February 12, 2019 of an event of default with respect to the payment failure of $1,299,229, which amount is included in the $2,870,183 amount due as of April 18, 2019. The Company filed a Form 8-K on May 6, 2019 with respect to this event. The Company's share of the original AFE to drill to 29,800' MD was approximately $800,000. Drilling of the Tau Prospect continues which will result in further amounts owed by the Company to GulfSlope, however on May 13, 2019 GulfSlope announced that they had abandoned the well in a manner that would allow for re-entry at a later time. As a result of that announcement, the Company recorded $1,778,000 of impairment related to the Tau prospect. The operating agreement grants a lien and security interest on the Company's interest in the leases comprising the Tau Prospect, and grants to the operator the right to pursue foreclosure of the lien and security interest. The Company is using its best efforts to raise capital to fund its obligations under the operating agreement with GulfSlope regarding the drilling of the Tau Prospect. If the Company fails to raise needed capital and foreclosure is pursued and is successful, this could result in a loss of all of the Company's rights in the Tau Prospect.

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 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 at the Wilinda Project we are acquiring leases with working interest partners covering more than 4,400 acres 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.

- In September of 2018, we commenced drilling on the TXSO Richter Unit #1H well. The well was drilled, cased and cemented to a depth of 9,442' with a horizontal lateral exceeding 4,000'. The well was frac'd and is now being evaluated with flowback testing. During the flowback period, the well initially produced at rates exceeding 1,000 barrels of frac load water per day with minor amounts of oil and gas. Subsequently, the oil and gas rates did not improve and the Company now believes that the water production is from a deeper zone which is obstructing the oil and gas flow from the Austin Chalk completion zone. The Company plans to isolate the section of the lateral that appears to be the source of the extraneous water and produce the remaining part of the lateral, using a comparable procedure to that used on a nearby well that encountered a similar problem.

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 currently rely primarily upon the sale of our equity securities to fund operations.

Liquidity and Capital Resources

As of March 31, 2019, we had a cash balance of $185,169 and a working capital deficit of $6,407,366. Our accumulated deficit from inception (March 15, 2010) to March 31, 2019 was $18,367,028. For the three months ended March 31, 2019, our net loss of $2,379,524 was mostly funded by loans and payments from working interest owners. During the three months ended March 31, 2019, our cash position decreased by $1,316,597 as a result of no sales of common stock during the quarter and the payment of our expenses.

January 2019, we issued 175,000 shares of common stock to an employee for services rendered.

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 March 31, 2019 compared to the Three months ended March 31, 2018

We earned revenue of $0 during the three months ended March 31, 2019 and 2018. Workover expenses for $37,221 were recorded during the three months ended March 31, 2019 and zero for the three months ended March 31, 2018. Impairment expense of $1,778,000 was recorded during the three months ended March 31, 2019 and zero for the three months ended March 31, 2018. General and administrative expenses were $530,721 ($338,718 non-cash) for the three months ended March 31, 2019, compared to $597,427 ($331,068 non-cash) for the three months ended March 31, 2018. Interest expense was $28,330 for the three months ended March 31, 2019, compared to $48,382 for the three months ended March 31, 2018.

We had a net loss of $2,379,524 for the three months ended March 31, 2019, compared to $637,486 for the three months ended March 31, 2018.

The basic and diluted loss per share for the three months ended March 31, 2019 and 2018 was $(0.00).

Off-Balance Sheet Arrangements

As of March 31, 2019, 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 March 31, 2019, 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 March 31, 2019.

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 issued shares of stock 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, as follows.

January 2019 the Company issued 750,000 shares of common stock to an employee for services totaling $7,650.

On May 16, 2019 the Company was authorized to issue 10,000,000 shares of its common stock to a company for services rendered, however the shares have not yet been issued as of the date of this report.

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

Exhibit Number	Exhibit Description
31.1 (1)	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
32.1 (1)	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
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: May 20, 2019

By: */s/ Michael J. Mayell*
Michael J. Mayell
Chief Executive Officer and
Principal Financial Officer

EX-31.1 2 f10q0319ex31-1_texassouth.htm CERTIFICATION

EXHIBIT 31.1

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 March 31, 2019 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: May 20, 2019

/s/ MICHAEL J. MAYELL

Michael J. Mayell
Principal Executive Officer and Principal Financial Officer

EX-32.1 3 f10q0319ex32-1_texassouth.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: May 20, 2019

/s/ MICHAEL J. MAYELL

Michael J. Mayell
Principal Executive Officer and Principal Financial Officer