

TEXCOM, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

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Report of Independent Registered Public Accounting Firm

To the Board of Directors of
TexCom, Inc. and Subsidiaries
Houston, Texas

We have audited the consolidated balance sheets of TexCom, Inc. and Subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform each audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TexCom, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company has restated its financial statements as of and for the year ended December 31, 2010.

GBH CPAs, PC

GBH CPAs, PC
www.gbhcpas.com
Houston, Texas

May 21, 2012

TEXCOM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

	December 31, 2011	December 31, 2010 (Restated)
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,221,149	\$ 190,155
Restricted cash	161,621	-
Accounts receivable, net of allowance for doubtful accounts of \$85,268 and \$82,668, respectively	1,626,005	1,708,817
Prepaid expenses and other current assets	51,752	50,372
Total current assets	3,060,527	1,949,344
Plant, property and equipment, net	3,227,918	950,517
Equity in net assets of affiliate	723,195	781,790
Intangible assets, net	218,551	237,331
Goodwill	396,722	396,722
Other assets	518,483	449,957
Total assets	\$ 8,145,396	\$ 4,765,661
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,199,817	\$ 611,658
Accrued officer salaries	725,076	576,500
Derivative liability	172,951	-
Current portion of long-term debt	2,373,648	1,483,086
Current portion of long-term debt, related party	195,476	163,885
Total current liabilities	4,666,968	2,835,129
Other long-term liabilities	279,678	25,000
Long-term debt, net of current portion	4,889,835	5,476,754
Long-term debt, related party, net of current portion	280,078	410,488
Total liabilities	10,116,559	8,747,371
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, \$0.001 par value, 15,000,000 shares authorized, no shares issued	-	-
Common stock, \$0.001 par value, 100,000,000 shares authorized, 62,940,154 and 62,051,372 shares issued and outstanding, respectively	62,940	62,051
Additional paid-in capital	12,834,711	12,692,852
Accumulated deficit	(15,725,085)	(17,207,268)
Total TexCom, Inc. deficit	(2,825,405)	(4,450,336)
Noncontrolling interest	854,242	468,626
Total equity	(1,971,163)	(3,981,710)
Total liabilities and equity	\$ 8,145,396	\$ 4,765,661

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

TEXCOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>December 31, 2011</u>	<u>December 31, 2010</u> (Restated)
Revenues	\$ 10,515,288	\$ 8,765,665
Cost of revenues, excluding royalties	1,742,618	2,116,662
Royalties	2,813,480	1,805,837
Total cost of revenues	<u>4,556,098</u>	<u>3,922,499</u>
Gross profit	<u>5,959,190</u>	<u>4,843,166</u>
Selling, general, and administrative expenses	<u>1,674,731</u>	<u>1,421,158</u>
Operating income	<u>4,284,459</u>	<u>3,422,008</u>
Other income (expense)		
Interest expense	(1,192,872)	(1,504,643)
Enhanced payments to stockholders	(328,134)	(321,597)
Equity in loss of affiliate	(371,217)	(610,753)
Loss on derivative liability	(60,931)	-
Other income (loss)	<u>(278,064)</u>	<u>9,279</u>
Income before provision for income taxes and noncontrolling interest	2,053,241	994,294
Provision for income taxes	<u>-</u>	<u>-</u>
Net income	2,053,241	994,294
Income attributable to noncontrolling interest	<u>(571,058)</u>	<u>(305,888)</u>
Net income available to common stockholders	<u>\$ 1,482,183</u>	<u>\$ 688,406</u>
Income per share – basic	<u>\$ 0.02</u>	<u>\$ 0.01</u>
Income per share – diluted	<u>\$ 0.02</u>	<u>\$ 0.01</u>
Weighted average common shares outstanding – basic	<u>62,582,775</u>	<u>53,421,869</u>
Weighted average common shares outstanding – diluted	<u>67,308,418</u>	<u>65,568,719</u>

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

TEXCOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Preferred Stock		Common Stock		Additional	Accumulated	Non-controlling	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	Interest	
Balances at December 31, 2009 (Restated)	2,028,750	\$ 2,029	50,604,936	\$ 50,604	\$ 10,852,235	\$ (17,895,674)	\$ 265,453	\$ (6,725,353)
Shares issued for cash			4,678,571	4,679	664,690			669,369
Stock-based compensation			200,000	200	145,811			146,011
Shares issued to MCES for settlement of Texcom debt and TGD debt			4,731,527	4,732	657,681			662,413
Shares issued for accrued salaries and settlement of debt to an officer			1,471,428	1,471	256,028			257,499
Shares issued for enhanced payments			364,910	365	116,407			116,772
Payment of dividends							(102,715)	(102,715)
Net income						688,406	305,888	994,294
Balances at December 31, 2010 (Restated)	2,028,750	2,029	62,051,372	62,051	12,692,852	(17,207,268)	468,626	(3,981,710)
Shares issued for cash			444,118	444	60,556			61,000
Stock-based compensation			444,664	445	81,303			81,748
Payment of dividends							(185,442)	(185,442)
Net income						1,482,183	571,058	2,053,241
Balances at December 31, 2011	<u>2,028,750</u>	<u>\$ 2,029</u>	<u>62,940,154</u>	<u>\$ 62,940</u>	<u>\$ 12,834,711</u>	<u>\$ (15,725,085)</u>	<u>\$ 854,242</u>	<u>\$ (1,971,163)</u>

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

TEXCOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	December 31, 2011	December 31, 2010 (Restated)
Cash flows from operating activities:		
Net income	\$ 2,053,241	\$ 994,294
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization	313,697	306,299
Stock-based compensation	81,748	146,011
Stock issued for Enhanced Payments	-	116,772
Equity in loss of affiliate	371,217	610,753
Bad debt expense	83,170	14,151
Other gains and losses	338,995	(9,279)
Changes in operating assets and liabilities:		
Accounts receivable	(358)	(344,618)
Prepaid and other assets	(12,690)	(15,755)
Accounts payable and other liabilities	445,027	(595,473)
Accrued officer salaries	148,576	279,014
Income tax payable	-	(443,584)
Net cash provided by operating activities	3,822,623	1,058,585
Cash flows from investing activities:		
Investment in restricted cash	(161,621)	-
Investment in affiliate	(312,622)	-
Purchases of plant, property and equipment	(945,965)	(283,880)
Net cash used by investing activities	(1,420,208)	(283,880)
Cash flows from financing activities:		
Proceeds from notes payable, third party	810,000	-
Proceeds from notes payable, related party	-	10,000
Borrowing fees paid with cash	(263,824)	-
Principal repayments on notes payable, third party	(1,619,266)	(1,544,677)
Principal repayments on notes payable, related party	(173,889)	(262,415)
Payment of dividends to noncontrolling interest	(185,442)	(102,715)
Proceeds from issuances of common stock for cash	61,000	669,369
Net cash used in financing activities	(1,371,421)	(1,230,438)
Net change in cash and cash equivalents	1,030,994	(455,733)
Cash and cash equivalents, beginning of year	190,155	645,888
Cash and cash equivalents, end of year	\$ 1,221,149	\$ 190,155
Supplemental cash flows information:		
Cash paid for interest	\$ 1,051,752	\$ 1,296,291
Cash paid for taxes	-	451,381

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

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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

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 – As part of the agreement with the lender when the Company purchased the well in the Eagle Ford shale area (see Note 3 and Note 7) in 2011, \$700,000 was held in a separate bank account. These funds are restricted for payment of interest to the lender and for the improvements to the Eagle Ford Shale property. During 2011, the Company used \$538,379 to pay for the qualified disbursements. As of December 31, 2011, the remaining unused balance of \$161,621 was deposited in one of the Company’s bank accounts.

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 December 31, 2011 and 2010, the allowance for doubtful accounts was \$85,268 and \$82,668, 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 income statement.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 cost 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 December 31, 2011 and 2010, 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 December 31, 2011 and 2010, no revision to the remaining amortization period of the intangible assets was made.

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.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, installments 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.

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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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 December 31, 2011 through the issuance date of this report and there are no other material subsequent events to report.

Recent Accounting Pronouncements:

Fair Value Measurement and Disclosure Requirements – In May 2011, the FASB issued "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The standard revises guidance for fair value measurement and expands the disclosure requirements. It is effective prospectively for fiscal years beginning after December 15, 2011. We are currently evaluating the impact the adoption of this standard will have on our Consolidated Financial Statements.

NOTE 2 – RECLASSIFICATIONS AND RESTATEMENTS

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

The Company restated its December 31, 2010 balance sheet and the statements of operations, changes in equity, and cash flows for the year ended December 31, 2010 to reflect the following adjustments:

- Net reduction of general and administrative expenses as a result of revised accrual calculations, capitalization of previously expensed borrowing costs and related changes to amortization expense;
- Increase in the allowance for doubtful accounts at December 31, 2010;
- Adjustment in the carrying value of its equity in affiliate account to reflect adjustments to the carrying value at December 31, 2010 and revaluation of stock and debt contributed to affiliate;
- Increase in debt and additional paid-in capital from the revaluation of debt and equity contributed to affiliate;
- Reduction of the 2010 income tax provision, based on revised income tax accruals as of December 31, 2009; and
- Reduction in the income attributable to non-controlling interests related to the above adjustments and reclassifications.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 2 – RECLASSIFICATIONS AND RESTATEMENTS (CONTINUED)

The impact of the reclassifications and prior period adjustments on the accompanying Consolidated Balance Sheets as of December 31, 2010 are as follows:

	As originally reported	Change	As restated
Total current assets	\$ 1,975,762	\$ (26,418)	\$ 1,949,344
Total assets	4,189,390	576,271	4,765,661
Total current liabilities	2,599,559	235,570	2,835,129
Total liabilities	8,486,801	260,570	8,747,371
Total equity	(4,297,411)	315,701	(3,981,710)

The impact of the reclassifications and prior period adjustments on the accompanying Consolidated Statements of Operations for the year ended December 31, 2010 are as follows:

	As originally reported	Change	As restated
Selling, general, and administrative expenses	\$ 1,449,197	\$ (28,039)	\$ 1,421,158
Equity in loss of affiliate	-	610,753	610,753
Provision for income taxes	277,684	(277,684)	-
Income attributable to non-controlling interest	352,201	(46,313)	305,888
Net income available to common shareholders	947,123	(258,717)	688,406

As a result of the restatement, 2010 basic and diluted earnings per share decreased from \$0.02 to \$0.01.

The total number of outstanding shares at December 31, 2010 was corrected from 58,361,507 to 62,051,372.

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. The Company valued the total transaction at \$1,540,265 based on the present value of the estimated production payments, which are recorded as a long-term liability in 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 of all skim oil sold. The lease expires on June 30, 2017. Due to the five-year 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 2017.

TEXCOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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 transaction 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, (the “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 also guaranteed certain debts of TGD. The agreements were to run through January 31, 2009.

In 2010, as a further concession to MCES and to relieve TexCom of its contingent liability for guaranteed debt, the Company agreed to issue 4,731,527 shares of common stock and to forgive \$79,949 that TGD owed to TexCom. The Company no longer guarantees any obligation 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.

In 2011 and 2010, the Company recorded losses in affiliate of \$58,595 and \$610,753, respectively, related to its investment in TGD.

In January 2011, the Company received approval from the TCEQ for the aforementioned Class I Industrial Wastewater Disposal Permit. Site preparation has commenced for the construction of the above-ground facilities.

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 in cash and expenses. 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 in cash that was due to be paid in 2012. The accrued \$100,000 cash and expenses of \$87,378 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 \$312,622.

NOTE 5 – PLANT, PROPERTY AND EQUIPMENT

Plant, property and equipment consisted of the following at December 31, 2011 and 2010:

	Lives	2011	2010
Building & improvements	10 – 30 years	\$ 270,527	\$ 273,388
Equipment, furniture & fixtures	5 – 10 years	560,385	553,306
Disposal wells	10 years	558,499	267,865
Transportation equipment	7 years	81,384	92,219
Engineering drawings	10 years	-	195,520
Leasehold improvements	5 years	2,201,876	-
Land		47,484	13,544
Subtotal		3,720,155	1,395,842
Less: accumulated depreciation		(492,237)	(445,325)
Plant, property and equipment, net		<u>\$ 3,227,918</u>	<u>\$ 950,517</u>

Depreciation expense for the years ended December 31, 2011 and 2010 was \$88,309 and \$78,618, respectively.

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 \$131,988 of capitalized interest at December 31, 2011. There was no capitalized interest in 2010.

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NOTE 5 – PLANT, PROPERTY AND EQUIPMENT (CONTINUED)

In 2011, the Company recorded a \$330,520 loss on abandonment, resulting from the Company's decision to not pursue certain projects. There were no assets written off in 2010.

NOTE 6 – INTANGIBLE ASSETS

Intangible assets consisted of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Disposal permit and customer lists	\$ 1,257,901	\$ 1,257,901
Less: accumulated amortization	<u>(1,039,350)</u>	<u>(1,020,570)</u>
Intangible assets, net	<u>\$ 218,551</u>	<u>\$ 237,331</u>

Amortization expense for the years ended December 31, 2011 and 2010 was \$18,780 and \$18,780, respectively.

NOTE 7 – NOTES PAYABLE

Notes payable consist of payables to financial institutions and other third parties as the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
\$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.	\$ 5,188,731	\$ 6,794,340
\$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 a discount of \$112,020 related to 1,000,000 warrants issued pursuant to the debt agreement.	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>168,454</u>	<u>165,500</u>
Total notes payable	7,263,483	6,959,840
Less: amounts due within one year	<u>(2,373,648)</u>	<u>(1,483,086)</u>
Long-term portion of notes payable	<u>\$ 4,889,835</u>	<u>\$ 5,476,754</u>

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

<u>For the year ending December 31</u>	<u>Amount</u>
2012	\$ 2,373,648
2013	2,905,698
2014 and thereafter	<u>1,984,137</u>
Total	<u>\$ 7,263,483</u>

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NOTE 7 – NOTES PAYABLE (CONTINUED)

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 years ended December 31, 2011 and 2010, the Company recognized non-cash interest expense in the amount of \$165,668 and \$208,901, respectively. The unamortized portion of the deferred financing costs of \$259,289 and \$424,957 are included in other assets as of December 31, 2011 and 2010, respectively.

In 2011, the Company incurred \$263,824 in financing costs related to EFES borrowings. The deferred costs are to be recognized using the effective interest method over the life of the loan. During the year ended December 31, 2011, the Company recognized non-cash interest expense in the amount of \$40,940. The unamortized portion of the deferred financing costs of \$222,884 is included in other assets as of December 31, 2011.

Also in 2011, a creditor forgave debt of \$52,397 related to a project that the Company abandoned.

NOTE 8 – NOTES PAYABLE, RELATED PARTY

Related-party notes payable consisted of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u> (Restated)
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.	\$ 475,554	\$ 574,373
Total notes payable, related party	475,554	574,373
Less: amounts due within one year	<u>(195,476)</u>	<u>(163,885)</u>
Long-term portion of notes payable, related party	<u>\$ 280,078</u>	<u>\$ 410,488</u>

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

<u>For the year ending December 31</u>	<u>Amount</u>
2012	\$ 195,476
2013	220,359
2014	59,719
Total	<u>\$ 475,554</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. Revaluing the derivative at December 31, 2011 resulted in an increase in the derivative liability of \$60,931 with a corresponding loss on the derivative instruments. 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 December 31, 2011:

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NOTE 9 – DERIVATIVE INSTRUMENTS (CONTINUED)

- 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 201% to 673%.
- The holder will exercise the warrant at a target price equal to 1.75 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 first year at prices equal to the market value.

NOTE 10 – 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 December 31, 2011 and 2010 are as follows:

	2011	2010 (Restated)
Deferred tax assets:		
Net operating losses	\$ 2,760,000	\$ 3,840,000
Equity in net assets of affiliate	160,000	360,000
Other differences in tax basis	460,000	320,000
Total deferred tax assets	3,380,000	4,520,000
Deferred tax liabilities:		
Fixed assets	80,000	160,000
Total deferred tax liabilities	80,000	160,000
Net deferred tax assets	3,300,000	4,360,000
Valuation allowance	(3,300,000)	(4,360,000)
Deferred tax assets, net	\$ -	\$ -

The difference between the income tax provision and the amount that would result if the U.S. Federal statutory rate of 34% were applied to pre-tax income (loss) for the years ended December 31, 2011 and 2010 is as follows:

	2011		2010 (Restated)	
	Amount	%	Amount	%
Income tax at federal statutory rate	\$ 698,000	34.0 %	\$ 338,000	34.0 %
Equity in loss of affiliate	28,000	1.4 %	163,000	16.4 %
Accrual-to-cash conversion	76,000	3.7 %	(354,000)	(35.6) %
Capitalized fees	112,000	5.4 %	47,000	4.7 %
Nondeductible expenses	14,000	0.7 %	14,000	1.4 %
Difference in basis of assets disposed of	66,000	3.2 %	(55,000)	(5.5) %
Other	86,000	4.2 %	(14,000)	(1.4) %
Decrease in net operating losses	(1,080,000)	(52.6) %	(139,000)	(14.0) %
Total	\$ -	- %	\$ -	- %

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NOTE 10 – INCOME TAXES (CONTINUED)

As of December 31, 2011, for U.S. federal income tax reporting purposes, the Company has approximately \$8,000,000 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, 2025. 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 limitations, the Company has significant NOLs for which realization of tax benefits is uncertain.

NOTE 11 – ASSET RETIREMENT OBLIGATION

The Company’s asset retirement obligations (“ARO”), totaling \$75,000 and \$25,000 in December 31, 2011 and 2010, 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 balance sheet.

NOTE 12 – 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 \$2,130,188 (\$1.05 per share) in dividends on the Series A Convertible Preferred Stock as of December 31, 2011.

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
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NOTE 12 – 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 December 31, 2011, the Board of Directors of the Company has reserved a total of 8,783,143 shares of common stock for the contingent issuances in connection with the following securities:

	Shares
Convertible preferred stock	4,057,500
Warrants issued to employees	1,950,000
Warrants issued to non-employees	2,775,643
Total shares reserved for contingent issuances	8,783,143

During the year ended December 31, 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.
- 444,664 shares of common stock were issued to third parties for services. These shares were valued at their fair value of \$81,748.

During the year ended December 31, 2010, the Company had the following common stock activities:

- 4,678,571 shares of common stock were sold to third parties for \$669,369.
- 200,000 shares of common stock and warrants to purchase 800,000 shares of common were issued to third parties for services. These shares were valued at their value of \$146,011.
- 4,731,527 shares of common stock, valued at their fair market value of \$662,413, were issued as the repayments of outstanding debts.
- 1,471,428 shares of common stock, valued at \$257,499 were issued to the Company's officers for accrued salaries and settlement of debt.
- 364,910 shares of common stock, valued at \$116,772, were issued to 16 stockholders of MBSI as an Enhanced Payment.

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NOTE 13 – SHARE-BASED PAYMENTS

Warrants Granted to Employees:

A summary of activities in employee warrants and the related information is as follows:

	Shares	Weighted Average Exercise Price	Remaining Contractual Term (years)	Intrinsic Value
Outstanding balance, December 31, 2009	1,850,000	\$ 0.51	\$ 1.63	\$ -
Granted	800,000	0.26		
Expired	-	-		
Forfeited	(700,000)	0.35		
Outstanding balance, December 31, 2010	1,950,000	0.46	1.84	-
Granted	-	-		
Expired	-	-		
Forfeited	-	-		
Outstanding balance, December 31, 2011 (Fully vested and exercisable)	<u>1,950,000</u>	<u>\$ 0.46</u>	0.84	-

During the year ended December 31, 2010, warrants to purchase 800,000 shares of common stock were granted to several employees at exercise prices ranging from \$0.25 to \$0.32 per share. These warrants have terms of three years and vest immediately. Fair value of \$106,011 was calculated using the Black-Scholes option-pricing model. Variables used in the Black-Scholes option-pricing model include (1) discount rate ranging from 1.02% to 1.51% (2) warrant life of three years, (3) expected volatility ranging from 220.08% to 368.21% and (4) zero expected dividends.

Warrants Granted to Non-Employees:

A summary of activities in non-employee warrants and the related information is as follows:

	Shares	Weighted Average Exercise Price	Remaining Contractual Term (years)	Intrinsic Value
Outstanding balance, December 31, 2009	6,139,350	\$ 2.08	\$ 1.97	\$ 9,590
Granted	-	-		
Expired	-	-		
Forfeited	-	-		
Outstanding balance, December 31, 2010	6,139,350	2.08	0.97	190,276
Granted	1,850,643	0.16		
Expired	(5,214,350)	2.43		
Forfeited	-	-		
Outstanding balance, December 31, 2011 (Fully vested and exercisable)	<u>2,775,643</u>	<u>\$ 0.15</u>	2.87	86,886

During the year ended December 31, 2011, warrants to purchase 1,850,643 shares were granted to third parties at exercise prices ranging from \$0.16 to \$0.33 per share. These warrants have terms of two to four years and have vesting periods ranging from zero to six months. Fair value of \$3,747 was calculated using the Black-Scholes option-pricing model for 50,000 warrants. Variables used in the Black-Scholes option-pricing model include (1) discount rate of 0.49%, (2) warrant life of two years from grant date, (3) expected volatility of 110% and (4) zero expected dividends. The remaining warrants to purchase 1,800,643 shares were recorded by the Company as financial derivatives. See Note 9 for additional details.

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NOTE 14 – COMMITMENTS AND CONTINGENCIES

Leases

MBE, LLC entered into two operating lease agreements for two transfer station docks in Louisiana. One lease is at Port LaFourche, began May 1, 1997, with an initial term of ten years and options to renew for five additional five-year periods. Another lease at IntraCoastal City, began April 1, 2000, with an initial term of five years and options to renew for three additional five-year periods. Both leases were renewed at the end of the initial terms for additional five-year terms. The basic lease on Port LaFourche lease has an escalation clause up to a maximum 5% increase each year. Both leases have been subleased to another company who has paid the Company approximately \$9,100 per month plus the Company's total monthly rent obligations. These subleases contain provisions for contingent rent based on the volume of waste material moved across the transfer stations. The term of these sublease agreements, which commenced February 1, 2002, are for a two-year period with automatic extensions for four additional two-year periods. The Port LaFourche lease expires in 2012. The sublease at IntraCoastal City was not renewed at February 2010 and the primary lease was allowed to expire in April 2010. The lease expenses for the Port LaFourche and IntraCoastal City lease are netted against revenue in the financial statements.

The Company has a corporate office lease in Houston, Texas which runs through December 2015, and a land lease in the Eagle Ford shale area that runs through June 2016. Total amounts paid to these non-cancellable real estate leases were \$192,746 and \$211,236 in the years ended December 31, 2011 and 2010, respectively.

Future minimum lease obligations for the non-cancellable leases in excess of one year are as follows:

Year	Amount
2012	\$ 149,002
2013	102,090
2014	102,090
2015	106,496
2016 and thereafter	18,000
Total	\$ 477,678

Royalty Agreements

MBES, LLC has entered into an operations agreement with the company from which it purchased the land on which its disposal well in Chambers County, Texas is located. As per the agreement, the Company is required to pay a minimum royalty of \$8,000 per month (adjusted for increases in the Consumer Price Index ("CPI") since 2000) or 7% of monthly gross revenue, whichever is greater, for so long as the property is used for oilfield waste disposal. Included in the accompanying statements of operations for the years ended December 31, 2011 and 2010 are \$723,223 and \$583,368 of royalty expense, respectively. Upon termination of the Operations Agreement, the prior landowner has an option to purchase the property for \$30,000 (adjusted for increases in the CPI since 1998).

Under the Matador Loan agreement described in Note 7, the Company is obligated to pay a royalty of 20% (10% during the first year of the loan) of gross cash received on MBES gross revenue. During the years ended December 31, 2011 and 2010, the Company incurred royalty expense of \$2,090,257 and \$1,222,469, respectively.

As part of the 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. The Company calculated the present value of the future payments at \$240,264 and recorded a liability.

The Company also acquired the lease of 45 acres in the Eagle Ford shale area 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, 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, 2017.

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NOTE 14 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Enhanced Payments to Non-controlling Stockholders

In December 2009, the Company agreed to remit certain payments (“the Enhanced Payments”) to the remaining MBSI non-controlling shareholders equal to 10.39% of the payments on the Matador Loan. During the year ended December 31, 2011, the Company paid no Enhanced Payments, but accrued a liability of \$328,134 for the unpaid Enhanced Payments. During the year ended December 31, 2010, the Company paid \$204,826 in cash and issued 364,910 shares of common stock, valued at \$116,772 to MBSI non-controlling shareholders for the Enhanced Payments. The Enhanced Payments are limited to TexCom’s receipt of dividends from MBSI and will decrease proportionately if the Company acquires any of the non-controlling stockholders’ shares.

NOTE 15 – CONCENTRATIONS

The Company operates in limited geographical areas, consisting of two locations in Texas. Revenues are derived solely from the oil and gas industry and any decrease in drilling activities could have a substantial impact on the Company’s NOW disposal revenues, which accounted for 76% and 72% of total revenues in the years ended December 31, 2011 and 2010, respectively. Any relaxation of regulatory rules concerning disposal of NORM or NOW could negatively impact our ability to generate revenues.

As of December 31, 2011 and 2010, five customers accounted for 38% and 47% of the Company’s outstanding accounts receivable, respectively.

For the years ended December 31, 2011 and 2010, the Company generated 36% and 33% of total revenues from its five largest customers, respectively.

NOTE 16 – SUPPLEMENTAL CASH FLOWS INFORMATION

Following are the non-cash investing and financing activities incurred by the Company during the years ended December 31, 2011 and 2010:

	2011	2010 (Restated)
Shares issued to MCES for settlement of TexCom debt and TGD debt	\$ -	\$ 662,413
Shares issued for accrued salaries and settlement of debt to an officer	-	257,499
Contingent liability accrued for production payment	240,266	-
Asset retirement obligation accrued	50,000	-
Note payable issued to purchase fixed asset	1,300,000	30,000
Proceeds from sale of asset to pay off debt	-	70,000