TEXCOM, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2015 and December 31, 2014
and for the Three and Six Months Ended June 30, 2015 and 2014

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Index

	Page #
Unaudited consolidated balance sheets as of June 30, 2015 and December 31, 2014	2
Unaudited consolidated statements of operations for the three and six months ended June 30, 2015 and 2014	3
Unaudited consolidated statements of cash flows for the six months ended June 30, 2015 and 2014	4
Notes to unaudited consolidated financial statements	5

TEXCOM, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 2,179,025	$ 1,731,815
Restricted cash	500,000	100,000
Accounts receivable, net	1,056,579	1,928,580
Prepaid expenses and other current assets	141,914	53,527
Prepaid income taxes	30,000	1,390,000
Current portion of deferred income tax asset	30,000	70,000
Total current assets	3,937,518	5,273,922
Property and equipment, net	21,597,208	22,447,646
Equity in net assets of affiliate	-	-
Intangible assets, net	1,202,667	1,757,001
Goodwill	2,427,762	1,998,292
Deferred income tax asset	1,487,000	1,277,000
Other assets	125,585	-
Total assets	$ 30,777,740	$ 32,753,861
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 443,074	$ 805,136
Derivative liability	596	5,683
Line of credit	-	-
Current portion of long-term debt	1,159,258	1,099,496
Total current liabilities	1,602,928	1,910,315
Other long-term liabilities	100,000	751,066
Long-term debt, net of current portion	8,370,050	9,015,110
Total liabilities	10,072,978	11,676,491
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 and 11,519,5699 shares issued and outstanding	11,519	11,519
Additional paid-in capital	24,712,129	24,712,129
Accumulated deficit	(4,018,886)	(3,646,278)
Total equity	20,704,762	21,077,370
Total liabilities and equity	$ 30,777,740	$ 32,753,861

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

TEXCOM, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATION

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Revenues	$ 1,431,083	$ 2,179,739	$ 3,043,598	$ 7,209,804
Cost of revenues, excluding royalties, depreciation and amortization	1,072,456	1,230,151	2,157,506	2,875,166
Royalties	87,980	391,928	168,650	1,328,463
Depreciation and amortization	493,951	186,236	1,042,946	363,297
Total cost of revenues	1,654,387	1,808,315	3,369,102	4,566,926
Gross profit (loss)	(223,304)	371,424	(325,504)	2,642,878
Selling, general, and administrative expenses	289,928	1,301,009	641,765	1,646,187
Loss on sale of assets	25,600	-	19,904	21,868
Operating income (loss)	(538,832)	(929,585)	(987,173)	974,823
Other income (expense)				
Interest expense	(229,345)	(400,255)	(440,366)	(574,664)
Gain on sale of MBES assets	-	11,242,147	-	11,242,147
Equity in loss of affiliate	-	(828)	-	(1,087)
Gain on modification of contract	849,844	-	849,844	-
Gain (loss) on derivative liability	1,342	(3,023)	5,087	(31,348)
Income (loss) before income taxes	83,009	9,908,456	(572,608)	11,609,871
Income tax benefit (expense)	(30,000)	(3,350,000)	200,000	(3,920,000)
Net income (loss)	53,009	6,558,456	(372,608)	7,689,871
Income attributable to noncontrolling interest	-	(485,090)	-	(592,891)
Net income (loss) attributable to Texcom shareholders	$ 53,009	$ 6,073,366	$ (372,608)	$ 7,096,980
Income per common share – basic	$ 0.00	$ 0.90	$ (0.03)	$ 1.05
Income per common share – diluted	$ 0.00	$ 0.86	$ (0.03)	$ 1.01
Weighted average common shares outstanding – basic	11,519,569	6,649,555	11,519,569	6,552,733
Weighted average common shares outstanding – diluted	11,519,569	7,090,527	11,519,569	7,024,241

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

TEXCOM, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended	
	June 30, 2015	June 30, 2014
Cash flows from operating activities:		
Net income (loss)	$ (372,608)	$ 7,689,871
Adjustments to reconcile net income (loss) to cash from operating activities:		
Depreciation and amortization	1,042,946	363,297
Bad debt recovery	(115,865)	(43,065)
Amortization of deferred financing costs	139,304	332,879
Gain on sale of assets of MBES	-	(11,242,147)
Stock-based compensation	-	660,000
Equity in loss of affiliate	-	1,087
Gain on modification of contract	(849,844)	-
Loss on disposition of equipment	19,904	21,868
Loss (gain) from derivative liabilities	(5,087)	31,348
Deferred income tax	(170,000)	2,980,000
Changes in operating assets and liabilities:		-
Accounts receivable	987,866	1,211,730
Prepaid expenses and other current assets	(213,972)	(130,537)
Prepaid income tax	1,360,000	(590,000)
Accounts payable and accrued liabilities	(295,214)	(1,115,485)
Other liabilities	89,496	458
Net cash provided by operating activities	1,616,926	171,304
Cash flows from investing activities:		
Acquisition of subsidiaries	(7,048)	-
Purchases of property and equipment	(327,991)	(153,250)
Proceeds from sale of equipment and MBES assets	10,000	12,838,149
Proceeds from insurance claim	279,913	-
Change in restricted cash	(400,000)	(100,000)
Net cash provided by (used in) investing activities	(445,126)	12,584,899
Cash flows from financing activities:		
Net change in line of credit	-	(529,843)
Principal repayments on long-term debt	(724,590)	(6,596,656)
Payment of dividends to noncontrolling interest	-	(1,636,319)
Net cash used in financing activities	(724,590)	(8,762,818)
Net change in cash and cash equivalents	447,210	3,993,385
Cash and cash equivalents, beginning of period	1,731,815	791,716
Cash and cash equivalents, end of period	$ 2,179,025	$ 4,785,101
Supplemental cash flows information:		
Cash paid for interest	$ 247,262	$ 135,942
Cash paid (refunded) for income taxes	$ (1,430,000)	$ 1,582,000
Non-cash investing and financing activities:		
Transfer of warrant derivative from liability to equity classification	$ -	$ 161,664

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

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. See Notes 2 and 5. 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.

In April 2014, the Company sold the assets of M.B. Environmental Services, LLC ("MBES"), which operated two NORM disposal wells in Texas. See Note 2.

The consolidated financial statements include the accounts of the Company and its wholly owned and majority-owned subsidiaries. All material intercompany transactions and balances have been eliminated. The Company owned 83.2% of M.B. Energy Services ("MBSI"), which fully owned MBES before the sale in April 2014. The Company does not expect there to be any further dividends to the noncontrolling interest that owns 16.8% of MBSI.

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.

Reclassifications – Certain prior period amounts have been reclassified to conform to current period presentation.

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 – During the year ended December 31, 2014, the Company deposited $100,000 into an escrow account related to a potential acquisition of an oilfield waste disposal business that had not been completed as of June 30, 2015. The Company received $75,000 from the escrow account in the current year, paying $25,000 per the escrow agreement. In June 2015, the Company deposited $500,000 into a cash-collateral account as required by the May 2015 amendment to its loan agreement as described in Note 6. At June 30, 2015 there was $500,000 in restricted cash related to the loan agreement and at December 31, 2014 there was $100,000 in restricted cash related to the escrow agreement.

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 June 30, 2015 and December 31, 2014, the allowance for doubtful accounts was $85,552 and $197,780, respectively.

NOTE 1 – 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 and workforce. 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.

NOTE 1 – 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.

NOTE 1 – 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.

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.

NOTE 2 – DISPOSITION AND AQUISITIONS

Sale of assets of MBES

On April 16, 2014, the Company sold the tangible assets of MBES, retaining the cash, accounts receivable and accounts payable. The details of the sale were:

Gross sales price	$	15,724,087
Payments to royalty holder		(2,492,836)
Payments to financial advisors		(392,102)
Net proceeds from sale		12,839,149
Net book value of assets sold		(1,597,002)
Gain on sale of assets of MBES	$	11,242,147

The previous land owner elected to receive a 6% royalty on the sale of the assets in lieu of exercising its right of first refusal, as described in Note 11. This payment amounted to $943,445. Additionally, this party received a payment of $1,549,391 to settle a dispute regarding the financing transactions that took place in 2009. The party filed suit in Chambers County, Texas in February 2014, claiming that MBES had breached its contract with the party in 2009 by conveying a property interest (the royalty conveyance to the financing party) without providing notice to the party. While confident that it had properly notified the party of the royalty conveyance in 2009, MBES settled the suit in April 2014 so it could proceed with the sale of the assets.

Upon closing the sale, the Company immediately extinguished all long-term debt and paid out a portion of the proceeds to the 16.8% owners in MBSI. The Company intends to use the rest of the cash to cover related tax expense and fund future acquisitions of disposal properties. MBES will provide future cash flows from the collection of accounts receivable to be offset by payment of related royalties and of accounts payable.

The assets sold in this transaction were as follows:

Property and equipment, net	$	1,019,289
Intangible assets, net		180,991
Goodwill		396,722
Total assets sold	$	1,597,002

Depreciation and amortization were recorded on these assets through December 31, 2013.

Acquisition of Arkansas Saltwater Disposal Wells

On July 31, 2014, the Company completed the acquisition of two saltwater disposal wells in Arkansas. The Company accounted for the assets and ownership interests in accordance with the provisions of *ASC 805, Business Combinations*. Pursuant to the purchase agreement, the Company issued 4,319,209 shares of common stock and paid $9,848,098 in cash. The stock was valued at $10,798,022 based on the market price on the date of the transaction. In July 2015, the Company settled an ongoing legal dispute in Arkansas, for which it was required to pay $49,470 as its share of legal fees. During the six months ended June 30, 2015, the Company paid $7,048. When the acquisition was originally valued, no accrual was made of the possible legal fees, because they could not be estimated accurately. The allocation of the purchase price was updated on June 30, 2015 for the legal fees and for a new breakdown between goodwill and customer relationships.

NOTE 2 – DISPOSITION AND AQUISITIONS

The acquisition price was allocated to the assets acquired based upon their estimated fair values. The following table summarizes the estimated fair values of the assets acquired at the date of acquisition. The Company did not assume any liabilities other than the asset retirement obligation related to the disposal wells. The estimated fair values of assets acquired were determined based on management's best estimates. Estimates and assumptions are subject to change upon management's final review.

Assets acquired:		
Plant, property and equipment	$	18,087,000
Customer relationships		920,000
Permits		100,000
Goodwill		1,638,590
Less: contingent liability for legal fees		(49,470)
Less: asset retirement obligation		(50,000)
Net assets acquired	$	20,646,120
Consideration:		
Common stock	$	10,798,022
Cash		9,848,098
Total consideration	$	20,646,120

The estimated useful lives for assets acquired are 5 years for customer relationships and 10 years for permits.

The Company originally valued the acquisition at $20,646,120, including $1,300,000 for customer relationships and $1,179,120 for goodwill, and it has since been revalued, due to measurement period adjustments. Measurement period adjustments represent updates made to the preliminary purchase price allocation based on revisions to valuation estimates in the interim period subsequent to the acquisition and initial accounting date up until the purchase price allocation is finalized which cannot be any later than one year from the acquisition date.

The following table presents the unaudited pro forma results of operations that reflect the acquisition of the Arkansas saltwater disposal wells and the disposition of MBES as if the acquisition had already occurred as of January 1, 2014, adjusted for items that are directly attributable to the acquisition. This information has been compiled from historical financial statements, and is not necessarily indicative of the results that actually would have been achieved had the transaction already occurred at the beginning of 2014 or that may be achieved in the future.

		For the six months ended June 30, 2014
Gross revenue	$	7,731,231
Gross profit		2,937,508
Operating income		1,286,069
Net income attributable to Texcom shareholders		554,010
Earnings per share – basic and diluted		0.05

NOTE 2 – DISPOSITION AND ACQUISITIONS (CONTINUED)

Acquisition of ALMAC

On July 1, 2013, the Company completed the acquisition of certain assets of ALMAC. The Company accounted for the assets and ownership interests in accordance with the provisions of *ASC 805, Business Combinations*. Pursuant to the purchase agreement, the Company paid $1,200,000, consisting of $1,000,000 cash at closing and $200,000 recorded as a payable to the sellers, which was paid during 2013. In addition, the Company agreed to pay up to $1,600,000 as contingent consideration, based on the subsidiary's cumulative earnings for the first 16 quarters. The Company has calculated an estimated present value of the contingent consideration of $794,754 at December 31, 2014, which includes accretion of $144,754 since the acquisition date.

In June 2015, one of the sellers of ALMAC elected to voluntarily retire with the understanding that doing so would void the sellers' rights to contingent consideration. The Company recorded a gain of $849,844 related to the elimination of the contingent liability.

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 then 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 15, 2015 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 June 30, 2015 and 2014, the Company recorded equity losses of affiliates of $0 and $1,087, respectively, related to its investment in TGD.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2015 and December 31, 2014.

	Lives	June 30, 2015	December 31, 2014
Building & improvements	10 - 30 years	$ 6,555,000	$ 6,555,003
Equipment, furniture & fixtures	5 - 10 years	142,458	142,458
Disposal wells	10 - 20 years	5,411,000	5,411,000
Transportation equipment	7 years	275,668	294,766
Leasehold improvements	10 - 20 years	11,343,859	11,343,409
Land		301,358	301,358
Subtotal		24,029,343	24,047,994
Less: accumulated depreciation		(2,432,135)	(1,600,348)
Property and equipment, net		$ 21,597,208	$ 22,447,646

Depreciation expense was $868,612 and $254,297 for the six months ended June 30, 2015 and 2014, respectively.

On January 10, 2015, a lightning strike damaged the Company's facility in the Eagle Ford shale area, necessitating approximately $300,000 of replacements and repairs and closing one of the two wells until late March 2015. The property was fully insured and the Company expects its insurance claim to cover all costs to repair and replace the property.

NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS

As of June 30, 2015 and December 31, 2014, our goodwill balance was $2,127,762 and $1,698,292 respectively.

Intangible assets consisted of the following at June 30, 2105 and December 31, 2014:

	June 30, 2015	December 31, 2014
Customer relationships	$ 1,710,000	$ 2,090,000
Disposal permit	100,000	100,000
Less: accumulated amortization	(607,333)	(432,999)
Intangible assets, net	$ 1,202,667	$ 1,757,001

Amortization expense was $174,334 and $109,000 for the six-month ended June 30, 2015 and 2014, respectively.

NOTE 6 – NOTES PAYABLE

Notes payable consisted of payables to financial institutions and other third parties of the following at June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
$11,500,000 note payable. Final maturity date of the note is July 31, 2019.	$ 10,194,404	$ 10,919,006
Less: unamortized discount based on imputed interest rate of 8%	(665,096)	(804,400)
Total notes payable	9,529,308	10,114,606
Less: amounts due within one year	(1,159,258)	(1,099,496)
Long-term portion of notes payable	$ 8,370,050	$ 9,015,110

On July 31, 2014, the Company issued a note to borrow $11,500,000 for the acquisition of Arkansas wells. (See Note 2). The note bears interest equal to the 30-day London Interbank Offered Rate ("LIBOR rate") plus 4.5% (4.69% at June 30, 2015), and is secured by all the assets of the Company. Principal on the note is 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 is amortized using the effective interest rate method over the life of the loan. The term loan requires that the Company maintain the three following 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.

On March 31, 2015, the Company was not in compliance with its debt service coverage ("DCR") ratio. In April 2014, the bank waived the DCR ratio for the three months ended March 31, 2015 with the first amendment, which requires 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 twelve-month period ending June 30, 2015 with the second amendment, which requires an additional $500,000 in a cash collateral account.

For the six months ended June 30, 2015 and 2014, the Company recognized $139,142 and $332,879 of expense related to the amortization of deferred financing costs of its notes payable, respectively.

NOTE 7 – DERIVATIVE INSTRUMENTS

The Company determined that the warrants associated with the purchase of the Eagle Ford share area disposal well qualified for accounting treatment as a financial derivative, because the warrant agreement requires that the exercise price and number of shares be adjusted if the Company sells or issues stock or common-stock equivalents at a price that is less than the warrant's strike price. The fair value of $112,020 on these warrants valued in August 2011, the date of issuance, was classified as a derivative liability. At December 31, 2013, the Company revalued the derivative at $157,035. On February 18, 2014, the warrant holder partially exercised its warrants in a cashless exercise, receiving 90,789 shares with a derivative value of $23,547, the equivalent of purchasing 500,000 shares in a for-cash exercise. On March 19, 2014 the warrant holder partially exercised its warrants in a separate cashless exercise, receiving 401,923 shares with a derivative value of $138,117, the equivalent of 1,000,000 shares in a for-cash exercise. On June 30, 2014, the Company again revalued the derivative at $26,719. Including the effect of the conversion, the Company recorded a loss of $31,348 during the six months ended June 30, 2014. On June 30, 2015 the Company again revalued the derivative at $596, recording a gain of $5,087.

After adjustments for price resets, the warrant provides for the purchase of 30,064 shares at an exercise price of $0.16 per share, expiring in August 2015.

The Company developed a lattice model that values the derivative based on a probability weighted discounted cash flow model. This model is based on future projections of the various potential outcomes. The following assumptions were made in valuing the derivative at June 30, 2015 and 2014.

- The stock price will fluctuate with an annual volatility ranging from 82% to 99% at June 30, 2015 and December 31, 2014.
- The holder will exercise the warrant at a target price equal to 2.0 times the reset price or stock price.
- The holder will exercise at maturity if the market value exceeds the exercise price.
- The Company will raise capital through sales of common stock quarterly during the next twelve months at prices equal to the market value.

NOTE 8 – OTHER LONG-TERM LIABILITIES

	June 30, 2015	December 31, 2014
Asset retirement obligations	$ 100,000	$ 100,000
Production payment of Eagle Ford well	72,031	103,500
Contingent consideration related to the acquisition of ALMAC	-	794,755
Subtotal	172,031	998,255
Current portion of production payment and contingent consideration	(72,031)	(247,189)
Long-term portion of other long-term liabilities	$ 100,000	$ 751,066

The Company's asset retirement obligations, totaling $100,000 at June 30, 2015 and December 31, 2014 are related to its expected costs for the plugging of its oil and gas waste disposal injection wells. The balances are included in other long-term liabilities on the consolidated balance sheets.

As part of the August 2011 acquisition of the disposal well in the Eagle Ford shale area, the Company agreed to pay $0.03 for every barrel of disposed liquid, up to a maximum of $350,000. Accordingly, the Company calculated the present value of the future payments at $240,265 and recorded a liability. For the six months ended June 30, 2015, and 2014, the Company paid $29,356 and $51,342, respectively, for disposed liquid. The present value of the estimated remaining payments is $72,031.

See Note 2 concerning the contingent liability related to the purchase of ALMAC.

NOTE 9 – INCOME TAXES

Deferred income tax asset were $1,517,000 and $1,347,000 as of March 31, 2015 and December 31, 2014, respectively. This increase relates primarily to net operating loss carry forward relating to current quarter net loss.

As of June 30, 2015, for income tax reporting purposes, the Company has approximately $12,660,000 of unused NOLs available for carryforward to future years to offset federal and state taxable income. The benefit from the $12,360,000 of federal NOLs will begin expiring during the year ending December 31, 2029, and the benefit from the $300,000 of state NOLs will expire in 2019. Because United States federal and state tax laws limit the time during which NOL carry forwards may be applied against future taxable income, the Company may be unable to take full advantage of its NOL should the Company generate taxable income. Further, the benefit from utilization of NOLs could be subject to limitations due to material ownership changes that could occur in the Company as it continues to raise additional capital.

The Company partially reserved its federal net deferred tax assets related to NOLs due to the uncertainty of future taxable income. As of June 30, 2015 and December 31, 2015, the company decreased its net deferred tax assets by $1,830,000 as a valuation allowance related to the uncertainty.

NOTE 10 – 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. The shares were entitled to a dividend of $0.20 per share payable on October 1 of each year commencing October 1, 2006, when and if declared by the Board of Directors. If not paid, the dividends accumulate and no dividends, whether in cash, stock or other property, and no distributions could be made on any class of stock of the Company ranking junior to the Series A Convertible Preferred Stock until dividends are no longer in arrears. Furthermore, the Company could not redeem, purchase or otherwise acquire any stock ranking junior to the Series A Convertible Preferred until dividends are no longer in arrears. The Series A Convertible Preferred shares were convertible into 0.2 shares (2.0 shares before the reverse split) of common stock, par value $0.001. The conversion rate is subject to anti-dilution provisions in certain circumstances set out in the Statement of Designations.

On September 30, 2014, the preferred shareholders voted to convert their 2,028,750 preferred shares to 405,750 common shares and receive dividend of $3,246,000, which was $1.60 per preferred share, $0.20 for each year from October 1, 2006 to the conversion date. As of December 31, 2014, all shares had been issued and the Company has accrued for all dividends that have not been paid.

NOTE 10 – EQUITY TRANSACTIONS (CONTINUED)

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.

On July 25, 2014, the Company's Board of Directors approved a reverse split of the Company's common stock at a ratio of 10:1, such that every 10 common shares were exchanged for 1 common share. All share numbers or per share information presented gives effect to the reverse stock split.

As of June 30, 2015, the Board of Directors of the Company has reserved a total of 94,588 shares of common stock for the contingent issuances in connection with warrants issued to non-employees.

During the six months ended June 30, 2015, no shares were issued by the Company.

During the six months ended June 30, 2014, 492,712 shares were issued to an investor in the cashless partial exercise of a warrant. Also, the Company issued 3,000,000 shares, valued at $660,000 to the Board of Directors and two employees for their services.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Royalty Agreements

As part of the land acquisition transaction which established the Company's MBES operations in 1998, the Company was required to pay the previous land owner a 7% royalty on all cash received from disposal operations at its location in Liberty County. The previous land owner was also entitled to a right of first refusal on any proposed sale of the land and business assets or in lieu of exercising its right of first refusal, might elect to receive a 6% royalty on the sales proceeds. See Note 2 concerning the sale of the majority of the assets of MBES. That sale released Texcom from all royalty requirements related to the previous land owners.

As part of the acquisition of additional interests in the MBES operations in 2009, the Company granted the financing party a 20% royalty on all of MBES' cash receipts. The Company was required to receive consent from the financing party to operate, invest in or otherwise take part in a competing business in the state of Texas or its bordering states. Without such consent, the Company would have been obligated to pay double the 20% royalty for as long as the competing operations continued. As part of the April 2014 sale of the majority of the MBES assets to an affiliate of the financing party, Texcom obtained a release from all royalty requirements. Further, the non-compete area was reduced to 150 miles from the MBES location.

Related to the Company's 45-acre lease 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.

Related to the Company's Bennett location, the Company is required to pay a royalty of $0.15 for every barrel of disposed fluid.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 – EARNINGS PER COMMON SHARE

The following table illustrates the computation of basic and diluted earnings (loss) per common share for the three and six months ended June 30, 2015 and 2014.

	For the three months ended		For the six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Basic earnings per share				
Numerator:				
Net income (loss) attributable to Texcom shareholders	$ 53,009	$ 6,073,366	$ (372,608)	$ 7,096,980
Less: preferred stock dividends	-	(101,437)	-	(202,875)
Income (loss) available to common shareholders	$ 53,009	$ 5,971,929	$ (372,608)	$ 6,894,105
Denominator:				
Weighted-average common shares outstanding	11,519,569	6,649,556	11,519,569	6,552,733
Basic earnings per common share	$ 0.00	$ 0.90	$ (0.03)	$ 1.05
Dilutive earnings per share				
Numerator:				
Income (loss) available to common shareholders	$ 53,009	$ 6,073,366	$ (372,608)	$ 7,096,980
Denominator:				
Weighted-average common shares outstanding	11,519,569	6,649,556	11,519,569	6,552,733
Effect of dilutive securities:				
Preferred shares	-	405,750	-	405,750
Warrants	-	35,221	-	65,758
Adjusted weighted-average common shares	11,519,569	7,090,527	11,519,569	7,024,241
Dilutive earnings (loss) per common share	$ 0.00	$ 0.86	$ (0.03)	$ 1.01

Potentially dilutive securities include stock options and warrants to purchase 94,588 shares of common were excluded from the computation of dilutive earnings per share for the three and six months ended June 30, 2015 because their effect would have been antidilutive.

There were no potentially dilutive securities excluded from the computation of dilutive earnings per share for the three and six months ended June 30, 2014 because their effects were all dilutive.