

TEXCOM, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**As of September 30, 2012 and December 31, 2011
and for the Three and Nine Months Ended September 30, 2012 and 2011**

TEXCOM, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Three and Nine Months Ended September 30, 2012

Index

	<u>Page #</u>
Unaudited consolidated balance sheets as of September 30, 2012 and December 31, 2011	2
Unaudited consolidated statements of operations for the three and nine months ended September 30, 2012 and 2011	3
Unaudited consolidated statements of cash flows for the nine months ended September 30, 2012 and 2011	4
Notes to unaudited consolidated financial statements	5

TEXCOM, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS

	September 30, 2012	December 31, 2011 (Restated)
Assets		
Current assets:		
Cash and cash equivalents	\$ 458,818	\$ 1,221,149
Restricted cash	146,150	161,621
Accounts receivable, net of allowance for doubtful accounts of \$112,118 and \$85,268, respectively	1,825,818	1,626,005
Prepaid expenses and other current assets	118,722	51,752
Current portion of deferred income tax asset	160,000	-
Total current assets	2,709,508	3,060,527
Property, plant and equipment, net	3,475,911	3,227,918
Equity in net assets of affiliate	711,464	723,195
Intangible assets, net	204,466	218,551
Goodwill	396,722	396,722
Deferred income tax asset, net of current portion	1,800,000	-
Other assets	325,476	518,483
	\$ 9,623,547	\$ 8,145,396
Liabilities and Equity (Deficit)		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,082,027	\$ 2,410,257
Accounts payable, related party	16,925	-
Derivative liability	134,536	172,951
Other payable	146,150	-
Current portion of long-term debt	2,503,022	2,373,648
Current portion of long-term debt, related party	213,798	195,476
Total current liabilities	5,096,458	5,152,332
Other long-term liabilities	245,898	279,678
Long-term debt, net of current portion	2,817,451	4,889,835
Long-term debt, related party, net of current portion	117,224	280,078
Total liabilities	8,277,031	10,601,923
Equity (Deficit):		
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 and outstanding	-	-
Common stock, \$0.001 par value, 100,000,000 shares authorized, 63,878,389 and 62,940,140 shares issued and outstanding, respectively	63,878	62,940
Additional paid-in capital	12,977,661	12,834,711
Accumulated deficit	(12,903,233)	(16,328,693)
Total equity (deficit)	140,335	(3,429,013)
Noncontrolling interest	1,206,181	972,486
Total TexCom equity (deficit)	1,346,516	(2,456,527)
Total liabilities and equity (deficit)	\$ 9,623,547	\$ 8,145,396

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, 2012 AND 2011

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011 (Restated)
Revenues	\$ 2,648,160	\$ 2,779,306	\$ 8,857,941	\$ 8,112,363
Cost of revenues, excluding royalties, depreciation and amortization	635,265	469,652	1,947,031	1,265,617
Royalties	722,318	602,535	2,116,434	2,008,926
Depreciation and amortization	116,085	26,307	367,918	83,170
Total cost of revenues	<u>1,473,668</u>	<u>1,098,494</u>	<u>4,431,383</u>	<u>3,357,713</u>
Gross profit	<u>1,174,492</u>	<u>1,680,812</u>	<u>4,426,558</u>	<u>4,754,650</u>
Selling, general, and administrative expenses	<u>453,705</u>	<u>520,936</u>	<u>1,474,844</u>	<u>1,282,266</u>
Operating income	<u>720,787</u>	<u>1,159,876</u>	<u>2,951,714</u>	<u>3,472,384</u>
Other income (expense):				
Interest expense	(370,000)	(302,074)	(1,105,603)	(904,217)
Enhanced payments to stockholders	-	(65,626)	(65,627)	(262,507)
Equity in loss of affiliate	(1,952)	(15,557)	(94,564)	(48,854)
Unrealized gain on derivative liability	30,580	5,732	38,415	5,732
Other income	-	1,200	-	2,258
Income before income taxes and noncontrolling interest	379,415	783,551	1,724,335	2,264,796
Income tax benefit	<u>1,960,000</u>	<u>-</u>	<u>1,960,000</u>	<u>-</u>
Net income	2,339,415	783,551	3,684,335	2,264,796
Income attributable to noncontrolling interest	<u>(61,829)</u>	<u>(165,197)</u>	<u>(258,875)</u>	<u>(405,479)</u>
Net income available to common stockholders	<u>\$ 2,277,586</u>	<u>\$ 618,354</u>	<u>\$ 3,425,460</u>	<u>\$ 1,859,317</u>
Income per common share – basic	<u>\$ 0.04</u>	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ 0.03</u>
Income per common share – diluted	<u>\$ 0.03</u>	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ 0.03</u>
Weighted average common shares outstanding – basic	<u>63,878,389</u>	<u>62,649,298</u>	<u>66,607,442</u>	<u>62,469,973</u>
Weighted average common shares outstanding – diluted	<u>71,161,532</u>	<u>71,514,291</u>	<u>70,765,257</u>	<u>71,334,966</u>

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, 2012 AND 2011

	September 30, 2012	September 30, 2011 (Restated)
Cash flows from operating activities:		
Net income	\$ 3,684,335	\$ 2,264,796
Adjustments to reconcile net income to cash provided by operating activities:		
Bad debt expense	26,850	83,170
Deferred tax benefit	(1,960,000)	-
Stock-based compensation	22,000	64,500
Depreciation and amortization	367,918	83,086
Amortization of deferred financing costs	226,938	156,581
Amortization of debt discount	39,476	4,138
Equity in loss of affiliate	94,564	48,854
Other gains and losses, net	(38,415)	(5,335)
Changes in operating assets and liabilities:		
Accounts receivable	(226,663)	(644,869)
Prepaid expenses and other current assets	(100,901)	(355,998)
Accounts payable and other liabilities	(220,094)	559,226
Accounts payable, related party	16,925	-
Net cash provided by operating activities	1,932,933	2,258,149
Cash flows from investing activities:		
Advances to affiliates	(82,833)	-
Decrease (increase) in restricted cash	15,471	(639,098)
Proceeds from sale of assets	-	23,000
Purchases of plant, property and equipment	(601,826)	(1,881,488)
Net cash used by investing activities	(669,188)	(2,497,586)
Cash flows from financing activities:		
Proceeds from long-term debt	-	2,409,356
Principal repayments on long-term debt	(1,978,249)	(1,602,717)
Principal repayments on long-term debt, related party	(144,535)	(53,526)
Payment of dividends to noncontrolling interest	(25,180)	(126,690)
Proceeds from issuances of common stock for cash	121,888	61,000
Net cash used in financing activities	(2,026,076)	687,423
Net change in cash and cash equivalents	(762,331)	447,986
Cash and cash equivalents, beginning of period	1,221,149	190,155
Cash and cash equivalents, end of period	\$ 458,818	\$ 638,141
Supplemental cash flows information:		
Cash paid for interest	\$ 882,539	\$ 820,000
Cash paid for income tax	\$ -	\$ -
Noncash investing and financing transactions:		
Discount on note payable	\$ -	\$ 112,020

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

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended September 30, 2012 and 2011

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. On October 18, 2011, our Board of Directors approved a Plan of Conversion, which was subsequently approved by the shareholders of the Company in November 2011, which Plan of Conversion provided for us to convert from a Texas corporation to a Nevada corporation, which conversion was subsequently effective January 3, 2012.

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 waste generated by exploration and production operations. 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 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, 2011 posted on. 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, 2011 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 – At September 30, 2012, the Company owed \$146,150 to an investor who later rescinded his investment in the Company. See Note 10. Separately, as part of the agreement with the lender when the Company purchased the well in the Eagle Ford shale area (See Note 3) in 2011, \$700,000 was held in a separate bank account. These funds were restricted for payment of interest to the lender and for the improvements to the Eagle Ford Shale property. As of September 30, 2012, the Company had fulfilled its contractual requirements related to the restrictions of the cash.

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, 2012 and December 2011, the allowance for doubtful accounts was \$112,118 and \$85,268, respectively.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended September 30, 2012 and 2011

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.

Plant, 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. In September 2011, the FASB issued "Testing Goodwill for Impairment." The standard revises the way in which entities test goodwill for impairment. We adopted this standard and applied its provisions to our annual goodwill impairment test in the quarter ended December 31, 2011.

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, 2012 and December 31, 2011, our goodwill balance was \$396,722. 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 20 years for permits. 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, 2012 and December 31, 2011, no revision to the remaining amortization period of the intangible assets was made.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended September 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Asset Retirement Obligation – 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.

The adoption of the fair value guidance did not significantly change the valuation techniques we had previously utilized prior to its adoption. Financial instruments consist of cash and cash equivalents, accounts receivable, collateralized receivables, accounts payable and secured borrowings.

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, adjusted on an "if converted" basis, by the weighted average number of common shares outstanding plus dilutive securities. . As of September 30, 2012, dilutive securities include stock options and warrants to purchase 3,225,643 shares of common stock and Series A Preferred Stock convertible to 4,057,500 common stock. There were no other potentially dilutive securities.

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.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended September 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2012 through the issuance date of this report and there are no other material subsequent events to report.

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.

NOTE 2 – RECLASSIFICATIONS AND RESTATEMENTS

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

The Company restated its consolidated statements of operations and cash flows for the nine months ended September 30, 2011 to reflect the following adjustments:

- Increase in Enhanced Payments, which were originally accounted for on a cash basis;
- Capitalization of interest expense for construction in progress at its Eagle Ford location.

The impact of the reclassifications and prior period adjustments on the accompanying Consolidated Statements of Operations for the nine months ended September 30, 2011 is as follows:

Nine months ended September 30, 2011:

	As originally reported	Change	As restated
Other expense	\$ 986,711	\$ 220,877	\$ 1,207,588
Net income	\$ 2,485,673	\$ (220,877)	\$ 2,264,796
Net income available to common shareholders	\$ 2,080,194	\$ (220,877)	\$ 1,859,317
Income per common share – basic	\$ 0.04	\$ (0.01)	\$ 0.03
Income per common share – diluted	\$ 0.03	\$ –	\$ 0.03
Weighted average common shares – basic	58,398,299	4,071,674	62,469,973
Weighted average common shares – diluted	70,451,399	883,567	71,334,966

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended September 30, 2012 and 2011

NOTE 2 – RECLASSIFICATIONS AND RESTATEMENTS (CONTINUED)

As of December 31, 2011:

The Company restated its December 31, 2011 balance sheet to reflect the following adjustments:

- Accrual of royalties and other expenses that had been historically accounted for on the cash basis;
- Allocation of net income to noncontrolling interest in prior years.

There was no effect on the statements of operations or cash flows.

The impact of the reclassifications and prior period adjustments on the accompanying Consolidated Balance Sheet at December 31, 2011 is as follows:

	As originally reported	Change	As restated
Accounts payable and accrued liabilities	\$ 1,924,893	\$ 485,364	\$ 2,410,257
Accumulated deficit	15,725,085	603,608	16,328,693
Noncontrolling interest	854,242	118,244	972,486

NOTE 3 – EAGLE FORD ENVIRONMENTAL SERVICES, LLC

In May 2011, the Company formed a wholly owned subsidiary, Eagle Ford Environmental Services, LLC (“EFES”). In August 2011, the Company acquired a disposal well in the Eagle Ford shale area for consideration of \$1.3 million plus \$0.03 for every barrel of disposed fluid 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 months ended September 30, 2012, the Company paid \$24,597 for disposed liquid, and the present value of the estimated remaining payments is \$214,968. The Company valued the total transaction at \$1,540,265 based on the present value of the estimated production payments, which is recorded as a long-term liability on the balance sheet.

The Company also acquired the lease of 45 acres on which the disposal well and related facilities are located, including the right to drill additional wells on the property, for a lease fee of \$3,000 per month, and royalties of \$0.08 for every barrel of disposed fluid, and a 20% royalty for all skim oil sold. The lease, including extensions, expires on June 30, 2021. Due to the term of the lease, all depreciable assets have been recorded as leasehold improvements with a life calculated from the commencement of operations on January 2012 through June 2021.

NOTE 4 – 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. In 2010, the Company issued 4,731,527 shares of common stock and forgave \$79,949 that TGD owed to TexCom.

The Company no longer guarantees 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. This basis at the time of deconsolidation will be amortized over 10 years, beginning on the date TGD’s operations commence.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended September 30, 2012 and 2011

NOTE 4 – INVESTMENTS IN AFFILIATES (CONTINUED)

For the nine months ended September 30, 2012 and 2011, the Company recorded equity losses of affiliate of \$11,731 and \$48,854, 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. The Company paid expenses of \$112,622 and cash of \$100,000 in 2011 and accrued \$100,000 of liability for the remaining acquisition price that was due to be paid in 2012. The accrued \$100,000 and additional expenses of \$82,833 were both paid in the first quarter of 2012. Due to the nature of the foreign investment, no value has been assigned to the investment and the Company reported a loss in affiliate related to PES of \$82,833 for the nine months ending September 30, 2012.

NOTE 5 – PLANT, PROPERTY AND EQUIPMENT

Plant, property and equipment consisted of the following at September 30, 2012 and December 31, 2011:

	Lives	September 30, 2012	December 31, 2011
Building & improvements	10 – 30 years	\$ 293,117	\$ 270,527
Equipment, furniture & fixtures	5 – 10 years	587,431	560,385
Disposal wells	10 years	581,501	558,499
Transportation equipment	7 years	94,444	81,384
Leasehold improvements	10 years	2,718,004	2,201,876
Land		47,484	47,484
Subtotal		4,321,981	3,720,155
Less: accumulated depreciation		(846,070)	(492,237)
Plant, property and equipment, net		<u>\$ 3,475,911</u>	<u>\$ 3,227,918</u>

All of the leasehold improvements 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 and \$131,988 of capitalized interest at September 30, 2012 and December 31, 2011, respectively.

Depreciation expense was \$353,833 and \$64,689 for the nine months ended September 30, 2012 and 2011, respectively.

NOTE 6 – INTANGIBLE ASSETS

Intangible assets consisted of the following at September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
Disposal permit and customer lists	\$ 1,257,901	\$ 1,257,901
Less: accumulated amortization	(1,053,435)	(1,039,350)
Intangible assets, net	<u>\$ 204,466</u>	<u>\$ 218,551</u>

Amortization expense was \$14,085 for both of the nine-month periods ended September 30, 2012 and 2011.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended September 30, 2012 and 2011

NOTE 7 – NOTES PAYABLE

Notes payable consisted of payables to financial institutions and other third parties as the following at September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
\$9,000,000 Matador Loan, originated in July 2009, payable in monthly installments of \$210,567 including interest at 15% per annum, secured by substantially all of the assets of M.B. Environmental Services, LLC. Matures in July 2014, at which time all remaining outstanding principal and interest are due and payable.	\$ 3,627,774	\$ 5,188,731
\$2,000,000 note payable, bearing interest at 18%, payable in interest-only payments of \$30,000 monthly through February 2012, and thereafter at \$82,048 including both principal and interest, secured by a first-position lien on all assets of EFES. Matures August 2014, at which time all outstanding principal and interest are due and payable. The value is net of the amortized discount of \$112,020 related to 1,000,000 warrants issued pursuant to the debt agreement.	1,563,320	1,906,298
Various notes payable bearing interest ranging from 8.8% to 17.0% per annum and maturities range from July 2012 through February 2013.	<u>129,378</u>	<u>168,454</u>
Total notes payable	5,320,472	7,263,483
Less: amounts due within one year	<u>(2,503,022)</u>	<u>(2,373,648)</u>
Long-term portion of notes payable	<u>\$ 2,817,450</u>	<u>\$ 4,889,835</u>

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

<u>For the twelve months ending September 30,</u>	<u>Amount</u>
2013	\$ 2,503,022
2014	<u>2,817,450</u>
Total	<u>\$ 5,320,472</u>

In 2009, the Company incurred \$717,028 in financing costs on the Matador loan. The deferred costs are recognized using the effective interest method over the life of the loan. During the nine-month periods ended September 30, 2012 and 2011, the Company recognized non-cash interest expense in the amount of \$115,780 and \$141,440, respectively. The unamortized portion of the deferred financing costs of \$143,509 and \$259,289 are included in other assets as of September 30, 2012 and December 31, 2011, respectively.

In 2011, the Company incurred \$263,824 in financing costs related to EFES borrowings and additional \$33,932 of costs that it was required to pay according to the 2011 loan agreement. The deferred costs are to be recognized using the effective interest method over the life of the loan. During the nine-month periods ended September 30, 2012 and 2011, the Company recognized non-cash interest expense in the amount of \$111,158 and \$15,141. The unamortized portion of the deferred financing costs of \$145,658 and \$222,884 is included in other assets as of September 30, 2012 and December 31, 2011, respectively. During the nine months ended September 30, 2012 and 2011, the Company recorded amortization of discount of \$39,476 and \$4,138, respectively, related to the \$2,000,000 note payable.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended September 30, 2012 and 2011

NOTE 8 – NOTE PAYABLE, RELATED PARTY

Related-party note payable consisted of the following at September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
Note payable to an officer/stockholder, dated July 6, 2009, payable in 18 equal quarterly installments of \$61,046 including interest at 12% per annum, collateralized by 515,000 shares of common stock of MBSI held by the Company.	\$ 331,022	\$ 475,554
Less: amounts due within one year	(213,798)	(195,476)
Long-term portion of note payable, related party	<u>\$ 117,224</u>	<u>\$ 280,078</u>

Future minimum payments under the existing related-party notes payable are as follows:

For the twelve months ending September 30,	Amount
2013	\$ 213,798
2014	117,224
Total	<u>\$ 331,022</u>

NOTE 9 – DERIVATIVE INSTRUMENTS

The Company determined that the warrants associated with the purchase of the Eagle Ford shale 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, 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. 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, 2012:

- Any possible future resets to the exercise price will value the shares at no less than \$0.10.
- The stock price will fluctuate with an annual volatility ranging from 143% to 642%.
- 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.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended September 30, 2012 and 2011

NOTE 10 – ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligations, totaling \$75,000 and \$75,000 at September 30, 2012 and December 31, 2011, respectively, 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. The balances are included in other long-term liabilities on the consolidated balance sheets.

NOTE 11 – INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at September 30, 2012 and December 31, 2011 are as follows:

	September 30, 2012	December 31. 2011
Deferred tax assets:		
Net operating losses	\$ 2,490,000	\$ 2,760,000
Equity in net assets of affiliate	140,000	160,000
Other differences in tax basis	80,000	460,000
Total deferred tax assets	<u>2,710,000</u>	<u>3,380,000</u>
Deferred tax liabilities:		
Plant, property and equipment	<u>160,000</u>	<u>80,000</u>
Total deferred tax liabilities	<u>160,000</u>	<u>80,000</u>
Net deferred tax assets	2,550,000	3,300,000
Valuation allowance	<u>(590,000)</u>	<u>(3,300,000)</u>
Deferred tax assets, net	<u>\$ 1,960,000</u>	<u>\$ -</u>

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, 2012 and 2011 is as follows:

	September 30, 2012		September 30, 2011 (Restated)	
	Amount	%	Amount	%
Income tax at federal statutory rate	\$ 590,000	34.0 %	\$ 770,000	34.0 %
Change in valuation allowance	(2,710,000)	(156.2) %	(1,400,000)	(61.8) %
Other adjustments	<u>160,000</u>	<u>9.2 %</u>	<u>630,000</u>	<u>27.8 %</u>
Effective tax	<u>\$ (1,960,000)</u>	<u>(113.0) %</u>	<u>\$ -</u>	<u>- %</u>

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended September 30, 2012 and 2011

NOTE 11 – INCOME TAXES (CONTINUED)

The Company fully reserved its U.S. net deferred tax assets in 2011 due to the uncertainty of future taxable income. In 2012, based on all available evidence, management believes that it is more likely than not that a significant portion of the Company's deferred tax asset will be realized subject to certain limitation on the utilization of net operation losses. Accordingly, the company reduced its valuation allowance in 2012. The benefit from the reduction was recorded as a tax benefit in accordance with accounting standards for income taxes.

As of September 30, 2012, for U.S. federal income tax reporting purposes, the Company has approximately \$7,300,000 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, 2026. 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. Based on such limitation, the Company has recorded a valuation allowance of \$590,000 as of September 30, 2012 to account for the possibility that the Company will not be able to utilize all of its NOLs.

NOTE 12 – OTHER PAYABLE

In March 2012, an investor paid \$750,000 to purchase 4,441,765 shares of the Company's common stock at \$0.17 per share. In June 2012, the Company's management determined that the offering documents were incomplete and decided since the shares had not been issued that it was in the Company's best interest to offer the investor the right to rescind his investment. In July 2012, the investor rescinded his investment and will receive back from the Company the entire purchase price of the shares, plus 6% interest. The remaining balance at September 30, 2012 was \$146,150, including interest.

NOTE 13 – 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 \$2,434,500 (\$1.20 per share) and \$2,130,188 (\$1.05 per share) in dividends on the Series A Convertible Preferred Stock as of September 30, 2012 and December 31, 2011, 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.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended September 30, 2012 and 2011

NOTE 13 – EQUITY TRANSACTIONS (CONTINUED)

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, 2012, the Board of Directors of the Company has reserved a total of 7,283,143 shares of common stock for the contingent issuances in connection with the following securities:

	<u>Shares</u>
Convertible preferred stock	4,057,500
Warrants issued to employees	800,000
Warrants issued to non-employees	<u>2,425,643</u>
Total shares reserved for contingent issuances	<u><u>7,283,143</u></u>

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, 2011, the Company had the following common stock activities:

- 444,118 shares of common stock were sold to third parties for \$65,000. The Company paid a \$4,000 finder's fee in relation to the sale of stock.
- 357,822 shares of common stock were issued to third parties for services. These shares were valued at their fair value of \$64,500.

During the nine-month periods ended September 30, 2012 and 2011, warrants to purchase 1,250,000 shares and 1,000,000 shares, respectively, expired. There were no warrants or other common stock equivalents issued during the nine-month periods September 30, 2012 and 2011.