IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	:	Chapter 11
FOOTHILLS TEXAS, INC., *et al.*,[1]	:	Case No. 09-10452
Debtors.	:	

DEBTORS' FIRST AMENDED DISCLOSURE STATEMENT (MODIFIED)

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and Debtors in Possession

Dated: November 17, 2009

- Voting Record Date: November 13, 2009
- Voting Deadline: December 21, 2009 at 5:00 p.m. prevailing Eastern Time
- Date by which objections to confirmation of plan must be filed and served: December 21, 2009 at 5:00 p.m. prevailing Eastern Time.
- Hearing on confirmation of Plan: December 28, 2009 at 10:30 a.m. prevailing Eastern Time.

[1] The Debtors and the last four digits of their respective taxpayer identification numbers are as follows: Foothills Texas, Inc. (xx-xxx9399); Foothills Resources, Inc. (xx-xxx9560); Foothills California, Inc. (xx-xxx4290 and xx-xxx2963); and Foothills Oklahoma, Inc. (xx-xxx0946).

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IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	:	Chapter 11
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FOOTHILLS TEXAS, INC., *et al.*,[2]	:	Case No. 09-10452
	:	
Debtors.	:	

DEBTORS' FIRST AMENDED DISCLOSURE STATEMENT

Foothills Texas, Inc., and the other debtors in the above-captioned Reorganization Cases (collectively, the "Debtors") submit the following disclosure statement (the "Disclosure Statement") pursuant to Bankruptcy Code section 1125 for purposes of soliciting votes to accept or reject the Debtors' First Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Plan"), a copy of which is attached to the Disclosure Statement as **Exhibit A** and incorporated herein by reference. Capitalized terms used in the Disclosure Statement and not otherwise defined shall have the meanings ascribed to such terms in the Plan. The Disclosure Statement describes certain aspects of the Plan, including the treatment of holders of Claims and Interests, and also describes certain aspects of the Debtors' operations, financial projections, and other related matters.

* * * *

THE DISCLOSURE STATEMENT CONTAINS SUMMARIES OF CERTAIN PROVISIONS OF THE PLAN AND CERTAIN OTHER DOCUMENTS AND FINANCIAL INFORMATION. THE INFORMATION INCLUDED IN THE DISCLOSURE STATEMENT IS PROVIDED FOR THE PURPOSE OF SOLICITING ACCEPTANCES OF THE PLAN AND SHOULD NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE WHETHER AND HOW TO VOTE ON THE PLAN. THE SUMMARIES OF THE FINANCIAL INFORMATION AND THE DOCUMENTS WHICH ARE ATTACHED TO, OR INCORPORATED BY REFERENCE IN, THE DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO SUCH INFORMATION AND DOCUMENTS AND THE STATEMENTS REFLECTED HEREIN OR THEREIN, RESPECTIVELY. IN THE EVENT OF ANY INCONSISTENCY OR DISCREPANCY BETWEEN A DESCRIPTION IN THE DISCLOSURE STATEMENT AND THE TERMS AND PROVISIONS OF THE PLAN, OR THE OTHER DOCUMENTS AND FINANCIAL INFORMATION INCORPORATED IN THE DISCLOSURE STATEMENT BY REFERENCE,

[2] The Debtors and the last four digits of their respective taxpayer identification numbers are as follows: Foothills Texas, Inc. (xx-xxx9399); Foothills Resources, Inc. (xx-xxx9560); Foothills California, Inc. (xx-xxx4290 and xx-xxx2963); and Foothills Oklahoma, Inc. (xx-xxx0946).

THE PLAN OR THE OTHER DOCUMENTS AND FINANCIAL INFORMATION, AS THE CASE MAY BE, SHALL GOVERN FOR ALL PURPOSES.

THE STATEMENTS AND FINANCIAL INFORMATION CONTAINED IN THE DISCLOSURE STATEMENT HAVE BEEN MADE AS OF THE DATE OF THE DISCLOSURE STATEMENT UNLESS OTHERWISE SPECIFIED. HOLDERS OF CLAIMS AND INTERESTS REVIEWING THE DISCLOSURE STATEMENT SHOULD NOT INFER AT THE TIME OF SUCH REVIEW THAT THERE HAVE BEEN NO CHANGES IN THE FACTS SET FORTH IN THE DISCLOSURE STATEMENT SINCE THE DATE OF THE DISCLOSURE STATEMENT OR THE DATES OTHERWISE NOTED. EACH HOLDER OF A CLAIM OR INTEREST ENTITLED TO VOTE ON THE PLAN SHOULD CAREFULLY REVIEW THE PLAN, THE DISCLOSURE STATEMENT, AND THE PLAN SUPPLEMENT IN THEIR ENTIRETY BEFORE CASTING A BALLOT. THE DISCLOSURE STATEMENT DOES NOT CONSTITUTE LEGAL, BUSINESS, FINANCIAL, OR TAX ADVICE. ENTITIES DESIRING SUCH ADVICE OR ANY OTHER ADVICE SHOULD CONSULT WITH THEIR OWN ADVISORS.

NO ONE IS AUTHORIZED TO GIVE ANY INFORMATION WITH RESPECT TO THE PLAN OTHER THAN THAT WHICH IS CONTAINED IN THE DISCLOSURE STATEMENT. NO REPRESENTATIONS CONCERNING THE DEBTORS OR THE VALUE OF THEIR PROPERTY HAVE BEEN AUTHORIZED BY THE DEBTORS OTHER THAN AS SET FORTH IN THE DISCLOSURE STATEMENT AND THE DOCUMENTS ATTACHED TO THE DISCLOSURE STATEMENT. ANY INFORMATION, REPRESENTATIONS, OR INDUCEMENTS MADE TO OBTAIN AN ACCEPTANCE OF THE PLAN WHICH ARE OTHER THAN AS SET FORTH, OR INCONSISTENT WITH THE INFORMATION CONTAINED IN THE DISCLOSURE STATEMENT OR THE DOCUMENTS ATTACHED TO THE DISCLOSURE STATEMENT AND THE PLAN SHOULD NOT BE RELIED UPON BY ANY HOLDER OF A CLAIM OR INTEREST.

WITH RESPECT TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS, AND OTHER PENDING, THREATENED, OR POTENTIAL LITIGATION OR OTHER ACTIONS, IT IS THE DEBTORS' POSITION THAT THE DISCLOSURE STATEMENT DOES NOT CONSTITUTE, AND MAY NOT BE CONSTRUED AS, AN ADMISSION OF FACT, LIABILITY, STIPULATION, OR WAIVER. THE DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED IN THE DISCLOSURE STATEMENT.

THE FINANCIAL INFORMATION CONTAINED IN OR INCORPORATED BY REFERENCE INTO THE DISCLOSURE STATEMENT HAS NOT BEEN AUDITED, EXCEPT AS SPECIFICALLY INDICATED OTHERWISE.

THE PROJECTIONS PROVIDED IN THE DISCLOSURE STATEMENT, WHILE PRESENTED WITH NUMERICAL SPECIFICITY, ARE NECESSARILY BASED ON A VARIETY OF ESTIMATES AND ASSUMPTIONS WHICH, THOUGH CONSIDERED

REASONABLE BY THE DEBTORS AND THEIR PROFESSIONALS, MAY NOT BE REALIZED, AND ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC, COMPETITIVE, INDUSTRY, REGULATORY, MARKET, AND FINANCIAL UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE DEBTORS' CONTROL. THE DEBTORS CAUTION THAT NO REPRESENTATIONS CAN BE MADE AS TO THE ACCURACY OF THESE PROJECTIONS OR TO THE ABILITY TO ACHIEVE THE PROJECTED RESULTS.

THE BANKRUPTCY COURT HAS SCHEDULED THE CONFIRMATION HEARING TO COMMENCE ON DECEMBER 28, 2009, AT 10:30 A.M. PREVAILING EASTERN TIME BEFORE THE HONORABLE CHRISTOPHER S. SONTCHI, UNITED STATES BANKRUPTCY JUDGE, IN THE UNITED STATES BANKRUPTCY COURT FOR THE DISTRICT OF DELAWARE, LOCATED AT 824 NORTH MARKET STREET, 5TH FLOOR, COURTROOM #6, WILMINGTON, DELAWARE. THE CONFIRMATION HEARING MAY BE ADJOURNED FROM TIME TO TIME BY THE BANKRUPTCY COURT WITHOUT FURTHER NOTICE EXCEPT FOR AN ANNOUNCEMENT OF THE ADJOURNED DATE MADE AT THE CONFIRMATION HEARING OR ANY ADJOURNMENT OF THE CONFIRMATION HEARING.

TO BE COUNTED, THE BALLOT INDICATING ACCEPTANCE OR REJECTION OF THE PLAN MUST BE RECEIVED BY GARDEN CITY GROUP, INC., CLAIMS AGENT IN THESE REORGANIZATION CASES, NO LATER THAN 5:00 P.M. PREVAILING EASTERN TIME, ON DECEMBER 21, 2009.

OBJECTIONS TO CONFIRMATION OF THE PLAN MUST BE FILED AND SERVED ON OR BEFORE DECEMBER 21, 2009, AT 5:00 P.M. PREVAILING EASTERN TIME. UNLESS OBJECTIONS TO CONFIRMATION ARE TIMELY SERVED AND FILED IN COMPLIANCE WITH THE DISCLOSURE STATEMENT ORDER, THEY MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT.

I. INTRODUCTION AND SUMMARY

A. Overview and Purpose of Disclosure Statement

The Debtors filed their petitions for relief under chapter 11 of the Bankruptcy Code on February 11, 2009 (the "Petition Date"), in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). Since the Petition Date, the Debtors have continued to operate their businesses and manage their properties and assets as debtors in possession pursuant to Bankruptcy Code sections 1107 and 1108.

The Debtors submit this Disclosure Statement pursuant to Bankruptcy Code section 1125 to holders of Claims and Interests in connection with (a) the solicitation of acceptances of the Debtors' Plan and (b) the Confirmation Hearing, which is scheduled to commence at 10:30 a.m. prevailing Eastern Time on December 28, 2009. The only Persons whose acceptances of the Plan are sought are those whose Claims and Interests are Impaired by the Plan, as that term is defined in Bankruptcy Code section 1124 and who are receiving distributions under the Plan. Holders of Claims and Interests that are not Impaired are deemed to have accepted the Plan. Holders of Claims and Interests that are receiving no distributions under the Plan are deemed by law to have rejected the Plan without casting a vote.

Bankruptcy Code section 1125 requires that a copy of the Plan, or a summary thereof, be submitted to all holders of Impaired Claims and Interests against the Debtors, along with a written Disclosure Statement containing adequate information about the Debtors in as sufficient detail as is reasonably practicable, which would enable a hypothetical reasonable investor to make an informed judgment in exercising its right to vote on the Plan. Generally, this information includes, among other matters, a brief history of the Debtors, an overview of the Reorganization Cases, a description of the assets and liabilities of the Debtors, an explanation of how the Plan will function and an explanation of why the reorganization of the Debtors under the proposed Plan should result in a greater benefit to creditors than if the Reorganization Cases were converted to chapter 7 cases. To make an informed judgment about the Plan, you are urged to read the entire Disclosure Statement and the Plan.

B. Overview of Chapter 11

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Pursuant to chapter 11, a debtor in possession attempts to reorganize its business and financial affairs for the benefit of the debtor, its creditors, and other parties in interest. Formulation of a plan of reorganization is the principal purpose of a chapter 11 case. The chapter 11 plan sets forth the means for satisfying the claims of creditors against and interests of equity security holders in the debtor.

The commencement of a chapter 11 case creates an estate comprising all the legal and equitable interests of the debtor in property as of the date the petition is filed. Unless the Bankruptcy Court orders the appointment of a trustee, a chapter 11 debtor may continue to operate its business and control the assets of its estate as a debtor in possession. The Debtors have so operated since the Petition Date.

The filing of a chapter 11 petition also triggers the automatic stay, which is set forth in Bankruptcy Code section 362. The automatic stay essentially halts all attempts to collect pre-petition claims from the debtor or to otherwise interfere with the debtor's business or its estate.

C. Voting and Confirmation Procedures

1. Ballots and Voting Deadline.

In addition to this Disclosure Statement and a copy of the Plan, each Claim holder or Interest holder entitled to vote will hereafter be provided with a ballot to be used for voting to accept or reject the Plan, together with a postage paid return envelope.

In order to be counted for voting purposes, ballots for the acceptance or rejection of the Plan must be completed and returned to the Claims Agent so that they are actually received on or before December 21, 2009 at 5:00 p.m. prevailing Eastern Time or at such other time as the Bankruptcy Court may set. The time and date of the hearing will be set forth in a notice to creditors.

Whether or not the Claim or Interest holder entitled to vote expects to be present at the hearing, each Claim or Interest holder is urged to complete, date, sign and properly mail the ballot to the following address:

The Garden City Group, Inc.
Attn: Foothills Texas, Inc.
P. O. Box 9000, #6521
Merrick, NY 11566-9000

For Hand Delivery:
The Garden City Group, Inc.
Attn: Foothills Texas, Inc.
105 Maxess Road
Melville, NY 11747

2. Persons Entitled to Vote.

A holder of a Claim or Interest that is Impaired under the Plan and is receiving or retaining property on account of such Claim of Interest under the Plan is entitled to vote, if either (i) its Claim or Interest has been scheduled by the Debtors (and such Claim or Interest is not scheduled as disputed, contingent or unliquidated), or (ii) it has filed a proof of Claim or Interest on or before the first date set by the Bankruptcy Court for such filings. Any Claim or Interest as to which an objection seeking to disallow the Claim or Interest in entirety has been filed (and such objection is still pending) is not entitled to vote, unless the Bankruptcy Court has temporarily allowed the Claim or Interest in an amount which it deems proper for the purpose of accepting or rejecting the Plan upon application by the creditor. Any Claim or Interest as to which an objection seeking to reduce or reclassify the Claim or Interest has been filed (and such objection is still pending) is entitled to vote in the reduced/reclassified amount sought in the objection. Such application must be heard and determined by the Bankruptcy Court at such time as specified by the Bankruptcy Court. A Claim or Interest holder's vote may be disregarded if

the Bankruptcy Court determines that the holder's acceptance or rejection was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

3. Definition of Impairment

Under Bankruptcy Code section 1124, a Class of Claims or Interests is Impaired under a chapter 11 plan unless, with respect to each Claim or Interest of such Class, the Plan:

(a) Leaves unaltered the legal, equitable, and contractual rights of the holder of such Claim or Interest; or

(b) Notwithstanding any contractual provision or applicable law that entitles the holder of a Claim or Interest to receive accelerated payment of his Claim or Interest after the occurrence of a default:

(i) Cures any such default that occurred before or after the commencement of the case under the Bankruptcy Code, other than a default that consists of a breach of any provision relating to the insolvency or financial condition of the Debtors at any time before the closing of the case, the commencement of a case under the Bankruptcy Code, or the appointment of or taking possession by a trustee in a case under the Bankruptcy Code;

(ii) Reinstates the maturity of such Claim or Interest as it existed before the default;

(iii) Compensates the holder of such Claim or Interest for damages incurred as a result of reasonable reliance on such contractual provision or applicable law; and

(iv) If such Claim or Interest arises from any failure to perform a nonmonetary obligation, other than a default arising from failure to operate a nonresidential real property lease subject to section 365(b)(1)(A), compensates the holder of such Claim or such Interest (other than the debtor or an insider) for any actual pecuniary loss incurred by such holder as a result of such failure; and

(v) Does not otherwise alter the legal, equitable, or contractual rights to which such Claim or Interest entitles the holder of such Claim or Interest.

4. Classes Impaired Under the Debtors' Plan

The following Classes of Claims and Interests are Impaired under the Plan, and the holders of such Claims and Interests in such Classes are entitled to vote to accept or reject the Plan:

Classes A-1, B-1, C-1, D-1, A-2, B-2, C-2, D-2, B-3, C-3, D-3, A-4, B-4, C-4, D-4, A-5, B-5, C-5, D-5, A-7, B-7, C-7, D-7, A-10, B-11, C-11, D-11, A-12.

The Debtors are not soliciting votes from (a) holders of Unimpaired Claims in Classes A-6, B-6, C-6, D-6, or (b) holders of Impaired Interests in Classes A-9, B-9, C-9, D-9, B-12, C-12, and D-12 because such parties are conclusively presumed to have accepted the Plan. Should the

Bankruptcy Court determine that a Class of Claims is Unimpaired under the Plan, holders of Claims within that Class would be conclusively presumed to have accepted the Plan, and therefore are not entitled to vote to accept or reject the Plan.

5. Vote Required for Class Acceptance

Voting on the Plan by each holder of an Impaired Claim or Interest is important. Chapter 11 of the Bankruptcy Code does not require that each holder of a Claim or Interest vote in favor of the Plan in order for the Court to confirm the Plan. Generally, to be confirmed under the acceptance provisions of Bankruptcy Code section 1126(a), the Plan must be accepted by each Class of Impaired Claims by Class members holding at least two thirds (2/3) in dollar amount and more than one half (1/2) in number of the Allowed Claims of such Class actually voting in connection with the Plan; in connection with a Class of Interests, more than two-thirds (2/3) of the shares actually voted must accept to bind that Class. Even if all Classes of Claims and Interests accept the Plan, the Bankruptcy Court may refuse to confirm the Plan if any of the requirements of Bankruptcy Code section 1129 are not satisfied.

II. GENERAL INFORMATION REGARDING THE DEBTORS

A. Description of Debtors' Businesses and Assets

The Debtors are independent energy companies engaged in the acquisition, exploration, exploitation and development of oil and natural gas properties. The Debtors currently hold interests in properties in the Texas Gulf Coast area, the Eel River Basin in northern California and the Anadarko Basin in western Oklahoma. Historically, the Debtors have sought to increase shareholder value by discovering new reserves and converting proved behind-pipe, proved undeveloped and probable reserves into production.

As of December 31, 2008, the Debtors reported assets of approximately $41,100,000 on their consolidated balance sheets. The Debtors reported a consolidated net loss of $59,527,000 for the year ended December 31, 2008. Due to increased losses on the settlement of hedging instruments and decreases in production, as described below, the Debtors' oil and gas revenues for 2008 decreased to $14,439,000 from $15,171,000 in 2007.

The Debtors filed their Schedules on March 27, 2009. These Schedules show the Debtors have the following assets and liabilities: Foothills Resources: $100,478,618.73 in assets and $78,687,260.35 in liabilities; Foothills California: $25,481,878.98 in assets and $23,111,684.49 in liabilities; Foothills Oklahoma: $570,467.49 in assets and $634,308.60 in liabilities; Foothills Texas: $61,213,382.15 in assets and $39,455,670.78 in liabilities.

1. The Debtors' Texas Operations

The Debtors have working interests of between 95% and 100% in four oilfields in southeastern Texas: the Goose Creek Field and the Goose Creek East Field, both in Harris County, Texas; the Cleveland Field, located in Liberty County, Texas; and the Saratoga Field, located in Hardin County, Texas. In September 2008, the eye of Hurricane Ike passed directly over the Goose Creek Field. Although the Debtors' facilities suffered relatively minor damage,

the Debtors' production from the Texas fields was completely shut down for almost two weeks due to extensive power outages. In early November 2008, net production from the Debtors' Texas operations had returned to approximately 560 barrels of oil and oil-equivalent natural gas per day. The Debtors currently produce oil and oil-equivalent natural gas at levels similar to those produced in November 2008.

2. The Debtors' California Operations

In January 2006, the Debtors entered into a Farmout and Participation Agreement (the "Farmout Agreement") with INNEX California, Inc., to acquire, explore and develop oil and natural gas properties located in the Eel River Basin in Humboldt County. To fulfill their earning obligations under the Farmout Agreement, the Debtors have drilled four wells. For three of the wells, the costs of drilling and testing were higher than expected. Although results from three of the wells have been below expectations, the Debtors are continuing to assess information gained from the ongoing testing program for some of the wells. Additionally, the Debtors' exploration mapping of the Eel River Basin has developed several prospects with attractive potential in other parts of the Eel River Basin. The Debtors may offer these prospects for participation by industry partners.

3. The Debtors' Oklahoma Operations

The Debtors' Oklahoma operations focus on activities in the Anadarko Basin on properties located in Roger Mills County, Oklahoma. The Debtors have reprocessed seismic surveys, completed geological and geophysical interpretations of the survey data, and identified drillable prospects. The Debtors have secured acreage over several identified high impact prospects, and may market the prospects to industry partners.

B. Debtors' Pre-petition Capital Structure

The Debtors' parent company, Foothills Resources, took its current form on April 6, 2006, when Brasada California, Inc. ("Brasada") merged with and into an acquisition subsidiary of Foothills Resources. Brasada was formed on December 29, 2005 as Brasada Resources LLC, a Delaware limited liability company, and converted to a Delaware corporation on February 28, 2006. Following the merger, Brasada changed its name to Foothills California, Inc. ("Foothills California"), and is now a wholly owned operating subsidiary of Foothills Resources. This transaction was accounted for as a reverse merger of Foothills Resources into Foothills California. Foothills Resources adopted the assets, management, business operations and business plan of Foothills California. The financial statements of Foothills Resources prior to the merger were eliminated at consolidation.

In connection with the reverse merger transaction, Foothills Resources engaged in private placement offerings in April and September 2006 (collectively, the "PIPE Offerings"). Those who purchased units of Foothills Resources common stock and warrants pursuant to the PIPE Offerings have registration rights, pursuant to which Foothills Resources agreed to register for resale the shares of common stock and the shares of common stock issuable upon exercise of the warrants. The agreements governing the PIPE Offerings provided that, if the required

registration was not declared effective by the Securities and Exchange Commission ("SEC") by specified dates, Foothills Resources would be liable to such purchasers for liquidated damages.[3]

As described in detail in footnote 3, Foothills Resources filed the required registration statements and they became effective after the mandatory effective dates set forth in the agreements governing the PIPE Offerings.

The attorney who represented Foothills Resources in the reverse merger and PIPE Offerings, Louis Zehil, has been indicted on charges of fraud and criminal violations of various United States securities laws. The criminal and SEC cases against Mr. Zehil are pending. As described in detail in Section IV H, the Debtors will establish the Foothills Resources PIPE Claims Litigation Trust ("Trust") to prosecute any civil claims Foothills Resources has against Mr. Zehil and his law firm, McGuire Woods LLP, or others in connection with the reverse merger and PIPE Offerings.

C. Debtors' Pre-petition Indebtedness

In December 2007, the Debtors entered into a credit agreement (the "Pre-petition Credit Facility") with two lenders (collectively, the "Pre-petition Lenders") and Wells Fargo Foothill, LLC, as agent (the "Pre-petition Agent"). The Pre-petition Credit Facility provides for a $50 million term loan facility and a $50 million revolving credit facility, with an initial borrowing base of $25 million available under the revolving credit facility. The Pre-petition Credit Facility matures in December 2012, with principal payments scheduled to commence in April 2010 based on 50% of the Debtors' cash flow, net of capital expenditures.

The Pre-petition Credit Facility is secured by liens and security interests in substantially all of the Debtors' assets, including 100% of the Debtors' oil and gas reserves. In connection with the Pre-petition Credit Facility, Foothills Resources issued the Pre-petition Lenders under

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[3] Pursuant to the agreements governing the PIPE Offerings, the purchasers of 17,142,857 units issued in April 2006 are entitled to liquidated damages in the amount of 1% per month of the purchase price for each unit, payable each month that the registration statement is not declared effective following the mandatory effective date (January 28, 2007). The total amount recorded at December 31, 2008 for these liquidated damages was $322,000. Amounts payable as liquidated damages cease when the shares can be sold under Rule 144 of the Securities Act of 1933, as amended. The Debtors have determined that liquidated damages ceased on April 6, 2007 as to a minimum of 16,192,613 units and that liquidated damages ceased on July 6, 2007 as to the remaining units. The purchasers of an aggregate of 10,093,804 units issued in September 2006 are entitled to liquidated damages in the amount of 1% per month of the purchase price for each unit, payable each month that the registration statement is not declared effective following the applicable mandatory effective dates (March 7, 2007 for 10,000,000 units and March 28, 2007 for the remaining 93,804 units). The total amount recorded at December 31, 2008 for these liquidated damages was $2,271,000. The investors in the September 2006 private placement financing have the right to take the liquidated damages either in cash or in shares of Foothills Resources' common stock, at their election. If Foothills Resources fails to pay the cash payment to an investor entitled thereto by the due date, Foothills Resources will pay interest thereon at a rate of 12% per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to such investor, accruing daily from the date such liquidated damages are due until such amounts, plus all such interest thereon, are paid in full. The total amount of liquidated damages will not exceed 10% of the purchase price for the units or $2,271,000.00. In October 2006, the Company filed the required registration statement, which became effective in June 2008. As a result, Foothills Resources had incurred the obligation to pay a total of approximately $2,593,000 in liquidated damages as of December 31, 2008.

the term loan facility a ten-year warrant to purchase 2,580,159 shares of Foothills Resources' common stock at an exercise price of $0.01 per share.

The Pre-petition Credit Facility contains a number of financial covenants pertaining to asset coverage, interest coverage and leverage ratios. Pre-petition, the Debtors were not in compliance with the asset coverage and leverage ratio covenants. As a result, the Debtors and the Pre-petition Lenders entered into a series of forbearance and waiver agreements, which are available via the Securities and Exchange Commission's website at http://www.sec.gov/edgar/searchedgar/webusers.htm. The most recent forbearance agreement, dated January 30, 2009, expired February 9, 2009 at 5:00 p.m. (ET).

In connection with the Pre-petition Credit Facility, a prior credit facility, and private placement financings, Foothills Resources issued warrants to purchase shares of its common stock. Warrants outstanding as of December 31, 2008 consisted of the following:

Number of Shares Subject to Warrants	Expiration Date	Exercise Price
2,580,159	December 2017	$0.01
12,077,380	April 2011	$1.00
473,233	September 2011	$2.25
8,046,919	September 2011	$2.75

D. The Debtors' Management

As of the date hereof, the executive officers of the Debtors are as follows:

Name	Position	Term
Dennis B. Tower	Chief Executive Officer	April 2006 to the present
W. Kirk Bosché	Chief Financial Officer	April 2006 to the present
John L. Moran	President	April 2006 to the present
James H. Drennan	Vice President, Land and Legal	May 2006 to the present
Michael Moustakis	Vice President, Engineering	October 2006 to the present

At Foothills Resources' annual meeting of stockholders held in July 2008, the following persons were elected to Foothills Resources' Board of Directors: Dennis B. Tower, John L. Moran, John A. Brock, Ralph J. Goehring, Frank P. Knuettel, David A. Melman, and Christopher P. Moyes.

E. Deregistration of Common Stock

On April 30, 2009, the Foothills Resources board of directors voted to voluntarily deregister the Common Stock under the '34 Act and become a non-reporting company. On May 11, 2009, Foothills Resources filed with the SEC a Form 15, Notice of Termination of Registration and Suspension of Duty to File, to terminate its reporting obligations under the '34 Act. Once the Form 15 was filed, the obligation to file reports and other information under the '34 Act was suspended. The deregistration of the Common Stock became effective 90 days after the date on which the Form 15 was filed (August 9, 2009).

III. THE REORGANIZATION CASES

A. Events Precipitating the Reorganization Cases

The Debtors' profits depend directly on the realized prices of oil and gas sold, the type and volume of the oil and gas produced, and the results of development, exploitation, acquisition, exploration and hedging activities. Of all of these factors, the largest contributing factor to the Debtors' decline was the unexpected result of the Debtors' exploration and development activities in California. Specifically, one exploration well and two development wells drilled in late 2007 and early 2008 cost significantly more than the Debtors expected and resulted in significantly less producible natural gas than the Debtors expected. In addition, the decline of commodity prices and global collapse of equity and credit markets in the fourth quarter of 2008 were also significant factors, as they hindered the Debtors' efforts (with assistance from Parkman Whaling LLC) to restructure out of court. Finally, the decline in the volume of oil produced by the Debtors due to Hurricane Ike also contributed to the Debtors' financial distress.

Beginning in July 2008, prices for crude oil and natural gas began to decline. To manage their exposure to this type of commodity price risk and to fulfill certain obligations under the Pre-petition Credit Facility,[4] the Debtors entered into derivative hedging contracts. These derivative hedging contracts, which are currently placed with Wells Fargo Bank, N.A., consist of oil swaps and caps. The oil prices upon which the commodity derivative contracts are based reflect various market indices that have a high degree of historical correlation with actual prices received by the Debtors for their oil production. The swaps are designed to fix the price of anticipated sales of future production. The caps are designed to offset the Company's financial exposure in the event that future market indices exceed the swap prices. The Debtors entered into most of the derivative hedging contracts when they acquired certain oil and gas property interests as a means to reduce future price volatility on sales of oil production, as well as to achieve a more predictable cash flow from their oil and gas properties. The Debtors entered into the cap contracts in connection with the Reorganization Cases. In late 2008, prices for crude oil and natural gas continued to decline.

As of March 31, 2008, the Debtors were not in compliance with the leverage ratio covenant under the Pre-petition Credit Facility. The Pre-petition Lenders waived the non-compliance in consideration of an amendment to the Pre-petition Credit Facility, which provided that the interest rate on the term loan facility will not be less than 10.50% in the event that the London Interbank Offered Rate ("LIBOR") is less than 4.00%. As of June 30, 2008, the Debtors were not in compliance with the asset coverage and leverage ratio covenants of the Pre-petition Credit Facility and entered into a series of forbearance and waiver agreements. Pursuant to the forbearance and waiver agreements, the Debtors retained Parkman Whaling LLC ("Parkman") to assist in the evaluation of various strategic alternatives, including a potential sale of the Debtors or their assets. Parkman established both an electronic and a physical data room. Parkman contacted approximately 51 companies, of which 17 companies attended data room

[4] In connection with the Pre-petition Credit Facility, the Debtors are contractually obligated to enter into hedging contracts with the purpose and effect of fixing oil and natural gas prices on no less than 50% of projected oil and gas production from the Debtors' proved developed producing oil and gas reserves.

presentations. Eight parties expressed an interest in purchasing some or all of the Debtors' property or in acquiring Foothills Resources. Unfortunately, none of the proposed purchase prices or acquisition terms was satisfactory to the Debtors or the Pre-petition Lenders. Consequently, shortly after the expiration of the most recent forbearance agreement on February 9, 2009, the Debtors filed for bankruptcy protection on February 11, 2009.

B. Significant Events During the Reorganization Cases

1. First-Day Motions and Certain Related Relief

Upon commencing the Reorganization Cases, the Debtors sought and obtained a number of interim and final orders from the Bankruptcy Court to minimize disruption to their operations and facilitate the administration of the Reorganization Cases. Several of these orders are briefly summarized below.

(a) Procedural Matters

To facilitate a smooth and efficient administration of these Reorganization Cases, the Bankruptcy Court entered certain "procedural" first day orders, by which the Bankruptcy Court (a) approved the joint administration of the Debtors' Reorganization Cases, (b) authorized the Debtors to prepare a list of creditors and file a consolidated list of their 30 largest unsecured creditors and (c) approved an extension of time to file their Schedules.

(b) Employment and Compensation of Advisors

To assist the Debtors in carrying out their duties as debtors in possession and to represent their interests in the Reorganization Cases, the Bankruptcy Court entered orders authorizing the Debtors to retain and employ the following advisors: (a) Akin Gump Strauss Hauer & Feld LLP as lead restructuring counsel; (b) Cole, Schotz, Meisel, Forman & Leonard, P.A. as local counsel; and (c) The Garden City Group as the claims, noticing, balloting and solicitation agent.

Additionally, the Debtors sought and obtained orders approving and establishing procedures for (a) the retention and compensation of certain professionals utilized in the ordinary course of the Debtors' business and (b) the interim compensation and reimbursement of professionals.

(c) Stabilizing Operations

Recognizing that any interruption of the Debtors' businesses, even for a brief period of time, would negatively affect their operations, customer relationships, revenue and profits, the Debtors filed a number of first-day motions to help facilitate a stabilization of their operations and to effectuate, as much as possible, a smooth transition into operations as debtors in possession. Specifically, in addition to certain orders discussed in greater detail below, the Debtors sought and obtained orders authorizing the Debtors to:

- continue using their cash management systems and respective bank accounts, business forms and investment practices;

- pay pre-petition wages, salaries and other compensation, reimbursable employee expenses and employee medical and similar benefits and continue employee benefits programs post-petition in the ordinary course of business;
- determine adequate assurance for future utility service and establish procedures for utility providers to object to such assurance;
- remit and pay certain taxes and fees.

In addition to the foregoing relief, to prevent the imposition of the automatic stay from disrupting their business and to ensure continued deliveries on favorable credit terms, the Debtors sought and obtained Bankruptcy Court approval to pay up to $200,000 in the aggregate of the pre-petition claims of certain vendors and third-party service providers who the Debtors believed were essential to the ongoing operation of their business. Importantly, the Debtors were able to condition payments of these pre-petition claims on the execution by the recipient supplier or service provider of a trade agreement, which, among other things, included certain provisions to ensure that the Debtors would receive customary trade terms throughout the pendency of these Reorganization Cases (and which would not be the case if the Debtors had been forced to wait until Plan Confirmation to make such payments). Indeed, the Debtors' ability to pay the claims of these vendors and service providers was critical to maintaining their ongoing business operations due to the Debtors' inability to acquire essential replacement goods and services of the same quality, reliability, cost or availability from other sources. As of October 31, 2009, the Debtors have paid $130,475.07 of the pre-petition claims of critical vendors. Because these critical vendor payments were approved by the Bankruptcy Court and paid, they are not provided for in the Plan.

(d) DIP Financing and Use of Cash Collateral

To address their immediate liquidity issues and ensure a seamless transition into chapter 11, the Debtors and Regiment Capital Special Situations Fund III, L.P., as agent and lender (the "DIP Lender"), engaged in extensive, arms' length negotiations with respect to the terms and conditions of that certain DIP Credit Agreement (the "DIP Credit Agreement"). Pursuant to the terms of the DIP Credit Agreement, the DIP Lender agreed to loan the Debtors approximately $2.5 million, which includes a subfacility for the issuance of letters of credit. Of this amount, $1.6 million was made available upon the entry of an interim order[5] (the "Interim DIP Order") authorizing the Debtors to enter into the DIP Credit Agreement and the remaining $0.9 million was made available upon the entry of the final DIP Order.

Under the terms of the DIP Credit Agreement, the DIP Lender will receive an allowed superpriority administrative expense claim against each Debtor pursuant to Bankruptcy Code section 364(c)(1) (collectively, the "Superpriority Claims"). As additional security, the DIP Lender will also receive valid, enforceable and perfected first-priority priming security interests

[5] On February 13, 2009, the Bankruptcy Court entered the Interim Order Under 11 U.S.C. §§ 105(a), 361, 363, and 364 and Fed. R. Bankr. P. 2002, 4001 and 9014 (I) Authorizing Debtors to Incur Post-Petition Secured Indebtedness, (II) Granting Security Interests and Superpriority Claims, (III) Approving Use of Cash Collateral and (IV) Scheduling Final Hearing.

in and liens on all of the Collateral[6] subject and subordinated in priority of payment only to the Permitted Priority Liens[7] and, during the occurrence and continuance of an Event of Default[8] or after the Final Maturity Date, payment of the Carve-out Expenses (as defined in the DIP Credit Agreement).

The funds provided under the DIP Credit Agreement allow the Debtors to fulfill working capital needs and fund other general corporate matters. Moreover, the funds will provide the Debtors' vendors with sufficient comfort to continue to do business with the Debtors, thus minimizing disruptions to the Debtors' operations. As of October 31, 2009, $0.00 was outstanding under the DIP Credit Agreement.

To further address their liquidity issues, the Debtors sought and obtained interim approval from the Bankruptcy Court to use certain of their cash collateral in accordance with the terms of their pre-petition financing agreements. In exchange for allowing the Debtors to use their cash collateral, the Pre-petition Lenders, the Pre-petition Agent, and Wells Fargo Bank, N.A., in its capacity as hedge counterparty (the "Hedge Counterparty") were granted liens (the "Adequate Protection Liens") as adequate protection against diminution in the value of the Pre-petition Collateral, subject and subordinate only to (a)(i) any Permitted Priority Liens and (ii) the Carve-Out Expenses, which Adequate Protection Liens shall at all times be senior to (b)(i) the DIP Liens and DIP Obligations, (ii) the rights of the Debtors and any successor trustee or estate representatives in these Reorganization Cases or any subsequent proceedings under the Bankruptcy Code, (iii) any intercompany claim of any subsidiary or affiliate of the Debtors, and

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[6] On March 3, 2009 the Bankruptcy Court entered the Final Order Under 11 U.S.C. §§ 105(a), 361, 363, and 364 and Fed. R. Bankr. P. 2002, 4001 and 9014 (I) Authorizing Debtors to Incur Post-Petition Secured Indebtedness, (II) Granting Security Interests and Superpriority Claims, (III) Approving Use of Cash Collateral and (IV) Scheduling Final Hearing. When used with respect to the DIP Credit Agreement or DIP Claims, the term "Collateral" expressly includes all of the Debtors' property, assets, or interests in property or assets of any kind or nature whatsoever, real or personal, now existing or hereafter acquired or created, including, without limitation, all property of the Debtors' "estates" (within the meaning of the Bankruptcy Code), inventory, accounts receivable, other rights to payment whether arising before or after the Petition Date, contracts, properties, plants, equipment, general intangibles, documents, instruments, interests in leaseholds, real properties, patents, copyrights, trademarks, trade names, other intellectual property, capital stock of subsidiaries, trademarks, trade names, all deposit accounts, all cash maintained in deposit and other accounts, all commercial tort claims, all causes of action, all cash and non-cash proceeds, rents, products and profits of any of the foregoing. On May 12, 2009, the Bankruptcy Court entered the Order (I) Approving Extended DIP Facility, (II) Ratifying Grant of Liens and Superpriority Claims, and (III) Authorizing the Continued Use of Cash Collateral which extended the term of the DIP Credit Agreement through August 19, 2009.

[7] "Permitted Priority Liens" means liens securing any of the following (capitalized terms in this sentence have the meanings as defined in the Pre-petition Credit Agreement): Advances, Protective Advances, Swing Loans, Lender Group Expenses, Letters of Credit, Bank Product Obligations and all other Obligations related thereto and fees or premiums owing to the Pre-petition Agent under the Pre-petition Loan Documents or the Pre-petition Lenders with a Revolving Commitment under the Pre-petition Loan Documents, along with all interest or fees owing by the Debtors in connection with any of the foregoing under the Pre-petition Loan Documents, excluding any such default interest or professional fees that are disallowed by the Court. Permitted Priority Liens shall also include the liens securing the Hedge Obligations (as such term is defined in the Final DIP Order), and liens for ad valorem taxes properly asserted by a taxing authority.

[8] Capitalized terms not defined in this section III B1(iv) shall have the meanings ascribed thereto in the DIP Credit Agreement and the Final DIP Order.

(iv) any other security interest or lien of any creditor or other party in interest in these Reorganization Cases.

As additional adequate protection, but solely as and to the extent that the Adequate Protection Liens prove insufficient to provide adequate protection, the Hedge Counterparty, the Pre-petition Agent and the Pre-petition Lenders are each granted allowed superpriority administrative expenses claims (the "Adequate Protection Claims"); *provided, however*, that the Adequate Protection Claims, upon entry of a final order shall also have priority over administrative expense claims, if any, arising under Bankruptcy Code section 506(c). The Adequate Protection Claims shall have recourse to and be payable from all Pre-petition Collateral or Collateral, except for any recoveries obtained by a creditors' committee (or the Debtors if no creditors' committee is appointed) or trustee appointed in these Reorganization Cases from the prosecution of any claims against the Hedge Counterparty, the Pre-petition Agent or the Pre-petition Lenders. The grant of adequate protection to the Pre-petition Agent and the Pre-petition Lenders is without prejudice to the right of the Pre-petition Lenders to seek modification of the grant of adequate protection provided so as to provide different or additional adequate protection.

2. No Official Unsecured Creditors' Committee

On February 25, 2009, the United States Trustee filed its Statement That Unsecured Creditors' Committee Has Not Been Appointed indicating that no committee was appointed because the United States Trustee received insufficient response to its request for service on the Committee.

3. Filing of Schedules and Establishment of Claims Bar Date

On March 27, 2009 each of the Debtors filed Schedules of Assets and Liabilities, Schedules of Executory Contracts and Unexpired Leases, and Statements of Financial Affairs pursuant to Bankruptcy Code section 521.

On April 6, 2009, the Bankruptcy Court entered an order establishing May 11, 2009 as the Claims Bar Date for filing proofs of claim and establishing August 10, 2009 as the Governmental Bar Date [Docket No. 148] (the "Claims Bar Date Order"). In accordance with the Claims Bar Date Order, written notice of the applicable Bar Date was mailed to, among others, all known creditors listed on the Schedules and the Claims Bar Date Order was served on all parties who had filed requests for notices under Bankruptcy Rule 2002 as of the date that the Claims Bar Date Order was entered.

A deadline by which Administrative Expense Claims must be filed has not been established as of the date of this Disclosure Statement. Instead, the Debtors are requesting that the Bankruptcy Court fix such a date as part of the confirmation of the Plan.

4. Section 341 Meeting

On April 3, 2009, the U.S. Trustee conducted the Bankruptcy Code section 341 meeting.

5. *Exclusive Period for Filing a Plan*

Bankruptcy Code section 1121 grants chapter 11 debtors the exclusive right to file a plan of reorganization for an initial period of 120 days from the commencement of the case. If a debtor files a plan within this exclusive period, the debtors have the exclusive right to solicit acceptances of the plan for 180 days from the commencement of the case. On request of a party in interest, and after notice and a hearing, the court may increase the 120-day period or the 180-period. The Debtors requested such an increase in time to file their plan of reorganization, and on May 29, 2009, the Court entered the Order Extending the Time Period During Which the Debtors Have the Exclusive Right to File a Plan and Solicit Acceptances Thereto [Docket No. 197]. Accordingly, until October 9, 2009, the Debtors have the exclusive right to file a plan and until December 8, 2009, the Debtors have the exclusive right to solicit acceptances of such Plan. During these exclusive periods no other party in interest may file a competing plan of reorganization.

6. *Deadline to Assume or Reject Leases of Nonresidential Real Property*

Pursuant to Bankruptcy Code section 365(d)(4), the original deadline for the Debtors to assume or reject leases of nonresidential real property was June 11, 2009. On July 20, 2009, the Bankruptcy Court entered a final order extending this period by ninety (90) days through and including September 9, 2009. Prior to the expiration of this deadline, the Debtors and certain landlords stipulated to further extend the deadline to assume or reject these leases by 120 days through and including January 7, 2010, and on September 9, 2009, the Bankruptcy Court approved said stipulations. Also on September 9, 2009, the Debtors filed their Motion for an Order Approving the Debtors' Assumption of Unexpired Lease of Nonresidential Real Property and Cure Amount with Respect Thereto seeking approval of the assumption of a lease covering certain real property located in the Goose Creek Field.

7. *Motion to Assume Employment Agreements*

On May 14, 2009, the Debtors filed the Debtors' Motion to Assume Employment Agreements and Related Agreements and to Make Payments Associated with Such Agreements (the "Employment Agreement Motion"). By the Employment Agreement Motion, the Debtors sought authority to assume the employment agreements of James H. Drennan, Michael Moustakis, and Lynn M. Marks and to make the required payments associated therewith. The Debtors asserted that such relief was in their best interests as it would maintain the continuity of these key employees and their departure would impact the Debtors' ability to compete. On June 25, 2009, the Court authorized the Debtors to assume the employment agreement of Lynn M. Marks. On July 28, 2009, the Court denied the Debtors the authority to assume the employment agreements of James H. Drennan and Michael Moustakis.

8. *Employment of Bayside*

On June 26, 2009, the Debtors filed a motion seeking authority to engage Bayside Resources, LLC ("Bayside") to provide general consulting services related to the Debtors' operations in California, Texas, and Oklahoma, as well as assist in corporate and financial matters. Specifically, the Debtors were concerned that key employees would terminate their

employment. To ensure that the Debtors would be able to continue to operate their businesses in the event such employees quit, the Debtors, in consultation with the DIP Lender, determined that it was necessary and appropriate to retain Bayside to provide general consultation services. On July 20, 2009, the Court authorized the Debtors' retention of Bayside.

9. Claims Objections and Resolutions

Since the passage of the Claims Bar Date, the Debtors have analyzed and investigated the various claims filed against their estates. In conjunction with this investigation, on August 27, 2009, the Debtors filed the Debtors' First Omnibus Objection to Claims (Non-Substantive Objections to Claims) – (A) Duplicate Claims and (B) Incorrectly Classified Claims (the "First Omnibus Claim Objection") whereby the Debtors objected to certain duplicate claims and incorrectly classified claims. Also on August 27, 2009, the Debtors filed the Debtors' Second Omnibus Objection (Substantive Objections to Claims) to Certain Overstated Claims (the "Second Omnibus Claim Objection" and together with the First Omnibus Claim Objection, the "Omnibus Claim Objections") whereby the Debtors objected to certain overstated claims. On October 9, 2009, the Court granted the Omnibus Claim Objections with respect to certain of the objections contained therein. The Debtors have continued to negotiate with the claimants regarding the remaining claims subject to the Omnibus Claim Objections to attempt to resolve said objections.

On October 21, 2009, the Court entered an order approving the Stipulation Between Foothills Resources, Inc. and John Unger, as Agent and Attorney in Fact for Certain Individuals Named on Exhibit A to Claim 103 whereby the parties thereto agreed to recalculate amounts of certain PIPE Liquidated Damages Claims amounts. The Debtors have also continued to further analyze and investigate all claims filed against the Debtors' estates and may file further objections in the future to the extent necessary.

IV. THE PLAN

A. Overall Structure of the Plan

A summary description of the principal provisions of the Plan and the treatment of Classes of Allowed Claims and Interests is set out below. This summary is qualified in its entirety by the Plan, and in the event of any discrepancy between this summary and the terms of the Plan, the Plan will control.

The purpose of the Plan is to resolve all outstanding Claims against and Interests in the Debtors. In general, the Plan provides for one of the Pre-petition Lenders, Regiment, to acquire the Debtors by accepting stock in Reorganized Foothills Resources in lieu of Cash or Collateral on account of a portion of its secured pre-petition loan to the Debtors, and for all the pre-petition Common and Preferred Stock Interest in Foothills Resources, to be canceled and extinguished. To preserve the Debtors' corporate structure, Subsidiary Interests will not be canceled, but will remain outstanding, all of which Interests will continue to be owned directly by Reorganized Foothills Resources (subject, in the case of the Foothills California and Foothills Oklahoma Subsidiary Interests, to an option to purchase certain Interests granted to certain of the Debtors' senior management as more fully described in section IV A of the Plan). The other Claims will

be paid with Cash derived from the Exit Facility to be executed in accordance with the Plan, with notes or with Beneficial Interests issued in connection with the Trust.

B. DIP Facility, Administrative and Priority Tax Claims Against All of the Debtors

1. DIP Claims

In full satisfaction, settlement, release and discharge of and in exchange for the Allowed DIP Claim, on the Effective Date the Debtors shall pay the Allowed DIP Claim in full in Cash.

2. Administrative Expenses

Subject to the provisions of Bankruptcy Code sections 328, 330(a) and 331, and Plan Section II, except to the extent that an Allowed Administrative Expense is not yet due and owing or to the extent a holder of an Allowed Administrative Expense has been paid prior to the Effective Date or agrees to different treatment, in full satisfaction, settlement, release and discharge of and in exchange for each Allowed Administrative Expense, the holder thereof shall receive Cash equal to the amount of such Allowed Administrative Expense on the later of: (i) the Effective Date, or (ii) thirty (30) days after the date on which an order allowing such Administrative Expense becomes a Final Order. Allowed Administrative Expenses not yet due and owing as of the Effective Date shall be paid by the Reorganized Debtors in the ordinary course of business. As a condition precedent to confirmation of the Plan, estimated Allowed Administrative Expenses shall not exceed in the aggregate $1.6 million.

(a) *Bar Date for Administrative Expense Claim.* Except as otherwise provided in Plan Section II, unless previously filed, requests for payment of Administrative Expense Claims must be filed and served on the Reorganized Debtors pursuant to the procedures specified in the Confirmation Order and the notice of entry of the Confirmation Order no later than sixty (60) days after the Effective Date. Holders of Administrative Expense Claims that are required to file and serve a request for payment of such Administrative Expense Claims, that do not file and serve such a request by the Administrative Claims Bar Date shall be forever barred, estopped and enjoined from asserting such Administrative Expense Claims against the Debtors or any Reorganized Debtors or their Estates and property. All such Claims shall, as of the Effective Date, be subject to the permanent injunction set forth in Plan Section X. Objections to such requests must be filed and served on the Reorganized Debtors and the requesting party by the later of (a) ninety (90) days after the Effective Date and (b) thirty (30) days after the Filing of the applicable request for payment of Administrative Expense Claims, if applicable.

(b) *Compensation and Reimbursement Claims.* All Persons seeking an award by the Bankruptcy Court of compensation for services rendered or reimbursement of expenses incurred through and including the Confirmation Date under Bankruptcy Code sections 503(b)(2), 503(b)(3) (except under section 503(b)(3)(D), see below), 503(b)(4), or 503(b)(5): (i) shall file their respective final applications for allowance of compensation for services rendered and reimbursement of expenses incurred by the date that is sixty (60) days after the Effective Date and (ii) shall be paid in full in Cash in such amounts as are Allowed by the Bankruptcy Court (A) five (5) Business Days after the date upon which the order relating to any such Administrative Expense is entered or (B) upon such other terms as may be mutually agreed upon

between the holder of such an Administrative Expense and the Debtors, or, if on or after the Effective Date, the Reorganized Debtors.

All Persons seeking an award by the Bankruptcy Court of compensation for services rendered or reimbursement of expenses incurred during the Reorganization Cases under Bankruptcy Code section 503(b)(3)(D) shall file their respective applications prior to or on the deadline for filing objections to confirmation of this Plan.

3. Priority Tax Claims

Except to the extent that a holder of an Allowed Priority Tax Claim has been paid prior to the Effective Date, or agrees to different treatment, on the Initial Distribution Date each holder of an Allowed Priority Tax Claim against the Debtors or any of them, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Priority Tax Claim, shall receive Cash in an amount equal to such Allowed Priority Tax Claim. All Allowed Priority Tax Claims that are not due and payable on or before the Effective Date shall be paid in the ordinary course of business as such obligations become due. Alternatively, the Reorganized Debtor may, at its option, and with the prior consent of the Exit Facility Agent, return any Collateral securing such Allowed Priority Tax Claim to the holder of the Priority Tax Claim in full satisfaction of the Priority Tax Claim and any Deficiency Claim shall be classified and treated as an Unsecured Claim against the applicable Debtor.

C. Classification and Treatment of Claims and Interests Against Debtors

The following tables (i) designate the classes of Claims against, and Interests in, the Debtors, and (ii) specify which of those classes are (a) Impaired or Unimpaired by the Plan, (b) entitled to vote to accept or reject the Plan in accordance with Bankruptcy Code section 1126, or (c) deemed to reject the Plan. Claims against and interests in Foothills Resources are designated with the letter "A", claims against and interests in Foothills California are designated with "B", claims against and interests in Foothills Oklahoma are designated with "C," and claims against and interests in Foothills Texas are designated with "D".

D. Classes of Claims and Interests

CLASS	DESCRIPTION	IMPAIRMENT	ENTITLED TO VOTE
A-1	Wells Fargo Foothill Secured Claim	Impaired	Yes
B-1	Wells Fargo Foothill Secured Claim	Impaired	Yes
C-1	Wells Fargo Foothill Secured Claim	Impaired	Yes
D-1	Wells Fargo Foothill Secured Claim	Impaired	Yes
A-2	Regiment Secured Claim	Impaired	Yes
B-2	Regiment Secured Claim	Impaired	Yes
C-2	Regiment Secured Claim	Impaired	Yes
D-2	Regiment Secured Claim	Impaired	Yes

CLASS	DESCRIPTION	IMPAIRMENT	ENTITLED TO VOTE
B-3	Secured M&M Lien Claims (each holder being treated as a separate class)	Impaired	Yes
C-3	Secured M&M Lien Claims (each holder being treated as a separate class)	Impaired	Yes
D-3	Secured M&M Lien Claims (each holder being treated as a separate class)	Impaired	Yes
A-4	Other Secured Claims (each holder being treated as a separate class)	Impaired	Yes
B-4	Other Secured Claims (each holder being treated as a separate class)	Impaired	Yes
C-4	Other Secured Claims (each holder being treated as a separate class)	Impaired	Yes
D-4	Other Secured Claims (each holder being treated as a separate class)	Impaired	Yes
A-5	Secured Tax Claims	Impaired	Yes
B-5	Secured Tax Claims	Impaired	Yes
C-5	Secured Tax Claims	Impaired	Yes
D-5	Secured Tax Claims	Impaired	Yes
A-6	Priority Non-Tax Claims	Unimpaired	No (deemed to accept)
B-6	Priority Non-Tax Claims	Unimpaired	No (deemed to accept)
C-6	Priority Non-Tax Claims	Unimpaired	No (deemed to accept)
D-6	Priority Non-Tax Claims	Unimpaired	No (deemed to accept)
A-7	Unsecured Claims	Impaired	Yes
B-7	Unsecured Claims	Impaired	Yes
C-7	Unsecured Claims	Impaired	Yes
D-7	Unsecured Claims	Impaired	Yes
A-8	Convenience Claims	Unimpaired	Yes
B-8	Convenience Claims	Unimpaired	Yes
C-8	Convenience Claims	Unimpaired	Yes

CLASS	DESCRIPTION	IMPAIRMENT	ENTITLED TO VOTE
D-8	Convenience Claims	Unimpaired	Yes
A-9	Intercompany Claims	Impaired	No (deemed to accept)
B-9	Intercompany Claims	Impaired	No (deemed to accept)
C-9	Intercompany Claims	Impaired	No (deemed to accept)
D-9	Intercompany Claims	Impaired	No (deemed to accept)
A-10	PIPE Liquidated Damages Claims	Impaired	Yes
B-11	Royalty Claims	Impaired	Yes
C-11	Royalty Claims	Impaired	Yes
D-11	Royalty Claims	Impaired	Yes
A-12	Interests	Impaired	Yes
B-12	Interests	Impaired	No (deemed to accept)
C-12	Interests	Impaired	No (deemed to accept)
D-12	Interests	Impaired	No (deemed to accept)

E. Treatment Of Claims And Interests

1. Class A-1: Wells Fargo Foothill Secured Claim against Foothills Resources

(i) Description: Class A-1 consists of the Allowed Secured Claim of Wells Fargo Foothill, in the amount of $24,644,718.45 plus all accrued but unpaid fees, interest, costs and other amounts due and owing under the Pre-petition Credit Agreement, against Foothills Resources pursuant to the Pre-petition Credit Agreement, *provided, however*, that the total amount of the Wells Fargo Secured Claim including unpaid fees, interest, costs and other amounts shall not exceed the maximum amount available to the Reorganized Debtors under the Exit Facility.

(ii) Treatment: On the Initial Distribution Date, the holder of the Class A-1 Claim, in full satisfaction of all Claims against the Debtors under the Pre-petition Credit Agreement, shall receive a Cash payment equal to the amount of the Class A-1 Allowed Secured Claim, which payment shall be funded from the proceeds of the initial borrowing under the Exit Facility. The Class A-1 Wells Fargo Foothill Secured Claim is expressly Allowed and not subject to subordination or recharacterization.

2. *Class B-1: Wells Fargo Foothill Secured Claim against Foothills California*

(i) Description: Class B-1 consists of the Allowed Secured Claim of Wells Fargo Foothill, in the amount of $24,644,718.45 plus all accrued but unpaid fees, interest, costs and other amounts due and owing under the Pre-petition Credit Agreement, against Foothills California pursuant to the Pre-petition Credit Agreement, provided, however, that the total amount of the Wells Fargo Secured Claim including unpaid fees, interest, costs and other amounts shall not exceed the maximum amount available to the Reorganized Debtors under the Exit Facility.

(ii) Treatment: On the Initial Distribution Date, the holder of the Class B-1 Claim, in full satisfaction of all Claims against the Debtors under the Pre-petition Credit Agreement, shall receive a Cash payment equal to the amount of the Class B-1 Allowed Secured Claim, which payment shall be funded from the proceeds of the initial borrowing under the Exit Facility. The Class B-1 Wells Fargo Foothill Secured Claim is expressly Allowed and not subject to subordination or recharacterization.

3. *Class C-1: Wells Fargo Foothill Secured Claim against Foothills Oklahoma*

(i) Description: Class C-1 consists of the Allowed Secured Claim of Wells Fargo Foothill, in the amount of $24,644,718.45 plus all accrued but unpaid fees, interest, costs and other amounts due and owing under the Pre-petition Credit Agreement, against Foothills Oklahoma pursuant to the Pre-petition Credit Agreement provided, however, that the total amount of the Wells Fargo Secured Claim including unpaid fees, interest, costs and other amounts shall not exceed the maximum amount available to the Reorganized Debtors under the Exit Facility.

(ii) Treatment: On the Initial Distribution Date, the holder of the Class C-1 Claim, in full satisfaction of all Claims against the Debtors under the Pre-petition Credit Agreement, shall receive a Cash payment equal to the amount of the Class C-1 Allowed Secured Claim, which payment shall be funded from the proceeds of the initial borrowing under the Exit Facility. The Class C-1 Wells Fargo Foothill Secured Claim is expressly Allowed and not subject to subordination or recharacterization.

4. *Class D-1: Wells Fargo Foothill Secured Claim against Foothills Texas*

(i) Description: Class D-1 consists of the Allowed Secured Claim of Wells Fargo Foothill, in the amount of $24,644,718.45 plus all accrued but unpaid fees, interest, costs and other amounts due and owing under the Pre-petition Credit Agreement, against Foothills Texas pursuant to the Pre-petition Credit Agreement provided, however, that the total amount of the Wells Fargo Secured Claim including unpaid fees, interest, costs and other amounts shall not exceed the maximum amount available to the Reorganized Debtors under the Exit Facility.

(ii) Treatment: On the Initial Distribution Date, the holder of the Class D-1 Claim, in full satisfaction of all Claims against the Debtors under the Pre-petition Credit

Agreement, shall receive a Cash payment equal to the amount of the Class D-1 Allowed Secured Claim, which payment shall be funded from the proceeds of the initial borrowing under the Exit Facility. The Class D-1 Wells Fargo Foothill Secured Claim is expressly Allowed and not subject to subordination or recharacterization.

5. ***Class A-2: Regiment Secured Claim against Foothills Resources***

(i) Description: Class A-2 consists of the Allowed Secured Claim of Regiment in the amount of $53,911,852.59 against Foothills Resources pursuant to the Pre-petition Credit Agreement.

(ii) Treatment: On the Initial Distribution Date, the holder of the Class A-2 Claim, in full satisfaction of all Claims against the Debtors under the Pre-petition Credit Agreement, shall receive (i) 100% of the shares of the New Common Stock, and (ii) the Regiment Note. The Class A-2 Regiment Secured Claim is expressly Allowed and not subject to subordination or recharacterization

6. ***Class B-2: Regiment Secured Claim against Foothills California***

(i) Description: Class B-2 consists of the Allowed Secured Claim of Regiment in the amount of $53,911,852.59 against Foothills California pursuant to the Pre-petition Credit Agreement.

(ii) Treatment: On the Initial Distribution Date, the holder of the Class B-2 Claim, in full satisfaction of all Claims against the Debtors under the Pre-petition Credit Agreement, shall receive (i) 100% of the shares of the New Common Stock, and (ii) the Regiment Note. The Class B-2 Regiment Secured Claim is expressly Allowed and not subject to subordination or recharacterization.

7. ***Class C-2: Regiment Secured Claim against Foothills Oklahoma***

(i) Description: Class C-2 consists of the Allowed Secured Claim of Regiment in the amount of $53,911,852.59 against Foothills Oklahoma pursuant to the Pre-petition Credit Agreement.

(ii) Treatment: On the Initial Distribution Date, the holder of the Class C-2 Claim, in full satisfaction of all Claims against the Debtors under the Pre-petition Credit Agreement, shall receive (i) 100% of the shares of the New Common Stock, and (ii) the Regiment Note. The Class C-2 Regiment Secured Claim is expressly Allowed and not subject to subordination or recharacterization.

8. ***Class D-2: Regiment Secured Claim against Foothills Texas***

(i) Description: Class D-2 consists of the Allowed Secured Claim of Regiment in the amount of $53,911,852.59 against Foothills Texas pursuant to the Pre-petition Credit Agreement.

(ii) Treatment: On the Initial Distribution Date, the holder of the Class D-2 Claim, in full satisfaction of all Claims against the Debtors under the Pre-petition Credit Agreement, shall receive (i) 100% of the shares of the New Common Stock, and (ii) the Regiment Note. The Class D-2 Regiment Secured Claim is expressly Allowed and not subject to subordination or recharacterization.

9. Class B-3: Secured M&M Lien Claims

(i) Description: Class B-3 consists of the Secured M&M Lien Claims, if any, against Foothills California.

(ii) Treatment: Except to the extent that a holder of an Allowed Class B-3 Secured M&M Lien Claim has been paid prior to the Effective Date, or agrees to a different treatment, each holder of an Allowed Class B-3 Claim, in full satisfaction, release and discharge of and exchange for such Claim and Lien, shall receive quarterly Cash payments over a 5-year period equal to the Allowed amount of such Class B-3 Claim, beginning on the later of: (i) the Initial Distribution Date, or (ii) thirty (30) days after the date on which an Order allowing such Claim becomes a Final Order, *provided, however,* that to the extent that payments do not begin on the Initial Distribution Date because a claim which is ultimately deemed to be an Allowed Claim has not yet been Allowed as of the Initial Distribution Date, such holder of an Allowed Class B-3 Secured M&M Lien Claim shall be entitled to "catch-up" payments. Alternatively, the Reorganized Debtor may, at its option, and with the prior consent of the Exit Facility Agent, return any Collateral securing such Allowed Class B-3 Secured M&M Lien Claim to the holder of the Secured Claim in full satisfaction of the Class B-3 Secured M&M Lien Claim and any Deficiency Claim shall be classified and treated in Class B-7.

(iii) Interest: Allowed claims in Class B-3 shall include interest accrued after the Petition Date through the Interest Accrual Limitation Date at the contract rate determined by the Bankruptcy Court or, if there is no contract, then at the Federal Judgment Rate.

(iv) Sale of Collateral: Collateral subject to the Liens of the Class B-3 creditors may be sold free and clear with such Liens attaching to the proceeds of the sale in the same priority that existed prior to the Petition Date. An amount of proceeds equal to the lesser of the value of the Collateral securing the Claim (as determined at confirmation) or the face amount of such Claim will be reserved in a Distribution Reserve Account until such time as the Allowed amount of such Claim is determined. The foregoing notwithstanding, to the extent that a Secured M&M Lien Claim in Class B-3 is not secured in whole or in part by a validly perfected and unavoidable Lien or is under-secured by the assets of the Debtor to which such Lien attaches, then any Deficiency Claim will be classified and treated in Class B-7.

10. Class C-3: Secured M&M Lien Claims

(i) Description: Class C-3 consists of the Secured M&M Lien Claims, if any, against Foothills Oklahoma.

(ii) Treatment: Except to the extent that a holder of an Allowed Class C-3 Secured M&M Lien Claim has been paid prior to the Effective Date, or agrees to a different

treatment, each holder of an Allowed Class C-3 Claim, in full satisfaction, release and discharge of and exchange for such Claim and Lien, shall receive quarterly Cash payments over a 5-year period equal to the Allowed amount of such Class C-3 Claim, beginning on the later of: (i) the Initial Distribution Date, or (ii) thirty (30) days after the date on which an Order allowing such Claim becomes a Final Order, *provided, however*, that to the extent that payments do not begin on the Initial Distribution Date because a claim which is ultimately deemed to be an Allowed Claim has not yet been Allowed as of the Initial Distribution Date, such holder of an Allowed Class C-3 Secured M&M Lien Claim shall be entitled to "catch-up" payments. Alternatively, the Reorganized Debtor may, at its option, and with the prior consent of the Exit Facility Agent, return any Collateral securing such Allowed Class C-3 Secured M&M Lien Claim to the holder of the Secured Claim in full satisfaction of the Class C-3 Secured M&M Lien Claim and any Deficiency Claim shall be classified and treated in Class C-7.

(iii) Interest: Allowed claims in Class C-3 shall include interest accrued after the Petition Date through the Interest Accrual Limitation Date at the contract rate determined by the Bankruptcy Court or, if there is no contract, then at the Federal Judgment Rate.

(iv) Sale of Collateral: Collateral subject to the Liens of the Class C-3 creditors may be sold free and clear with such Liens attaching to the proceeds of the sale in the same priority that existed prior to the Petition Date. An amount of proceeds equal to the lesser of the value of the Collateral securing the Claim (as determined at confirmation) or the face amount of such Claim will be reserved in a Distribution Reserve Account until such time as the Allowed amount of such Claim is determined. The foregoing notwithstanding, to the extent that a Secured M&M Lien Claim in Class C-3 is not secured in whole or in part by a validly perfected and unavoidable Lien or is under-secured by the assets of the Debtor to which such Lien attaches, then any Deficiency Claim will be classified and treated in Class C-7.

11. Class D-3: Secured M&M Lien Claims

(i) Description: Class D-3 consists of the Secured M&M Lien Claims, if any, against Foothills Texas.

(ii) Treatment: Except to the extent that a holder of an Allowed Class D-3 Secured M&M Lien Claim has been paid prior to the Effective Date, or agrees to a different treatment, each holder of an Allowed Class D-3 Claim, in full satisfaction, release and discharge of and exchange for such Claim and Lien, shall receive quarterly Cash payments over a 5-year period equal to the Allowed amount of such Class D-3 Claim, beginning on the later of: (i) the Initial Distribution Date, or (ii) thirty (30) days after the date on which an Order allowing such Claim becomes a Final Order, *provided, however*, that to the extent that payments do not begin on the Initial Distribution Date because a claim which is ultimately deemed to be an Allowed Claim has not yet been Allowed as of the Initial Distribution Date, such holder of an Allowed Class D-3 Secured M&M Lien Claim shall be entitled to "catch-up" payments. Alternatively, the Reorganized Debtor may, at its option, and with the prior consent of the Exit Facility Agent, return any Collateral securing such Allowed Class D-3 Secured M&M Lien Claim to the holder of the Secured Claim in full satisfaction of the Class D-3 Secured M&M Lien Claim and any Deficiency Claim shall be classified and treated in Class D-7.

(iii) Interest: Allowed Claims in Class D-3 shall include interest accrued after the Petition Date through the Interest Accrual Limitation Date at the contract rate determined by the Bankruptcy Court or, if there is no contract, then at the Federal Judgment Rate.

(iv) Sale of Collateral: Collateral subject to the Liens of the Class D-3 creditors may be sold free and clear with such Liens attaching to the proceeds of the sale in the same priority that existed pre-bankruptcy. An amount of proceeds equal to the lesser of the value of the Collateral securing the Claim (as determined at confirmation) or the face amount of such Claim will be reserved in a Distribution Reserve Account until such time as the Allowed amount of such Claim is determined. The foregoing notwithstanding, to the extent that a Secured M&M Lien Claim in Class D-3 is not secured in whole or in part by a validly perfected and unavoidable Lien or is under-secured by the assets of the Debtor to which such Lien attaches, then any Deficiency Claim will be classified and treated in Class D-7.

12. Class A-4: Other Secured Claims against Foothills Resources

(i) Description: Class A-4 consists of Secured Claims, if any, against Foothills Resources that are not treated in other Classes in the Plan.

(ii) Treatment: To the extent a Secured Claim is not otherwise classified or treated under the Plan, the holder of such Secured Claim shall receive, at the option of the Debtors, after consultation with Regiment and the Exit Facility Agent, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Class A-4 Claim, (i) Cash in an amount equal to the value of such Allowed Class A-4 Claim; or (ii) deferred cash payments equal to the amount of the Allowed Secured Claim plus interest at the Prime Rate. Such interest rate shall be fixed as of the Confirmation Date. Such payments shall be made in 60 equal monthly payments of principal and interest, with the first payment to be made 60 days after the Effective Date and continuing on a monthly basis thereafter. Alternatively, the Reorganized Debtor may, at its option, and with the prior consent of the Exit Facility Agent, return any Collateral securing such Allowed Secured Claim to the holder of the Secured Claim in full satisfaction of the Secured Claim and any Deficiency Claim shall be classified and treated in Class A-7.

13. Class B-4: Other Secured Claims against Foothills California

(i) Description: Class B-4 consists of Secured Claims, if any, against Foothills California that are not treated in other Classes in the Plan.

(ii) Treatment: To the extent a Secured Claim is not otherwise classified or treated under the Plan, the holder of such Secured Claim shall receive, at the option of the Debtors, after consultation with Regiment and the Exit Facility Agent, in full satisfaction, settlement, release and discharge of and in exchange for such Claim and Lien, (i) Cash in an amount equal to the value of such Allowed Class B-4 Claim; or (ii) deferred cash payments equal to the amount of the Allowed Secured Claim plus interest at the Prime Rate. Such interest rate shall be fixed as of the Confirmation Date. Such payments shall be made in 60 equal monthly payments of principal and interest, with the first payment to be made 60 days after the Effective

Date and continuing on a monthly basis thereafter. Alternatively, the Reorganized Debtor may, at its option, and with the prior consent of the Exit Facility Agent, return any Collateral securing such Allowed Secured Claim to the holder of the Secured Claim in full satisfaction of the Secured Claim and any Deficiency Claim shall be classified and treated in Class B-7.

14. Class C-4: Other Secured Claims against Foothills Oklahoma

(i) Description: Class C-4 consists of Secured Claims, if any, against Foothills Oklahoma that are not treated in other Classes in the Plan.

(ii) Treatment: To the extent a Secured Claim is not otherwise classified or treated under the Plan, the holder of such Secured Claim shall receive, at the option of the Debtors, after consultation with Regiment and the Exit Facility Agent, in full satisfaction, settlement, release and discharge of and in exchange for such Claim and Lien, (i) Cash in an amount equal to the value of such Allowed Class C-4 Claim; or (ii) deferred cash payments equal to the amount of the Allowed Secured Claim plus interest at the Prime Rate. Such interest rate shall be fixed as of the Confirmation Date. Such payments shall be made in 60 equal monthly payments of principal and interest, with the first payment to be made 60 days after the Effective Date and continuing on a monthly basis thereafter. Alternatively, the Reorganized Debtor may, at its option, and with the prior consent of the Exit Facility Agent, return any Collateral securing such Allowed Secured Claim to the holder of the Secured Claim in full satisfaction of the Secured Claim and any Deficiency Claim shall be classified and treated in Class C-7.

15. Class D-4: Other Secured Claims against Foothills Texas

(i) Description: Class D-4 consists of Secured Claims, if any, against Foothills Texas that are not treated in other Classes in the Plan.

(ii) Treatment: To the extent a Secured Claim is not otherwise classified or treated under the Plan, the holder of such Secured Claim shall receive, at the option of the Debtors, after consultation with Regiment and the Exit Facility Agent, in full satisfaction, settlement, release and discharge of and in exchange for such Claim and Lien, (i) Cash in an amount equal to the value of such Allowed Class D-4 Claim; or (ii) deferred cash payments equal to the amount of the Allowed Secured Claim plus interest at the Prime Rate. Such interest rate shall be fixed as of the Confirmation Date. Such payments shall be made in 60 equal monthly payments of principal and interest, with the first payment to be made 60 days after the Effective Date and continuing on a monthly basis thereafter. Alternatively, the Reorganized Debtor may, at its option, and with the prior consent of the Exit Facility Agent, return any Collateral securing such Allowed Secured Claim to the holder of the Secured Claim in full satisfaction of the Secured Claim and any Deficiency Claim shall be classified and treated in Class D-7.

16. Class A-5: Secured Tax Claims

(i) Description: Class A-5 consists of the Secured Tax Claims against Foothills Resources.

(ii) Treatment: Except to the extent that a holder of an Allowed Secured Tax Claim has been paid prior to the Effective Date, or agrees to a different treatment,

each holder of an Allowed Secured Tax Claim, in full satisfaction, release and discharge of and exchange for such Claim and Lien, shall receive in twenty equal payments, the first to occur three (3) months after the Effective Date and the last to occur five (5) years after the Effective Date, Cash in aggregate equal to the Allowed Amount of such Secured Tax Claim, including any post-Effective Date interest at a rate of 12% per annum. Alternatively, the Reorganized Debtor may, at its option, and with the prior consent of the Exit Facility Agent, return any Collateral securing such Allowed Secured Tax Claim to the holder of the Secured Claim in full satisfaction of the Secured Tax Claim and any Deficiency Claim shall be classified and treated in Class A-7.

17. Class B-5: Secured Tax Claims

(i) Description: Class B-5 consists of the Secured Tax Claims against Foothills California.

(ii) Treatment: Except to the extent that a holder of an Allowed Secured Tax Claim has been paid prior to the Effective Date, or agrees to a different treatment, each holder of an Allowed Secured Tax Claim, in full satisfaction, release and discharge of and exchange for such Claim and Lien, shall receive in twenty equal payments, the first to occur three (3) months after the Effective Date and the last to occur five (5) years after the Effective Date, Cash in aggregate equal to the Allowed Amount of such Secured Tax Claim, including post-Effective Date interest at a rate of 12% per annum. Alternatively, the Reorganized Debtor may, at its option, and with the prior consent of the Exit Facility Agent, return any Collateral securing such Allowed Secured Tax Claim to the holder of the Secured Claim in full satisfaction of the Secured Tax Claim and any Deficiency Claim shall be classified and treated in Class B-7.

18. Class C-5: Secured Tax Claims

(i) Description: Class C-5 consists of the Secured Tax Claims against Foothills Oklahoma.

(ii) Treatment: Except to the extent that a holder of an Allowed Secured Tax Claim has been paid prior to the Effective Date, or agrees to a different treatment, each holder of an Allowed Secured Tax Claim, in full satisfaction, release and discharge of and exchange for such Claim and Lien, shall receive in twenty equal payments, the first to occur three (3) months after the Effective Date and the last to occur five (5) years after the Effective Date, Cash in aggregate equal to the Allowed Amount of such Secured Tax Claim, including post-Effective Date interest at a rate of 12% per annum. Alternatively, the Reorganized Debtor may, at its option, and with the prior consent of the Exit Facility Agent, return any Collateral securing such Allowed Secured Tax Claim to the holder of the Secured Claim in full satisfaction of the Secured Tax Claim and any Deficiency Claim shall be classified and treated in Class C-7.

19. Class D-5: Secured Tax Claims

(i) Description: Class D-5 consists of the Secured Tax Claims against Foothills Texas.

(ii) Treatment: Except to the extent that a holder of an Allowed Secured Tax Claim has been paid prior to the Effective Date, or agrees to a different treatment,

each holder of an Allowed Secured Tax Claim, in full satisfaction, release and discharge of and exchange for such Claim and Lien, shall receive in twenty equal payments, the first to occur three (3) months after the Effective Date and the last to occur five (5) years after the Effective Date, Cash in aggregate equal to the Allowed Amount of such Secured Tax Claim, including post-Effective Date interest at a rate of 12% per annum. Alternatively, the Reorganized Debtor may, at its option, and with the prior consent of the Exit Facility Agent, return any Collateral securing such Allowed Secured Tax Claim to the holder of the Secured Claim in full satisfaction of the Secured Tax Claim and any Deficiency Claim shall be classified and treated in Class D-7.

20. Class A-6: Priority Non-Tax Claim

(i) Description: Class A-6 consists of Priority Non-Tax Claims against Foothills Resources.

(ii) Treatment: On the Initial Distribution Date, except to the extent that a holder of an Allowed Priority Non-Tax Claim against any of the Debtors has been paid or agrees to a different treatment of such Claim, each such holder of an Allowed Priority Non-Tax Claim shall receive, in full satisfaction, release and discharge of and exchange for such Allowed Priority Non-Tax Claim, Cash in an amount equal to such Allowed Priority Non-Tax Claim.

21. Class B-6: Priority Non-Tax Claim

(i) Description: Class B-6 consists of Priority Non-Tax Claims against Foothills California.

(ii) Treatment: On the Initial Distribution Date, except to the extent that a holder of an Allowed Priority Non-Tax Claim against any of the Debtors has been paid or agrees to a different treatment of such Claim, each such holder of an Allowed Priority Non-Tax Claim shall receive, in full satisfaction, release and discharge of and exchange for such Allowed Priority Non-Tax Claim, Cash in an amount equal to such Allowed Priority Non-Tax Claim.

22. Class C-6: Priority Non-Tax Claim

(i) Description: Class C-6 consists of Priority Non-Tax Claims against Foothills Oklahoma.

(ii) Treatment: On the Initial Distribution Date, except to the extent that a holder of an Allowed Priority Non-Tax Claim against any of the Debtors has been paid or agrees to a different treatment of such Claim, each such holder of an Allowed Priority Non-Tax Claim shall receive, in full satisfaction, release and discharge of and exchange for such Allowed Priority Non-Tax Claim, Cash in an amount equal to such Allowed Priority Non-Tax Claim.

23. Class D-6: Priority Non-Tax Claim

(i) Description: Class D-6 consists of Priority Non-Tax Claims against Foothills Texas.

(ii) Treatment: On the Initial Distribution Date, except to the extent that a holder of an Allowed Priority Non-Tax Claim against any of the Debtors has been paid or agrees to a different treatment of such Claim, each such holder of an Allowed Priority Non-Tax Claim shall receive, in full satisfaction, release and discharge of and exchange for such Allowed Priority Non-Tax Claim, Cash in an amount equal to such Allowed Priority Non-Tax Claim.

24. Class A-7: Unsecured Claims

(i) Description: Class A-7 consists of the Allowed Unsecured Claims against Foothills Resources.

(ii) Treatment: Each holder of an Allowed Class A-7 Unsecured Claim shall receive its Proportionate Share of $400,000 in Cash held in the Distribution Reserve Account, which amount shall be divided and paid in twenty equal payments, the first to occur three (3) months after the Effective Date and the last to occur five (5) years after the Effective Date, including post-Effective Date interest at a rate of 5% per annum. In no event shall the holder of an Unsecured Claim receive more than the Face Amount of such holder's Claim.

25. Class B-7: Unsecured Claims

(i) Description: Class B-7 consists of the Allowed Unsecured Claims against Foothills California.

(ii) Treatment: Each holder of an Allowed Class B-7 Unsecured Claim shall receive its Proportionate Share of $400,000 in Cash held in the Distribution Reserve Account, which amount shall be divided and paid in twenty equal payments, the first to occur three (3) months after the Effective Date and the last to occur five (5) years after the Effective Date, including post-Effective Date interest at a rate of 5% per annum. In no event shall the holder of an Unsecured Claim receive more than the Face Amount of such holder's Claim.

26. Class C-7: Unsecured Claims

(i) Description: Class C-7 consists of the Allowed Unsecured Claims against Foothills Oklahoma.

(ii) Treatment: Each holder of an Allowed Class C-7 Unsecured Claim shall receive its Proportionate Share of $400,000 in Cash held in the Distribution Reserve Account, which amount shall be divided and paid in twenty equal payments, the first to occur three (3) months after the Effective Date and the last to occur five (5) years after the Effective Date, including post-Effective Date interest at a rate of 5% per annum. In no event shall the holder of an Unsecured Claim receive more than the Face Amount of such holder's Claim.

27. Class D-7: Unsecured Claims

(i) Description: Class D-7 consists of the Allowed Unsecured Claims against Foothills Texas.

(ii) Treatment: Each holder of an Allowed Class D-7 Unsecured Claim shall receive its Proportionate Share of $400,000 in Cash held in the Distribution Reserve Account, which amount shall be divided and paid in twenty equal payments, the first to occur three (3) months after the Effective Date and the last to occur five (5) years after the Effective Date, including post-Effective Date interest at a rate of 5% per annum. In no event shall the holder of an Unsecured Claim receive more than the Face Amount of such holder's Claim.

28. Class A-8: Convenience Claims

(i) Description: Class A-8 consists of Allowed Unsecured Claims against Foothills Resources, each Claim in an amount less than or equal to $10,000 or in an amount greater than $10,000 whereby the holder agrees to reduce its claim to $10,000 and accept the treatment provided for in Class A-8; *provided, however*, that the aggregate distributions to the holders of Allowed Unsecured Claims in Classes A-8, B-8, C-8 and D-8, will not exceed $250,000.

(ii) Treatment: On the Initial Distribution Date, each holder of a Class A-8 Convenience Claim shall receive in full satisfaction of its Claim Cash in an amount equal to the Allowed portion of such Claim, or in an amount equal to such holder's Proportionate Share of the Convenience Claim Fund, if the aggregate amount of Allowed Unsecured Claims in Classes A-8, B-8, C-8 and D-8 is greater than $250,000.

29. Class B-8: Convenience Claims

(i) Description: Class B-8 consists of Allowed Unsecured Claims against Foothills California, each Claim in an amount less than or equal to $10,000 or in an amount greater than $10,000 whereby the holder agrees to reduce its claim to $10,000 and accept the treatment provided for in Class B-8; *provided, however*, that the aggregate distributions to the holders of Allowed Unsecured Claims in Classes A-8, B-8, C-8 and D-8, will not exceed $250,000.

(ii) Treatment: On the Initial Distribution Date, each holder of a Class B-8 Convenience Claim shall receive in full satisfaction of its Claim Cash in an amount equal to the Allowed portion of such Claim, or in an amount equal to such holder's Proportionate Share of the Convenience Claim Fund, if the aggregate amount of Allowed Unsecured Claims in Classes A-8, B-8, C-8 and D-8 is greater than $250,000.

30. Class C-8: Convenience Claims

(i) Description: Class C-8 consists of Allowed Unsecured Claims against Foothills Oklahoma, each Claim in an amount less than or equal to $10,000 or in an amount greater than $10,000 whereby the holder agrees to reduce its claim to $10,000 and accept the treatment provided for in Class C-8; *provided, however*, that the aggregate distributions to the holders of Allowed Unsecured Claims in Classes A-8, B-8, C-8 and D-8, will not exceed $250,000.

(ii) Treatment: On the Initial Distribution Date, each holder of a Class C-8 Convenience Claim shall receive in full satisfaction of its Claim Cash in an amount equal to

the Allowed portion of such Claim, or in an amount equal to such holder's Proportionate Share of the Convenience Claim Fund, if the aggregate amount of Allowed Unsecured Claims in Classes A-8, B-8, C-8 and D-8 is greater than $250,000.

31. Class D-8: Convenience Claims

(i) Description: Class D-8 consists of Allowed Unsecured Claims against Foothills Texas, each Claim in an amount less than or equal to $10,000 or in an amount greater than $10,000 whereby the holder agrees to reduce its claim to $10,000 and accept the treatment provided for in Class D-8; *provided, however*, that the aggregate distributions to the holders of Allowed Unsecured Claims in Classes A-8, B-8, C-8 and D-8, will not exceed $250,000.

(ii) Treatment: On the Initial Distribution Date, each holder of a Class D-8 Convenience Claim shall receive in full satisfaction of its Claim Cash in an amount equal to the Allowed portion of such Claim, or in an amount equal to such holder's Proportionate Share of the Convenience Claim Fund, if the aggregate amount of Allowed Unsecured Claims in Classes A-8, B-8, C-8 and D-8 is greater than $250,000.

32. Class A-9: Intercompany Claims

(i) Description: Class A-9 consists of all Allowed Intercompany Claims against Foothills Resources.

(ii) Treatment: Holders of Class A-9 Claims shall receive no distribution on account of such Claims.

33. Class B-9: Intercompany Claims

(i) Description: Class B-9 consists of all Allowed Intercompany Claims against Foothills California.

(ii) Treatment: Holders of Class B-9 Claims shall receive no distribution on account of such Claims.

34. Class C-9: Intercompany Claims

(i) Description: Class C-9 consists of all Allowed Intercompany Claims against Foothills Oklahoma.

(ii) Treatment: Holders of Class C-9 Claims shall receive no distribution on account of such Claims.

35. Class D-9: Intercompany Claims

(i) Description: Class D-9 consists of all Allowed Intercompany Claims against Foothills Texas.

(ii) Treatment: Holders of Class D-9 Claims shall receive no distribution on account of such Claims.

36. Class A-10: PIPE Liquidated Damages Claims

(i) Description: Class A-10 consists of PIPE Liquidated Damages Claims against Foothills Resources.

(ii) Treatment: **In the event Class A-10 accepts the Plan**, on the Initial Distribution Date, each holder of an Allowed Class A-10 Claim will receive its Pro Rata share of the Beneficial Interests issued pursuant to Section IV of the Plan. **In the event Class A-10 rejects the Plan**, no Class A-10 Claim holder shall be eligible to receive any distribution on account of such Claim.

37. Class B-11: Royalty Claims

(i) Description: Class B-11 consists of Royalty Claims, if any, against Foothills California.

(ii) Treatment: The Debtors do not believe any holders of Class B-11 Claims exist. To the extent holders of Allowed Class B-11 Claims exist, on the Initial Distribution Date, each holder of an Allowed Class B-11 Royalty Claim shall be paid in full in Cash.

38. Class C-11: Royalty Claims

(i) Description: Class C-11 consists of Royalty Claims, if any, against Foothills Oklahoma.

(ii) Treatment: The Debtors do not believe any holders of Class C-11 Claims exist. To the extent holders of Allowed Class C-11 Claims exist, on the Initial Distribution Date, each holder of an Allowed Class C-11 Royalty Claim shall be paid in full in Cash.

39. Class D-11: Royalty Claims

(i) Description: Class D-11 consists of Royalty Claims, if any, against Foothills Texas.

(ii) Treatment: The Debtors do not believe any holders of Class D-11 Claims exist. To the extent holders of Allowed Class D-11 Claims exist, on the Initial Distribution Date, each holder of an Allowed Class D-11 Royalty Claim shall be paid in full in Cash.

40. Class A-12: Interests

(i) Description: Class A-12 consists of Interests in Foothills Resources.

(ii) Treatment: **In the event Class A-12 accepts the Plan**, on the Initial Distribution Date, each holder of an Allowed Interest in Foothills Resources will receive its Pro Rata share of the Beneficial Interests issued pursuant to Section IV of the Plan. **In the event Class A-12 rejects the Plan**, no holder of an Allowed Interest in Foothills Resources shall be eligible to receive any distribution on account of such Interest.

41. Class B-12: Interests

(i) Description: Class B-12 consists of Interests in Foothills California.

(ii) Treatment: On the Initial Distribution Date, the Interests in Foothills California will be reinstated for corporate structural purposes only. No distributions shall be made on account of Class B-12 Interests.

42. Class C-12: Interests

(i) Description: Class C-12 consists of Interests in Foothills Oklahoma.

(ii) Treatment: On the Initial Distribution Date, the Interests in Foothills Oklahoma will be reinstated for corporate structural purposes only. No distributions shall be made on account of Class C-12 Interests.

43. Class D-12: Interests

(i) Description: Class D-12 consists of Interests in Foothills Texas.

(ii) Treatment: On the Initial Distribution Date, the Interests in Foothills Texas will be reinstated for corporate structural purposes only. No distributions shall be made on account of Class D-12 Interests.

F. One Satisfaction of Wells Fargo Foothill Secured Claim

Though listed in a Class for each Debtor, there shall be only one satisfaction of the Wells Fargo Foothill Secured Claim, and it shall be Allowed and treated under the Plan as if each Debtor were jointly and severally liable thereunder.

G. One Satisfaction of Regiment Secured Claim

Though listed in a Class for each Debtor, there shall be only one satisfaction of the Regiment Secured Claim, and it shall be Allowed and treated under the Plan as if each Debtor were jointly and severally liable thereunder.

H. Means for Implementation

The Reorganized Debtors shall fund the distributions under the Plan with Cash on hand, existing assets, borrowings under the Exit Facility described below, the issuance of New Common Stock and the issuance of Beneficial Interests.

1. Exit Facility

On the Effective Date, the Reorganized Debtors shall enter into the Exit Facility. The Confirmation Order shall specifically approve the Exit Facility (including the transactions contemplated thereby and all actions to be taken and payment of all fees, indemnities, and expenses provided for therein) and grant authorization for the Reorganized Debtors to enter into and execute the Exit Facility documents and such other documents as may be required to consummate the Exit Facility. The Reorganized Debtors may use the Exit Facility for any purpose permitted thereunder, including the funding of obligations under the Plan such as the payment of Administrative Expenses and the satisfaction of the Allowed Claims of Classes A-1, B-1, C-1 and D-1. Attached hereto as **Exhibit B** is a copy of a term sheet outlining the terms of the Exit Facility.

2. New Common Stock

On the Effective Date, Reorganized Foothills Resources shall issue New Common Stock for distribution pursuant to Section III B of the Plan.

3. Trust

On the Effective Date, the Reorganized Debtors shall establish the Trust. The sole assets of the Trust will be all right, title and interest in and to the PIPE Claims. The Trust Beneficiaries shall consist of the Reorganized Debtors, all holders of Allowed Class A-10 PIPE Liquidated Damages Claims (if Class A-10 votes to accept the Plan) and holders of Allowed Class A-12 Interests (if Class A-12 votes to accept the Plan). The trustee will maintain a record each Trust Beneficiary's Beneficial Interest. The trustee shall, upon written request of a Trust Beneficiary, provide reasonably adequate documentary evidence of such Trust Beneficiary's Beneficial Interest, as indicated in the books and records of the Trust. The expense of providing such documentation shall be borne by the requesting Trust Beneficiary. The Trust shall prosecute the PIPE Claims and distribute the PIPE Claims Proceeds to the Trust Beneficiaries. The Trust shall have no public reporting responsibilities. A form trust agreement as well as the identity of the Trustee selected by the Debtors shall be included in the Plan Supplement.

The sum of (i) 100% of the first $1,000,000 of PIPE Claims Proceeds plus (ii) 75% of any PIPE Claims Proceeds in excess of $1,000,000 up to $5,000,000 in the aggregate plus (iii) 50% of any PIPE Claims Proceeds in excess of $5,000,000 in the aggregate will be distributed as follows: 51% to holders of Allowed Class A-10 Claims, who voted in favor of the Plan, and 49% to holders of Allowed Class A-12 Interests, who voted in favor of the Plan, according to their Beneficial Interests.

The sum of (i) 25% of any PIPE Claims Proceeds in excess of $1,000,000 up to $5,000,000 in the aggregate; plus (ii) 50% of any PIPE Claims Proceeds in excess of $5,000,000

in the aggregate will be distributed to Reorganized Foothills Resources, with such PIPE Claim Proceeds to be applied to the Exit Facility in a manner consistent with the application of other Cash receipts.

Distribution will be made promptly upon receipt by the trustee of PIPE Claims Proceeds to the Trust Beneficiaries as reflected in the trustee's register thereof, net and after payment of any accrued and unpaid Trust Expenses and/or advances in respect thereof, together with interest accrued thereon. Trust Beneficiaries will be required to maintain current documentation with the trustee with respect to their qualification for exemption from federal income tax withholding on distributions, failing which the trustee shall be entitled to withhold such portion of their distributions as may be required by law.

Neither Reorganized Foothills Resources, nor any of its subsidiaries, nor any Trust Beneficiary will have any responsibility with respect to Trust Expenses. Upon confirmation of the Plan, the trustee will enter into an agreement with one or more persons (which, with the prior consent of the Exit Facility Agent, may include Reorganized Foothills Resources) pursuant to which such person(s) would advance to the trustee all funds necessary to cover Trust Expenses, with such advances to be repaid, with interest at a per annum rate of 18%, compounded monthly, from PIPE Claims Proceeds prior to any distributions to the Trust Beneficiaries. In order to prosecute the PIPE Claims and protect the interests of all Trust Beneficiaries, the trustee is authorized to borrow funds from the Beneficial Interest holders (the "Trust Expense Financing"). The suggested loan amount for each holder is based upon the number of Beneficial Interest held by such holder.

Loans made to the trustee will only be repaid if the trustee receives a distribution of PIPE Claims Proceeds. In accordance with the terms of the Foothills Resources PIPE Claims Litigation Trust Agreement, the debts and expenses of the trustee (including without limitation the amounts loaned to the trustee by the Trust Certificate holders and other lenders) will be repaid before any PIPE Claims Proceeds are paid to the Trust Beneficiaries.

4. Senior Management Severance

Post-petition, the Debtors' senior management negotiated an option to purchase from Reorganized Foothills Resources all of the assets or, at senior management's election, all of the capital stock of reorganized Foothills California for $500,000 cash and reorganized Foothills Oklahoma for $50,000 cash.[9] The option may be exercised at any time within one year from the date of grant and may be exercised individually on reorganized Foothills California and reorganized Foothills Oklahoma, or both. The ultimate purchase price will be adjusted upward or downward to reflect the difference between proceeds received and expenses incurred by the seller with respect to the purchased assets during the period between the grant date and the closing date. If within five years of the option exercise closing date, the optionees sell all or substantially all of reorganized Foothills California or reorganized Foothills Oklahoma, as applicable, or their respective assets to a third party for consideration exceeding the sum of $1

[9] It is the Debtors' position that this potential transfer constitutes a gift from Regiment to senior management.

million (in each case) plus the amount of capital investment made by the optionees after they acquired the particular company or assets before the sale to the third party, the optionees will pay over to Reorganized Foothills Resources an amount equal to forty percent (40%) of the excess proceeds received.

In exchange for the option, the senior management agreed to amend their existing employment agreements such that they will be required to continue under contract with Reorganized Foothills Resources for a period after the Plan is consummated and modify their rights under existing employment agreements.

Fifty percent (50%) of any proceeds realized as the result of the exercise of the foregoing senior management option shall be used by the Reorganized Debtors to permanently pay down the Exit Facility. Prior to confirmation of the Plan, the Debtors intend to file a separate motion with the Bankruptcy Court seeking approval of the proposed senior management option. The Debtors anticipate that this motion will be heard in connection with confirmation of the Plan. Absent this agreement, the capital stock of reorganized Foothills California and reorganized Foothills Oklahoma shall be transferred to Regiment in partial satisfaction of its Claim against the Debtors.

5. Intercompany Claims

Notwithstanding anything to the contrary herein, Intercompany Claims will be adjusted, continued, or discharged to the extent determined by the Debtors or the Reorganized Debtors, as applicable, in their discretion after consultation with Regiment and the Exit Facility Agent. Any such transaction may be effected on or subsequent to the Effective Date without further action by the stockholders of the Debtors or Reorganized Debtors.

6. Cancellation of Existing Securities and Agreements

On the Effective Date, each share of Preferred Stock, each share of Common Stock and the Options shall be cancelled and the holders thereof shall have no further rights or entitlements in respect thereof against the Debtors except the rights to receive the distributions to be made to such holders under the Plan, if any.

7. Reorganized Debtors' Boards of Directors

The initial board of directors of each Reorganized Debtor shall consist of James S. Bold and Kyle P. O'Neill.

8. Officers of Reorganized Debtors

W. Kirk Bosché shall serve in all officer positions of the Reorganized Debtors on and after the Effective Date. W. Kirk Bosché shall serve in accordance with applicable non-bankruptcy law and the New Employment Agreements.[10]

9. Corporate Action; By-laws and Certificates of Incorporation

On the Effective Date, each Reorganized Debtor shall file a New Certificate of Incorporation. The New Certificates of Incorporation shall prohibit the issuance of nonvoting equity securities, subject to further amendment of such New Certificates of Incorporation as permitted by applicable law. The Boards of Directors of the Reorganized Debtors shall adopt the New By-Laws.

10. Potential Outsourcing of Certain Operations

Reorganized Foothills Resources may contract out responsibility for certain of its operations post-confirmation.

I. Provisions Governing Distributions

1. Designation of Disbursing Agent

On the Effective Date, Reorganized Foothills Resources, or its designee, shall be the Disbursing Agent and shall make all distributions on Allowed Claims and Interests.

2. Record Date for Distributions

As of the date of the entry of the Confirmation Order, the various transfer registers for each of the Classes of Claims or Interests as maintained by the Debtors or their respective agents shall be deemed closed, and there shall be no further changes made to reflect any new record holders of any Claims or Interests. The Debtors shall have no obligation to recognize any transfer of Claims or Interests occurring on or after the Confirmation Date.

3. Date of Distributions

Unless otherwise provided herein or in the Plan, the initial distributions and deliveries to be made under the Plan to the holders of Allowed Claims and Interests shall be made on the Initial Distribution Date. Such distributions shall be deemed made on the Effective Date. However, all distributions to holders of Secured Claims shall be made within fifteen (15) days of the Effective Date. Notwithstanding the foregoing, all distributions to be made to the holders of the Wells Fargo Secured Claims shall be made on the Effective Date.

[10] The details of the compensation to be paid to W. Kirk Bosché by the Reorganized Debtors will be disclosed in the Plan Supplement.

4. *Subsequent Distributions*

Unless otherwise provided in the Plan, to the extent Cash or New Common Stock are available subsequent to the Effective Date from undeliverable, time-barred, or unclaimed distributions to holders of Allowed Claims or Interests pursuant to the Plan, such Cash or New Common Stock shall be transferred to the Reorganized Debtors pursuant to Plan Section V F to be used for general corporate purposes and such New Common Stock shall become treasury stock to be held by the Reorganized Debtors. Unless otherwise provided in the Plan, to the extent Beneficial Interests are available subsequent to the Effective Date from undeliverable, time-barred or unclaimed distributions to holders of Allowed Claims or Interests pursuant to this Plan, such Beneficial Interests shall be transferred to the Trust and used for the Trust's purposes.

5. *Setoffs*

Subject to the provisions in Plan Section III B expressly allowing certain claims in full, and except with respect to the Intercompany Claims, the Debtors, may, but shall not be required to, setoff against any Claim (for purposes of determining the Allowed amount of such Claim in respect of which distribution shall be made), any claims of any nature whatsoever that the Debtors may have against the holder of such Claim, but neither the failure to do so nor the allowance of any Claim hereunder shall constitute a waiver or release by the Debtors of any such Claim the Debtors may have against the holder of such Claim; *provided, however,* that in the event the Debtors seek to exercise such setoff rights against the holder of a Claim that is a debtor in a case under the Bankruptcy Code, the Debtors shall comply with the requirements of the Bankruptcy Code, including seeking relief from the automatic stay. Any creditor with a valid right of setoff shall retain the ability to effectuate such setoff prior to the Effective Date; *provided, however*, that in no event shall such holder be considered a holder of a Secured Claim or receive a distribution in accordance with Plan Section III B 1 - 19 on account of its right of setoff.

6. *Delivery of Distributions*

Subject to Bankruptcy Rule 9010, all distributions to any holder of an Allowed Claim shall be made at the address of such holder as set forth on the Schedules filed with the Bankruptcy Court or on the books and records of the Debtors or their agents, unless the Debtors have been notified in writing of a change of address, including, without limitation, by the filing of a proof of claim or interest by such holder that contains an address for such holder different from the address reflected on such Schedules for such holder. In the event that any distribution to any holder is returned as undeliverable, the Disbursing Agent shall use reasonable efforts to determine the current address of such holder, but no distribution to such holder shall be made unless and until the Disbursing Agent has determined the then current address of such holder, at which time such distribution shall be made to such holder; *provided, however,* that such distributions shall be deemed unclaimed property under Bankruptcy Code section 347(b) at the expiration of the second anniversary from the date of distribution. After such date, all New Common Stock shall become treasury stock to be held by the Reorganized Debtors, and Cash shall be returned to Reorganized Foothills Resources to be used for general corporate purposes, and the claim of any other holder to such property or interest in property shall be discharged and forever barred, and all unclaimed Beneficial Interests shall be transferred to the Trust for the

Trust's purposes and the claim of any holder to such property or interest in property shall be discharged and forever barred.

7. Manner of Payment Under the Plan

All distributions of Cash, New Common Stock and Beneficial Interests to the creditors and/or holders of the Interests of each of the Debtors under the Plan of Reorganization shall be made by or on behalf of the applicable Reorganized Debtor. Where the applicable Reorganized Debtor is a subsidiary of Reorganized Foothills Resources, Reorganized Foothills Resources shall be treated as if it were making a capital contribution, either directly or indirectly, to the applicable Reorganized Debtor equal to the amount distributed (other than the Cash distributed from such Reorganized Debtor's own funds), but only at such time as, and to the extent that, the amounts are actually distributed to holders of Allowed Claims.

At the option of the Debtors, after consultation with Regiment, any Cash payment to be made under the Plan may be made by a check or wire transfer from a domestic bank or as otherwise required or provided in applicable agreements.

8. No Fractional Distributions

No fractional shares of New Common Stock or Beneficial Interests, and no fractional dollars shall be distributed. For purposes of distribution, fractional shares of New Common Stock and fractional Beneficial Interests shall be rounded up or down, as applicable, to the nearest whole number, or, in the event of a Cash payment, up or down, to the nearest whole dollar.

9. Withholding and Reporting Requirements

In connection with the Plan and all instruments issued in connection therewith and distributed thereon, the Disbursing Agent shall comply with all applicable withholding and reporting requirements imposed by any federal, state, or local taxing authority, and all distributions under the Plan shall be subject to any such withholding or reporting requirements.

10. Time Bar to Cash Payments

Checks issued by the Disbursing Agent in respect of Allowed Claims shall be null and void if not negotiated within 120 days after the date of issuance thereof. Any party that is entitled to receive a check under this Plan but fails to cash such check within 120 days of its issuance shall be entitled to receive a reissued check from Reorganized Foothills Resources for the amount of the original check if the party requests that the Disbursing Agent reissue such check and provides the Disbursing Agent with such documentation as the Disbursing Agent requests to verify that such party is entitled to such check, prior to the later of (a) the second anniversary of the Effective Date or (b) six (6) months after any such Claim becomes an Allowed Claim. If a party fails to cash a check within 120 days of its issuance and fails to request reissuance of such check prior to the later to occur of (a) the second anniversary of the Effective Date or (b) six (6) months following the date such party's Claim becomes an Allowed Claim, such party shall not be entitled to receive any Distribution under the Plan with respect to the amount of such check.

11. Transactions on Business Days

If the Effective Date or any other date on which a transaction may occur under the Plan shall occur on a day that is not a Business Day, the transactions contemplated by the Plan to occur on such day shall instead occur on the next succeeding Business Day.

12. Minimum Distributions

There shall be no distribution to any holder of a Claim with an aggregate economic value of $500 or less unless a request therefor is made in writing to the Disbursing Agent (at the addresses provided in the Plan). After the second anniversary of the Effective Date, any property or interest in property not distributed pursuant to Plan Section V shall be deemed unclaimed property under Bankruptcy Code section 347(b). Such property or interest in property shall be returned by the Disbursing Agent to the Reorganized Debtors and shall revert to Reorganized Foothills Resources, and the Claim of any other holder to such property or interest in property shall be discharged and forever barred.

13. Allocation of Distributions

Distributions to any holder of an Allowed Claim shall be allocated first to the principal portion of any such Allowed Claim (as determined for federal income tax purposes), and, only after the principal portion of any such Allowed Claim is satisfied in full, to any portion of such Allowed Claim comprising prepetition interest, costs, expenses, and fees (including any redemption premium) (but solely to the extent that such interest, costs, expenses, fees, or redemption premium are an allowable portion of such Allowed Claim).

14. Rights and Powers of Disbursing Agent

All distributions under the Plan shall be made by Reorganized Foothills Resources as Disbursing Agent or such other entity designated by Reorganized Foothills Resources as a Disbursing Agent. A Disbursing Agent shall not be required to give any bond or surety or other security for the performance of its duties unless otherwise ordered by the Bankruptcy Court; and, in the event that a Disbursing Agent is so otherwise ordered, all costs and expenses of procuring any such bond or surety shall be borne by Reorganized Foothills Resources.

The Disbursing Agent shall be empowered to (i) effect all actions and execute all agreements, instruments, and other documents necessary to perform its duties under the Plan, (ii) make all distributions contemplated hereby, (iii) employ professionals to represent it with respect to its responsibilities, and (iv) exercise such other powers as may be vested in the Disbursing Agent by order of the Bankruptcy Court, pursuant to the Plan, or as deemed by the Disbursing Agent to be necessary and proper to implement the provisions hereof.

Except as otherwise ordered by the Bankruptcy Court, the amount of any reasonable fees and expenses incurred by the Disbursing Agent on or after the Effective Date (including, without limitation, taxes) and any reasonable compensation and expense reimbursement claims (including, without limitation, reasonable attorney fees and expenses) made by the Disbursing Agent shall be paid in Cash by Reorganized Foothills Resources.

J. Procedures for Treating Disputed Claims

1. No Distribution Pending Allowance

Notwithstanding any other provision of the Plan, no Cash shall be distributed under the Plan on account of any Claim that is not Allowed, unless and until such Claim becomes an Allowed Claim. Moreover, notwithstanding any other provision of the Plan, no interest shall accrue or be Allowed on any Claim during the period after the Petition Date, except as provided for in the DIP Order or under Bankruptcy Code section 506(b).

2. Resolution of Disputed Claims

Unless otherwise ordered by the Bankruptcy Court after notice and a hearing, the Debtors and, after the Effective Date, Reorganized Foothills Resources, shall have the right to the exclusion of all others (except as to applications for allowances of compensation and reimbursement of expenses under Bankruptcy Code sections 330 and 503) to make and file objections to Claims and shall serve a copy of each objection upon the holder of the Claim to which the objection is made as soon as practicable, but in no event later than the latest of: (a) 180 days after the Effective Date; (b) 180 days after a proof of Claim with respect to the Claim objected to has been filed with the Claims Agent appointed in the Reorganization Cases; or (c) such later date as may be fixed by the Bankruptcy Court, whether fixed before or after the date specified in clauses (a) and (b) above. From and after the Effective Date, all objections shall be litigated to a Final Order except to the extent Reorganized Foothills Resources elects to withdraw any such objection or Reorganized Foothills Resources and the claimant elect to compromise, settle, or otherwise resolve any such objection, in which event they may settle, compromise, or otherwise resolve any Disputed Claim without the necessity of Bankruptcy Court approval.

3. Estimation of Claims

The Debtors and, after the Effective Date, Reorganized Foothills Resources, may request that the Bankruptcy Court estimate any Disputed Claim pursuant to Bankruptcy Code section 502(c) regardless of whether the Debtors have previously objected to such Claim, and the Bankruptcy Court will retain jurisdiction to estimate any Claim at any time, including, without limitation, during the pendency of any appeal relating to any such objection. If the Bankruptcy Court estimates any Disputed Claim, that estimated amount shall constitute either the Allowed amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on such Claim, the Debtors may elect to pursue any supplemental proceedings to object to any ultimate payment of such Claim. All of the aforementioned Claims objection, estimation, and resolution procedures are cumulative and not exclusive of one another. On and after the Effective Date, Claims that have been estimated may be compromised, settled, withdrawn, or otherwise resolved, without further order of the Bankruptcy Court, but in a manner consistent with the treatment of such Claims under the Plan.

4. Allowance of Disputed Claims

If, on or after the Effective Date, any Disputed Claim becomes an Allowed Claim, the Disbursing Agent shall, on the fifteenth Business Day of the first month following the month in

which the Claim becomes an Allowed Claim, distribute to the holder of such Allowed Claim, Cash, New Common Stock, and/or Beneficial Interests, as applicable, in an aggregate amount sufficient to provide such holder with the amount that such holder would have been entitled to receive under the Plan if such Claim had been an Allowed Claim on the Effective Date.

5. Expungement or Adjustment to Claims Without Objection

Any Claim that has been paid, satisfied or superseded may be expunged on the official register ("Claims Register") of Claims maintained by the Claims Agent or by the Reorganized Debtors, and any Claim that has been amended may be adjusted thereon by the Reorganized Debtors, in both cases without a claims objection having to be Filed and without any further notice to or action, order or approval of the Bankruptcy Court.

K. Treatment of Executory Contracts and Unexpired Leases

1. Assumption and Rejection of Executory Contracts and Unexpired Leases

The Plan provides that all executory contracts and unexpired leases to which any of the Debtors are parties are hereby assumed as of and subject to the occurrence of the Effective Date, except for any executory contract or unexpired lease that: (a) has been assumed or rejected pursuant to Final Order of the Bankruptcy Court; (b) is specifically designated or generally described in the Plan Supplement, as a contract or lease to be rejected; or (c) is the subject of a separate motion filed under Bankruptcy Code section 365 by the Debtors prior to the Confirmation Date. Not less than ten (10) days prior to the deadline to object to confirmation of the Plan, the Debtors shall file, as part of the Plan Supplement, a list of contracts to be assumed along with the proposed cure amounts, if any, associated with such assumption. The Debtors shall serve the list of contracts to be assumed on each contract counterparty. Any party objecting to the proposed cure amounts shall file an objection to such proposed cure amount not less than twenty (20) Business Days following the filing and service of such proposed cure amounts.

For purposes hereof, each executory contract and unexpired lease listed or generally described in the Plan Supplement as a contract or lease to be rejected that relates to the use or occupancy of real property shall include (a) modifications, amendments, supplements, restatements, or other agreements made directly or indirectly by any agreement, instrument, or other document that in any manner affects such executory contract or unexpired lease, without regard to whether such agreement, instrument, or other document is listed in the Plan Supplement as a contract or lease to be rejected, and (b) executory contracts or unexpired leases appurtenant to the premises listed in the Plan Supplement as a contract or lease to be rejected including all easements, licenses, permits, rights, privileges, immunities, options, rights of first refusal, powers, uses, reciprocal easement agreements, vault, tunnel, or bridge agreements, or franchises, and any other interests in real estate or rights *in rem* relating to such premises to the extent any of the foregoing are executory contracts or unexpired leases, unless any of the foregoing agreements are specifically rejected.

A non-Debtor party to an executory contract or unexpired lease that is being rejected hereunder may request that the Debtors assume such contract or lease by sending written notice

to the Debtors, which notice shall include a waiver of any defaults (including any payment defaults) and any right to any cure payment under such contract or lease. The Debtors may assume such contract or lease without further action of the Bankruptcy Court. The Debtors reserve their right to, prior to the Effective Date, add any executory contract or unexpired lease to the Plan Supplement as a contract or lease to be rejected.

2. *Cure of Defaults for Assumed Executory Contracts and Unexpired Leases*

Except to the extent that different treatment has been agreed to by the non-debtor party or parties to any executory contract or unexpired lease to be assumed pursuant to Plan Section VII, the Debtors shall, pursuant to the provisions of Bankruptcy Code sections 1123(a)(5)(G) and 1123(b)(2) and consistent with the requirements of Bankruptcy Code section 365, not less than ten (10) days prior to the deadline to object to confirmation of the Plan file as part of the Plan Supplement a list of contracts to be assumed along with the proposed line amounts, if any, associated with such assumption. The parties to such executory contracts to be assumed by the Debtors shall have twenty (20) days to object to the cure amounts listed by the Debtors. If there are any objections filed, the Bankruptcy Court shall hold a hearing. If the Bankruptcy Court determines that the cure amount is greater than the cure amount listed by the Debtors, the Debtors may reject the contract at such time rather than paying such greater amount.

3. *Claims Based on Rejection or Repudiation of Executory Contracts and Unexpired Leases*

If the rejection of an executory contract or unexpired lease by any of the Debtors pursuant to the Plan results in damages to the other party or parties to such contract or lease, a Claim for such damages, if not heretofore evidenced by a filed proof of claim, shall be forever barred and shall not be enforceable against the Debtors, or their respective properties or interests in property as agents, successors, or assigns, unless a proof of claim is filed with the Bankruptcy Court and served upon counsel for the Debtors on or before the date that is thirty (30) days after the later of the Effective Date or the date of such rejection.

L. Conditions Precedent to Confirmation and Occurrence of Effective Date

1. *Conditions to Confirmation*

The following are conditions precedent to confirmation that must be satisfied or waived in accordance with Section IX of the Plan. Except as provided in Plan Section IX, any one or more of the following conditions may be waived at any time by the Debtors, in consultation with Regiment and the Exit Facility Agent.

(a) An Order finding that the Disclosure Statement contains adequate information pursuant to Bankruptcy Code section 1125 shall have (i) been issued by the Bankruptcy Court, (ii) been entered on the docket maintained by the Clerk of the Bankruptcy Court, and (iii) become a Final Order.

(b) The Confirmation Order shall be in a form acceptable to the Debtors, Regiment and the Exit Facility Agent.

(c) The estimated Allowed Administrative Claims shall not exceed $1.6 million.

2. Conditions to Occurrence of Effective Date

The Effective Date for the Plan may not occur unless and until each of the conditions set forth below is satisfied. Except as provided in Plan Section IX, any one or more of the following conditions may be waived at any time by the Debtors, in consultation with Regiment and the Exit Facility Agent.

(a) A Confirmation Order, in form and substance satisfactory to the Debtors, Regiment and the Exit Facility Agent, shall have been entered by the Bankruptcy Court and such order shall have become a Final Order.

(b) No request for revocation of the Confirmation Order under section 1144 of the Bankruptcy Code shall have been made, or, if made, shall remain pending.

(c) All actions and all agreements, instruments, or other documents necessary to implement the terms and provisions of the Plan are effected or executed and delivered, as applicable, in form and substance satisfactory to the Debtors and Regiment.

(d) All authorizations, consents, and regulatory approvals, if any, required by the Debtors in connection with the consummation of the Plan are obtained and not revoked.

(e) All agreements, instruments and other documents necessary for the consummation of the Exit Facility, including, but not limited to, an intercreditor agreement between the Exit Facility Lenders and Regiment, in form and substance satisfactory to the Exit Facility Agent, shall have been executed and delivered.

3. Waiver of Conditions Precedent

The Debtors may, at their option, after consultation with Regiment and the Exit Facility Agent, waive any of the conditions set forth in Plan Section IX, *provided, however*, that the Debtors may not waive entry of the Order approving the Disclosure Statement, entry of the Confirmation Order, or any condition the waiver of which is proscribed by law. Any such waivers shall be evidenced by a writing, signed by the waiving parties, served upon the United States Trustee, and filed with the Bankruptcy Court. The waiver may be a conditional one, such as to extend the time under which a condition may be satisfied.

4. Effect of Non-Occurrence of Conditions to Occurrence of Effective Date

Except with respect to the condition specified in Plan Section IX C,if the conditions specified in Plan Section IX B have not been satisfied or waived in the manner provided in Plan Section IX B within twenty (20) days following the Confirmation Date or such later date as may be agreed to by the Debtors, Regiment, and the Exit Facility Agent: (a) the Confirmation Order shall be vacated and shall, together with this Plan, be null and void and of no further force and effect; (b) no distributions under the Plan shall be made; (c) the Debtors and all holders of Claims and Interests shall be restored to the *status quo ante* as of the day immediately preceding

the Confirmation Date as though the Confirmation Date had never occurred; (d) all the Debtors' obligations with respect to the Claims and Interests shall remain unchanged and nothing contained herein shall be deemed to constitute a waiver or release of any claims by or against the Debtors or any other Person or to prejudice in any manner the rights of the Debtors or any Person in any further proceedings involving the Debtors; and (e) the time within which the Debtors may assume, assume and assign or reject all executory contracts and unexpired leases shall be extended for a period of sixty (60) days after the date the Confirmation Order is vacated. Upon the occurrence of such failure, the Debtors shall file a written notification with the Bankruptcy Court and serve it upon the United States Trustee.

5. *Satisfaction of Conditions Precedent to Confirmation*

Upon entry of a Confirmation Order, each of the conditions precedent to confirmation, as set forth in Section IX of the Plan, shall be deemed to have been satisfied or waived in accordance with the Plan.

M. Modification, Revocation or Withdrawal of the Plan

1. *Modification and Amendments*

Subject to certain restrictions and requirements set forth in Bankruptcy Code section 1127 and Bankruptcy Rule 3019 and those restrictions on modifications set forth in the Plan, each of the Debtors expressly reserves its respective rights to, after consultation with Regiment and the Exit Facility Agent, alter, amend, or modify materially the Plan with respect to such Debtor, one or more times, prior to consummation. The Debtors, after consultation with Regiment and the Exit Facility Agent, except as otherwise specified in the Plan, reserve the right to alter, amend, or modify materially the Plan, the Plan Supplement, or any exhibits included therein at any time prior to entry of the Confirmation Order and to solicit acceptances of any amendment to or modifications of the Plan, if necessary, through and until the Effective Date. After the entry of the Confirmation Order and prior to consummation, the Debtors may initiate proceedings in the Bankruptcy Court to amend or modify the Plan, or remedy any defect or omission, or reconcile any inconsistencies in the Plan, the Disclosure Statement, or the Confirmation Order, in such matters as may be necessary to carry out the purposes and intent of the Plan. Any such modification or supplement shall be considered a modification of the Plan and shall be made in accordance with Section XII of the Plan. Upon its filing, the Plan Supplement may be inspected in the office of the clerk of the Bankruptcy Court or its designee during normal business hours, and at the Bankruptcy Court's website at http://www.deb.uscourts.gov and on the Debtors' website at www.foothills-resources.com. The documents contained in the Plan Supplement are an integral part of the Plan and shall be approved by the Bankruptcy Court pursuant to the Confirmation Order.

2. *Effect of Confirmation on Modifications*

Entry of a Confirmation Order shall mean that all modifications or amendments to the Plan since the solicitation thereof are approved pursuant to Bankruptcy Code section 1127(a) and do not require additional disclosure or resolicitation under Bankruptcy Rule 3019.

3. *Revocation or Withdrawal of Plan*

The Debtors reserve the right to revoke or withdraw the Plan prior to the Confirmation Date and to file subsequent plans of reorganization. If the Debtors revoke or withdraw the Plan, or if confirmation or consummation does not occur, then: (a) the Plan shall be null and void in all respects; (b) any settlement or compromise embodied in the Plan (including the fixing or limiting to an amount certain of any Claim or Interest or Class of Claims or Interests), assumption or rejection of executory contracts or unexpired leases effected by the Plan, and any document or agreement executed pursuant to the Plan, shall be deemed null and void; and (c) nothing contained in the Plan shall: (i) constitute a waiver or release of any Claims or Interests; (ii) prejudice in any manner the rights of such Debtor or any other entity; or (iii) constitute an admission, acknowledgement, offer, or undertaking of any sort by such Debtor or any other entity.

N. Effect of Confirmation of the Plan

1. *Vesting of Assets*

Upon the Effective Date, pursuant to Bankruptcy Code sections 1141(b) and (c), all property of the Debtors' bankruptcy estates shall vest in the Reorganized Debtors free and clear of all Claims, Liens, encumbrances, charges, and other interests, except as provided herein, in the Exit Facility Agreement, or in the Confirmation Order. From and after the Effective Date, the Reorganized Debtors may operate their businesses and may use, acquire, and dispose of property free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules and in all respects as if there were no pending cases under any chapter or provision of the Bankruptcy Code, subject to the terms and conditions of the Plan.

2. *Binding Effect*

Subject to the occurrence of the Effective Date, on and after the Confirmation Date, the provisions of the Plan shall bind all current and former holders of a Claim against, or Interest in, the Debtors and such holder's respective successors and assigns, whether or not the Claim or Interest of such holder is Impaired under the Plan, whether or not such holder has accepted the Plan, and whether or not such holder is entitled to a distribution under the Plan.

3. *Discharge of Claims and Termination of Interests*

Except as otherwise provided for in the Plan or in the Confirmation Order, the rights afforded in the Plan and the payments and distributions to be made thereunder shall discharge all existing debts and Claims and terminate all Interests of any kind, nature, or description whatsoever against or in the Debtors or any of their assets or properties to the fullest extent permitted by Bankruptcy Code section 1141. Except as provided in the Plan, upon the occurrence of the Effective Date, all existing Claims against and Interests in the Debtors, shall be, and shall be deemed to be, discharged and terminated, and all holders of Claims and Interests shall be precluded and enjoined from asserting against the Reorganized Debtors, their successors or assigns, or any of their assets or properties, any other or further Claim or Interest based upon any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date, whether or not such holder has filed a proof of Claim or proof of Interest and

whether or not the respective facts or legal bases were known or existed prior to the Effective Date.

4. ***Release and Discharge of Debtors***Upon the occurrence of the Effective Date and in consideration of the distributions to be made under the Plan, except as otherwise expressly provided herein, each holder (as well as any trustees and agents on behalf of each holder) of a Claim or Interest and any Affiliate of such holder shall be deemed to have forever waived, released, and discharged the Debtors, to the fullest extent permitted by Bankruptcy Code section 1141, of and from any and all Claims, Interests, rights, and liabilities that arose prior to the Effective Date. Upon the Effective Date, all such persons shall be forever precluded and enjoined, pursuant to Bankruptcy Code section 524, from prosecuting or asserting any such discharged Claim against or terminated Interest in the Debtors.

5. ***Term of Injunctions or Stays***Unless otherwise expressly provided herein or in the Confirmation Order, all injunctions or stays arising under or entered during the Reorganization Cases under Bankruptcy Code sections 105 or 362, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the Effective Date.

6. ***Indemnification Obligations***

Subject to the occurrence of the Effective Date, the obligations of the Debtors as of the Petition Date to indemnify, defend, reimburse, or limit the liability of directors or officers who were directors or officers of the Debtors against any claims or causes of action as provided in the Debtors' certificates of incorporation, bylaws, or applicable state law, shall be treated as Unsecured Claims in Classes A-7, B-7, C-7 or D-7 or are otherwise discharged. Nothing contained in this Plan shall be deemed to affect or alter any rights or obligations of any director or officer on the one hand and any insurer on the other hand with respect to the Debtors' directors' and officers' insurance policies.

7. ***D&O Tail Coverage Policies***

The Reorganized Debtors will obtain a directors' and officers' insurance policy with tail coverage for a period of six (6) years with the same coverage limit as is in existence on the Effective Date for the current and former officers and directors of the Debtors; provided, however, that the cost of such tail coverage shall not excess $250,000.

8. ***Subordinated Claims***

The allowance, classification, and treatment of all Allowed Claims and Interests and the respective distributions and treatments under the Plan take into account and conform to the relative priority and rights of the Claims and Interests in each Class in connection with any contractual, legal, and equitable subordination rights relating thereto, whether arising under general principles of equitable subordination, Bankruptcy Code section 510(b), or otherwise. Pursuant to Bankruptcy Code section 510, the Reorganized Debtors reserve the right to re-classify any Allowed Claim or Interest in accordance with any contractual, legal, or equitable subordination relating thereto. All PIPE Liquidated Damages Claims are deemed to be permanently subordinated pursuant to Bankruptcy Code section 510(b) and have been placed in a separate class and shall receive the treatment in Section III B of the Plan.

9. Compromise and Settlement of Claims and Controversies

Pursuant to Bankruptcy Code section 363 and Bankruptcy Rule 9019 and in consideration for the distributions and other benefits provided pursuant to the Plan, the provisions of the Plan shall constitute a good faith compromise of all Claims, Interests, and controversies relating to the contractual, legal, and subordination rights that a holder of a Claim may have with respect to any Allowed Claim or Interest, or any distribution to be made on account of such an Allowed Claim or Interest. The entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of the compromise or settlement of all such Claims, Interests, controversies, as well as a finding by the Bankruptcy Court that such compromise or settlement is in the best interests of the Debtors, their estates, and holders of Claims and Interests and is fair, equitable, and reasonable. In accordance with the provisions of the Plan, without any further notice to or action, order, or approval of the Bankruptcy Court, after the Effective Date, the Reorganized Debtors may compromise and settle Claims against them and causes of action against other entities.

10. Releases by the Debtors

Pursuant to Bankruptcy Code section 1123(b), and except as otherwise specifically provided in the Plan or the Plan Supplement, for good and valuable consideration, including the service of the Released Parties to facilitate the expeditious reorganization of the Debtors and the implementation of the restructuring contemplated by the Plan, on and after the Effective Date, the Released Parties are deemed released and discharged by the Debtors, the Reorganized Debtors, and the estates from any and all Claims, obligations, rights, suits, damages, causes of action, remedies, and liabilities whatsoever, including any derivative Claims asserted on behalf of the Debtors, whether known or unknown, foreseen or unforeseen, existing or hereafter arising, in law, equity, or otherwise, that the Debtors, the Reorganized Debtors, the estates, or their Affiliates would have been legally entitled to assert in their own right (whether individually or collectively) or on behalf of the holder of any Claim or Interest or other Person, based on or relating to, or in any manner arising from, in whole or in part, the Debtors, the Reorganization Cases, the purchase, sale, or rescission of the purchase or sale of any security of the Debtors, the subject matter of, or the transactions or events giving rise to any Claim or Interest that is treated in the Plan, the business or contractual arrangements between any Debtor and any Released Party, the restructuring of Claims and Interests prior to or in the Reorganization Cases, the negotiation, formulation, or preparation of the Plan and Disclosure Statement, or related agreements, instruments, or other documents, upon any other act or omission, transaction, agreement, event, or other occurrence taking place on or before the Effective Date, other than Claims or liabilities arising out of or relating to any act or omission of a Released Party that constitutes a failure to perform the duty to act in good faith, with the care of an ordinarily prudent person and in a manner the Released Party reasonably believed to be in the best interests of the Debtors (to the extent such duty is imposed by applicable non-bankruptcy law) where such failure to perform constitutes willful misconduct or gross negligence.

11. Exculpation

On the Effective Date, the Disbursing Agent, as well as the respective current and former officers, directors, employees, members, affiliates, financial advisors, professionals,

accountants, and attorneys, as applicable, of the Debtors and any Disbursing Agent selected by the Debtors, shall be exculpated by the Debtors and any holder of any Claim or Interest for any act or omission in connection with, or arising out of, the Reorganization Cases, the confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or property to be distributed under the Plan, except for willful misconduct, gross negligence, intentional fraud, and/or criminal conduct.

12. Injunction

Except as otherwise expressly provided in the Plan or in the Confirmation Order, all Persons or entities who have held, hold, or may hold Claims against or Interests in the Debtors are permanently enjoined, from and after the Effective Date, from: (i) commencing or continuing in any manner any action or other proceeding of any kind on any such Claim or Interest against any of the Reorganized Debtors on account of such Claims or Interests; (ii) the enforcement, attachment, collection, or recovery by any manner or means of any judgment, award, decree, or order against any Reorganized Debtor with respect to such Claim or Interest; (iii) creating, perfecting, or enforcing any encumbrance of any kind against any Reorganized Debtor against the property or interests in property of any Reorganized Debtor with respect to such Claim or Interest; (iv) asserting any right of setoff, subrogation, or recoupment of any kind against any obligation owed to any Reorganized Debtor against the property or interest in property of any Reorganized Debtor with respect to such Claim or Interest; and (v) pursuing any claim released pursuant to Section X of the Plan.

13. Preservation of Rights of Action

Except as otherwise provided in the Plan or Confirmation Order, after the Effective Date, the Reorganized Debtors shall retain all rights to commence, pursue, litigate or settle, as appropriate, any and all causes of action, whether existing as of the Petition Date or thereafter arising, in any court or other tribunal, including, without limitation, in an adversary proceeding filed in one or more of the Reorganization Cases.

14. Protection Against Discriminatory Treatment

Consistent with Bankruptcy Code section 525 and the Supremacy Clause of the U.S. Constitution, all entities, including governmental units, shall not discriminate against the Reorganized Debtors or deny, revoke, suspend, or refuse to renew a license, permit, charter, franchise, or other similar grant to, condition such a grant to, discriminate with respect to such a grant against, the Reorganized Debtors, or another entity with whom such Reorganized Debtors have been associated, solely because one of the Debtors has been a debtor under chapter 11, has been insolvent before the commencement of the Reorganization Cases (or during the Reorganization Cases but before the Debtor is granted or denied a discharge) or has not paid a debt that is dischargeable in the Reorganization Cases.

15. Recoupment

In no event shall any holder of Claims or Interests be entitled to recoup any Claim or Interest against any Claim, right, or cause of action of the Debtor or the Reorganized Debtor, as

applicable, unless such holder actually has performed such recoupment and provided notice thereof in writing to the Debtors on or before the Confirmation Date, notwithstanding any indication in any proof of Claim or Interest or otherwise that such holder asserts, has, or intends to preserve any right of recoupment.

16. Release of Liens

Except as otherwise provided in the Plan or in any contract, instrument, release, or other agreement or document created pursuant to the Plan, on the Effective Date and concurrently with the applicable distributions made pursuant to the Plan, all mortgages, deeds of trust, Liens, pledges, or other security interests against any property of the Debtors' estates shall be fully released, and discharged, and all of the right, title, and interest of any holder of such mortgages, deeds of trust, Liens, pledges, or other security interests shall revert to the Reorganized Debtor and its successors and assigns.

17. Reimbursement or Contribution

If the Court disallows a Claim for reimbursement or contribution of an entity pursuant to Bankruptcy Code section 502(e)(1)(B), then to the extent that such Claim is contingent as of the time of allowance or disallowance, such Claim shall be forever disallowed notwithstanding Bankruptcy Code section 502(j), unless prior to the Effective Date: (a) such Claim has been adjudicated as noncontingent or (b) the relevant holder of the Claim has filed a noncontingent proof of Claim on account of such Claim and a Final Order has been entered determining such Claim as no longer contingent.

O. Retention of Jurisdiction

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court shall retain exclusive jurisdiction over all matters arising out of, or related to, the Reorganization Cases and the Plan pursuant to Bankruptcy Code sections 105(a) and 1142, including jurisdiction:

1. To hear and determine pending applications for the assumption or rejection of executory contracts or unexpired leases and the allowance of Claims resulting therefrom and any disputes with respect to executory contracts or unexpired leases relating to facts and circumstances arising out of or relating to the Reorganization Cases;

2. To determine any motion, adversary proceeding, application, contested matter, and other litigated matter pending on the Confirmation Date;

3. To ensure that distributions to holders of Allowed Claims and Allowed Interests are accomplished as provided herein;

4. To consider Claims or the allowance, classification, priority, compromise, estimation, objection to, or payment of any Claim, Administrative Expense, or Interest;

5. To hear and determine all actions pursuant to Bankruptcy Code sections 105, 502, 510, 505, 542, 543, 544, 545, 547, 548, 549, 550, 551, and 553, any collection matters related thereto, and settlements thereof;

6. To hear and determine any disputes or issues arising under the settlement agreements referred to in this Plan or any other settlements of Claims approved by the Bankruptcy Court;

7. To enter, implement, or enforce such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, reversed, revoked, modified, or vacated;

8. To issue injunctions, enter and implement other orders, and take such other actions that are not inconsistent with the terms of this Plan as may be necessary or appropriate to restrain interference by any Person with the consummation, implementation, or enforcement of the Plan, the Confirmation Order, or any other order of the Bankruptcy Court;

9. To hear and determine any application to modify the Plan in accordance with Bankruptcy Code section 1127, to remedy any defect or omission or reconcile any inconsistency in the Plan, the Disclosure Statement, or any order of the Bankruptcy Court, including the Confirmation Order, in such a manner as may be necessary to carry out the purposes and effects thereof;

10. To hear and determine all applications of retained professionals under Bankruptcy Code sections 330, 331, and 503(b) for awards of compensation for services rendered and reimbursement of expenses incurred prior to the Confirmation Date;

11. To hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of the Plan, the Confirmation Order, any transactions or payments contemplated hereby or any agreement, instrument, or other document governing or relating to any of the foregoing; *provided, however,* that the Bankruptcy Court shall not retain jurisdiction to hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of, or any other matters related to, the Exit Facility;

12. To take any action and issue such orders as may be necessary to construe, enforce, implement, execute, and consummate the Plan or to maintain the integrity of the Plan following consummation;

13. To determine such other matters and for such other purposes as may be provided in the Confirmation Order;

14. To hear and determine matters concerning state, local, and federal taxes in accordance with Bankruptcy Code sections 346, 505, and 1146 (including, without limitation, any request by the Debtors prior to the Effective Date or request by the Reorganized Debtors after the Effective Date for an expedited determination of taxes under Bankruptcy Code section 505(b));

15. To hear and determine any other matters related hereto and not inconsistent with the Bankruptcy Code and title 28 of the United States Code;

16. To enter a final decree closing the Reorganization Cases; and

17. To recover all assets of the Debtors and property of the Debtors' estates, wherever located.

V. STATUTORY REQUIREMENTS FOR CONFIRMATION OF THE PLAN

The following is a brief summary of the confirmation process. Holders of Claims and Interests are encouraged to review the relevant provisions of the Bankruptcy Code and to consult their own advisors.

A. The Confirmation Hearing

Bankruptcy Code section 1128(a) requires the Bankruptcy Court, after notice, to conduct the Confirmation Hearing to consider confirmation. Bankruptcy Code section 1128(b) provides that any party-in-interest may object to confirmation.

B. Confirmation Standards

To confirm the Plan, the Bankruptcy Court must find that the Plan satisfies the requirements of Bankruptcy Code section 1129. The Debtors believe that the Plan satisfies the requirements of Bankruptcy Code section 1129 for the following reasons:

1. The Plan complies with the applicable provisions of the Bankruptcy Code;

2. The Debtors, as Plan proponents, have complied with the applicable provisions of the Bankruptcy Code;

3. The Plan has been proposed in good faith and not by any means forbidden by law;

4. Any payment made or promised under the Plan for services or for costs and expenses in, or in connection with, the Reorganization Cases, or in connection with the Plan and incident to the Reorganization Cases, has been or will be disclosed to the Bankruptcy Court, and any such payment made before confirmation is reasonable, or if such payment is to be fixed after confirmation, such payment is subject to the approval of the Bankruptcy Court as reasonable;

5. With respect to each Impaired Class of Claims or Interests, either each holder of a Claim or Interest in such Class has accepted the Plan or will receive or retain under the Plan on account of such Claim or Interest, property of a value, as of the Effective Date, that is not less than the amount that such holder would receive or retain if the Debtors were liquidated on such date under chapter 7 of the Bankruptcy Code;

6. Each Class of Claims or Interests that is entitled to vote on the Plan either has accepted the Plan or is not Impaired under the Plan, or the Plan can be confirmed without the approval of each voting Class pursuant to Bankruptcy Code section 1129(b);

7. Except to the extent that the holder of a particular Claim will agree to a different treatment of such Claim, the Plan provides that Allowed Administrative Expenses and Allowed Priority Tax Claims will be paid in full;

8. At least one Class of Impaired Claims or Interests will accept the Plan, determined without including any acceptance of the Plan by any insider holding a Claim in such Class;

9. Confirmation is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Reorganized Debtors;

10. All fees of the type described in 28 U.S.C. § 1930, including the fees of the United States Trustee, will be paid as of the Effective Date; and

11. All transfers of property under the Plan shall be made in accordance with any applicable provisions of nonbankruptcy law that govern the transfer of property by a corporation or trust that is not a moneyed, business, or commercial corporation or trust.

C. Best Interests of Creditors/Liquidation Analysis and Valuation Analysis

Under the Bankruptcy Code, confirmation of a plan also requires a finding that the plan is in the "best interests" of creditors. Under the "best interests" test, the Bankruptcy Court must find (subject to certain exceptions) that the Plan provides, with respect to each Impaired Class, that each holder of an Allowed Claim or Interest in such Impaired Class has accepted the Plan, or will receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the amount that such holder would receive or retain if the Debtors were liquidated under chapter 7 of the Bankruptcy Code.

The analysis under the "best interests" test requires that the Bankruptcy Court determine what holders of Allowed Claims and Interests in each Impaired Class would receive if the Debtors' Reorganization Cases were converted to liquidation cases under chapter 7 of the Bankruptcy Code, and the Bankruptcy Court appointed a chapter 7 trustee to liquidate all of the Debtors' assets into Cash. The Debtors' "liquidation value" would consist primarily of unencumbered and unrestricted Cash held by the Debtors at the time of the conversion to chapter 7 cases, and the proceeds resulting from the chapter 7 trustee's sale of the Debtors' remaining unencumbered assets. The gross Cash available for distribution would be reduced by the costs and expenses incurred in effectuating the chapter 7 liquidation and any additional Administrative Expenses incurred during the chapter 7 cases.

The Bankruptcy Court then must compare the value of the distributions from the proceeds of the hypothetical chapter 7 liquidation of the Debtors (after subtracting the chapter 7-specific claims and administrative costs) with the value to be distributed to the holders of

Allowed Claims and Interests under the Plan. It is possible that in a chapter 7 liquidation, Claims and Interests may not be classified in the same manner as set forth in the Plan. In a hypothetical chapter 7 liquidation of the Debtors' assets, the rule of absolute priority of distribution would apply, i.e., no junior creditor would receive any distribution until payment in full of all senior creditors, and no holder of an Interest would receive any distribution until all creditors have been paid in full. Therefore, in a hypothetical chapter 7 liquidation, the Debtors' available assets generally would be distributed to creditors and Interest holders in the following order: DIP Claims, Secured Claims[11], Administrative Claims, Priority Tax Claims, Priority Non-Tax Claims, Unsecured Claims, Royalty Claims, PIPE Liquidated Damages Claims and Interests.

Based upon the conclusions set forth in the combined liquidation analysis and valuation analysis, set forth on **Exhibit C**, the Debtors believe that the value of distributions, if any, in a hypothetical chapter 7 liquidation to holders of Allowed Unsecured Claims and Interests would be less than the value of distributions to such holders under the Plan.

Substantially all of the Debtors' assets are subject to Liens, so to satisfy the absolute priority rule, in a chapter 7 liquidation the holders of Unsecured Claims, Royalty Claims, PIPE Liquidated Damages Claims and Interests would likely receive no distributions. Accordingly, the Plan satisfies the "best interests" of creditors test.

D. Feasibility

Bankruptcy Code section 1129(a)(11) requires that the Bankruptcy Court find that the confirmation is not likely to be followed by the liquidation of the Reorganized Debtors or the need for further financial reorganization, unless the plan contemplates such liquidation. For purposes of demonstrating that the Plan meets this feasibility standard, the Debtors have analyzed the ability of the Reorganized Debtors to meet their obligations under the Plan and to retain sufficient liquidity and capital resources to conduct their business. Management developed a business plan and prepared financial projections for fiscal years 2010 to 2014 (the "Financial Projections"), which are attached hereto as **Exhibit D**. As illustrated by the Financial Projections, the Reorganized Debtors should have sufficient cash flow and availability to pay and service their debt obligations and to fund operations. The Debtors believe that confirmation is not likely to be followed by liquidation or further reorganization and that, therefore, the Plan satisfies the feasibility test.

E. Acceptance by Impaired Classes

The Bankruptcy Code also requires, as a condition to confirmation, that each Class of Claims or Interests that is Impaired but still receives distributions under the Plan accept the Plan. A class that is not "impaired" under a plan of reorganization is deemed to have accepted the plan and, therefore, solicitation of acceptances with respect to such class is not required. A class is "impaired" unless the plan leaves unaltered the legal, equitable, and contractual rights to which

[11] Secured Claims include Wells Fargo Foothill Secured Claims, Regiment Secured Claims, Secured M&M Lien Claims, Secured Tax Claims and other Secured Claims.

the claim or interest entitles the holder of such claim or interest, or cures any default and reinstates the original terms of the obligation.

Pursuant to Bankruptcy Code sections 1126(c) and 1126(d) and except as otherwise provided in Bankruptcy Code section 1126(e): (1) an impaired class of claims has accepted the plan if the holders of at least two-thirds in dollar amount and more than one-half in number of the allowed claims in such class actually voting have voted to accept the plan of reorganization; and (2) an impaired class of interests has accepted the plan of reorganization if the holders of at least two-thirds in amount of the allowed interests of such class actually voting have voted to accept the plan of reorganization.

F. Confirmation Without Acceptance by All Impaired Classes

Bankruptcy Code section 1129(b) allows a bankruptcy court to confirm a plan, even if the plan has not been accepted by all Impaired classes entitled to vote on the plan, so long as the plan has been accepted by at least one Impaired non-insider class.

Bankruptcy Code section 1129(b) states that notwithstanding the failure of an Impaired class to accept a plan of reorganization, the plan shall be confirmed, on request of the proponent of the plan, in a procedure commonly known as "cram-down," so long as the plan does not "discriminate unfairly" and is "fair and equitable" with respect to each class of claims or interests that is Impaired under, and has not accepted, the plan.

In general, a plan does not discriminate unfairly if it provides a treatment to the class that is substantially equivalent to the treatment that is provided to other classes that have equal rank. In determining whether a plan discriminates unfairly, courts will take into account a number of factors, including the effect of applicable subordination agreements between parties. Accordingly, two classes of unsecured creditors could be treated differently without unfairly discriminating against either class.

The condition that a plan be "fair and equitable" with respect to a non-accepting class of secured claims includes the requirements that: (1) the holders of such secured claims retain the liens securing such claims to the extent of the allowed amount of the secured claims, whether the property subject to the liens is retained by debtor or transferred to another entity under the plan; and (2) each holder of a secured claim in the class receives deferred Cash payments totaling at least the allowed amount of such claim with a present value, as of the effective date, at least equivalent to the value of the secured claimant's interest in the debtor's property subject to the liens.

The condition that a plan be "fair and equitable" with respect to a non-accepting class of unsecured claims includes the requirement that either: (1) the plan provides that each holder of a claim of such class receive or retain on account of such claim property of a value, as of the effective date, equal to the allowed amount of such claim; or (2) the holder of any claim or interest that is junior to the claims of such class will not receive or retain any property under the plan on account of such junior claim or interest.

The condition that a plan be "fair and equitable" with respect to a non-accepting class of interests includes the requirements that either: (1) the plan provide that each holder of an interest

in such class receive or retain under the plan, on account of such interest, property of a value, as of the effective date, equal to the greater of (a) the allowed amount of any fixed liquidation preference to which such holder is entitled, (b) any fixed redemption price to which such holder is entitled, or (c) the value of such interest; or (2) if the class does not receive such an amount as required under (1), no class of interests junior to the non-accepting class may receive a distribution under the plan.

The Debtors intend to seek confirmation pursuant to Bankruptcy Code section 1129(b) with respect to any Impaired Class that is presumed to reject the Plan, and reserve the right to do so with respect to any other rejecting Class of Claims or Interests, as applicable. Bankruptcy Code section 1129(a)(10) shall be satisfied for purposes of confirmation by acceptance of the Plan by at least one Class that is Impaired under the Plan.

The Debtors submit that the Plan does not "discriminate unfairly" and satisfies the "fair and equitable" requirement. With respect to the unfair discrimination requirement, all Classes under the Plan are provided treatment that is substantially equivalent to the treatment that is provided to other Classes that have equal rank. With respect to the fair and equitable requirement for Secured creditors, all holders of Secured Claims in Class that did not accept the Plan shall retain the Liens securing such Claims to the extent of the Allowed amount of the Secured Claims and shall receive deferred Cash payments totaling at least the Allowed amount of such Claim with a present value, as of the Effective Date, at least equivalent to the value of the Secured creditor's interest in the Debtors' property subject to the Liens. With respect to the fair and equitable treatment requirement for unsecured creditors, the Plan provides that each holder of an Allowed Unsecured Claim shall receive on account of such Claim property of a value equal to the amount of such Claim, or if not, then no junior Claims or Interests will receive distributions under the Plan. With respect to the fair and equitable treatment for Interest holders, the Plan does not provide for distributions to any holder of an Interest junior to such Interest holders. Therefore, the requirements of Bankruptcy Code section 1129(b) would be satisfied in the event that the Debtors are required to seek "cram down."

VI. CERTAIN FACTORS TO BE CONSIDERED PRIOR TO VOTING

A. Certain Bankruptcy Considerations

1. Undue Delay in Confirmation May Significantly Disrupt the Operations of the Debtors

The impact that a continued prolonging of the Reorganization Cases may have on operations of the Debtors cannot be accurately predicted or quantified. Since the filing of the Reorganization Cases, the Debtors have suffered certain disruptions in operations.

2. The Continuation of the Reorganization Cases, Particularly if the Plan is Not Approved or Confirmed in the Time Frame Currently Contemplated, Could Further Adversely Affect the Debtors' Operations and Relationships With the Debtors' Customers, Vendors, Employees, and Regulators

If confirmation and consummation do not occur expeditiously, the Reorganization Cases could result in, among other things, increased costs, professional fees, and similar expenses. Prolonged Reorganization Cases may also make it more difficult to retain and attract management and other key personnel, and would require senior management to spend a significant amount of time and effort dealing with the Debtors' financial reorganization instead of focusing on the operation of the Debtors' businesses. Finally, any delay in confirmation or consummation could result in the expiration of the Exit Facility financing commitments.

3. The Debtors May Not be Able to Obtain Confirmation or Consummation

The Debtors cannot ensure that they will receive the requisite acceptances to confirm the Plan. Even if the Debtors receive the requisite acceptances, the Debtors cannot ensure that the Bankruptcy Court will confirm the Plan. A non-accepting creditor or Interest holder might challenge the adequacy of the Disclosure Statement or the solicitation procedures and results as not being in compliance with the Bankruptcy Code or Bankruptcy Rules. Even if the Bankruptcy Court determined that the Disclosure Statement and the balloting procedures and results were appropriate, the Bankruptcy Court could still decline to confirm the Plan if it found that any of the statutory requirements for confirmation had not been met. As discussed in further detail in Section V, supra, Bankruptcy Code section 1129 sets forth the requirements for confirmation of a plan of reorganization and requires, among other things: a finding by a bankruptcy court that the plan "does not unfairly discriminate" and is "fair and equitable" with respect to any non-accepting classes; confirmation is not likely to be followed by a liquidation or a need for further financial reorganization; and the value of distributions to non-accepting holders of claims and interests within a particular class under the plan will not be less than the value of distributions such holders would receive if the debtors were liquidated under chapter 7 of the Bankruptcy Code. While there can be no assurance that these requirements will be met, the Debtors believe that the Plan complies with Bankruptcy Code section 1129.

4. Confirmation and Consummation are also Subject to Certain Conditions Described in Section IV

If the Plan is not confirmed, it is unclear whether a restructuring of the Debtors could be implemented and what distributions holders of Allowed Claims or Interests ultimately would receive. If an alternative feasible reorganization could not be proposed, it is possible that the Debtors would have to liquidate their assets, in which case, as set forth in the liquidation analysis, it is likely that holders of Claims and Interests would receive substantially less favorable treatment than they would receive under the Plan.

5. Parties in Interest May Object to the Debtors' Classification of Claims

Bankruptcy Code section 1122 provides that a plan of reorganization may place a class or an interest in a particular class only if such claim or interest is substantially similar to the other claims or interests in such class. The Debtors believe that the classification of Claims and Interests under the Plan complies with the requirements set forth in the Bankruptcy Code. However, there is no assurance that the Bankruptcy Court will necessarily hold that the Claims classification scheme complies with the Bankruptcy Code.

6. The Debtors May Object to the Amount, or the Secured or Priority Status, of a Claim and Procedures for Contingent and Unliquidated Claims

The Debtors reserve the right to object to the amount, or the secured or priority status, of any Claim or Interest. The estimates set forth in the Disclosure Statement cannot be relied on by any creditor or equity holder whose Claim or Interest is subject to an objection. Any such holder of a Claim or Interest may not receive its specified share of the estimated distributions described in the Disclosure Statement. Moreover, notwithstanding any language in any holder's proof of Claim or otherwise, the holder of a contingent or unliquidated Claim shall not be entitled to receive or recover any amount in excess of the amount stated in the holder's proof of Claim, if any, as of the Distribution Record Date, or if the proof of Claim provides no monetary value of such holders' Claim on the Distribution Record Date, then the amount the Debtors elect to withhold on account of such Claim.

B. Risks Related to the Reorganized Debtors' Business and Financial Condition

1. The Reorganized Debtors May Not be Able to Achieve their Projected Financial Results

The Reorganized Debtors may not be able to meet their projected financial results or achieve the revenue or cash flow that the Reorganized Debtors have assumed in projecting their future business prospects. If the Reorganized Debtors do not achieve these projected revenue or cash flow levels, the Reorganized Debtors may lack sufficient liquidity to continue operating as planned after the Effective Date. The financial projections represent management's view based on currently known facts and hypothetical assumptions about their future operations. The projections do not, however, guarantee the Reorganized Debtors' future financial performance.

2. The Debtors' Financial Projections are Subject to Inherent Uncertainty Due to the Numerous Assumptions Upon Which They are Based

The projections are based on numerous assumptions including: timely confirmation and consummation pursuant to the terms of the Plan; the anticipated future performance of the Reorganized Debtors; oil and gas industry performance; general business and economic conditions; and other matters, many of which are beyond the control of the Reorganized Debtors and some or all of which may not materialize. In addition, unanticipated events and circumstances occurring subsequent to the date that the Disclosure Statement is approved by the Bankruptcy Court may affect the actual financial results of the Reorganized Debtors' operations. These variations may be material and may adversely affect the ability of the Reorganized Debtors to make payments with respect to indebtedness following consummation. Because the actual results achieved throughout the periods covered by the projections may vary from the projected results, the projections should not be relied upon as an assurance of the actual results that will occur.

3. Except with respect to the projections and except as otherwise specifically and expressly stated, the Disclosure Statement does not

reflect any events that may occur subsequent to the date of the Disclosure Statement

Such events may have a material impact on the information contained in the Disclosure Statement. Neither the Debtors nor the Reorganized Debtors intend to update the projections. The projections, therefore, will not reflect the impact of any subsequent events not already accounted for in the assumptions underlying the projections.

4. Restrictions on Transfer

Holders of securities issued pursuant to the Plan who are deemed to be "underwriters" as defined in Bankruptcy Code section 1145(b), including holders who are deemed to be "affiliates" or "control persons" within the meaning of the Securities Act, will be unable freely to transfer or to sell their securities except pursuant to (a) "ordinary trading transactions" by a holder that is not an "issuer" within the meaning of section 1145(b), (b) an effective registration of such securities under the Securities Act and under equivalent state securities or "blue sky" laws (and Foothills Resources is under no obligation to register such securities), or (c) pursuant to the provisions of Rule 144 under the Securities Act or another available exemption from registration requirements.

5. Transfer Restrictions on the New Common Stock May Be Contained in the Certificate of Incorporation for Reorganized Foothills Resources; Any Prohibited Ownership Change Could Limit the Availability of the Debtors' NOLs

The Debtors will negotiate reasonable and customary restrictions on the transfer of New Common Stock to the extent necessary to avoid any adverse federal income tax consequences resulting from an ownership change (as defined in section 382 of the Internal Revenue Code) in Reorganized Foothills Resources. These transfer restrictions may adversely affect the ability of certain persons to acquire shares of New Common Stock during the period the restrictions are in place. Furthermore, while the purpose of these transfer restrictions is to prevent an "ownership change" from occurring within the meaning of section 382 of the Internal Revenue Code (which ownership change would adversely affect the Reorganized Debtors' ability to utilize their NOLs or other tax attributes), no assurance can be given that such an ownership change will not occur, in which case the availability of the Reorganized Debtors' substantial NOLs and other federal income tax attributes would be significantly limited or possibly eliminated.

6. Certain Tax Consequences of the Plan Raise Unsettled and Complex Legal Issues and Involve Various Factual Determinations.

Some of the material consequences of the Plan regarding United States federal income taxes are summarized in Article VII. Many of these tax issues raise unsettled and complex legal issues, and also involve various factual determinations, such as valuations, that raise additional uncertainties. The Debtors cannot ensure that the Internal Revenue Service (the "IRS") will not take a contrary view, and no ruling from the IRS has been or will be sought regarding the tax consequences described in Article VII. In addition, the Debtors cannot ensure that the IRS will

not challenge the various positions the Debtors have taken, or intend to take, with respect to the Debtors' tax treatment, or that a court would not sustain such a challenge.

7. *Oil and Gas Price Declines and Volatility Could Adversely Affect Reorganized Debtors' Income.*

Prices for oil and gas fluctuate widely. Factors that can cause this fluctuation include:

- changes in the supply of and demand for oil and gas;
- market uncertainty;
- short- and long-term weather conditions in parts of the United States;
- political and economic conditions in oil and gas producing countries;
- domestic and foreign governmental regulations;
- the price and availability of alternative fuels; and
- overall economic conditions.

At times, excess supplies have depressed oil and gas prices. Any substantial decline or extended low levels of oil or gas prices would have a material adverse effect on Reorganized Debtors' financial condition, liquidity and results of operations.

8. *The Oil and Gas Industry Experiences Numerous Operating Risks; Insurance May Not Be Adequate to Protect Against all these Risks*

The oil and gas business involves a variety of operating risks, including:

- fires and explosions;
- uncontrollable flows of oil and gas;
- natural disasters; and
- environmental hazards such as spills, pipeline ruptures and discharges of toxic gases.

If any of these events occur, the Reorganized Debtors could incur substantial losses as a result of:

- injury or loss of life;
- severe damage to and destruction of property, natural resources and equipment;
- pollution and other environmental damage;

- regulatory investigation and penalties;
- clean-up responsibilities;
- suspension of operations;
- repairs to resume operations; and
- loss of productive energy.

The Reorganized Debtors will maintain insurance against some, but not all, potential risks and losses affecting operations. There can be no assurance that the insurance will be adequate to cover all losses or liabilities. Also, the continued availability of insurance at current costs cannot be assured.

9. Operations are Subject to Numerous Risks Related to Oil and Gas Drilling and Production Activities

Oil and gas drilling and production activities are subject to numerous risks, including the risk that no commercially productive reserves will be found. The cost of drilling and completing wells is often uncertain. Oil and gas drilling and production activities may be shortened, delayed or canceled as a result of a variety of factors, many of which are beyond the Reorganized Debtors' control. These factors include:

- unexpected drilling conditions;
- pressure or irregularities in formations;
- equipment failures or accidents;
- shortages in experienced labor or shortages or delays in the delivery of equipment;
- blowouts and surface cratering;
- pipe or cement failures;
- casing collapse; and
- embedded drilling and service tools.

10. Possibility of Production Curtailments

Due to contract terms, pipeline interruptions, weather conditions or other factors, the producing wells which the Reorganized Debtors will own and/or operate may, from time to time, be subject to production curtailments. Curtailments may range from production being partially restricted to wells being completely shut-in. The duration of curtailments may vary from a few days to several months.

11. The Market for Oil and Gas Production is Volatile

The availability of a ready market for oil and gas production depends on numerous factors beyond the control of the Reorganized Debtors, including the demand for and supply of oil and gas, the proximity of our natural gas reserves to pipelines, the capacity of such pipelines, fluctuations in production and seasonal demand, the effects of inclement weather and governmental regulation. New gas wells may be shut-in for lack of a market until a gas pipeline or gathering system with available capacity is extended into the area. Successful exploration wells, especially offshore wells, may have production delayed until production facilities and pipelines are constructed.

12. The Oil and Gas Industry is Subject to Governmental and Environmental Regulation

Exploring for, producing and selling oil and gas are subject to a variety of federal, state, local and international governmental regulations, including regulation concerning the discharge or emission of materials into the environment, the conservation of natural gas and oil production, permits for drilling, production, and transportation operations, drilling and plugging and abandonment bonds and other financial assurances, reports concerning operations, the spacing of wells, the unitization and pooling of properties, the clean-up of well sites and various other matters, including taxes. Laws and regulations protecting the environment are stringent and may in certain circumstances impose strict and joint and several liability, rendering a person liable for environmental damage without regard to negligence or fault on the part of such person. Such laws and regulations may expose the Reorganized Debtors to liability for the conduct of operations or conditions caused by others or for the acts of the Reorganized Debtors that were in compliance with all applicable laws at the time such acts were performed. Environmental laws generally provide for civil, criminal and administrative penalties for noncompliance, including any unauthorized discharges of oil and other hazardous substances.

VII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of certain U.S. federal income tax consequences of the Plan to the Debtors and certain creditors and Interest holders. This summary is based on the Internal Revenue Code, Treasury Regulations thereunder, and administrative and judicial interpretations and practice, all as in effect on the date of the Disclosure Statement and all of which are subject to change, with possible retroactive effect. Due to the lack of definitive judicial and administrative authority in a number of areas, substantial uncertainty may exist with respect to some of the tax consequences described below. No opinion of counsel has been obtained, and the Debtors do not intend to seek a ruling from the IRS as to any of the tax consequences of the Plan discussed below. There can be no assurance that the IRS will not challenge one or more of the tax consequences of the Plan described below.

This summary does not apply to holders of Claims or Interests that are not United States persons (as such term is defined in the Internal Revenue Code) or that are otherwise subject to special treatment under U.S. federal income tax law (including, for example, banks, governmental authorities or agencies, financial institutions, insurance companies, pass-through entities, tax-exempt organizations, brokers and dealers in securities, mutual funds, small business

investment companies, and regulated investment companies). This summary does not purport to cover all aspects of U.S. federal income taxation that may apply to the Debtors and holders of Claims and Interests based upon their particular circumstances. Additionally, this summary does not discuss any tax consequences that may arise under any laws other than U.S. federal income tax law, including under state, local, or foreign tax law.

The following summary is not a substitute for careful tax planning and advice based on the particular circumstances of each holder of a Claim or Interest. Each holder of a Claim or Interest is urged to consult his, her, or its own tax advisors as to the U.S. federal income tax consequences, as well as other tax consequences, including under any applicable state, local, and foreign law, of the restructuring described in the Plan.

IRS Circular 230 Disclosure: To ensure compliance with requirements imposed by the IRS, any tax advice contained in this Disclosure Statement is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding tax-related penalties under the U.S. Internal Revenue Code. The tax advice contained in this Disclosure Statement was written to support the promotion or marketing of the transactions described in this Disclosure Statement. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

A. Federal Income Tax Consequences to Holders of Allowed Claims and Interests

1. Recognition of Gain or Loss

A creditor will recognize taxable gain or loss equal to the difference between the cash received (other than cash allocable to accrued and unpaid interest or market discount as discussed below) and the creditor's adjusted tax basis in the Claim. The character of the recognized gain or loss (i.e., ordinary income, or short-term or long-term capital gain or loss) will depend upon the status of the creditor, the nature of the Claim in the creditor's hands, the purpose and circumstances of its acquisition, the creditor's holding period of the Claim, and the extent to which the creditor previously claimed a deduction for the worthlessness of all or a portion of the Claim. Creditors should consult their tax advisors concerning the character and timing of any recognized gain or loss.

2. Receipt of Interest

Cash received that is attributable to accrued but unpaid interest will be treated as ordinary income regardless of whether the creditor's Claim is a capital asset. The proper allocation for tax purposes of the cash received pursuant to the Plan in satisfaction of a Claim between principal and accrued interest is unclear under present law. Creditors should consult their tax advisors as to the proper allocation.

3. Market Discount

Gain recognized is ordinary income to the extent attributable to accrued market discount that has not previously been taken into income. Generally, a debt instrument will have market discount for federal income tax purposes if the debt instrument was acquired after its original issuance for less than its issue price.

B. Federal Income Tax Consequences to the Reorganized Debtors

1. Anticipated Tax Liability for 2009

Although the Debtors are still analyzing results from operations, they do not expect to incur any substantial tax liability as a result of the implementation of the Plan.

2. Discharge of Indebtedness Income and Reduction of Tax Attributes

The Debtors' aggregate outstanding indebtedness will be reduced pursuant to the Plan. Under the Internal Revenue Code, a taxpayer who is relieved of indebtedness generally must include the amount of debt relief that exceeds the amount of consideration given for such discharge in its gross income ("COI income"). COI income is not includable in gross income, however, if it occurs in a case under the Bankruptcy Code and the discharge of indebtedness is granted by the Bankruptcy Court or occurs pursuant to a plan approved by the Bankruptcy Court. The Debtors' COI income resulting from the Plan will satisfy these requirements. Accordingly, the Debtors will not be required to include in its gross income any COI income as a result of the Plan. Instead, the Internal Revenue Code requires certain tax attributes of a debtor to be reduced by the COI income that is excluded from gross income. Tax attributes generally are reduced in the following order: net operating loss carryovers, general business credit carryovers, minimum tax credit carryovers, capital loss carryovers, the taxpayer's basis in property, passive activity loss or credit carryovers, and foreign tax credit carryovers. Tax attributes generally are reduced by one dollar for each dollar excluded from gross income, except that general tax credits, minimum tax credits, and foreign tax credits are reduced by 33.3 cents for each dollar excluded from gross income. An election can be made to alter the order of attribute reduction by first applying the reduction against depreciable property held by the taxpayer up to the aggregate adjusted basis of such property. In the case of a consolidated group, recently issued Treasury regulations generally require the tax attributes attributable to the debtor to be reduced first followed by the reduction of consolidated attributes attributable to other members.

VIII. MISCELLANEOUS PROVISIONS

1. Additional Documents

On or before the Effective Date, the Debtors may file with the Bankruptcy Court such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan. The Debtors or Reorganized Debtors, as applicable, and all holders of Claims or Interests receiving distributions pursuant to the Plan and all other parties in interest shall, from time to time, prepare, execute, and deliver any agreements or documents and take any other actions as may be necessary or advisable to effectuate the provisions and intent of the Plan.

2. Payment of Statutory Fees

All fees payable pursuant to 28 U.S.C. § 1930(a), as determined by the Bankruptcy Court at a hearing pursuant to section 1128 of the Bankruptcy Code, shall be paid for each quarter (including any fraction thereof) until the Reorganization Cases are converted, dismissed, or closed, whichever occurs first.

3. Reservation of Rights

Except as expressly set forth in the Plan, the Plan shall have no force or effect unless the Bankruptcy Court shall enter the Confirmation Order. None of the filing of the Plan, any statement or provision contained in the Plan, or the taking of any action by any Debtor with respect to the Plan, the Disclosure Statement, or the Plan Supplement shall be or shall be deemed to be an admission or waiver of any rights of any Debtor with respect to the holders of Claims or Interests prior to the Effective Date.

4. Successors and Assigns

The rights, benefits, and obligations of any entity named or referred to in the Plan shall be binding on, and shall inure to the benefit of any heir, executor, administrator, successor or assign, affiliate, officer, director, agent, representative, attorney, beneficiaries, or guardian, if any, of each entity.

IX. RECOMMENDATION AND CONCLUSION

The Debtors recommend the Plan because it provides for greater distributions to the holders of Claims and Interests than would otherwise result in a liquidation under chapter 7 of the Bankruptcy Code. In addition, any alternative other than confirmation could result in extensive delays and increased administrative expenses resulting in smaller distributions to the holders of Claims and Interests. **Accordingly, the Debtors recommend that holders of Claims and Interests entitled to vote on the Plan support confirmation and vote to accept the Plan.**

Dated: Houston, Texas
November 17, 2009

Respectfully submitted,

FOOTHILLS RESOURCES, INC.
(for itself and on behalf of each of the Debtors)

By: /s/ W. Kirk Bosché
Name: W. Kirk Bosché
Title: Chief Financial Officer