

TEXCOM, INC. AND SUBSIDIARIES
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

As of March 31, 2016
and for the Three Months Ended March 31, 2016

NOTICE TO READER

The accompanying unaudited condensed consolidated interim financial statements have been prepared by management, and were not reviewed by the Company's independent auditor.

TEXCOM, INC. AND SUBSIDIARIES
CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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TEXCOM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2016
(UNAUDITED)

Assets

Current assets:	
Cash and cash equivalents	\$ 428,853
Accounts receivable, net	601,462
Prepaid expenses and other current assets	46,372
Current portion of deferred income tax asset	60,000
Total current assets	<u>1,136,687</u>
Property and equipment, net	11,799,001
Intangible assets, net	157,983
Goodwill	23,000
Deferred income tax asset	6,920,001
Total assets	<u>\$ 20,036,672</u>

Liabilities and Equity

Current liabilities:	
Accounts payable and accrued liabilities	\$ 321,343
Income tax payable	20,000
Current portion of long-term debt	7,869,357
Total current liabilities	<u>8,210,700</u>
Other long-term liabilities	100,000
Total liabilities	<u>8,310,700</u>

Commitments and Contingencies

Equity:

Series A convertible preferred stock, \$0.001 par value, 5,000,000 shares authorized, 0 shares issued and outstanding,	-
Non-designated preferred stock, \$0.001 par value, 15,000,000 shares authorized, no shares issued.	-
Common stock, \$0.001 par value, 50,000,000 shares authorized, 11,519,569 shares issued and outstanding	11,519
Additional paid-in capital	24,712,129
Accumulated deficit	(12,997,676)
Total equity	<u>11,725,972</u>
Total liabilities and equity	<u>\$ 20,036,672</u>

See accompanying notes and independent accountant's review report.

TEXCOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2016
(UNAUDITED)

Revenues	\$	<u>670,388</u>
Cost of revenues, excluding royalties, depreciation and amortization		654,705
Royalties		4,062
Depreciation and amortization		<u>285,389</u>
Total cost of revenues		<u>944,156</u>
Gross loss		<u>(273,768)</u>
Selling, general, and administrative expenses		275,971
Loss on sale of assets		<u>2,556</u>
Operating loss		<u>(552,295)</u>
Other expense		
Interest expense		<u>(337,756)</u>
Income before income taxes		(890,051)
Income tax benefit		<u>230,000</u>
Net loss		<u><u>(660,051)</u></u>
Loss per common share – diluted	\$	<u><u>(0.06)</u></u>
Weighted average common shares outstanding – basic		<u><u>11,519,569</u></u>

See accompanying notes and independent accountant's review report.

TEXCOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2016
(UNAUDITED)

Cash flows from operating activities:	
Net loss	\$ (660,051)
Adjustments to reconcile net income to cash from operating activities:	
Depreciation and amortization	285,389
Bad debt recovery	712
Amortization of deferred financing costs	133,024
Loss on disposition of equipment	2,556
Gain from derivative liabilities	-
Deferred income tax benefit	(230,000)
Changes in operating assets and liabilities:	
Accounts receivable	68,315
Prepaid expenses and other current assets	11,831
Accounts payable and accrued liabilities	28,347
Other liabilities	-
Net cash provided by operating activities	<u>(359,877)</u>
Cash flows from investing activities:	
Purchases of property and equipment	-
Net proceeds from restricted cash	1,250,000
Proceeds from sale of equipment and assets	6,975
Proceeds from insurance claim	93,731
Net cash provided by investing activities	<u>1,350,706</u>
Cash flows from financing activities:	
Principal repayments on long-term debt	<u>(1,279,419)</u>
Net cash used in financing activities	<u>(1,279,419)</u>
Net change in cash and cash equivalents	(288,590)
Cash and cash equivalents, beginning of period	<u>717,443</u>
Cash and cash equivalents, end of period	<u>\$ 428,853</u>
Supplemental cash flows information:	
Cash paid for interest	<u>\$ 371,891</u>

See accompanying notes and independent accountant's review report.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Presentation

Texcom, Inc. (“Texcom” or the “Company”) was incorporated under the laws of the State of Texas on December 9, 2003. In 2012, the Company converted from a Texas corporation to a Nevada corporation.

The Company was organized to pursue investment opportunities in certain energy related businesses and develop them to their logical and full commercial potential. The Company is a provider of environmental services to the oil and gas industry, currently engaged in the business of disposing of non-hazardous oilfield wastes (“NOW”) generated by exploration and production operations. The Company’s wholly owned subsidiaries, Texcom Bennett Environmental Services (“Bennett”), Eagle Ford Environmental Services, LLC (“EFES”), and Texcom Peak Environmental Services (“Peak”) operate four wells for disposal in Arkansas and Texas. Bennett and Peak were acquired in July 2014. The Company’s wholly owned subsidiary Texcom Environmental Services, LLC (“TES”) provides naturally occurring radioactive material (“NORM”) consulting and remediation services. TES was formed with the assets and ongoing business that were purchased from ALMAC Environmental Services, Inc. (“ALMAC”), in July 2013.

The Company’s twenty percent (20%) interest in Texcom Gulf Disposal, LLC (“TGD”) is accounted for under the equity method.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reported periods. Actual results could materially differ from those estimates.

Cash and Cash Equivalents – The Company considers any highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents.

Restricted Cash – In 2015, the Company deposited \$1,250,000 into a cash-collateral account as part of its agreement with its primary lender. Per a later agreement with the lender, the Company withdrew that money from the cash-collateral account in March 2016. See Note 5.

Accounts Receivable and Allowance for Doubtful Accounts – Accounts receivable are stated at the amount the Company expects to collect. Accounts receivable represents receivables, net of allowances for doubtful accounts. The allowance for doubtful accounts reflects our best estimate of probable losses inherent in the accounts receivable balance. We determine the allowance based on historical experience and other currently available information. When a specific account is deemed uncollectible, the account is written off against the allowance. As of March 31, 2016, the allowance for doubtful accounts had a balance of \$155,768.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

**NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Equity Method of Accounting – Investments in corporate entities over which the Company can exert significant influence (but not control) are accounted for using the equity method. Under the equity method, the investment is recorded initially at cost. Subsequent adjustments are made through recognition in the income statement for the Company's share of post-acquisition profits and losses and through recognition in stockholders' equity for other post-acquisition changes in the investee's net assets. Dividends received reduce the investment account. The equity method requires the Company to record its investment in the investee as a one-line asset and to reflect its proportionate share of the investee's net income/loss on one line in the statement of operations.

Property and Equipment – Property and equipment are stated at cost. Depreciation is computed over the estimated useful lives of the related assets using the straight-line method for financial reporting purposes. Assets held for sale are not depreciated.

Expenditures for normal repairs and maintenance are charged to expense as incurred. Significant renewals and improvements are capitalized. The costs and related accumulated depreciation of assets retired or otherwise disposed of are eliminated from the accounts, and any resulting gain or loss is recognized in the year of disposal.

Impairment of Long-Lived Assets – Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be realizable or at a minimum annually during the fourth quarter of the year. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying value to determine if an impairment of such asset is necessary. The effect of any impairment would be to expense the difference between the fair value of such asset and its carrying value.

Goodwill and Other Intangible Assets – We apply a fair value-based impairment test to the net book value of goodwill and indefinite-lived intangible assets on an annual basis and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis.

Key Assumptions – The key assumptions in our impairment tests include (1) our projected revenues, expenses and cash flows, (2) an estimated weighted average cost of capital, (3) assumed discount rates depending on the asset and (4) a tax rate. These assumptions are consistent with those hypothetical market participants would use. Since we are required to make estimates and assumptions when evaluating goodwill and indefinite-lived intangible assets for impairment, the actual amounts may differ materially from these estimates.

Changes in assumptions or circumstances could result in impairment. Factors which could cause impairment include, but are not limited to, (1) negative trends in our market capitalization, (2) a decline in prices for oil and natural gas, (3) a decrease in drilling activity, (4) interruption to our operations, (5) changes to the regulatory environment and (6) consolidation of competitors in the disposal industry.

Goodwill – In evaluating goodwill for impairment, we estimate the fair value of our reporting unit by considering market capitalization and other factors if it is more likely than not that the fair value of our reporting unit is less than its carrying value. If the reporting unit's fair value exceeds its carrying value, no further testing is required. If, however, the reporting unit's carrying value exceeds its fair value, we then determine the amount of the impairment charge, if any. We recognize an impairment charge if the carrying value of the reporting unit's goodwill exceeds its estimated fair value.

Intangible Assets – Intangible assets with definite useful lives are recorded on the basis of cost and are amortized on a straight-line basis over their estimated useful lives. The Company uses a useful life of 10 years for permits and 5 to 15 years for customer relationships. The Company evaluates the remaining useful life of intangible assets annually to determine whether events and circumstances warrant a revision to the remaining amortization period. If the estimate of the intangible asset's remaining useful life is changed, the remaining carrying amount of the intangible asset will be amortized prospectively over that revised remaining useful life.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Asset Retirement Obligations – The Company recognizes the fair value of all liabilities where the Company has an obligation to close or remediate property upon its abandonment or the end of its useful life. The amount recognized as a liability is capitalized as part of the cost of the asset to which it relates and amortized to expense ratably over its useful life. The Company’s asset retirement obligations are associated with its oil and gas and industrial wastewater disposal wells.

Derivatives – All derivatives are recorded at fair value and recorded on the balance sheet. Fair values for securities traded in the open market and derivatives are based on quoted market prices. Where market prices are not readily available, fair values are determined using market based pricing models incorporating readily observable market data and requiring judgment and estimates.

Income Taxes – The Company uses the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and income tax carrying amounts of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company reviews deferred tax assets for a valuation allowance based upon whether it is more likely than not that the deferred tax asset will be fully realized. A valuation allowance, if necessary, is provided against deferred tax assets, based upon management’s assessment as to their realization.

Fair Value of Financial Instruments – Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. A fair value hierarchy has been established for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Financial instruments consist of cash and cash equivalents, accounts receivable, collateralized receivables, accounts payable and secured borrowings.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings Per Common Share – The Company provides basic and diluted earnings per common share information for each period presented. The basic earnings per common share is computed by dividing the net income available to common stockholders by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common share is computed by dividing the net income available to common stockholders by the weighted average number of common shares outstanding plus dilutive securities. The dilutive effect of outstanding stock options and warrants is reflected in diluted earnings per share by application of the treasury stock method. The dilutive effect of Series A Preferred Stock is reflected in diluted earnings per share by application of the if-converted method. During a loss period, the potentially dilutive securities have an anti-dilutive effect and are not included in the calculation of dilutive net loss per common share. As of March 31, 2016, potentially dilutive securities include warrant to purchase 64,524 shares of the Company’s common stock.

Revenue Recognition – Revenues consist primarily of revenue from the sale of skim oil and waste disposal activities. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collection is probable. Revenues from waste disposal activities are recognized when the Company takes delivery of the waste product at its disposal well location.

Stock-Based Compensation – The cost of employee services received in exchange for stock is measured based on the grant-date fair value (with limited exceptions). That cost is to be recognized over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). The fair value of immediately vested shares is determined by reference to quoted prices for similar shares, and the fair value of shares issued subject to a service period is estimated using an option-pricing model. Excess tax benefits, for which no valuation allowance is required, are recognized as additions to paid-in-capital.

The Company also makes stock awards to non-employees for goods and services acquired by the Company. These awards are generally recorded at the market price of the shares issued on the date the shares are issued.

Concentration of Credit Risk – Financial instruments which subject the Company to concentrations of credit risk include cash and cash equivalents, accounts receivable, and notes payable to third parties. The Company maintains its cash and cash equivalents with major financial institutions selected based upon management’s assessment of the institutions’ financial stability. Balances periodically exceed the federally insured limits. The Company has not experienced any losses on deposits. Accounts receivable generally arise from sales of services to customers operating in the United States of America. Collateral is generally not required for credit granted. The Company provides allowances for potential credit losses when necessary.

Subsequent Events – the company evaluated subsequent events through the date these financial statements were issued for disclosure purpose.

Recent Accounting Pronouncements – In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs.” ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU is effective for annual periods beginning after December 15, 2015, and interim periods within those annual periods. The Company elected early adoption, and debt liabilities are shown net of debt issuance costs instead of assets. Management does not expect the adoption of this or any other recently issued accounting pronouncements to have a significant effect on the Company’s financial position or results of operations.

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet. Most prominent among the amendments is the recognition of assets and liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. Under the new standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The new standard will be effective for us beginning July 1, 2019, with early adoption permitted. We are currently evaluating the impact of this pronouncement.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2 – INVESTMENTS IN AFFILIATES

In 2005, the Company created a wholly owned subsidiary, Texcom Gulf Disposal, LLC (“TGD”) to develop an injection well it owned in Texas. In various transactions in 2008 and 2009, the Company transferred 80% of its interest in TGD to Montgomery County Environmental Solutions, LLC (“MCES”), a former related party then an unrelated third party, that agreed to provide the working capital necessary to complete the application for a Class I Industrial Wastewater Disposal Permit (“Disposal Permit”), from the Texas Commission on Environmental Quality, (the “TCEQ”), and construct the surface facilities needed to place the disposal business in commercial operation. MCES together with its shareholders is now an owner of the Company.

The Company does not guarantee any obligations of TGD, but may be obligated to partially fund the operations of TGD in order to maintain its 20% interest. When the controlling interest was transferred to MCES, Texcom began to account for TGD using the equity method rather than consolidating the entity. At that time, Texcom’s investment in the net assets of TGD exceeded its share of the net assets recorded in the financial statements of TGD by approximately \$612,000. In 2012, TGD received the disposal permit but as of May 23, 2016 is waiting on a permit related to the surface facilities. Due to the lack of certainty concerning the date on which the necessary permits will be issued, the Company elected to value its investment at zero and recorded a loss on impairment of \$704,052 in 2014.

For the three months ended March 31, 2016, the Company recorded equity losses of affiliates of \$0, related to its investment in TGD.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31, 2016.

	<u>Lives</u>	<u>Amount</u>
Building & improvements	10 - 30 years	\$ 6,555,000
Equipment, furniture & fixtures	5 - 10 years	152,406
Disposal wells	10 - 20 years	5,469,256
Transportation equipment	7 years	255,949
Leasehold improvements	10 - 20 years	2,478,077
Land		<u>301,358</u>
Subtotal		15,212,046
Less: accumulated depreciation		<u>(3,413,045)</u>
Property and equipment, net		<u><u>\$ 11,799,001</u></u>

Depreciation expense was \$243,372 for the three months ended March 31, 2016.

In February 2016, a tornado damaged the Company’s idled facility in the Eagle Ford shale area. Approximately \$400,000 worth of property was damaged. It was fully insured and the Company elected to not replace the damaged equipment, recording no gain or loss on the damages.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS

As of March 31, 2016, the Company has a goodwill balance of \$23,000 from prior business acquisition.

Intangible assets consisted of the following at March 31, 2016:

Customer relationships	\$	810,833
Disposal permit		59,000
Less: accumulated amortization		<u>(711,850)</u>
Intangible assets, net	<u>\$</u>	<u>157,983</u>

Amortization expense was \$42,017 and \$122,000 for the three months ended March 31, 2016.

NOTE 5 – NOTES PAYABLE

Notes payable to a financial institution consisted of the following at March 31, 2016:

\$11,500,000 note payable. All principal is due January 31, 2017.	\$	8,298,127
Less unamortized discount based on imputed interest rate of 12%		<u>(428,770)</u>
Total notes payable		7,869,357
Less: amounts due within one year		<u>(7,869,357)</u>
Long-term portion of notes payable	<u>\$</u>	<u>0</u>

On July 31, 2014, the Company issued a note to borrow \$11,500,000 for the acquisition of Arkansas wells. The note bears interest equal to the 30-day London Interbank Offered Rate (“LIBOR rate”) plus 4.5% (4.94% at March 31, 2016) and is secured by all the assets of the Company. Principal on the note was payable in 58 monthly installments of \$161,100 plus a final payment of \$3,988,854. The Company incurred \$881,513 of financing costs associated with the financing, which are amortized using the effective interest rate method over the life of the loan. The loan required that the Company maintain the following three ratios:

- Debt service coverage ratio (calculated as EBITDA less plus non-cash stock expenses divided by current maturities of long-term debt plus current interest) of at least 1.5, calculated on a year-to-date basis.
- Maximum funded debt to EBITDA of no more than 3.0, calculated on a trailing-trailing-four-quarters basis.
- Positive tangible net worth of at least \$12,000,000.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 5 – NOTES PAYABLE (CONTINUED)

On March 31, 2015, the Company was not in compliance with its debt service coverage (“DCR”) ratio. In April 2015, the bank waived the DCR ratio for the three months ended March 31, 2015 with the first amendment, which required year-to-date testing for all quarters beginning with the three months ending June 30, 2015 and a \$500,000 cash collateral account. As of June 30, 2015, the Company was not in compliance with its funded debt to EBITA ratio. In August 2015, the bank waived the funded-debt-to-EBITDA ratio for the rolling twelve-month period ended June 30, 2015 with the second amendment, which required an additional \$500,000 in a cash collateral account. As of September 30, 2015, the Company was not in compliance with its funded debt to EBITA ratio. In November 2015, the bank waived the funded-debt-to-EBITDA and DCR ratios for the relative periods ended September 30, 2015 with the third amendment, which required an additional \$250,000 in a cash collateral account.

On January 31, 2016, the bank amended the loan to eliminate all covenants except for the requirement for positive net worth of at least \$12,000,000. The amendment requires a one-time payment of \$94,536, interest-only payments each month and quarterly principal payments equal to 75% of excess cash flow. In addition, the \$1,250,000 in the cash collateral account was applied to the loan principal and the loan is now due on January 31, 2017.

For the three months ended March 31, 2016, the Company recognized \$133,024 of expense related to the amortization of deferred financing costs of its notes payable.

NOTE 6 – OTHER LONG-TERM LIABILITIES

The Company’s asset retirement obligations, totaling \$100,000, are related to its expected costs for the plugging of its oil and gas waste disposal injection wells.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 7 – INCOME TAXES

Deferred income tax asset were \$6,980,000 as of March 31, 2016. The income tax benefit of \$230,000 relates primarily to net operating loss carryforward relating to current quarter net loss.

NOTE 8 – EQUITY TRANSACTIONS

Preferred Stock

The Company's Articles of Incorporation authorize the issuance of 20,000,000 shares of preferred stock with a par value of \$0.001 per share. In 2006, the Board of Directors adopted a Statement of Designations Establishing Series A Convertible Preferred Stock ("Preferred"). Initially, 5,000,000 of the 20,000,000 shares authorized have been designated Series A Convertible Preferred Stock, par value \$0.001 per share. All of those shares have been converted to common stock.

Common Stock

The Company is authorized to issue up to 50,000,000 shares of common stock. Each share of common stock has a par value of \$0.001.

During the three months ended March 31, 2016, no shares were issued by the Company.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Royalty Agreements

The Company leases 45 acres in the Eagle Ford shale area, on which the disposal wells and related facilities are located, including the right to drill additional wells on the property, for a lease fee of \$3,000 per month, plus a royalty of \$0.08 for every barrel of disposed fluid, and a 20% royalty of all skim oil sold. The lease expires on June 30, 2027. For the three months ended March 31, 2016, the Company paid \$0 of royalties for skim oil and disposed liquid. On December 31, 2015, the Company idled operations at the site.

Related to the Company's Bennett location, the Company is required to pay a royalty of \$0.15 for every barrel of disposed fluid and paid \$4,062 for the three months ended March 31, 2016.