TEXCOM, INC. AND SUBSIDIARIES

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

As of December 31, 2021
and for the Year Ended December 31, 2021

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, 2021
(UNAUDITED)

Assets

Current assets:		
Cash and cash equivalents	$	65,323
Accounts receivable		0
Prepaid expenses		7,330
Total current assets		72,653
Property and equipment, net		-0-
Total assets	$	72,653
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$	802,532
Deferred interest on long-term debt		622,359
Current portion of long-term debt		8,298,137
Total current liabilities		9,723,028
Other long-term liabilities		300,000
Total liabilities		10,023,028
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		24,812,129
Accumulated deficit		(34,774,023)
Total equity		(9,950,375)
Total liabilities and equity	$	72,653

TEXCOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2021
(UNAUDITED)

Disposal Revenues	$	595,302
Cost of revenues, excluding royalties, depreciation and amortization		785,958
Depreciation, amortization and impairment		600,000
Total cost of revenues		1,385,958
Gross loss		(790,656)
Selling, general, and administrative expenses		188,137
Operating loss		(978,793)
Other (expense)		
Interest expense		(476,533)
Loss before income taxes		(1,455,326)
Income tax expense		-0-
Net loss	$	(1,455,326)
Net loss per common share, basic and diluted	$	(0.1263)
Weighted average common shares outstanding		11,519,569

TEXCOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(UNAUDITED)

Cash flows from operating activities:		
Net loss	$	(1,455,326)
Depreciation, amortization and impairment		600,000
Changes in operating assets and liabilities:		
Accounts receivable		74,493
Prepaid expenses		1,225
Accounts payable and accrued liabilities		406,919
Long-term liabilities		275,000
Net cash provided by operating activities		(97,689)
Cash-flows from financing activities		
Conversion of preferred dividends to paid-in capital		100,000
Net cash used in financing activities		100,000
Net change in cash and cash equivalents		2,311
Cash and cash equivalents, beginning of period		63,012
Cash and cash equivalents, end of period	$	65,323
Supplemental cash flows information:		
Cash paid for interest	$	-0-
Cash paid for income taxes	$	-0-

TEXCOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021
(UNAUDITED)

Stockholders' equity at January 1, 2021	$	(8,595,049)
Net loss for nine months ended December 31, 2021		(1,455,326)
Conversion of preferred dividends to paid-in capital		100,000
Stockholders' equity at December 31, 2021	$	(9,950,375)

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's wholly owned subsidiary, Texcom Peak Environmental Services ("Peak") ceased operations on September 30, 2021 due to a lack of business.

The Company's twenty percent (20%) interest in Union Processing Systems, LLC, ("UPS"), (formerly Texcom Gulf Disposal, LLC) is accounted for under the equity method.

Due to lack of liquidity, it is likely that the Company will terminate its existence in early 2022.

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.

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.

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.

During September 2021, the Company's largest customer for disposal services at Texcom Peak Environmental Services, LLC began to use its own disposal facility, substantially diminishing the volumes received for disposal. As such, the Texcom Peak facility has been shut down. The company has impaired the remaining $150,000 of value attributed to this property. Additionally, the Company has increased the allowance for plugging, abandoning, and remediating this property from $25,000 to $300,000 (gross estimated costs less estimated salvage proceeds).

NOTE 3 – INVESTMENTS IN AFFILIATES

In 2005, the Company created a wholly owned subsidiary, Union Processing Systems, LLC ("UPS") (formerly 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 UPS to Montgomery County Environmental Solutions, LLC ("MCES") in return for MCES providing loans to UPS to allow it to complete the application process for a Class I 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 UPS using the equity method of accounting rather than the consolidation method of accounting. At that time, Texcom's investment in the net assets of UPS exceeded its share of the net assets recorded in the financial statements of UPS 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.

UPS commenced commercial operations in the first quarter of 2020. UPS currently has approximately $22 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 December 31, 2021.

	Lives	
Disposal wells	5 years	3,000,000
Subtotal		3,000,000
Less: accumulated depreciation and impairment		(3,000,000)
Property and equipment, net		$ -0-

Depreciation expense was $450,000 for the year ended December 31, 2021.

Impairment expense was $150,000 for the year ended December 31, 2021.

Estimated net costs (estimated gross costs less estimated salvage proceeds) to plug, abandon, and remediate the property were increased from $25,000 to $300,000 during the year ended December 31, 2021.

NOTE 5 – NOTES PAYABLE

Notes payable to a financial institution consisted of the following at June 30, 2021:

$11,500,000 note payable. All principal was due January 31, 2021.	$ 8,298,137

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. 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. The fee of $207,453 has been accrued at January 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. The fee of $207,453 has been accrued at January 31, 2020.

On January 31, 2020, the bank amended the loan agreement to extend the maturity date to January 31, 2021. The amendment also extended the maturity date of the $207,453 fee from the January 31, 2017 extension, the $207,453 fee from the January 31, 2018 extension, and the $207,453 fee from the January 31, 2019 extension to January 31, 2021. 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.

On July 10, 2020, the bank entered into a Modification Agreement with the Company whereby the interest payments that were due on June 1, 2020, July 1, 2020, and August 1, 2020 were deferred to September 1, 2020. In return the Company agreed that the Libor rate used for determining interest rates under the terms of the Promissory Note would never be less than one percent (1%). The deferred interest payment that was due on June 1, 2020 was paid on September 1, 2020. However, no additional interest payments have been made since then. At June 30, 2021, accounts payable and accrued liabilities includes $502,532 of accrued interest on the Promissory Note.

As of January 31, 2021, the bank loan is past due. It is expected that the bank will sell or assume all of the Company's assets in the first quarter of 2022, or shortly thereafter.

NOTE 6 – OTHER LONG-TERM LIABILITIES

The Company's asset retirement obligations, totaling $300,000, are related to its estimated net costs (gross costs less salvage proceeds) for the plugging, abandoning, and remediating 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 nine-year ended December 31, 2021, no shares were issued by the Company.

Paid-in Capital

During the year ended December 31, 2021, $100,000 of unlocated preferred dividends were converted to paid-in capital.