# TEXCOM, INC. AND SUBSIDIARIES

## CONSOLIDATED INTERIM FINANCIAL STATEMENTS
## (Unaudited)

### As of June 30, 2019
### and for the Six Months Ended June 30, 2019

## 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 JUNE 30, 2019
(UNAUDITED)

**Assets**

| | | |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ | 11,920 |
| Accounts receivable | | 244,638 |
| Prepaid expenses | | 13,113 |
| Total current assets | | 269,671 |
| Property and equipment, net | | 1,500,000 |
| Total assets | $ | 1,769,671 |
| **Liabilities and Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ | 168,089 |
| Deferred interest on long-term debt | | 414,906 |
| Current portion of long-term debt | | 8,298,137 |
| Total current liabilities | | 8,881,132 |
| Other long-term liabilities | | 25,000 |
| Total liabilities | | 8,906,132 |
| 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 | | (31,860,109) |
| Total equity | | (7,136,461) |
| Total liabilities and equity | $ | 1,769,671 |

**TEXCOM, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF OPERATIONS**
**FOR THE SIX MONTHS ENDED JUNE 30, 2019**
**(UNAUDITED)**

| | | |
|---|---|---|
| Revenues | $ | 963,894 |
| Cost of revenues, excluding royalties, depreciation and amortization | | 479,544 |
| Depreciation and amortization | | 300,000 |
| Total cost of revenues | | 779,544 |
| Gross profit | | 184,350 |
| Selling, general, and administrative expenses | | 127,636 |
| Operating profit | | 56,714 |
| Other income (expense) | | |
| Interest expense | | (499,460) |
| Other Income | | 51,141 |
| Loss before income taxes | | (391,605) |
| Income tax expense | | -0- |
| Net loss | $ | (391,605) |
| Net loss per common share, basic and diluted | $ | (0.0340) |
| Weighted average common shares outstanding | | 11,519,569 |

## TEXCOM, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE SIX MONTHS ENDED JUNE 30, 2019
## (UNAUDITED)

| | | |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ | (391,605) |
| Depreciation and amortization | | 300,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | | (40,544) |
| Prepaid expenses | | (5,555) |
| Accounts payable and accrued liabilities | | (98,395) |
| Deferral interest on long term debt | | 207,453 |
| Net cash provided by operating activities | | (28,646) |
| Cash-flows from financing activities | | |
| Reduction in other long-term liabilities | | -0- |
| Net cash used in financing activities | | -0- |
| Net change in cash and cash equivalents | | (28,646) |
| Cash and cash equivalents, beginning of period | | 40,566 |
| Cash and cash equivalents, end of period | $ | 11,920 |
| Supplemental cash flows information: | | |
| Cash paid for interest | $ | 292,007 |
| Cash paid for income taxes | $ | -0- |

## 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 subsidiary, Texcom Peak Environmental Services ("Peak") operates a well for disposal in Arkansas. Peak was acquired in July 2014.

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.

***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.

***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.

## 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.

***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.

***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.

***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

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 the 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 Montgomery County, Texas. In various transactions in 2008 and 2009, the Company transferred 80% of its interest in TGD to Montgomery County Environmental Solutions, LLC ("MCES") in return for MCES providing loans to TGD to allow it to complete the application process for a Class 1 Industrial Wastewater Disposal Permit from the Texas Commission on Environmental Quality ("TCEQ") and to construct the facilities necessary to engage in commercial disposal operations. In conjunction with these transactions, MCES also received shares in the Company that currently represent about 6.5% ownership of the Company. Many of the owners of MCES are also significant shareholders in the Company.

When the controlling interest was transferred to MCES, Texcom began to account for TGD using the equity method of accounting rather than the consolidation method of accounting. 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. Due to the lack of certainty concerning the ultimate construction of the facilities and the commercial viability of the business, the Company elected to value its investment at zero and recorded a loss on impairment of $704,052 in 2014.

Texcom Gulf Disposal, LLC received its permits from the TCEQ in 2011. However, construction activities were delayed due to the inability to obtain the appropriate local construction permits. Once these issues were resolved, TGD found it necessary to seek modification of its TCEQ permits to build a more efficient facility. The modifications to the permits were received in 2018 and construction activities began in early 2019. It is expected that construction will be completed and commercial operations will begin in the third quarter of 2019.

At the time that operations commence, TGD will have approximately $19 million of debt. Initial cash flow from operations will be used to pay off the debt. Once the debt is paid off, free cash flow will be available to distribute to the owners – MCES and the Company.

## NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2019.

| | Lives | |
|---|---|---|
| Disposal wells | 5 years | 3,000,000 |
| Subtotal | | 3,000,000 |
| Less: accumulated depreciation | | (1,500,000) |
| Property and equipment, net | | $ 1,500,000 |

Depreciation expense was $300,000 for the six months ended June 30, 2019.

## NOTE 5 – NOTES PAYABLE

Notes payable to a financial institution consisted of the following at June 30, 2019:

| | |
|---|---|
| $11,500,000 note payable. All principal is due January 31, 2020. | $ 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% (5.483% at March 31, 2017) 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.

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, 2016 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. The fee of $207,453 has been accrued at December 31, 2017.

On January 31, 2018, the bank amended the loan agreement to extend the maturity date to January 31, 2019. The amendment also extended the maturity date of the $207,453 fee to January 31, 2019. The amendment continued the same terms as the January 31, 2016 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. The fee of $207,453 has been accrued at March 31, 2019.

On January 31, 2019, the bank amended the loan agreement to extend the maturity date to January 31, 2020. The amendment also extended the maturity date of the $207,453 fee from the January 31, 2017 extension and the $207,453 fee from the January 31, 2018 extension to January 31, 2020. The amendment continued the same terms as the January 31, 2016 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.

## NOTE 6 – OTHER LONG-TERM LIABILITIES

The Company's asset retirement obligations, totaling $25,000, are related to its expected costs for the plugging of its oil and gas waste disposal injection well.

## NOTE 7 – INCOME TAXES

While the Company has significant net operating losses, there is no assurance that it will generate income to utilize these losses.

## 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 six months ended June 30, 2019, no shares were issued by the Company.

### Warrants

As of June 30, 2019, the company has no outstanding warrants to purchase its common stock.