TEXCOM, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2012 and December 31, 2011
and for the Three Months Ended March 31, 2012 and 2011

TEXCOM, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Three Months Ended March 31, 2012

Index

TEXCOM, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS

	March 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 359,043	$ 1,221,149
Restricted cash	752,836	161,621
Accounts receivable, net of allowance for doubtful accounts of $112,968 and $85,268, respectively	1,871,709	1,626,005
Prepaid expenses and other current assets	75,237	51,752
Total current assets	3,058,825	3,060,527
Property and equipment, net	3,418,951	3,227,918
Equity in net assets of affiliate	709,851	723,195
Intangible assets, net	213,856	218,551
Goodwill	396,722	396,722
Other assets	469,398	518,483
Total assets	$ 8,267,603	$ 8,145,396
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,935,066	$ 1,972,833
Derivative liability	478,910	172,951
Other payables	752,836	-
Current portion of long-term debt	2,124,859	2,373,648
Current portion of long-term debt, related party	201,485	195,476
Total current liabilities	5,493,156	4,714,908
Other long-term liabilities	268,917	279,678
Long-term debt, net of current portion	4,262,206	4,889,835
Long-term debt, related party, net of current portion	227,405	280,078
Total liabilities	10,251,684	10,164,499
Equity:		
Series A convertible preferred stock, $0.001 par value, 5,000,000 shares authorized, 2,028,750 shares issued and outstanding	2,029	2,029
Non-designated preferred stock, $1.00 par value, 15,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $0.001 par value, 100,000,000 shares authorized, 63,528,389 and 62,940,154 shares issued and outstanding, respectively	63,528	62,940
Additional paid-in capital	12,934,123	12,834,711
Accumulated deficit	(15,806,233)	(15,725,085)
Total equity (deficit)	(2,806,553)	(2,825,405)
Noncontrolling interest	822,472	806,302
Total TexCom equity	(1,984,081)	(2,019,103)
Total liabilities and equity	$ 8,267,603	$ 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 Months Ended March 31, 2012 and 2011

	March 31, 2012	March 31, 2011 (Restated)
Revenues	$ 2,528,413	$ 2,638,580
Cost of revenues, excluding royalties	586,098	410,391
Royalties	645,894	580,762
Total cost of revenues	1,231,992	991,153
Gross profit	1,296,421	1,647,427
Selling, general, and administrative expenses	518,574	393,340
Operating income	777,847	1,254,087
Other income (expense)		
Interest expense	(349,882)	(291,838)
Enhanced payments to stockholders	(65,627)	(131,254)
Equity in loss of affiliate	(96,177)	(25,615)
Loss on change in fair value of derivative liability	(305,959)	-
Other income	-	58
Income (loss) before provision for income taxes and noncontrolling interest	(39,798)	805,438
Provision for income taxes	-	-
Net income (loss)	(39,798)	805,438
Income attributable to noncontrolling interest	(41,350)	(123,072)
Net income (loss) available to common stockholders	$ (81,148)	$ 682,366
Income (loss) per common share – basic	$ (0.00)	$ 0.01
Income (loss) per common share – diluted	$ (0.00)	$ 0.01
Weighted average common shares outstanding – basic	62,940,154	62,201,372
Weighted average common shares outstanding – diluted	62,940,154	70,290,722

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

TEXCOM, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2012 and 2011

	March 31, 2012	March 31, 2011 (Restated)
Cash flows from operating activities:		
Net income (loss)	$ (39,798)	$ 805,438
Adjustments to reconcile net income to cash used in activities:		
Depreciation and amortization	79,202	26,614
Amortization of deferred financing costs	83,017	48,756
Stock-based compensation	-	15,000
Equity in loss of affiliate	96,177	25,615
Bad debt expense	27,700	23,636
Loss on change in fair value of derivative liability	305,959	-
Changes in operating assets and liabilities:		
Accounts receivable	(273,404)	(394,250)
Prepaid and other assets	(57,417)	(35,848)
Accounts payable and other liabilities	(42,483)	203,179
Net cash provided by operating activities	178,953	718,140
Cash flows from investing activities:		
Advances to affiliates	(82,833)	-
Purchases of plant, property and equipment	(265,540)	(59,348)
Proceeds from restricted cash	161,621	-
Net cash used by investing activities	(186,752)	(59,348)
Cash flows from financing activities:		
Proceeds from long-term debt, related parties	-	30,000
Principal repayments on long-term debt, third party	(882,463)	(364,289)
Principal repayments on long-term debt, related party	(46,664)	(41,397)
Payment of dividends to noncontrolling interest	(25,180)	(16,786)
Proceeds from issuances of common stock for cash	100,000	61,000
Net cash used in financing activities	(854,307)	(331,472)
Net change in cash and cash equivalents	(862,106)	327,320
Cash and cash equivalents, beginning of period	1,221,149	190,155
Cash and cash equivalents, end of period	$ 359,403	$ 517,475
Supplemental cash flow information:		
Cash paid for interest	$ 266,865	$ 262,323
Cash paid for taxes	$ -	$ -

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

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Presentation

TexCom, Inc. ("TexCom" or the "Company") was incorporated under the laws of the State of Texas on December 9, 2003. 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 – At March 31, 2012, the $752,836 presented as restricted cash relates to funds that the Company reimburse to an investor who later rescinded his investment in the Company. Please see Note 10.

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. As of March 31, 2012, the Company had fulfilled its contractual requirements related to the restrictions of the cash related to the purchase.

***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 March 31, 2012 and December 2011, the allowance for doubtful accounts was $108,482 and $85,268, respectively.

Equity Method of Accounting – Investments in corporate entities over which the Company can exert significant influence (but not control) are accounted for using the equity method. Under the equity method, the investment is recorded initially at cost. Subsequent adjustments are made through recognition in the income statement for the Company's share of post-acquisition profits and losses and through recognition in stockholders' equity for other post-acquisition changes in the investee's net assets. Dividends received reduce the investment account. The equity method requires the Company to record its investment in the investee as a one-line asset and to reflect its proportionate share of the investee's net income/loss on one line in the statement of operations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 March 31, 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 March 31, 2012 and December 31, 2011, 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.

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.

***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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 March 31, 2012 through the issuance date of this report and there are no other material subsequent events to report.

Recent Accounting Pronouncements:

As of March 31, 2012, we have not adopted any new accounting pronouncement.

NOTE 2 – RECLASSIFICATIONS AND RESTATEMENTS

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

The Company restated its March 31, 2011 balance sheet and the statements of operations and cash flows for the three months ended March 31, 2011 to reflect the following adjustments:

- Increase in Enhanced Payments, which were originally accounted for on a cash basis;
- Adjustments to expense and income accruals;
- Adjustment in the calculation of amortization of intangibles;
- Reduction in the income attributable to non-controlling interests related to the above adjustments and reclassifications.

The impact of the reclassifications and prior period adjustments on the accompanying Consolidated Statements of Operations for the three months ended March 31, 2011 are as follows:

	As originally reported	Change	As restated
Other expense	$ 278,279	$ 170,370	$ 448,649
Income attributable to non-controlling interest	141,304	(18,232)	123,072
Net income available to common shareholders	834,504	(152,138)	682,366

As a result of the restatement, earnings for the three months ended March 31, 2011 basic and diluted earnings per share decreased from $0.02 to $0.01.

The number of weighted average common shares outstanding for the three months ended March 31, 2011 was corrected from 64,114,447 to 62,201,372 shares.

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 $240,264 and recorded a liability. For the three months ended March 31, 2012, the Company had paid $2,905 for disposed liquid, and the present value of the estimated remaining payments is $234,220. 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 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 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.

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.

For the three months ended March 31, 2012 and 2011, the Company recorded equity losses of affiliate of $13,344 and $25,615, 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. 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 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 $82,833 for the three months ending March 31, 2012.

NOTE 5 – PLANT, PROPERTY AND EQUIPMENT

Property, plant and equipment consisted of the following at March 31, 2012 and December 31, 2011:

	Lives	March 31, 2012	December 31, 2011
Building & improvements	10 – 30 years	$ 270,527	$ 270,527
Equipment, furniture & fixtures	5 – 10 years	585,670	560,385
Disposal wells	10 years	581,501	558,499
Transportation equipment	7 years	81,384	81,384
Leasehold improvements	5 years	2,419,129	2,201,876
Land		47,484	47,484
Subtotal		3,985,695	3,720,155
Less: accumulated depreciation		(566,744)	(492,237)
Plant, property and equipment, net		$ 3,418,951	$ 3,227,918

Depreciation expense for the three-month periods ended March 31, 2012 and 2011 was $74,507 and $21,918, 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 $161,988 and $131,988 of capitalized interest at March 31, 2012 and December 31, 2011, respectively.

NOTE 6 – INTANGIBLE ASSETS

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

	March 31, 2012	December 31, 2011
Disposal permit and customer lists	$ 1,257,901	$ 1,257,901
Less: accumulated amortization	(1,044,045)	(1,039,350)
Intangible assets, net	$ 213,856	$ 218,551

Amortization expense was $4,695 for both of the three-month periods ended March 31, 2012 and 2011.

NOTE 7 – NOTES PAYABLE

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

	March 31, 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.	$ 4,367,646	$ 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 a discount of $112,020 related to 1,000,000 warrants issued pursuant to the debt agreement.	1,866,606	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.	152,813	168,454
Total notes payable	6,387,065	7,263,483
Less: amounts due within one year	(2,124,859)	(2,373,648)
Long-term portion of notes payable	$ 4,262,206	$ 4,889,835

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

For the twelve months ending March 31,	Amount
2013	$ 2,124,859
2014	3,014,412
2015	1,247,795
Total	$ 6,387,066

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 three-month periods ended March 31, 2012 and 2011, the Company recognized non-cash interest expense in the amount of $41,217 and $48,756, respectively. The unamortized portion of the deferred financing costs of $218,072 and $259,289 are included in other assets as of March 31, 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 three months ended March 31, 2012, the Company recognized non-cash interest expense in the amount of $41,800. The unamortized portion of the deferred financing costs of $215,016 and $222,884 is included in other assets as of March 31, 2012 and December 31, 2011, respectively.

NOTE 8 – NOTES PAYABLE, RELATED PARTY

Related-party notes payable consisted of the following at March 31, 2012 and December 31, 2011:

	March 31, 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.	$ 428,890	$ 475,554
Less: amounts due within one year	(201,485)	(195,476)
Long-term portion of notes payable, related party	$ 227,405	$ 280,078

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

For the twelve months ending March 31,	Amount
2013	$ 201,485
2014	227,405
Total	$ 428,890

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 March 31, 2012, the Company again revalued the derivative at $478,910, resulting in a loss of $305,959. 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 March 31, 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 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 – OTHER PAYABLES

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 that it was in the Company's best interest to offer the investor the right to rescind his investment. On July 9, 2012, the investor rescinded his investment and will receive back from the Company the entire purchase price of the shares, plus 6% interest (as required by state law), which totaled $752,836 at March 31, 2012.

NOTE 11 – ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligations, totaling $75,000 and $75,000 at March 31, 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 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 $2,231,625 ($1.10 per share) and $2,130,188 ($1.05 per share) in dividends on the Series A Convertible Preferred Stock as of March 31, 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.

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 March 31, 2012, 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 three months ended March 31, 2012, the Company sold 588,235 shares for $100,000 in cash.

During the three months ended March 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.
- 75,000 shares of common stock were issued to third parties for services. These shares were valued at their fair value of $15,000.

During the three-month periods ended March 31, 2012 and 2011, there were no warrants or other common stock equivalents issued.