TEXCOM, INC. AND SUBSIDIARIES

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

As of December 31, 2016
and for the Three Months and Year Ended December 31, 2016

NOTICE TO READER

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

TEXCOM, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

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

Assets		
Current assets:		
Cash and cash equivalents	$	275,441
Accounts receivable, net		226,830
Total current assets		502,271
Property and equipment, net		3,000,000
Total assets	$	3,502,271
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$	155,019
Current portion of long-term debt		8,298,137
Total current liabilities		8,453,156
Other long-term liabilities		50,000
Total liabilities		8,503,156
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, $1.00 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		(29,724,533)
Total equity		(5,000,885)
Total liabilities and equity	$	3,502,271

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

	For the Three Months Ended December 31, 2016	For the Year Ended December 31, 2016
Revenues	$ 436,178	$ 2,397,829
Cost of revenues, excluding royalties, depreciation and amortization	288,698	2,036,990
Royalties	-	9,681
Depreciation and amortization	233,134	1,109,420
Total cost of revenues	521,832	3,156,091
Gross loss	(85,654)	(758,262)
Selling, general, and administrative expenses	110,937	849,140
Loss on sale of assets	(101)	6,198
Impairment of assets	7,389,224	7,964,874
Operating loss	(7,585,714)	(9,578,474)
Other income (expense)		
Interest expense	(232,910)	(1,084,959)
Other income	6,711	16,025
Income before income taxes	-	(10,647,408)
Income tax benefit	(7,150,000)	(6,739,500)
Net loss	$ (14,961,913)	$ (17,386,908)
Net loss per common share, basic and diluted	$ (1.30)	$ (1.51)
Weighted average common shares outstanding	11,519,569	11,519,569

See accompanying notes and independent accountant's review report.

TEXCOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)

Cash flows from operating activities:		
Net loss	$	(17,386,908)
Adjustments to reconcile net income to cash from operating activities:		
Depreciation and amortization		1,109,420
Bad debt expense (recovery)		42,347
Amortization of deferred financing costs		561,794
Loss on impairment of assets		7,964,874
Loss on disposition of equipment		6,198
Deferred income tax expense		6,739,500
Changes in operating assets and liabilities:		
Accounts receivable		116,313
Prepaid expenses and other current assets		58,212
Accounts payable and accrued liabilities		(140,012)
Other Liabilities		20,000
Net cash provided by operating activities		(908,262)
Cash flows from investing activities:		
Net proceeds from restricted cash		1,250,000
Proceeds from sale of equipment and assets		116,939
Proceeds from insurance claim		378,731
Net cash provided by (used in) investing activities		1,745,670
Cash flows from financing activities:		
Principal repayments on long-term debt		(1,279,410)
Net cash used in financing activities		(1,279,410)
Net change in cash and cash equivalents		(442,002)
Cash and cash equivalents, beginning of period		717,443
Cash and cash equivalents, end of period	$	275,441
Supplemental cash flows information:		
Cash paid for interest	$	523,163
Cash paid for income taxes	$	9,500

See accompanying notes and independent accountant's review report.

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 December 31, 2016, the allowance for doubtful accounts had a balance of $11,078.

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.

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.

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. As of December 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 waste disposal activities. Revenues from waste disposal activities are recognized when the Company takes delivery of the waste product at its disposal well location.

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

NOTE 2 - IMPAIRMENT OF LONG LIVED ASSETS

On December 31, 2015, the Company idled its EFES site in the Eagle Ford Shale region, due to adverse economics caused by the depressed price of oil and the decrease in drilling in the area. The Company reduced the value of the assets associated with EFES to $1,000,000. The Company has sought buyers for the property during 2016. However, no buyers have been identified. On September 30, 2016, the Company reduced the value to $9,000 and recorded an impairment loss of $501,317.

During the third quarter of 2016, the Company decided to discontinue its TES activities as those activities have not generated positive cash flow during 2016. The Company recognized a $74,333 impairment loss on Intangible Assets (customer relationships). The estimated net realizable value of the TES property and equipment exceeds the net asset value so no impairment of these assets is necessary

During the fourth quarter of 2016, the Company impaired its Texcom Peak Environmental Services, LLC assets by $7,405,000 to a value of $3 million, representing its current value based on projected cash flow.

NOTE 3 – 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 and in September, 2016 has obtained all necessary building permits. Due to lack of certainty concerning the construction of the facility, the Company elected to value its investment at zero and recorded a loss on impairment of $704,052 in 2014.

For the year ended December 31, 2016, the Company recorded equity losses of affiliates of $0, related to its investment in TGD.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30, 2016.

	Lives	Amount
Disposal wells	5 years	3,000,000
Subtotal		3,000,000
Less: accumulated depreciation		-
Property and equipment, net		$ 3,000,000

Depreciation expense was $960,753 for the year ended December 31, 2016.

In February 2016, a tornado damaged the Company's idled facility in the Eagle Ford shale area. Approximately $379,000 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.

NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets were fully amortized in 2016. Amortization expense was $148,607 for the year ended December 31, 2016.

NOTE 6 – NOTES PAYABLE

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

$11,500,000 note payable. All principal is due January 31, 2018.	$	8,298,137
Less: amounts due within one year		(8,298,137)
Long-term portion of notes payable	$	0

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% (4.95% 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.

NOTE 6 – NOTES PAYABLE (CONTINUED)

On January 31, 2016, the bank amended the loan to eliminate all financial covenants. The amendment required a principal payment of $1,279,410, interest-only payments each month and quarterly principal payments equal to 75% of excess cash flow. The maturity date was extended to January 31, 2017.

On January 31, 2017, the bank amended the loan agreement to extend the maturity date to January 31, 2018. The amendment continued the same terms as the January 31, 2017 amendment, but also added a one-time fee on the maturity date in an amount of $207,453 provided that if the Company reduces the principal balance of the loan by $500,000 before the maturity date, the fee will be reduced to $165,963.

For the year ended December 31, 2016, the Company recognized $561,794 of expense related to the amortization of deferred financing costs of its notes payable.

NOTE 7 – OTHER LONG-TERM LIABILITIES

The Company's asset retirement obligations, totaling $50,000, are related to its expected costs for the plugging of its oil and gas waste disposal injection wells.

NOTE 8 – INCOME TAXES

The Company expensed its deferred income tax assets in the fourth quarter of 2016, recognizing an expense of $6,739,500. While the Company has significant net operating losses, there is no assurance that it will generate income to utilize these losses.

NOTE 9 – 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 year ended December 31, 2016, no shares were issued by the Company.