TEXCOM, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2013 and December 31, 2012
and for the Three and Nine Months Ended September 30, 2013 and 2012

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TEXCOM, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS

		September 30, 2013		December 31, 2012
Assets				
Current assets:				
Cash and cash equivalents	$	924,129	$	807,022
Restricted cash		25,485		1,809,000
Accounts receivable, net		2,529,457		1,772,043
Prepaid expenses and other current assets		273,984		64,320
Current portion of deferred tax asset		330,000		320,000
Total current assets		4,083,055		4,772,385
Property and equipment, net		5,924,760		3,586,538
Equity in net assets of affiliate		706,553		707,793
Intangible assets, net		902,157		199,771
Goodwill		1,407,607		396,722
Deferred tax asset, net of current portion		2,660,000		2,330,000
Other assets		253,678		602,168
Total assets	$	15,937,810	$	12,595,377
Liabilities and Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	1,863,432	$	2,315,057
Payables to employees		517,392		-
Derivative liability		165,885		89,786
Line of credit		-		882,378
Current portion of long-term debt		1,800,012		1,591,858
Total current liabilities		4,346,721		4,879,079
Other long-term liabilities		1,048,205		233,595
Long-term debt, net of current portion		5,246,647		5,796,658
Total liabilities		10,641,573		10,909,332
Commitment and Contingencies				
Equity:				
Series A convertible preferred stock, $0.001 par value, 5,000,000 shares authorized, 2,028,750 shares issued and outstanding		2,029		2,029
Non-designated preferred stock, $1.00 par value, 15,000,000 shares authorized, no shares issued		-		-
Common stock, $0.001 par value, 100,000,000 shares authorized, 63,878,389 shares issued and outstanding		63,878		63,878
Additional paid-in capital		13,030,556		13,030,556
Accumulated deficit		(8,938,424)		(12,555,843)
Total TexCom equity		4,158,039		540,620
Noncontrolling interest		1,138,198		1,145,425
Total equity		5,296,237		1,686,045
Total liabilities and equity	$	15,937,810	$	12,595,377

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

TEXCOM, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Revenues	$ 4,154,179	$ 2,648,160	$ 11,797,713	$ 8,857,941
Cost of revenues, excluding royalties and depreciation	1,407,698	629,265	3,004,184	1,947,031
Royalties	762,820	722,318	2,571,567	2,116,434
Depreciation	115,531	116,085	310,330	353,833
Total cost of revenues	2,286,049	1,467,668	5,886,081	4,417,298
Gross profit	1,868,130	1,180,492	5,911,632	4,440,643
Selling, general, and administrative expenses	(798,292)	(459,705)	(1,633,872)	(1,488,929
Loss on disposition of equipment	(29,867)	-	(22,867)	-
Operating income	1,039,971	720,787	4,254,893	2,951,714
Other income (expense)				
Interest expense	(173,462)	(370,000)	(547,841)	(1,105,603)
Enhanced payments to shareholders	-	-	-	(65,627)
Equity in loss of affiliate	(230)	(1,952)	(1,241)	(94,564)
Gain (loss) on derivative liability	(37,322)	30,580	(76,099)	38,415
Income before income taxes	828,957	379,415	3,629,712	1,724,335
Income tax benefit	1,310,000	1,960,000	340,000	1,960,000
Net income	2,138,957	2,339,415	3,969,712	3,684,335
Income attributable to noncontrolling interest	(89,055)	(61,829)	(352,293)	(258,875)
Net income attributable to TexCom shareholders	$ 2,049,902	$ 2,277,586	$ 3,617,419	$ 3,425,460
Income per common share – basic	$ 0.03	$ 0.03	$ 0.05	$ 0.05
Income per common share – diluted	$ 0.03	$ 0.03	$ 0.05	$ 0.05
Weighted average common shares outstanding – basic	63,878,389	63,878,389	63,878,389	63,482,114
Weighted average common shares outstanding – diluted	68,364,595	68,135,500	64,034,258	66,560,207

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 Nine Months Ended September 30, 2013 and 2012

	September 30, 2013	September 30, 2012
Cash flows from operating activities:		
Net income	$ 3,969,712	$ 3,684,335
Adjustments to reconcile net income to cash from operating activities:		
Depreciation and amortization	342,786	367,918
Bad debt expense (recovery)	(12,666)	26,850
Amortization of deferred financing costs	221,623	226,938
Amortization of debt discount	-	39,476
Stock-based compensation	-	22,000
Equity in loss of affiliate	1,241	94,564
Loss on disposition of equipment	22,867	-
Loss (gain) from derivative liabilities	76,099	(38,415)
Deferred income tax benefit	(340,000)	(1,960,000)
Changes in operating assets and liabilities:		
Accounts receivable	(744,748)	(226,663)
Prepaid expenses and other current assets	(29,718)	(100,901)
Accounts payable and accrued liabilities	(410,729)	(203,169)
Payables to employees	317,392	-
Other liabilities	(33,778)	-
Net cash provided by operating activities	3,380,081	1,932,933
Cash flows from investing activities:		
Advances to affiliates	-	(82,833)
Net proceeds from restricted cash	1,783,515	15,471
Proceeds from sale of equipment	20,000	-
Acquisition of ALMAC	(1,000,000)	-
Purchases of property and equipment	(2,429,654)	(601,826)
Net cash used in investing activities	(1,626,139)	(669,188)
Cash flows from financing activities:		
Proceeds from long-term debt	960,000	-
Net repayment on line of credit	(882,378)	-
Borrowing fees paid with cash	(53,080)	-
Principal repayments on long-term debt	(1,301,857)	(1,978,249)
Principal repayments on long-term debt, related party	-	(144,535)
Payment of dividends to noncontrolling interest	(359,520)	(25,180)
Proceeds from issuances of common stock	-	121,888
Net cash used in financing activities	(1,636,835)	(2,026,076)
Net change in cash and cash equivalents	117,107	(762,331)
Cash and cash equivalents, beginning of period	807,022	1,221,149
Cash and cash equivalents, end of period	$ 924,129	$ 458,818
Supplemental cash flows information:		
Cash paid for interest	$ 356,904	$ 882,539
Cash paid for income taxes	$ -	$ -
Non-cash investing and financing activities:		
Payable for purchase of equipment	$ 34,063	$ -

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 related to the waste generated by the exploration, drilling, production, transportation and refining of petroleum and natural gas products. Among these wastes are non-hazardous oilfield waste ("NOW") and Naturally Occurring Radioactive Materials ("NORM"). The Company's controlled subsidiaries, M.B. Environmental Services, LLC ("MBES") and Eagle Ford Environmental Services, LLC ("EFES"), operate two wells for disposal of NOW and NORM and one for disposal of NOW, all located in Texas. The Company's wholly owned TexCom Environmental Services, LLC ("TES") provides consulting, remediation services. TES was formed with the assets and ongoing business that were purchased from ALMAC Environmental Services, Inc. ("ALMAC"), in July 2013, for $1.2 million and an earnout valued at $816,555. The acquired fixed assets were valued at $270,828, the customer relationships at $734,842 and the goodwill at $1,010,885. See notes 2, 6 and 9.

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 owns 83.2% of M.B. Energy Services ("MBSI") who fully owns MBES. 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.

Summary of Significant Accounting Policies

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange Commission and should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2012 posted on the website of OTC Markets. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which substantially duplicate the disclosure contained in the audited financial statements for the year ended December 31, 2012 have been omitted.

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 nine months ended September 30, 2013, we drew down $1,783,515 of restricted cash to construct a second well at our site in the Eagle Ford Shale area. At September 30, 2013 and December 31, 2012, there was $25,485 and $1,809,000, respectively, of restricted cash. The funds were part of the debt that was originated on November 30, 2012.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 September 30, 2013 and December 31, 2012, the allowance for doubtful accounts was $171,478 and $158,812, respectively.

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.

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 – As of September 30, 2013 and December 31, 2012, our goodwill balance was $1,407,607 and $396,722, respectively. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 20 years for permits and 10 years for customer relationship. 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. At September 30, 2013 and December 31, 2012, no revision to the remaining amortization period of the intangible assets was made.

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 from waste disposal activities are recognized when the Company takes delivery of the waste product at its disposal well location, the price is fixed or determinable, and collection is reasonably assured.

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. A substantial portion of the Company's notes payable are with a single lender.

Subsequent Events **–** The Company's management reviewed all material events from September 30, 2013 through the issuance date of this report for disclosure consideration and there are no reportable events.

Recent Accounting Pronouncements **–** Management does not expect the adoption of any other recently issued accounting pronouncements to have a significant effect on the Company's financial position or results of operation.

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

NOTE 2 – BUSINESS COMBINATION

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 at September 30, 2013. In addition, the Company agreed to pay up to $1,600,000 as contingent consideration, based on the subsidiary's quarterly earnings for the next four years. The Company has calculated an estimated present value of the contingent consideration of $829,996 at September 30, 2013, which includes accretion of $13,441 since the acquisition date.

NOTE 2 – BUSINESS COMBINATION (CONTINUED)

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. 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. The Company is still reviewing the final value of the assets acquired and is expecting to complete its final assessment no later than one year from the acquisition date.

Assets acquired:		
Current assets		
Fixed assets	$	270,828
Customer relationships		734,842
Goodwill		1,010,885
Total assets acquired	$	2,016,555

Pro forma results of operations for the nine-month periods ended September 30, 2013 and 2012, as though this acquisition had taken place at the beginning of each period, are as follows. The pro forma results are not necessarily indicative of what actually would have occurred had the acquisition been in effect for the entire period presented.

	Nine Months Ended September 30,			
	2013		2012	
Revenues	$	13,665,154	$	10,823,103
Net income	$	3,975,902	$	3,293,951
Income per common share:				
Basic	$	0.06	$	0.05
Diluted	$	0.06	$	0.05

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"), an unrelated third party, that agreed to provide the working capital necessary to complete the application for a Class I Industrial Wastewater 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.

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.

For the nine months ended September 30, 2013 and 2012, the Company recorded equity losses of affiliates of $1,241 and $11,731, respectively, related to its investment in TGD.

In 2011, the Company entered into an agreement to acquire a 25% interest in Providence Environmental Solutions, Ltd. ("PES"), a foreign entity, for $400,000. The Company is not obligated to provide further funding and has no other liabilities in connection with PES. Due to the nature of the foreign investment, no value has been assigned to the investment and the Company reported a loss in affiliates related to PES of $82,833 for the nine months ending September 30, 2012. The Company has not contributed any money or sustained any losses since March 2012.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30, 2013 and December 31, 2012:

	Lives	September 30, 2013	December 31, 2012
Building & improvements	10 – 30 years	$ 308,117	$ 308,117
Equipment, furniture & fixtures	5 – 10 years	651,802	628,801
Disposal wells	10 years	581,501	581,501
Transportation equipment	7 years	320,406	94,444
Leasehold improvements	10 years	2,899,497	2,844,728
Construction-in-progress		2,175,050	-
Land		47,484	47,484
Subtotal		6,983,857	4,505,075
Less: accumulated depreciation		(1,059,097)	(918,537)
Property and equipment, net		$ 5,924,760	$ 3,586,538

All of the leasehold improvements and construction-in-progress are related to our new location in the Eagle Ford shale area, where we began receiving waste on January 23, 2012. The value of leasehold improvements includes $161,988 of capitalized interest at September 30, 2013 and December 31, 2012. There was $30,687 of capitalized interest in construction in progress at September 30, 2013.

Depreciation expense was $310,330 and $353,833 for the nine-month periods ended September 30, 2013 and 2012, respectively.

NOTE 5 – INTANGIBLE ASSETS

Intangible assets consisted of the following at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Disposal permit and customer lists	$ 1,992,743	$ 1,257,901
Less: accumulated amortization	(1,090,586)	(1,058,130)
Intangible assets, net	$ 902,157	$ 199,771

Amortization expense was $32,456 and $14,085 for the nine-month periods ended September 30, 2013 and 2012, respectively.

NOTE 6 – PAYABLES TO EMPLOYEES

In connection with the July 2013 agreement to purchase the assets of ALMAC, the Company owed $200,000 at September 30, 2013 to the owners of ALMAC, who are now Company employees. Further, $317,392 of certain July and August 2013 expenses associated with TES were paid by those employees and were classified by the Company as part of its payable to employees. The Company paid the entire $517,392 to the employees in October 2013.

NOTE 7 – NOTES PAYABLE

Notes payable consisted of payables to financial institutions and other third parties as the following at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
$7,400,000 note payable, bearing interest at Prime + 3% (6.25% at September 30, 2013 and December 31, 2012), subject to a maximum rate of 18% and minimum of 6.25%, payable in 60 monthly installments of $123,334 plus interest, secured by a first-position lien on all assets of the Company.	$ 6,166,660	$ 7,276,666
$960,000 note payable, bearing interest at Prime + 3% (6.25% at September 30, 2013), subject to a maximum rate of 18% and minimum of 6.25%, payable in 36 monthly installments of $26,667 plus interest, secured by a first-position lien on all assets of the Company.	879,999	-
Various notes payable bearing interest ranging from 8.8% to 17.0% per annum and maturing in January and February 2013.	-	111,850
Total notes payable	7,046,659	7,388,516
Less: amounts due within one year	(1,800,012)	(1,591,858)
Long-term portion of notes payable	$ 5,246,647	$ 5,796,658

Future minimum payments under existing third-party notes payable for the twelve months ending each of the following periods are as follows:

For the twelve months ending September 30,	Amount
2014	$ 1,800,012
2015	1,800,012
2016	1,719,999
2017	1,480,008
2018	246,628
Total	$ 7,046,659

Revolving line of credit payable to third party consisted of the following at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
$2,000,000 revolving line of credit, bearing interest at Prime + 2% (5.25% at September 30, 2013 and December 31, 2012), subject to a maximum rate of 18% and minimum of 5.25%, secured by a first-position lien on all assets of the Company.	$ -	$ 882,378

NOTE 7 – NOTES PAYABLE (CONTINUED)

In December 2012, the Company refinanced the majority of its debt and augmented its working capital through a relationship with a new bank. The Company obtained $7,400,000 in a term loan and a separate revolving line of credit equal to 80% of eligible trade accounts receivable, subject to a maximum of $2,000,000. At September 30, 2013, the line of credit had been paid down to zero and there was $1,091,594 available. The Company incurred $590,517 of financing costs associated with the financing. The $464,875 related to the term loan is amortized using the effective-interest-rate method over the life of the five-year term loan. The $125,642 related to the line of credit is amortized equally over twelve months.

On July 1, 2013, the Company issued a note to borrow $960,000 for the acquisition of the assets of ALMAC Environmental Services, Inc. The note bears interest at the Prime Rate plus 3% with a minimum rate of 6.25% and is secured by all the assets purchased and all assets of the Company. Principal on the note is payable in 36 monthly installments of $26,667 plus interest. The Company incurred $53,080 of financing costs associated with the financing, which is amortized using the effective-interest-rate method over the life of the three-year term loan.

Both the two term loans and the line of credit require that the Company maintain the three following:

1. Debt service coverage ratio (calculated as EBITDA less current taxes plus non-cash stock expenses divided by current maturities of long-term debt plus current interest) of at least 1.5.
2. Maximum funded debt to EBITDA of no more than 3.0.
3. A tangible net worth of $1,000,000 or greater.

Pursuant to the notes agreement, no dividends shall be paid by the Company without the consent of the lender of the two term loans except as to certain shareholders of M.B. Energy Services, Inc.

At September 30, 2013, the Company was in compliance with all covenants.

For the nine months ended September 30, 2013, the Company recognized $221,623 of expense related to the amortization of the two term loans and the line of credit.

NOTE 8 – DERIVATIVE INSTRUMENTS

To induce a third party to lend money for the purchase of the Eagle Ford share area disposal well, the Company issued warrants. The Company determined that the warrants 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, 2011, the Company revalued the derivative at $172,951. At September 30, 2012, the Company again revalued the derivative at $134,536, resulting in a gain of $38,415 for the nine months then ended. At December 31, 2012, the Company again revalued the derivative at $89,786. At September 30, 2013, the Company again revalued the derivative at $165,885 and recorded a $76,099 loss for the nine months then ended. After adjustments for price resets, the warrant provides for the purchase of 1,800,643 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 September 30, 2013:

- Any possible future resets to the exercise price will value the shares at no less than $0.07.
- The stock price will fluctuate with an annual volatility ranging from 115% to 617%.
- The holder will exercise the warrant at a target price equal to 2.0 times the reset 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 9 – OTHER LONG-TERM LIABILITIES

	September 30, 2013	December 31, 2012
Asset retired obligation	$ 100,000	$ 75,000
Production payment of Eagle Ford well	170,900	204,678
Contingent consideration related to the acquisition of ALMAC	829,996	-
Subtotal	1,100,896	279,678
Current portion of production payment of Eagle Ford well	(52,691)	(46,083)
Long-term portion of notes payable	$ 1,048,205	$ 233,595

The Company's asset retirement obligations, totaling $75,000 at September 30, 2013 and December 31, 2012, are related to surety bonds or letters of credit for the plugging of its two oil and gas waste disposal injection wells and its non-hazardous industrial wastewater injection well. At September 30, 2013, the Company also accrued $25,000 asset retirement obligation for a well currently under construction in the Eagle Ford shale area. 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 nine-month periods ended September 30, 2013 and 2012, the Company paid $33,778 and $24,597, respectively, for disposed liquid. The present value of the estimated remaining payments is $170,900.

As part of the July 2013 acquisition of the assets of ALMAC Environmental Services, Inc., the Company agreed to pay the sellers contingent consideration based on TES pre-tax net income ("PNI") for the next four years. The payments will equal 75% of the amount by which PNI exceeds $1.2 million. The Company estimated the present value of the payments to be $829,996. The balances are included in other long-term liabilities on the consolidated balance sheets. As of September 30, 2013, total TES PNI has not exceeded $1.2 million, and nothing has been paid to the sellers. As explained in Note 5, the sellers are now Company employees.

NOTE 10 – INCOME TAXES

The difference between the income tax benefit and the amount that would result if the U.S. Federal statutory rate of 34% were applied to pre-tax income for the nine-month periods ended September 30, 2013 and 2012 is as follows:

	September 30, 2013		September 30, 2012	
	Amount	%	Amount	%
Income tax at federal statutory rate	$ 1,240,000	34.0 %	$ 590,000	34.0 %
Change in valuation allowance	-	- %	(2,710,000)	(156.2) %
Other adjustments	(1,580,000)	(43.3) %	160,000	9.2 %
Effective tax benefit	$ (340,000)	(9.3) %	$ (1,960,000)	(113.0) %

Until September 30, 2012, the Company fully reserved its U.S. net deferred tax assets due to the uncertainty of future taxable income. Based on all available evidence, management now believes that it is more likely than not that the Company's deferred tax asset will be realized. Accordingly, the Company reduced its valuation allowance at December 31, 2012 to zero. In September 2013, based on the Company's continuing profitability and tax planning related to our recent acquisition, the Company revalued certain tax assets.

NOTE 10 – INCOME TAXES (CONTINUED)

As of September 30, 2013, for U.S. federal income tax reporting purposes, the Company has approximately $4,900,000 of unused net operating losses ("NOLs") available for carry forward to future years. The benefit from the carry forward of such NOLs will begin expiring during the year ended December 31, 2027. Because United States 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 for federal income tax purposes should the Company generate taxable income. Further, the benefit from utilization of NOLs carry forwards could be subject to limitations due to material ownership changes that could occur in the Company as it continues to raise additional capital.

NOTE 11 – 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. 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 are 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 may 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 may not redeem, purchase or otherwise acquire any stock ranking junior to the Series A Convertible Preferred until dividends are no longer in arrears. The Company is in arrears to the extent of $2,840,250 ($1.40 per share) and $2,535,938 ($1.25 per share) in dividends on the Series A Convertible Preferred Stock as of September 30, 2013 and December 31, 2012, respectively.

The Series A Convertible Preferred shares are convertible into 2 shares 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. Holders of the Series A Convertible Preferred shares are entitled to vote on all matters subject to a vote of holders of Common Stock. Each share of Series A Convertible Preferred is entitled to two votes.

Series A Convertible Preferred shares have a liquidation preference of $2.00 plus dividends in arrears in the event of a dissolution, liquidation or winding up of the Company. There are no preemptive rights attached to the Series A Convertible Preferred shares. Any shares of Series A Convertible Preferred stock reacquired by the Company will be returned to the status of authorized but unissued, undesignated as to series and subject to later issuance.

Common Stock

The Company is authorized to issue up to 100,000,000 shares of common stock. Each share of common stock has a par value of $0.001.

As of September 30, 2013, the Board of Directors of the Company has reserved a total of 7,078,379 shares of common stock for the contingent issuances in connection with the following securities:

	Shares
Convertible preferred stock	4,057,500
Warrants issued to non-employees	3,020,879
Total shares reserved for contingent issuances	7,078,379

During the nine months ended September 30, 2013, no shares were issued by the Company for the conversion or exercise of such securities.

NOTE 11 – EQUITY TRANSACTIONS (CONTINUED)

During the nine months ended September 30, 2012, the Company had the following common stock activities:

- 588,235 shares of common stock were sold to a third party for $100,000.
- 100,000 shares of common stock were issued to a third party for services. These shares were valued at their fair value of $22,000.
- An investor exercised warrants to purchase 250,000 shares for $21,888.

During the nine months ended September 30, 2013 and 2012, there were no warrants or other common stock equivalents issued by the Company.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Related to the Company's MBES operations, the Company is required to pay a 7% royalty on all cash received from disposal operations at its location in Liberty County and a separate 20% royalty on all of its cash receipts. The Company is required to receive consent from the 20% royalty recipient 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 be obligated to pay double the 20% royalty for as long as the competing operations continued.

Related to the Company's EFES location, the Company is required to pay a royalty of $0.08 for every barrel of disposed fluid, and a 20% royalty of all skim oil sold.

NOTE 13 – EARNINGS PER COMMON SHARES

The following table illustrates the computation of basic and diluted EPS for the three and nine months ended September 30, 2013 and 2012.

	For the three months ended		For the nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30 , 2012
Basic earnings per share				
Numerator:				
Net income attributable to TexCom shareholders	$ 2,049,902	$ 2,277,586	$ 3,617,419	$ 3,425,460
Less: preferred stock dividends	(101,437)	(101,437)	(304,313)	(304,313)
Income available to common shareholders	$ 1,948,465	$ 2,176,149	$ 3,313,106	$ 3,121,148
Denominator:				
Weighted-average common shares outstanding	63,878,389	63,878,389	63,878,389	63,482,114
Basic earnings per common share	$ 0.03	$ 0.03	$ 0.05	$ 0.05
Dilutive earnings per share				
Numerator:				
Income available to common shareholders	$ 1,948,465	$ 2,176,149	$ 3,313,106	$ 3,121,148
Add: preferred stock dividends	101,437	101,437	-	-
	$ 2,049,902	2,277,586	$ 3,313,106	$ 3,121,148
Denominator:				
Weighted-average common shares outstanding	63,878,389	63,878,389	63,878,389	63,482,114
Effect of dilutive securities:				
Series A convertible preferred stock	4,057,500	4,057,500	-	-
Warrants	428,706	199,611	155,869	2,078,093
Adjusted weighted-average common shares	68,364,595	68,135,500	64,034,258	66,560,207
Dilutive earnings per common share	$ 0.03	$ 0.03	$ 0.05	$ 0.05

NOTE 13 – EARNINGS PER COMMON SHARES (CONTINUED)

Potentially dilutive securities include stock options and warrants to purchase 2,445,879 shares of common stock and Series A Preferred Stock convertible to 4,057,500 common stock were excluded from the computation of dilutive earnings per share for the nine months ended September 30, 2013 because their effect would have been antidilutive. There were no potentially dilutive securities for the three months ended September 30, 2013.

Potentially dilutive securities include stock options and warrants to purchase 850,000 shares of common stock and Series A Preferred Stock convertible to 4,057,500 common stock were excluded from the computation of dilutive earnings per share for the nine months ended September 30, 2012 because their effect would have been antidilutive. Potentially dilutive securities include stock options and warrants to purchase 2,650,643 shares of common stock were excluded from the computation of dilutive earnings per share for the three months ended September 30, 2012 because their effect would have been antidilutive.

NOTE 14 – RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2013, the Company billed $206,000 to an entity controlled by Bob May, the Company's Chief Executive Officer, for disposal of waste. All amounts were billed at the Company's standard rates and were paid in full by September 30, 2013.

See Note 6 and Note 9 concerning amounts owing to the sellers of ALMAC's assets, who are now Company employees.