**IN THE UNITED STATES BANKRUPTCY COURT**
**FOR THE NORTHERN DISTRICT OF TEXAS**
**DALLAS DIVISION**

| | | |
|---|---|---|
| **IN RE:** | § | **CASE NO. 10-36484-HDH-11** |
| **HERITAGE CONSOLIDATED LLC, *et al.*,** | § | **Chapter 11** |
| **DEBTORS.** | § | **(Jointly Administered)** |

# SECOND AMENDED DISCLOSURE STATEMENT FOR THE FIRST AMENDED JOINT PLAN OF REORGANIZATION FOR THE DEBTORS

Dated: December 12, 2012

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## LIST OF EXHIBITS

**EXHIBITS**

**Exhibit A**: First Amended Joint Plan of Reorganization for the Debtors

**Exhibit B**: Liquidation Analysis Schedule

**Exhibit C**: Third Party Reserved Causes of Action

## INTRODUCTORY DISCLOSURES

THIS SECOND AMENDED DISCLOSURE STATEMENT (THIS "AMENDED DISCLOSURE STATEMENT"), WHICH HAS BEEN JOINTLY FILED BY HERITAGE CONSOLIDATED, LLC ("CONSOLIDATED"), HERITAGE STANDARD CORPORATION ("STANDARD" AND TOGETHER WITH CONSOLIDATED, THE "DEBTORS" AND EACH A "DEBTOR"), AND THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF HERITAGE CONSOLIDATED, LLC, ET AL. (THE "COMMITTEE" AND TOGETHER WITH THE DEBTORS, THE "PLAN PROPONENTS"), CONTAINS A SUMMARY OF MATERIAL PROVISIONS OF THE PLAN PROPONENTS' *FIRST AMENDED JOINT PLAN OF REORGANIZATION FOR THE DEBTORS* (THE "PLAN"), INCLUDING PROVISIONS RELATING TO THE PLAN'S TREATMENT OF CLAIMS AGAINST AND EQUITY INTERESTS IN THE DEBTORS, AND THE MEANS OF IMPLEMENTATION OF THE PLAN. THIS AMENDED DISCLOSURE STATEMENT ALSO SUMMARIZES CERTAIN FINANCIAL INFORMATION CONCERNING THE DEBTORS AND THE CLAIMS ASSERTED AGAINST THE DEBTORS IN THESE JOINTLY ADMINISTERED BANKRUPTCY CASES. **WHILE THE DEBTORS AND COMMITTEE BELIEVE THAT THIS AMENDED DISCLOSURE STATEMENT CONTAINS ADEQUATE INFORMATION WITH RESPECT TO THE DOCUMENTS AND INFORMATION SUMMARIZED, CREDITORS AND EQUITY INTEREST HOLDERS SHOULD CAREFULLY REVIEW THE ENTIRE PLAN AND EACH OF THE DOCUMENTS REFERENCED HEREIN, AND SHOULD SEEK THE ADVICE OF THEIR OWN COUNSEL AND OTHER ADVISORS BEFORE CASTING THEIR BALLOTS ON THE PLAN.**

STATEMENTS AND FINANCIAL INFORMATION HEREIN CONCERNING THE DEBTORS, INCLUDING, WITHOUT LIMITATION, HISTORICAL INFORMATION, INFORMATION REGARDING THE DEBTORS' ASSETS AND LIABILITIES, AND INFORMATION REGARDING CLAIMS AND EQUITY INTERESTS ASSERTED OR OTHERWISE EVIDENCED IN THE BANKRUPTCY CASES, HAVE BEEN DERIVED FROM NUMEROUS SOURCES INCLUDING, WITHOUT LIMITATION, THE DEBTORS' BOOKS AND RECORDS, THE DEBTORS' SCHEDULES AND STATEMENTS OF FINANCIAL AFFAIRS, AND COURT RECORDS. ALTHOUGH THE DEBTORS REASONABLY BELIEVE THAT THE HISTORICAL AND FINANCIAL INFORMATION SET FORTH HEREIN IS ACCURATE, COMPLETE AND RELIABLE, THE DEBTORS AND THEIR PROFESSIONALS HAVE NOT TAKEN ANY INDEPENDENT ACTION TO VERIFY THE ACCURACY, COMPLETENESS OR RELIABILITY OF SUCH HISTORICAL INFORMATION AND THERE HAS BEEN NO INDEPENDENT AUDIT OF THE FINANCIAL INFORMATION CONTAINED IN THIS AMENDED DISCLOSURE STATEMENT. THEREFORE, NEITHER THE DEBTORS NOR THEIR PROFESSIONALS WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS COMPLETE, ACCURATE AND RELIABLE. HOWEVER, THE DEBTORS HAVE REVIEWED THE INFORMATION SET FORTH HEREIN AND, BASED UPON THE SOURCES OF INFORMATION AVAILABLE, GENERALLY BELIEVE SUCH INFORMATION TO BE COMPLETE AND ACCURATE.

NO OTHER REPRESENTATIONS CONCERNING THE DEBTORS, THE DEBTORS' ASSETS AND LIABILITIES, THE PAST OR FUTURE OPERATIONS OF THE DEBTORS, THE PLAN AND ITS TERMS, OR ALTERNATIVES TO THE PLAN ARE AUTHORIZED, NOR ARE ANY SUCH REPRESENTATIONS TO BE RELIED UPON IN ARRIVING AT A DECISION WITH RESPECT TO THE PLAN. ANY INFORMATION WITH RESPECT TO SUCH TOPIC AREAS THAT IS PROVIDED TO SECURE ACCEPTANCE OR REJECTION OF THE PLAN AND THAT IS NOT CONTAINED IN THIS AMENDED DISCLOSURE STATEMENT AND THE EXHIBITS

ATTACHED HERETO IS UNAUTHORIZED AND SHOULD BE REPORTED IMMEDIATELY TO THE DEBTORS' COUNSEL.

UNLESS INDICATED OTHERWISE, THE STATEMENTS CONTAINED IN THIS AMENDED DISCLOSURE STATEMENT ARE MADE AS OF SEPTEMBER 2012, AND NEITHER DELIVERY OF THIS AMENDED DISCLOSURE STATEMENT NOR ANY EXCHANGE OF RIGHTS MADE IN CONNECTION WITH THE PLAN SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION SET FORTH HEREIN SINCE THE DATE THIS AMENDED DISCLOSURE STATEMENT AND THE MATERIALS RELIED UPON IN PREPARING THIS AMENDED DISCLOSURE STATEMENT WERE COMPILED.

THIS AMENDED DISCLOSURE STATEMENT MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN. THIS AMENDED DISCLOSURE STATEMENT CONTAINS PROJECTED FINANCIAL INFORMATION REGARDING THE DEBTORS, RECOVERIES UNDER THE PLAN, AND CERTAIN OTHER FORWARD-LOOKING STATEMENTS, ALL OF WHICH ARE BASED UPON VARIOUS ASSUMPTIONS AND ESTIMATES AS OF SEPTEMBER 2012, OR SUCH OTHER TIME AS IS SPECIFIED. SUCH INFORMATION WILL NOT BE UPDATED TO REFLECT EVENTS OCCURRING AFTER SAID DATE(S), AND SUCH INFORMATION IS SUBJECT TO INHERENT UNCERTAINTIES AND TO A WIDE VARIETY OF SIGNIFICANT BUSINESS, ECONOMIC AND COMPETITIVE RISKS. CONSEQUENTLY, ACTUAL EVENTS, CIRCUMSTANCES, EFFECTS AND RESULTS MAY VARY SIGNIFICANTLY FROM THOSE INCLUDED IN OR CONTEMPLATED BY SUCH PROJECTED FINANCIAL INFORMATION AND SUCH OTHER FORWARD-LOOKING STATEMENTS.

THE APPROVAL OF THIS AMENDED DISCLOSURE STATEMENT BY THE BANKRUPTCY COURT DOES NOT CONSTITUTE AN ENDORSEMENT BY THE BANKRUPTCY COURT OF THE PLAN OR A GUARANTY OF THE ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN THIS AMENDED DISCLOSURE STATEMENT.

NOTHING CONTAINED IN THIS AMENDED DISCLOSURE STATEMENT, EXPRESS OR IMPLIED, IS INTENDED TO GIVE RISE TO ANY COMMITMENT OR OBLIGATION OF THE PLAN PROPONENTS OR ANY OTHER PARTY, NOR SHALL IT BE CONSTRUED AS CONFERRING UPON ANY PERSON ANY RIGHTS, BENEFITS OR REMEDIES OF ANY NATURE WHATSOEVER. THIS AMENDED DISCLOSURE STATEMENT IS INFORMATIONAL ONLY. ADDITIONALLY, CREDITORS AND EQUITY INTEREST HOLDERS SHOULD NOT CONSTRUE THE CONTENTS OF THIS AMENDED DISCLOSURE STATEMENT AS PROVIDING ANY LEGAL, BUSINESS, FINANCIAL OR TAX ADVICE. EACH CREDITOR AND EQUITY INTEREST HOLDER SHOULD CONSULT WITH ITS OWN LEGAL, BUSINESS, FINANCIAL AND TAX ADVISORS AS TO ANY MATTER CONCERNING THE PLAN, THE EFFECTS OF IMPLEMENTATION OF THE PLAN, AND THE VOTING PROCEDURES APPLICABLE TO THE PLAN.

# I.
# INTRODUCTION

On September 14, 2010 (the "Petition Date"),[1] the Debtors filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code with United States Bankruptcy Court for the Northern District of Texas (the "Bankruptcy Court"), thereby initiating their bankruptcy cases (collectively, the "Bankruptcy Cases"), which are being jointly administered by Order of the Bankruptcy Court.

On September 17, 2010, the Debtors, the Lender and CIT Capital Filed their *Joint Plan of Reorganization for the Debtors* (the "Original Plan") as Exhibit "A" to their *Disclosure Statement for the Joint Plan of Reorganization for the Debtors* (the "Original Disclosure Statement") [Docket No. 38].

This Amended Disclosure Statement expressly amends, replaces, and supersedes the Original Disclosure Statement in its entirety. The First Amended Joint Plan of Reorganization for the Debtors (the "Plan"), a copy of which is attached hereto as **Exhibit "A"**, expressly amends, replaces and supersedes the Original Plan in its entirety.

The Plan proposes, among other things, the means by which all Claims against and Equity Interests in the Debtors will be finally resolved and treated for Distribution purposes, consistent with the provisions and priorities mandated by the Bankruptcy Code. Approval and consummation of the Plan will enable the Bankruptcy Cases to be concluded and closed.

The Debtors and Committee hereby submit this Amended Disclosure Statement in connection with the solicitation of votes on the Plan. On December 13, 2012, after notice and a hearing, the Bankruptcy Court, the Honorable Harlin D. Hale presiding, signed an Order approving this Amended Disclosure Statement as containing information of a kind and in sufficient detail to enable Creditors and Equity Interest holders whose votes on the Plan are being solicited to make an informed judgment on whether to accept or reject the Plan. The Bankruptcy Court's approval of this Amended Disclosure Statement does not constitute the Bankruptcy Court's approval or disapproval of the Plan.

This Amended Disclosure Statement, which includes the Plan as **Exhibit "A,"** is being mailed to each holder of a Claim against and each holder of an Equity Interest in the Debtors. However, the Debtors and Committee are only seeking votes on the Plan from Creditors and Equity Interest holders who are entitled to vote. With respect to voting on the Plan, pursuant to the Bankruptcy Code, only Creditors holding Claims and Equity Interests within impaired Classes under the Plan are entitled to vote.

The Debtors and Committee believe that they have promulgated the Plan consistent with the provisions of the Bankruptcy Code. The Debtors and Committee believe that the Plan provides affected Creditors and Equity Interest holders Distribution rights on account of their Claims and Equity Interests which are at least equal to, if not greater than, what they would obtain if the Bankruptcy Cases were converted to Chapter 7 liquidation cases and assets of the Debtors were liquidated within the parameters of Chapter 7 of the Bankruptcy Code. The Debtors and Committee believe that the Plan is fair and equitable to all Classes of Claims and Equity Interests under the Plan.

This Amended Disclosure Statement is not intended to replace careful review and analysis of the Plan. Rather, it is submitted as an aid and supplement in your review of the Plan, and attempts to explain the terms and implications of the Plan. Every effort has been made to fully explain the various aspects of the Plan as it may affect Creditors and Equity Interest holders. All Persons receiving this Amended

[1] Capitalized terms used herein, if not separately defined, have the meanings assigned to them in the Plan, or if not defined in the Plan, then in the Bankruptcy Code or Bankruptcy Rules.

Disclosure Statement are urged to review all of the exhibits to this Amended Disclosure Statement, in addition to reviewing the text of this Amended Disclosure Statement. If you have any questions, you may contact counsel for the Debtors. Contact information for such counsel is set forth within this Amended Disclosure Statement, as well as on the cover page hereof.

Creditors and Equity Interest holders should read this Amended Disclosure Statement in its entirety prior to voting on the Plan. No solicitation of votes on the Plan may be made except pursuant to this Amended Disclosure Statement, an Order of the Bankruptcy Court approving this Amended Disclosure Statement, and section 1125 of the Bankruptcy Code. No other party has been authorized to utilize any information concerning the Debtors, their operations, and their assets and liabilities, other than the information contained in this Amended Disclosure Statement, to solicit votes on the Plan. Creditors and Equity Interest holders should not rely on any information relating to the Debtors, their operations, and their assets and liabilities, other than the information contained in this Amended Disclosure Statement and the exhibits attached hereto.

**THE PLAN HAS THE SUPPORT OF THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS APPOINTED IN THESE BANKRUPTCY CASES AND THE COMMITTEE IS A JOINT PROPONENT OF THE PLAN.**

## II.
## PLAN OVERVIEW

The Plan is designed to accomplish two primary objectives: (a) formation of the Liquidating Trust for the benefit of Creditors and Equity Interest holders into which substantially all of the remaining assets of the Debtors will be transferred so that such assets can be held and disposed of in such a manner as to maximize their value for the benefit of Creditors and Equity Interest holders, and (b) use of proceeds from the Liquidating Trust Assets to satisfy Claims in accordance with a waterfall mechanism for Distributions set forth in the Plan and the Liquidating Trust Agreement. The Plan specifies the means for accomplishing each of these objectives, and pertinent provisions of the Plan in relation thereto are described in detail in this Amended Disclosure Statement.

Focusing on Distributions to be made to Creditors and Equity Interest holders under the Plan, the Plan divides Claims against the Debtors and Equity Interests in the Debtors into separate Classes of Claims[2] and Equity Interests, and then sets out the treatment to be provided to each such Class under the Plan. Sections 1122 and 1123 of the Bankruptcy Code require such classification, with each Class to contain Claims and Equity Interests that are substantially similar to one another. The Plan classifies Claims against the Debtors into nine (9) Classes for purposes of voting on and Distributions under the Plan. The various Classes of Claims and Equity Interests and the treatment provided under the Plan to each such Class are discussed in greater detail in later sections of this Amended Disclosure Statement.

The following table sets out: (i) the estimates of the total number of Claims and Equity Interests per Class; (ii) an estimate of the total liquidated amount of Claims and Equity Interests falling within each Class (as asserted or scheduled); and (iii) a summary of the treatment afforded to each Class under the Plan. The information set forth within the table is qualified in its entirety by the more detailed information regarding the Plan set forth in this Amended Disclosure Statement, the exhibits hereto (including the Plan itself), and the additional disclosures which follow the tables.

[2] There are two exceptions to the classification of Claims. Because Priority Tax Claims and Administrative Claims (including Professional Fee Claims and U.S. Trustee Fees) are subject to mandatory treatment under the Bankruptcy Code, they are not subject to classification.

| SUMMARY OF TREATMENT OF CLASSES UNDER THE PLAN | | |
|---|---|---|
| **Class** | **Estimated Amounts of Claims and Equity Interests Per Class** | **Treatment Under Plan** |
| 1 – Allowed Ad Valorem Tax Claims | Est. No. of Claimants: 2<br>Est. Amount of Claims:<br>Approximately $90,000.00<br>Est. Allowable Claims: $90,000.00 | Each holder of an Allowed Ad Valorem Tax Claim against the Estates shall, at the election of the Liquidating Trustee, (A) receive Distributions from the Liquidating Trust in the amount of such holder's Allowed Ad Valorem Tax Claim plus interest at the Plan Interest Rate from the Petition Date until such Claim has been satisfied in full as and at the time provided under ARTICLE VIII of the Plan; or (B) receive such other less favorable treatment that may be agreed upon in writing by such holder, the Committee, and the Liquidating Trustee. This treatment shall be in exchange for and in full satisfaction and discharge of the holder's Allowed Ad Valorem Tax Claim. |
| 2 – Allowed Priority Claims | Est. No. of Claimants: 1<br>Est. Amount of Claims:<br>Approximately $769,300.00<br>Est. Allowable Claims: $450,000.00 to719,300.00 | The RRC, which is the holder of the Allowed Priority Claim, comprised of the P&A Administrative Claim, shall, at the election of the Liquidating Trustee, (A) receive Distributions from the Liquidating Trust in the amount of such holder's Allowed Priority Claim; or (B) receive such other less favorable treatment that may be agreed upon in writing by such holder and the Liquidating Trustee. The P&A Administrative Claim shall be satisfied either by (A) payment as described above as such expenses are incurred; or (B) as such costs are incurred from the P&A Administrative Claim Escrow established pursuant to the Plan and revenue from ongoing operations. This treatment shall be in exchange for and in full satisfaction and discharge of the holder's Allowed Priority Claim. |
| 3 – Allowed M&M Secured Claim (Classes 3A and 3B) | Est. No. of Claimants: 15-25<br>Est. Amount of Claims:<br>Approximately $12M to 15M; however the Allowed amount of such Claims shall be capped by the value of the Estates' property securing such Claims. | Each holder of an Allowed M&M Secured Claim against the Estates shall (A) receive Distributions from the Liquidating Trust in the pro rata amount of such holder's Allowed M&M Secured Claim from the applicable assets identified in subclasses 3A or 3B, plus interest at the Plan Interest Rate to the extent allowable under Title 11 from the Petition Date until such Claim has been satisfied in full, as and at the time provided under ARTICLE VIII of the Plan; or (B) receive such other less favorable treatment that may be agreed upon in writing by such holder, and the Liquidating Trustee. This treatment shall be in exchange for and in full satisfaction and discharge of the holder's Allowed M&M Secured Claim.<br><br>Subclass 3A shall be comprised of Allowed Section 6 M&M Secured Claims to be satisfied solely from the Section 6 Assets with any resulting deficiency claim to be included with General Unsecured Claims in Class 5.<br><br>Subclass 3B shall be comprised of Allowed Non-Section 6 M&M Secured Claims to be satisfied solely from the net sale proceeds of the Non-Section 6 Assets with any resulting deficiency claim to be included with General Unsecured Claims in Class 5. |

| SUMMARY OF TREATMENT OF CLASSES UNDER THE PLAN | | |
|---|---|---|
| **Class** | **Estimated Amounts of Claims and Equity Interests Per Class** | **Treatment Under Plan** |
| 4 – Allowed Other Secured Claims | Est. No. of Claimants: unknown<br>Est. Amount of Claims:<br>Approximately $0<br>Est. Allowable Claims: $0 | Each holder of an Allowed Other Secured Claim against the Estates shall (A) receive Distributions from the Liquidating Trust in the amount of such holder's Allowed Other Secured Claim plus interest at the Plan Interest Rate to the extent allowable under Title 11 from the Petition Date until such Claim has been satisfied in full, as and at the time provided under ARTICLE VIII of the Plan; or (B) receive such other less favorable treatment that may be agreed upon in writing by such holder, and the Liquidating Trustee. This treatment shall be in exchange for and in full satisfaction and discharge of the holder's Allowed Other Secured Claim. |
| 5- Allowed General Unsecured Claims (Classes 5A and 5B) | Est. No. of Claimants: 50-75<br>Est. Amount of Claims:<br>Approximately $5M – 6M, exclusive of any deficiency claims held by the Class 3 Claimants | Each holder of an Allowed General Unsecured Claim against the Estates shall (A) receive Distributions from the Liquidating Trust in the amount of such holder's Allowed General Unsecured Claim until such Claim has been satisfied in full, as and at the time provided under ARTICLE VIII of the Plan; or (B) receive such other less favorable treatment that may be agreed upon in writing by such holder, the and the Liquidating Trustee. This treatment shall be in exchange for and in full satisfaction and discharge of the holder's Allowed General Unsecured Claim. |

| SUMMARY OF TREATMENT OF CLASSES UNDER THE PLAN | | |
|---|---|---|
| **Class** | **Estimated Amounts of Claims and Equity Interests Per Class** | **Treatment Under Plan** |
| 6- Allowed Environmental Claims | Est. No. of Claimants: 2<br>Est. Amount of Claims:<br>Approximately $6,500,000<br>Est. Allowable Claims: $6,500,000 | Each holder of an Allowed Environmental Claim against the Estates shall (A) be deemed to receive payment in full and final satisfaction on such claim through the implementation and completion of the Ritter Work Plan under the direction of the Liquidating Trustee and paid from the proceeds of the Federal Insurance Policies as such expenses are incurred until the Ritter Plan is satisfied, or until the proceeds of the Federal Insurance Policies have been exhausted, except with respect to TH 6 remediation expenses which shall be paid by Federal Insurance to the extent, if any, ordered by the Bankruptcy Court in its resolution of the coverage issues; and (B) be paid from the Remediation Reserve established pursuant to the Plan to the extent that the Bankruptcy Court determines that any specific portion of the Ritter Work Plan is not subject to the coverage provided under the Federal Insurance Policies; or (C) receive such other less favorable treatment that may be agreed upon in writing by such holder, the Liquidating Trustee and the RRC. This treatment shall be in exchange for and in full satisfaction and discharge of the holder's Allowed Environmental Claim. |
| 7- Allowed CIT Deficiency Claim | Est. No. of Claimants: 1<br>Est. Amount of Claims:<br>Approximately $7,000,000<br>Est. Allowable Claims: $7,000,000 | The holder of the Allowed CIT Deficiency Claim shall (A) receive Distributions from the Liquidating Trust in the amount of such holder's Allowed CIT Deficiency Claim, as and at the time provided under ARTICLE VIII of the Plan; or (B) receive such other less favorable treatment that may be agreed upon in writing by such holder and the Liquidating Trustee. This treatment shall be in exchange for and in full satisfaction and discharge of the holder's Allowed CIT Deficiency Claim. |
| 8-Allowed Subordinated Claims | Est. No. of Claimants:<br>Est. Amount of Claims:<br>Approximately $5,000,000<br>Est. Allowable Claims: $5,000,000 | Each holder of an Allowed Subordinated Claim shall (A) receive Distributions from the Liquidating Trust in the amount of such holder's Allowed Subordinated Claim, as and at the time provided under ARTICLE VIII of the Plan; or (B) receive such other less favorable treatment that may be agreed upon in writing by such holder, the Committee, and/or the Liquidating Trustee. This treatment shall be in exchange for and in full satisfaction and discharge of the holder's Allowed Subordinated Claim. |
| 9- Allowed Equity Interests | Est. Allowable Equity Interests: | On the Effective Date, each then-issued and outstanding Equity Interest in the Debtors shall (A) receive Distributions from the Liquidating Trust as and at the time provided under ARTICLE VIII of the Plan; or (B) receive such other less favorable treatment that may be agreed upon in writing by such holder, the Committee, and the Liquidating Trustee. This treatment shall be in exchange for and in full satisfaction and discharge of the holder's Allowed Equity Interest. |

**Factors and Assumptions Applied in Arriving at Estimates**

The estimated Allowable Claims per Class in the foregoing table have been derived from the Schedules for the Debtors' Estates prepared by the Debtors' Professionals using information from the Debtors' books and records and other information available to them, Proofs of Claims Filed by Creditors in the Bankruptcy Cases, the results of litigation initiated in the Bankruptcy Case, settlements, analysis of various claims and reductions to allow for duplicate claims.

The Debtors scheduled Claims in excess of $85,776,862.39,[3] and an additional $59,231,729.78[4] in Claims were asserted in proofs of Claim Filed before November 14, 2010, which was the deadline for non-governmental entities to file Proofs of Claim in the Bankruptcy Cases[5]. Applicable Bankruptcy Rules provide that for those Creditors who choose to File Proofs of Claim, such Proofs of Claim will supersede any amounts reflected in the Schedules. The estimates in the foregoing table take into account Claims scheduled in a liquidated, non-contingent and undisputed amount, as well as those amounts asserted by Claimants which the Debtors scheduled in disputed amounts. Where Claims have been settled or judicially resolved or appear to have been Filed in duplicate or amended, including Scheduled Claims, the foregoing estimates assume that duplicates and superseded Claims will be disallowed in favor of, at most, a single surviving Claim.

The estimates also include the anticipated application of merit-based objections known to the Debtors and their counsel as of the date of this Amended Disclosure Statement, and therefore, constitute the Debtors' best estimation, as of the date of filing of this Amended Disclosure Statement, of the ultimate allowable amount of Claims in each such Class. An example of a merit based objection to Filed Proofs of Claims would be that the amount of the Claim asserted should be offset by amounts owed to the Debtors.

Certain Claims asserted by taxing authorities have been Filed as Secured Claims, and only in the alternative as Priority Tax Claims. Notwithstanding the assertion of such Claims as Secured Claims in the first instance, such Claims have been treated under the Plan for all purposes as Priority Tax Claims. Accordingly, such Claims have not been reflected in the table above as Secured Claims.

The ultimate resolution of Claims is inherently uncertain. Moreover, the Debtors have not completed their evaluation of all Claims and cannot presume the validity of merit-based disputes or objections thereto. Any Claim which is a Disputed Claim may be Disallowed or reduced in amount if an objection has been, or is timely hereafter, Filed and sustained by the Bankruptcy Court. Because the resolution of Disputed Claims involves many factual and legal issues which may or may not be resolved as anticipated, no assurance can be given that the anticipated amount of Allowable Claims in each Class would be achieved were these assumptions included in the foregoing estimates. The Debtors believe that the ultimate universe of Allowed Claims will be substantially lower than the face amount of the Filed proofs of Claims, and that the current estimates of Allowable Claims shown herein above in each Class are reasonably precise given the particular circumstances.

[3] Consolidated originally scheduled a total of $46,207,390.05 in Claims, and Standard originally scheduled a total of $39,569,472.34.

[4] Proofs of Claim totaling $60,227,500.89 were Filed against Consolidated, and $20,659,975.89 in total Proofs of Claim were Filed against Standard.

[5] As explained in more detail below in this Amended Disclosure Statement, the Lender Secured Claims have been settled leaving only the CIT Deficiency Claim.

Notwithstanding the foregoing, estimates contained herein shall not be deemed as any admission on the part of the Debtors, the Liquidating Trustee, the Estates or the Plan Proponents to the validity of any Claim. Such estimates shall not constitute an admission on the part of the Debtors, the Liquidating Trustee, the Estates or the Plan Proponents to the validity of any Disputed Claims. Except as otherwise provided in the Plan, all objections and other defenses to Disputed Claims are preserved under the Plan.

## III.
## VOTING PROCEDURES AND REQUIREMENTS

### A. Ballots and Voting Deadline

Each holder of a Claim in an Impaired Class, and each holder of an Equity Interest, is entitled to vote on the Plan and shall be provided a Ballot along with this Amended Disclosure Statement. If a Creditor holds Claims in more than one Class entitled to vote under the Plan, such Creditor has been provided a separate Ballot for each such Class. The Ballot is to be used by the Creditor or Equity Interest holder to accept or reject the Plan.

To ensure that a Ballot is deemed timely and considered by the Debtors, a Creditor or Equity Interest holder must (a) carefully review the Ballot and the instructions set forth thereon, (b) provide all of the information requested on the Ballot, (c) sign the Ballot, and (d) return the completed and signed Ballot to the Debtors by the Voting Deadline.

By Order of the Bankruptcy Court, the Voting Deadline is 5:00 p.m. (prevailing Central Time), on January 22, 2012. Therefore, in order for a Ballot to be counted for voting purposes, the completed and signed Ballot must be received at the address specified below by no later than such Voting Deadline:

**DEADLINE: MUST BE RECEIVED BY 5:00 P.M. (PREVAILING CENTRAL TIME), ON JANUARY 22, 2012**

**Address Ballots to:**

Joe E. Marshall
**MUNSCH HARDT KOPF & HARR, P.C.**
3800 Lincoln Plaza
500 North Akard Street
Dallas, Texas 75201-6659

### B. Voting by Holders of Claims Subject to Objection

Each Creditor holding a Claim in a Class which is impaired under the Plan is being solicited to vote on the Plan. However, as to any Claim for which a Proof of Claim was Filed and as to which an objection has been lodged, if such objection is still pending as of the Voting Deadline, the Creditor's vote associated with such Claim will not be counted to the extent of the objection to the Claim, unless and to the extent the Bankruptcy Court temporarily allows the Claim upon motion by such Creditor in an amount which the Bankruptcy Court deems proper for the purpose of voting on the Plan. Such motion must be heard and determined by the Bankruptcy Court prior to the date and time established by the Bankruptcy Court for determination of confirmation of the Plan. In addition, a Creditor's vote may be disregarded if the Bankruptcy Court determines that the Creditor's acceptance or rejection of the Plan was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code, or that the Creditor is an insider of a Debtor within the meaning of section 101(31) of the Bankruptcy Code.

**C. Definition of Impairment**

Pursuant to section 1124 of the Bankruptcy Code, except to the extent that the holder of a particular claim or equity interest within a class agrees to less favorable treatment of the holder's claim or equity interest, a class of claims or equity interests is impaired under a plan unless, with respect to each claim or equity interest of such class, the plan does at least one of the following two (2) things:

**1.** The plan leaves unaltered the legal, equitable, and contractual rights to which such claim or equity interest entitles the holder of such claim or equity interest; or

**2.** Notwithstanding any contractual provision or applicable law that entitles the holder of such claim or equity interest to demand or receive accelerated payment of such claim or equity interest after the occurrence of a default, the plan:

(a) cures any such default that occurred before or after the commencement of the case under the Bankruptcy Code, other than a default of a kind specified in section 365(b)(2) of the Bankruptcy Code or of a kind that section 365(b)(2) expressly does not require to be cured;

(b) reinstates the maturity of such claim or equity interest as such maturity existed before such default;

(c) compensates the holder of such claim or equity interest for any damages incurred as a result of any reasonable reliance by such holder on such contractual provision or such applicable law;

(d) if such claim or such equity 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) of the Bankruptcy Code, compensates the holder of such claim or equity interest (other than the debtor or an insider) for any actual pecuniary loss incurred by such holder as a result of such failure; and

(e) does not otherwise alter the legal, equitable, or contractual rights to which such claim or equity interest entitles the holder of such claim or equity interest.

**D. Classes Impaired Under the Plan**

Classes 3-9 are impaired Classes under the Plan. All holders of Claims or Equity Interests in such Classes are scheduled to receive on account of such Claims or Equity Interests at least some property interest having potential value under the Plan. Accordingly, holders of Claims within Classes 3-8, as well as holders of Equity Interests in Class 9, are being solicited to vote on the Plan. Claims in Classes 1 and 2 are unimpaired under the Plan. Therefore, Classes 1 and 2 are deemed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code, and Creditors holding Claims within such Classes are not being solicited to vote on the Plan.

With respect to the foregoing, the Plan Proponents specifically reserve the right to determine and contest, if necessary, (a) the impaired or unimpaired status of a Class under the Plan, and (b) whether any Ballots cast by Creditors holding Claims, or by holders of Equity Interests, within such a Class should be counted for purposes of confirmation of the Plan.

**E. Vote Required for Class Acceptance**

Pursuant to section 1126(c) of the Bankruptcy Code, a Class of Claims under the Plan shall be deemed to have accepted the Plan if the Plan is accepted by Creditors holding at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the Allowed Claims within such Class held by Creditors that have accepted or rejected the Plan. Pursuant to section 1126(d) of the Bankruptcy Code, a Class of Equity Interests under the Plan shall be deemed to have accepted the Plan if the Plan is accepted by holders holding at least two-thirds (2/3) of the amount of Allowed Equity Interests in such Class held by holders of Equity Interests that have accepted or rejected the Plan.

Pursuant to section 1126(e) of the Bankruptcy Code, on request of a party in interest in the Bankruptcy Case, and after notice and a hearing, the Bankruptcy Court may designate the vote of any Creditor whose acceptance or rejection of the Plan was not in good faith, or was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

## IV.
## CONFIRMATION OF THE PLAN

**A. Confirmation Hearing**

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of the Plan (the "Confirmation Hearing"). Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of the Plan.

By Order of the Bankruptcy Court entered on December 13, 2012, the Confirmation Hearing has been scheduled to begin on January 29, 2013, at 9:00 a.m., in the United States Bankruptcy Court, Courtroom of The Honorable Harlin D. Hale, 1100 Commerce Street, 14th Floor, Dallas, Texas 75242. Any objection to confirmation must be made in writing, and such written objection must be Filed with the Bankruptcy Court and served on the following parties by not later than 5:00 p.m. on January 22, 2013.

**Debtors:**
Joe E. Marshall
MUNSCH HARDT KOPF & HARR, P.C.
3800 Lincoln Plaza
500 North Akard Street
Dallas, Texas 75201-6659

**The Lender and CIT Capital**
Harry Perrin
VINSON & ELKINS LLP
First City Tower
1001 Fannin Street, Suite 2500
Houston, Texas 77002-6760

**The Committee**
Brian Kilmer
OKIN ADAMS & KILMER LLP
3102 Maple Ave., Ste. 240
Dallas, Texas 75201

**United States Trustee:**
Office of United States Trustee
Attn: Erin Schmidt
1100 Commerce Street, Room 976
Dallas, Texas 75242

**UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY FILED AND SERVED, IT WILL NOT BE CONSIDERED BY THE BANKRUPTCY COURT.**

**B. Requirements for Confirmation of the Plan**

At the Confirmation Hearing, the Bankruptcy Court will determine whether the confirmation requirements of section 1129(a) of the Bankruptcy Code have been satisfied. Only in the event that all of these requirements have been satisfied, and that all other conditions to confirmation set forth in the Plan have been met, will the Bankruptcy Court enter an Order confirming the Plan under section 1129(a). The requirements of section 1129(a) applicable to corporate debtors are as follows:

**1.** The plan complies with the applicable provisions of the Bankruptcy Code.

**2.** The proponent of the plan complies 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 to be made by the proponent, by the debtor, or by a person issuing securities or acquiring property under the plan, for services or for costs and expenses in or in connection with the case, or in connection with the plan and incident to the case, has been approved by, or is subject to the approval of, the court as reasonable.

**5.** The proponent of the plan has disclosed:

(a) the identity and affiliations of any individual proposed to serve, after confirmation of the plan, as a director, officer, or voting trustee of the debtor, an affiliate of the debtor participating in a joint plan with the debtor, or a successor to the debtor under the plan, and the appointment to, or continuance in, such office of such individual, is consistent with the interests of creditors and equity interest holders and with public policy; and

(b) the identity of any insider that will be employed or retained by the reorganized debtor, and the nature of any compensation for such insider.

**6.** Any governmental regulatory commission with jurisdiction, after confirmation of the plan, over the rates of the debtor has approved any rate change provided for in the plan, or such rate change is expressly conditioned on such approval.

**7.** With respect to each impaired class of claims or equity interests:

(a) each holder of a claim or equity interest of such class has accepted the plan or will receive or retain under the plan on account of such claim or equity interest

property of a value, as of the effective date of the plan, that is not less than the amount that such holder would so receive or retain if the debtor were liquidated under Chapter 7 of the Bankruptcy Code on such date; or

(b) if section 1111(b)(2) of the Bankruptcy Code applies to the claims of such class, each holder of a claim of such class will receive or retain under the plan on account of such claim property of a value, as of the effective date of the plan, that is not less than the value of such holder's interest in the estate's interest in the property that secures such claims.

**8.** With respect to each class of claims or equity interests, such class has accepted the plan or such class is not impaired under the plan.

**9.** Except to the extent that the holder of a particular claim has agreed to a different treatment of such claim, the plan provides that:

(a) with respect to a claim of a kind specified in section 507(a)(2) or 507(a)(3) of the Bankruptcy Code, on the effective date of the plan, the holder of such claim will receive on account of such claim cash equal to the allowed amount of such claim;

(b) with respect to a class of claims of a kind specified in section 507(a)(1), 507(a)(4), 507(a)(5), 507(a)(6), or 507(a)(7) of the Bankruptcy Code, each holder of a claim of such class will receive (i) if such class has accepted the plan, deferred cash payments of a value, as of the effective date of the plan, equal to the allowed amount of such claim, or (ii) if such class has not accepted the plan, cash on the effective date of the plan equal to the allowed amount of such claim;

(c) with respect to a claim of a kind specified in section 507(a)(8) of the Bankruptcy Code, the holder of such claim will receive on account of such claim regular installment payments in cash (i) of a total value, as of the effective date of the plan, equal to the allowed amount of such claim, (ii) over a period ending not later than 5 years after the date of the order for relief under section 301, 302, or 303 of the Bankruptcy Code, and (iii) in a manner not less favorable than the most favored nonpriority unsecured claim provided for by the plan (other than cash payments made to a class of creditors under section 1122(b) of the Bankruptcy Code); and

(d) with respect to a secured claim which would otherwise meet the description of an unsecured claim of a governmental unit under section 507(a)(8) of the Bankruptcy Code, but for the secured status of that claim, the holder of that claim will receive on account of that claim, cash payments, in the same manner and over the same period, as prescribed in paragraph 9(c) above.

**10.** If a class of claims is impaired under the plan, at least one class of claims that is impaired under the plan has accepted the plan, determined without including any acceptance of the plan by any insider.

**11.** Confirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor or any successor to the debtor under the plan, unless such liquidation or reorganization is proposed in the plan.

**12.** All fees payable under section 1930 of Title 28, as determined by the court at the hearing on confirmation of the plan, have been paid or the plan provides for the payment of all such fees on the effective date of the plan.

**13.** The plan provides for the continuation after its effective date of payment of all retiree benefits, as that term is defined in section 1114 of the Bankruptcy Code, at the level established pursuant to subsection (e)(1)(B) or (g) of section 1114 of the Bankruptcy Code, at any time prior to confirmation of the plan, for the duration of the period the debtor has obligated itself to provide such benefits.

**14.** All transfers of property of the plan shall be made in accordance with any applicable provisions of non-bankruptcy law that govern the transfer of property by a corporation or trust that is not a moneyed, business, or commercial corporation or trust.

If a sufficient number of Creditors and amounts of Claims in impaired Classes under the Plan vote to accept the Plan, the Debtors believe that the Plan will satisfy all of the applicable statutory requirements of section 1129(a) of the Bankruptcy Code. As discussed below, however, the Debtors believe that the Plan may be confirmed under the "cramdown" provisions of section 1129(b) of the Bankruptcy Code.

**C. Cramdown**

Pursuant to section 1129(b) of the Bankruptcy Code, the Bankruptcy Court may confirm the Plan at the request of the Plan Proponents if: (a) all of the requirements of section 1129(a) of the Bankruptcy Code, with the exception of section 1129(a)(8) (set out in paragraph 8 above), are met with respect to the Plan; (b) at least one Class of Claims that is impaired under the Plan has accepted the Plan (excluding the votes of insiders); and (c) with respect to each impaired Class that has not accepted the Plan, the Plan does not "discriminate unfairly" and is "fair and equitable."

A plan does not "discriminate unfairly" within the meaning of the Bankruptcy Code if the classification of claims under the plan complies with the Bankruptcy Code and no particular class will receive more than it is legally entitled to receive for its claims or equity interests.

"Fair and equitable," on the other hand, has a different meaning for classes of secured claims, classes of unsecured claims, and classes of equity interests, as described below:

With respect to a class of secured claims that rejects the plan, to be "fair and equitable" the plan must, among other things, provide:

(a) that the holders of such claims retain the liens securing such claims, whether the property subject to such liens is retained by the debtor or transferred to another entity, to the extent of the allowed amount of such claims, and that each holder of a claim of such class receive on account of such claim deferred cash payments totaling at least the allowed amount of such claim, of a value, as of the effective date of the plan, of at least the value of such holder's interest in the estate's interest in such property;

(b) for the realization of such holders of the indubitable equivalent of such claims; or

(c) for the sale, subject to section 363(k) of the Bankruptcy Code, of any property that is subject to the liens securing such claims, free and clear of such liens, with such liens to attach to the proceeds of such sale, and the treatment of such liens on proceeds under (a) or (b) above.

With respect to a class of unsecured claims that rejects the plan, to be "fair and equitable" the plan must, among other things, provide:

> (a) 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 of the plan, equal to the allowed amount of such claim; or
>
> (b) that the holder of any claim or equity interest that is junior to the claims of such class will not receive or retain under the plan on account of such junior claim or equity interest any property.

With respect to a class of equity interests that rejects the plan, to be "fair and equitable" the plan must, among other things, provide:

> (a) that each holder of an equity interest of such class receive or retain on account of such equity interest property of a value, as of the effective date of the plan, equal to the greatest of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled, or the value of such equity interest; or
>
> (b) that the holder of any equity interest that is junior to the equity interests of such class will not receive or retain under the plan on account of such junior equity interest any property.

In the event that at least one impaired Class of Claims under the Plan accepts the Plan, the Plan Proponents request the Bankruptcy Court to confirm the Plan in accordance with the cramdown provisions of section 1129(b) of the Bankruptcy Code. The Plan Proponents believe that all of the requirements of section 1129(a) of the Bankruptcy Code (with the exception of section 1129(a)(8)) will be satisfied, that at least one Class of impaired Claims will accept the Plan (excluding the votes of insiders), and that the Plan does not unfairly discriminate against, and is fair and equitable in relation to, each of the Classes that may vote to reject the Plan.

## V.
## HISTORICAL AND BACKGROUND INFORMATION

### A. Organizational Overview of the Debtors

Consolidated is a privately-held Texas limited liability company organized on or about October 27, 2008. Consolidated was formed in connection with the CIT Credit Agreement and the CIT Facility, as discussed below. Pursuant to its Limited Liability Company Agreement, (i) Consolidated was organized to, among other things, be a borrower under the CIT Facility, acquire oil and gas leases, and participate in the drilling and completion of wells on such oil and gas leases, and (ii) Consolidated's membership interests were divided among members according to their respective shares in the oil and gas leases and wells conveyed to Consolidated by those members. Consolidated is managed by Michael B. Wisenbaker ("Wisenbaker") as its Managing Member and by Gary Todd, who oversees the day to day oil & gas operational operations. The current members of Consolidated are Michael B. Wisenbaker, Heritage Resources Corporation, Heritage Standard Corporation, The Chase Avenue Corporation, Case Inlet L.P., SSB L.P. and Heritage Oil, L.P. Standard is a Texas corporation that shares common management with Consolidated and owns a membership interest in Consolidated. As of the date hereof, Wisenbaker owns one hundred percent (100%) of the outstanding Equity Interests in Standard.

Consolidated was formed in connection with the CIT Credit Agreement and the CIT Facility. Consolidated was transferred the oil and gas working interests it currently owns from Wise Oil Venture, Heritage Resources, Standard, Case Inlet, SSB LP, SSBW LP and The Chase Avenue Corp. The transfer of the working interests from these parties provided the primary assets of Consolidated, and those assets

became the collateral package under the CIT Credit Agreement and the CIT Facility. In consideration for the transfer of the working interests from Wise Oil Venture, Heritage Resources, Standard, Case Inlet, SSB LP, SSBW LP and The Chase Avenue Corp., Consolidated agreed to pay certain secured obligations and operating expenses.

**B. The Debtors' Business and Operations**

The Debtors are headquartered in Dallas, Texas. Since their formation, the Debtors have been engaged in the exploration for and acquisition, production and sale of crude oil and natural gas. The Debtors' operations are separated according to function: Consolidated owns the majority of the oil and gas wells, leasehold interests, and mineral interests that allow the Debtors to conduct their oil and gas operations; and Standard is an exploration and production company that develops and operates wells and oil and gas prospects owned by Consolidated and other working interest owners. Standard is also a lessee under certain oil and gas leases.

The Debtors focused their development efforts primarily on the Permian Basin in west Texas and southeastern New Mexico (the "Target Area"). The Debtors and their predecessors have been exploring and developing the Target Area since 1984, or have held working interests in operations managed and controlled by third parties in the Target Area.

As part of conducting their business, the Debtors are lessees under, or assignees of, certain oil and gas leases and are parties to certain operating agreements, farmout agreements, joint venture agreements, gas marketing agreements, gas transportation agreements, and other agreements required for the operation of their businesses.

As part of operating their businesses, the Debtors had significant working capital requirements. In order to meet the Debtors' capital needs, Consolidated became the borrower under that certain Credit Agreement, dated October 30, 2008 (as amended from time to time, the "CIT Credit Agreement"), among Consolidated, CIT Capital USA Inc. ("CIT Capital"), as administrative agent, and other lenders from time to time thereto (together, with CIT Capital, the "Prepetition Lenders"). Under the terms of the CIT Credit Agreement, the Debtors had access to a $30,000,000 revolving credit facility with an initial borrowing base limit of $18,000,000 (the "CIT Facility"). As of the Petition Date, the aggregate unpaid amount of principal and accrued interest under the CIT Credit Agreement was approximately $19.05 million. The obligations under the CIT Credit Agreement were secured by liens on all of the material assets of Consolidated.[6]

To provide the Debtors the liquidity necessary for them to explore alternatives and prepare for the commencement of their Bankruptcy Cases, the following documents were executed: (i) Assignment of Term Overriding Royalty Interest dated June 1, 2010 executed by Consolidated; (ii) Letter Agreement dated June 16, 2010 by and among the CIT Capital, Consolidated, and Standard; and (iii) all related documents and instruments (collectively, the "ORRI Documents"). Under the ORRI Documents, CIT Capital provided Consolidated $800,000 in consideration for, among other things, a term overriding

[6] However, as described in more detail below, in connection with the sale of the Non-Section 6 Assets to Permian Atlantis, and the assumption by Permian Atlantis of a portion of the CIT Facility, CIT Capital has released all of its liens on the remaining assets of the Debtors, and its only remaining Claim against the Debtors is a $7 million unsecured deficiency Claim that will be subordinated to other general unsecured Claims.

royalty interest equal to 50% of Consolidated's net revenue interest in certain of Consolidated's oil and gas properties. CIT Capital filed the appropriate ORRI Documents of record on or about June 17, 2010.[7]

In addition, CIT Capital provided the Debtors $400,000 pursuant to that certain Promissory Note dated July 30, 2010 (the "Promissory Note") for the benefit of CIT Capital, as holder. As of the Petition Date, the aggregate unpaid amount of principal and accrued interest owed on account of advances under the Promissory Note was approximately $406,000. The obligations under the Promissory Note were secured by (i) certain properties and assets of Standard; and (ii) substantially all of the properties and assets of Consolidated, both real or personal, to the extent that they relate to the "Section 6 Assets."[8]

Throughout the pendency of these Bankruptcy Cases, the Debtors have been acting as debtors and debtors-in-possession. For additional information regarding the business operations of the Debtors and the performance of the Debtors, the Debtors would direct parties to the *Debtors' Interim Cash Collateral Budget through October 1, 2010* [Docket No. 72] attached to and incorporated within the *Agreed Interim Order Authorizing Use of Cash Collateral and Granting Adequate Protection* [Docket No. 73], the *Debtors' Interim Budget through 10/12/10* [Docket No. 113] attached to and incorporated within the *Second Agreed Interim Order Authorizing Use of Cash Collateral and Granting Adequate Protection* [Docket No. 115], the *Debtors' Interim Cash Needs Through 10/21/10* [Docket No. 162] attached to and incorporated within the *Third Agreed Interim Order Authorizing Use of Cash Collateral and Granting Adequate Protection* [Docket No. 167], the *Debtors' Cash Management Summary/Weekly Cash Flow through 10/29/10* [Docket No. 180] attached to and incorporated within the *First Interim Order Authorizing Limited Use of Cash Collateral, Obtaining Credit Secured by Senior Liens and Granting Adequate Protection to Existing Lienholders* [Docket No. 192], the *Debtors' Cash Management Summary/Weekly Cash Flow through 12/3/10* [Docket No. 221] attached to and incorporated within the *Second Interim Order Authorizing Limited Use of Cash Collateral, Obtaining Credit Secured by Senior Liens and Granting Adequate Protection to Existing Lienholders* [Docket No. 224], the *Debtors' Cash Management Summary/Weekly Cash Flow through 1/28/11* [Docket No. 347] attached to and incorporated with the *Final Order Authorizing Limited Use of Cash Collateral, Obtaining Credit Secured by Senior Liens, and Granting Adequate Protection to Existing Lienholders [Docket No. 351]; the March 2011 Operating Budget* [Docket No. 516] attached to and incorporated with the *Order Extending Use of Cash Collateral and Granting Adequate Protection* [Docket No. 517]; and each of the monthly operating budgets for the months of April 2011 through and including September 2012 attached to and incorporated with the monthly cash collateral stipulations filed on behalf of the Debtors and Committee. The Debtors' would also direct parties requiring additional information regarding the business operations of the Debtors and the performance of the Debtors to the Debtor-in-Possession Monthly Operating Reports for Consolidated and Standard for the Petition Date through August 2012.

### C. Events Leading to the Chapter 11 Filing

In August, 2009, Standard began operations on that certain oil and gas well in Winkler County, Texas, known as the Pat Howell #1 well (the "Pat Howell #1 Well"). The Pat Howell #1 Well is located in the Atoka Formation of the Permian Basin, which has proven reserves of approximately 16.9 billion cubic feet ("bcf") of natural gas. Over the course of ten months, Standard conducted operations to re-

[7] As of the present date, and as part of the Global Resolution Proposal described below, CIT Capital has been paid certain amounts under the ORRI Documents and has released any and all further Claims against the Debtors under the ORRI Documents.

[8] As of the present date, and as part of the Global Resolution Proposal described below, CIT Capital has waived and released any and all further Claims against the Debtors under the Promissory Note and any and all liens against the remaining assets of the Debtors.

enter the existing wellbore for the Pat Howell #1 Well and then complete operations to the Atoka formation.

Due to a series of mistakes and operational difficulties with the wellbore, the Pat Howell #1 Well was not completed and placed online, thereby causing the accumulation of approximately $11.6 million in contractor and service debt. Most, if not all, of the problems encountered in these operations were the result of contractor negligence, which is the subject of lawsuits initiated by the Debtors and are pending in various Texas state courts or this Court. The significant debt incurred in connection with the operations on the Pat Howell #1 Well, coupled with the lack of anticipated production therefrom, negatively impacted the Debtors' ability to meet their ongoing obligations to their vendors and the Lender.

In the months leading up to the filing, the Debtors expended substantial time, energy, and resources in their efforts to either refinance their outstanding debt, investigate potential sale opportunities, and/or raise cash and identify capital resources for other sources of funding. However, none of those efforts were successful. As a result, the Debtors, with consent and funding from CIT, determined that it was in the best interest of creditors to initiate the Bankruptcy Cases in order to protect and preserve their assets and determine if there was a market for the assets to generate the highest and best return for the creditors.

### D. Management of the Debtors

Throughout the course of the Bankruptcy Cases, the Debtors have been operating as debtors in possession under the Bankruptcy Code, meaning that the Debtors continued to operate under the guidance and control of their officers, with the added assistance of Bridge Associates, LLC ("Bridge") and Scott Pinsonnault, the Financial Advisor and Chief Restructuring Officer for the Debtors. As of the date hereof, and as a result of the sale of the Non-Section 6 Assets as described below, Bridge is no longer involved in running or operating the Debtors. Consolidated is currently managed by its Managing Member, Michael B. Wisenbaker, and by Gary Todd, who oversees its oil & gas operations. Standard's primary remaining officers are: Michael B. Wisenbaker, Standard's President and Chief Executive Officer; and Gary Todd, its Vice President of Oil & Gas Operations.

Only Gary Todd and Pam Clements are receiving compensation for their employment by the Debtors. In addition to payroll disbursements as reflected in the court approved budgets, Mr. Todd and Ms. Clements are retaining their small working interests in the A.G. Hill Well No. 1, Section 6, Block 74, PSL Survey, Winkler County, Texas (the "A.G. Hill Well No. 1") awarded under the employee incentive plan in lieu of seeking any retention or Plan confirmation bonus. The Committee has agreed to the compensation arrangement for these to two key employees.

## VI.
## SIGNIFICANT EVENTS DURING THE BANKRUPTCY CASE

During the course of the Bankruptcy Cases, various pleadings have been Filed with the Bankruptcy Court and several hearings have been conducted. The following is a description of the more significant events which have transpired during the pendency of the Bankruptcy Cases to the extent not discussed elsewhere in this Amended Disclosure Statement. For a comprehensive listing of the pleadings which have been Filed in the Bankruptcy Cases, the docket for the Bankruptcy Cases should be reviewed. Relevant pleadings referenced therein may be obtained from the Clerk's Office of the Bankruptcy Court via the on-line PACER system.

## A. Employment of Professionals

### 1. Debtors' Counsel

On September 17, 2010, Consolidated Filed its *Application for Authority to Employ Munsch Hardt Kopf & Harr, P.C. As Counsel for Debtor and Debtor-in-Possession Heritage Consolidated, LLC* [Docket No. 36], as its bankruptcy counsel, which application was approved by the Bankruptcy Court, effective as of the Petition Date, by its Order dated October 14, 2010 [Docket No. 160].

On September 17, 2010, Standard Filed its *Application to Employ Rochelle McCullough, LLP* [Docket No. 15 in *In re Heritage Standard Corporation*, case number 10-36485-hdh-11 (the "Standard Case")], as its bankruptcy counsel, which application was approved by the Bankruptcy Court, effective as of the Petition Date, by its Order dated October 13, 2010 [Docket No. 33 in the Standard Case].

On June 17, 2011, at the request of the Committee, Standard Filed an *Application for Authority to Employ Munsch Hardt Kopf & Harr, P.C. and Motion to Amend the Order Authorizing Employment of Rochelle McCullough, LLP* [Docket No. 617] seeking authority from the Court to have Munsch Hardt Kopf & Harr, P.C. to take over as general bankruptcy counsel for both Debtors and assume the duties and responsibilities currently being performed by Rochelle McCullough, LLP on behalf of Standard due to the reduction in assets, operations and available revenue following the sale of the Non-Section 6 Assets. Standard was authorized to retain Rochelle McCullough as special counsel in order to address any issues that may arise as a result of conflicts between the Debtors' estates or with Munsch Hardt's responsibilities. The Bankruptcy Court approved such application by its Order dated July 14, 2011 [Docket No. 644].

### 2. The Debtors' Other Professionals

On September 16, 2010, the Debtors Filed their *Application for Authority to: (A) Employ Bridge Associates, LLC As Financial Advisors and to Provide Interim Management Assistance; And (B) Designate Scott Pinsonnault As Interim Chief Restructuring Officer* (the "Bridge Application") [Docket No. 20] seeking Court approval of the Debtors' selection of Scott Pinsonnault as their Chief Restructuring Officer and for Bridge to serve as the Debtors' financial advisors. The Bankruptcy Court entered an Order approving the Bridge Application, effective as of the Petition Date, on October 14, 2010 [Docket No. 159].

On October 12, 2010, the Debtors Filed their *Application for Authority to Employ Macquarie Capital (USA) Inc. as Investment Banker for Proposed 363 Sale* [Docket No. 148], which application was granted by the Bankruptcy Court's Order entered on November 1, 2010 [Docket No. 204].

On October 29, 2010, the Debtors Filed their *Expedited Application for Order Pursuant to 11 U.S.C. §§ 327(a) and 328(a) Authorizing Employment and Retention of Lee Wilson and Associates Nunc Pro Tunc to the Petition Date* [Docket No. 199] (the "Wilson Application"), seeking authority to employ Lee Wilson & Associates ("Wilson") to provide environmental technical consulting services regarding the Crittendon Field and TBar Ranch, Winkler County, Texas, as they relate to Claims alleged by the City of Midland and the Railroad Commission of Texas. The Bankruptcy Court entered an Order approving the Wilson Application on December 1, 2010 [Docket No. 297].

On October 29, 2010, the Debtors Filed their *Expedited Application for Order Pursuant to 11 U.S.C. §§ 327(a) and 328(a) Authorizing Employment and Retention of Ritter Environmental & Geotechnical Services, Inc. Nunc Pro Tunc to the Petition Date* [Docket No. 200] (the "Ritter Application"), seeking authority to employ Ritter Environmental & Geotechnical Services, Inc. ("Ritter")

to provide environmental technical consulting services regarding the Crittendon Field and TBar Ranch, Winkler County, Texas. The Bankruptcy Court entered an Order approving the Ritter Application on November 30, 2010 [Docket No. 296].

On October 29, 2010, the Debtors Filed their *Expedited Application for Order Pursuant to 11 U.S.C. §§ 327(a) and 328(a) Authorizing Employment and Retention of RPS Nunc Pro Tunc to the Petition Date* [Docket No. 201] (the "RPS Application"), seeking authority to employ RPS ("RPS") to provide geoscience consulting services, including but not limited to creating and managing a data room and other materials related to geological, reserves and engineering aspects of reservoirs relevant to the Debtors' mineral interests. The Bankruptcy Court entered an Order approving the RPS Application on November 23, 2010 [Docket No. 279].

On December 7, 2010, Standard filed an *Application for Order Pursuant to 11 U.S.C. § 328(a) Authorizing Employment and Retention of the Law Offices of Stephen F. Malouf, P.C. as Special Counsel Nunc Pro Tunc to the Petition Date* [Docket No. 568 ] (the "Malouf Application") seeking authority to employ Stephen F. Malouf, P.C. ("Malouf") as special counsel to represent Standard in three pending state court lawsuits in Winkler County, Texas. The Bankruptcy Court entered an Order dated April 29, 2011 approving the Malouf retention as counsel for the ABC/Eunice and Apollo litigation but not the Pathfinder lawsuit [Docket No. 568]. On August 12, 2011, Malouf Filed its *Motion to Reconsider and Application to Amend the Order Authorizing Employment of Malouf & Nockels LLP as Special Counsel Nunc Pro Tunc* ("Malouf Reconsideration Motion") [Docket No. 663] requesting that the Court amend the employment order to allow Malouf to represent Consolidated in the Apollo adversary proceeding. The Bankruptcy Court entered an Order approving the Malouf Reconsideration Motion on August 26, 2011 [Docket No. 671].

### 3. Committee Counsel

On October 6, 2010, the Official Committee of Unsecured Creditors filed its *Application For An Order Pursuant to Section 327(a) of the Bankruptcy Code Authorizing the Employment and Retention of Okin Adams & Kilmer LLP As Counsel for the Official Committee of Unsecured Creditors* [Docket No. 118], which was approved by Order of the Bankruptcy Court on November 3, 2010 [Docket No. 229].

## B. Financing of Operations and Administration of the Estates

### 1. Cash Management System and Maintenance of Accounts

On the Petition Date, the Debtors Filed their *Emergency Motion to Approve Maintenance of Prepetition Bank Accounts, Cash Management Systems and Business Forms* [Docket No. 7] seeking authority to utilize existing bank accounts for a limited period of time and to implement a cash management system. The Bankruptcy Court granted this request by its Order entered on September 22, 2010 [Docket No. 66].

### 2. Employee Stabilization

On September 15, 2010, Standard Filed its *Motion to Pay Certain Employee Benefits and for Related Relief* [Docket No. 11] seeking authority to pay pre-petition wages and continue pre-petition employee benefits though the pendency of Bankruptcy Cases. The Bankruptcy Court granted this request by its Order entered on September 22, 2010 [Docket No. 67].

On March 17, 2011, the Debtors filed a *Motion for Approval of Settlement with Certain Current and Former Employees Pursuant to Bankruptcy Rule 9019* [Docket No. 521] requesting that the

Bankruptcy Court approve a settlement between the Debtors, CIT Capital and the employee owners holding unrecorded employee interests. The Bankruptcy Court approved the settlement by Order dated April 4, 2011 [Docket No. 552].

The Committee and Debtors also agreed on the retention of Gary Todd and Pam Clements as the sole employees of the Debtors due to the critical need for their background knowledge and assistance in connection with operations, claims and support in pending litigation. Pursuant to the agreement, each receive their salaries as set forth in the monthly cash collateral budgets and the recognition and preservation of their employee working interest in the A.G. Hill Well under the employee incentive plan. In consideration for this arrangement, the employees agreed not to pursue any retention, plan confirmation or other company bonuses.

### 3. Authorization to Use Cash Collateral and Grant Adequate Protection and to Obtain DIP Financing

On the September 15, 2010, the Debtors Filed their *Emergency Motion for Order (A) Authorizing Interim and Final Use of Cash Collateral; and (B) Granting Adequate Protection* (the "Cash Collateral Motion") [Docket No. 16], thereby seeking the Bankruptcy Court's permission to use the cash collateral of CIT and any other creditors holding perfected liens. On September 15, 2010, the Debtors Filed their *Emergency Motion for Interim and Final Orders Approving: (I) Secured Postpetition Financing; (II) Related Priming Liens and Super-Priority Administrative Claims; (III) Related Secured Financing Agreement and (IV) Scheduling a Final Hearing* (the "DIP Motion") [Docket No. 17], thereby seeking authority to obtain postpetition financing from the DIP Lenders and grant liens and other security in connection therewith.

Pending a final hearing on the Cash Collateral and DIP Motions, the Bankruptcy Court entered several interim Orders: (1) the *Agreed Interim Order Authorizing Use of Cash Collateral and Granting Adequate Protection* dated September 23, 2010 [Docket No. 73]; (2) the *Second Agreed Interim Order Authorizing Use of Cash Collateral and Granting Adequate Protection* dated October 4, 2010 [Docket No. 115]; (3) the *Interim Order Authorizing Limited Use of Cash Collateral, Obtaining Credit Secured by Senior Liens, and Granting Adequate Protection to Existing Lienholders* dated October 26, 2010 [Docket No. 192]; and (4) the *Second Interim Order Authorizing Limited Use of Cash Collateral, Obtaining Credit Secured by Senior Liens, and Granting Adequate Protection to Existing Lienholders* dated November 3, 2010 [Docket No. 224]. On December 16, 2010, the Bankruptcy Court entered its *Final Order Authorizing Limited Use of Cash Collateral, Obtaining Credit Secured by Senior Liens, and Granting Adequate Protection to Existing Lienholders* [Docket No. 351], pursuant to which the Debtors entered into a DIP credit facility (the "DIP Facility").[9]

The order authorizing use of cash collateral has been extended on a number of occasions including pursuant to the *March 2011 Order Extending Use of Cash Collateral and Granting Adequate Protection* [Docket No. 517] and monthly cash collateral stipulations thereafter between the Debtors and Committee through the date of the filing of this Amended Disclosure Statement all of which are on file with the Bankruptcy Court.

[9] As described below, in connection with the Sale of the Non-Section 6 Assets to Permian Atlantis and the Global Resolution Proposal approved by the Bankruptcy Court, the DIP Facility has been substantially repaid and all unpaid portions of the DIP Facility have been waived and released. There are no further Claims associated with the DIP Facility against the Debtors.

**4. Authority to Pay Certain Prepetition Obligations to Royalty and Working Interest Owners**

On September 15, 2010, the Debtors filed their *Emergency Motion for Authority to Pay And/Or Offset Certain Obligations to Royalty and Working Interest Owners and Continue Such Payments And/Or Offsets In the Ordinary Course of Business* (the "Royalties Motion") [Docket No. 10], thereby seeking the Bankruptcy Court's permission to pay undisputed prepetition amounts owed to owners of royalty interests in Consolidated's leases and working interests in Consolidated's wells. Pending final hearing on the Royalties Motion, the Bankruptcy Court entered its *Agreed Interim Order Granting Debtors' Emergency Motion for Authority to Pay And/Or Offset Certain Obligations to Royalty and Working Interest Owners and Continue Such Payments And/Or Offsets In the Ordinary Course of Business* [Docket No. 252] on November 12, 2010, whereby the Debtors received authority to pay and/or offset any amounts from postpetition production owed to non-insider royalty and working interest owners, and agreed to hold in reserve: (1) any and all amounts from prepetition production owed to working and royalty interest owners; and (2) any and all amounts from postpetition production owed to any insiders of the Debtors and to CIT.

On December 10, 2010, the Bankruptcy Court entered its *Final Order Granting Debtors' Emergency Motion for Authority to Pay And/Or Offset Certain Obligations to Royalty and Working Interest Owners and Continue Such Payments And/Or Offsets In the Ordinary Course of Business* [Docket No. 336], thereby granting the Debtors permission to pay and/or offset any and all amounts from prepetition production owed to all working and royalty interest owners except insiders and CIT, thereby eliminating such owners' prepetition claims.

**C. Attempt to Sale Assets of the Debtors' Estates at Auction**

On September 15, 2010, the Debtors Filed their *Expedited Motion for Order (A) Approving Plan Support Agreement, Sale Procedures and Bid Protections in Connection with Sale of Assets; (B) Approving Form and Manner of Notice of Sale and of Assumption and Assignment of Executory Contracts and Unexpired Leases; and (C) Granting Related Relief* (the "Sale Motion") [Docket No. 14] seeking Court approval of the Plan Support Agreement, the form and manner of notice of the Sale Procedures, relevant dates and deadlines, including the deadline to submit bids and the time and place for an auction, if required, and the form and manner of notice of the Sale Procedures and the assumption and assignment of executory contracts and unexpired leases. The Bankruptcy Court granted these requests by its Order entered on October 26, 2010 (the "Sale Procedures Order") [Docket No. 193].

Pursuant to the terms of the Sale Procedures Order, on November 2, 2010, the Debtors served notice of the Sale Procedures, the potential assumption and assignment of executory contracts and unexpired leases and the maximum amount to be paid to cure all defaults and arrearages to counterparties to executory contracts and unexpired leases assumed and assigned by the Debtors in connection with the Sale. Parties wishing to submit a bid for the Debtors' assets had to deliver their bids in writing to the Debtors and their counsel no later than January 18, 2011. In the event that the Debtors received one or more qualifying bids, the Debtors were going to conduct an auction on January 24, 2011.

In connection with the Original Plan and Original Disclosure Statement, the Debtors entered into that certain Purchase and Sale Agreement dated as of September 7, 2010 by and among Permian Atlantis LLC ("Permian Atlantis"), Permian Phoenix LLC (together with Permian Atlantis, the "Permian Entities")[10] and the Debtors (the "Purchase and Sale Agreement"). Under the Purchase and Sale

[10] The Permian Entities are indirect subsidiaries of Cross Canyon Energy Corporation ("Cross Canyon"), which is an indirect subsidiary of CIT Capital.

Agreement, the Permian Entities agreed to serve as the stalking horse bidder with respect to certain assets associated with the Debtors' "Section 6 Assets" and "Non-Section 6 Assets" and to purchase those assets free and clear of any and all liens, claims, rights, interests, and encumbrances except as otherwise provided under the Plan.[11] Under the Purchase and Sale Agreement, the Permian Entities generally agreed to assume substantial claims of CIT Capital and the Lender and to satisfy substantial claims of Standard under its joint operating agreements. Indeed, the Purchase and Sale Agreement was a negotiation with CIT Capital in order to obtain consensual acknowledgement of Standard's secured claim. The Sale as contemplated under the Purchase and Sale Agreement and the Plan was subject to higher and better offers as more particularly set forth in the Sale Motion and Sales Procedures Order.

In connection with the Sale Process, the Debtors hired the investment banking firm of Macquarie Capital (USA), Inc. ("Macquarie"). The marketing process and the auction approved by the Court was intended to help place a market value on the Section 6 Assets and Non-Section 6 Assets of Consolidated. The marketing process for the Debtors' assets began in earnest in early November 2010. Macquarie contacted over 600 parties who it thought might be interested in engaging in a transaction with the Debtors. Among the parties contacted by Macquarie were oil and gas companies, hedge funds and other investors. Twenty-one parties signed confidentiality agreements in order to obtain diligence materials assembled by the Debtors and Macquarie, and Macquarie set up numerous data room visits.

Despite the efforts of Macquarie and the Debtors, no qualifying bids were received for the Section 6 and Non-Section 6 Assets by the January 18 deadline. As a result, the auction was canceled, and the Debtors, CIT Capital, the Committee, and Wisenbaker instead began working on a potential alternative transaction.

**D. Sale of Non-Section 6 Assets; Satisfaction or Waiver of Lender Secured Claims**

After significant negotiation, on February 11, 2011, CIT Capital, the Committee, Wisenbaker, and the Debtors agreed on the Global Resolution Proposal to settle various matters in the Bankruptcy Cases including the sale of the Non-Section 6 Assets to Permian Atlantis under a Back-Up Purchase and Sale Agreement (the "Back-Up PSA") among Permian Atlantis and the Debtors. The Global Resolution Proposal and the sale of the Non-Section 6 Assets to Permian Atlantis under the Back-Up PSA were approved by the Bankruptcy Court by its Order entered February 28, 2011 (the "Sale Order") [Docket No. 506]. The sale of the Non-Section 6 Assets to Permian Atlantis closed in March of 2011 (the "Closing Date").

**As described below, in connection with the closing of the sale of the Non-Section 6 Assets to Permian Atlantis, all Lender Secured Claims against the Debtors have been satisfied or waived, and all liens held by CIT Capital in the assets of the Debtors have been released. The only Claim remaining against the Debtors by CIT Capital, or in connection with any of the Lender Secured Claims or the ORRI, is the Allowed CIT Deficiency Claim.**

The primary terms of the sale of the Non-Section 6 Assets pursuant to the Global Resolution Proposal and Back-Up PSA, and as approved by the Sale Order, were as follows:

1. Under the Back-Up PSA, Permian Atlantis paid $3,850,000 (the "Cure Payment") to Standard as cure of, and in full and final satisfaction of, among other things, (a) Standard's claims against Consolidated under the Non-Section 6 JOAs; and (b) M&M

[11] The Section 6 Assets and the Non-Section 6 Assets together constituted substantially all of Consolidated's assets.

Secured Claims relating to the Non-Section 6 Assets. Permian Atlantis also assumed $12,000,000 of CIT Capital's claim under the 2008 Lender Credit Agreement.

2. Among the benefits that Permian Atlantis received under the Back-Up PSA is the agreement of Wisenbaker's entities to enter into new disposal and gathering agreements with Permian Atlantis. Permian Atlantis was not required to provide any "Working Interest Back-In" as had initially been contemplated under the Back-Up PSA.

3. On the Closing Date, three-quarters of the DIP Facility ($1,488,611.72) (the "DIP Repayment") was paid out of, or netted against, the Cure Payment. CIT Capital deposited approximately one-third of the DIP Repayment ($489,496.50) (the "Escrow Amount") in the trust account of the Committee's counsel for use in any workover of the Pat Howell #1 Well and other operational costs of the Section 6 Assets, or as otherwise provided for in the Plan. The Escrow Amount is free and clear of any and all rights, claims, interests or liens of CIT Capital or any other party.

4. Effective on the Closing Date, CIT Capital waived all unpaid portions of the DIP Facility and the Lender Bridge Secured Claim.

5. After the Closing Date, CIT Capital received a payment of $324,112.59 from the Debtors as payment of amounts owing under the ORRI Documents that were being held in escrow, and CIT Capital released any further claims under the ORRI Documents.

6. The Committee agreed to withdraw its objections to CIT Capital's attorney fee statements, and the unpaid balance of those attorney fees were paid by the Debtors pursuant to the applicable budget. The Parties agreed not to object to any attorney fees and expenses incurred by CIT Capital to the extent that the amount of those fees and expenses are equal to or less than the amount set forth in the applicable cash collateral budgets approved by the Bankruptcy Court (subject to any permitted variances or carryforwards).

7. CIT Capital will have a general unsecured deficiency claim against the Debtors' estates in the amount of $7,000,000 (the "Allowed CIT Deficiency Claim"), but it will be subordinated to the administrative expenses of the Debtors' estates, the costs incurred by the Liquidating Trust, unsecured priority claims against the Debtors' estates, M&M Lien Secured Claims and Other Secured Claims, and general unsecured claims (except subordinated claims). CIT Capital will not be a member of the Committee and will not be entitled to vote on Committee matters.

8. Effective on the Closing Date, except with respect to the Allowed CIT Deficiency Claim and the budgeted attorney fees referenced above, CIT Capital waived any and all pre-petition, post-petition, and administrative claims or expenses of any kind and type whatsoever incurred as of the Closing Date against the Debtors, including, without limitation, its asserted administrative expense claim for substantial contribution.

9. As of the Closing Date, CIT Capital released all of its liens on all assets of the Debtors other than the Non-Section 6 Assets purchased by Permian Atlantis under the Back-Up PSA.

10. CIT Capital agreed to support and vote in favor of any plan approved by the Committee provided that such plan is consistent with the Global Resolution Proposal.

11. The Parties agreed that Standard will be replaced as operator of the Section 6 Assets by an operator chosen by the Committee.

12. Pat Howell LLC will pay its share of the workover and/or Sidetrack Costs associated with the Pat Howell #1 Well via cash call and it will lose any interest it may have in such well if such share is not promptly paid.

13. The Sale Order included mutual releases of any and all claims of the Debtors, the Committee and Wisenbaker, respectively, against CIT Capital, Cross Canyon or Permian Atlantis (including their respective successors, assigns, professionals, employees, etc.) except those claims relating to the enforcement of the Back-Up PSA and the Parties' obligations under the Global Resolution Proposal including claims contemplated under the Global Resolution Proposal (such as the Allowed CIT Deficiency Claim).

14. The Debtors, CIT Capital, the Committee and Wisenbaker will not object to the confirmation of a plan, or the effectuation of any transaction, provided that they are consistent with the Global Resolution Proposal.

15. Wisenbaker's agreement to subordinate any indebtedness, and the commitment of Pat Howell LLC to fund a cash call on the Pat Howell #1 Well, are both conditioned on Wisenbaker and the Debtors (with the Committee's approval) reaching agreement on a release and/or settlement of any claims against Wisenbaker and his related entities (which agreement has been reached and is further described below). However, that does not restrict or limit the application of the JOA governing the Pat Howell #1 Well as to the participation of working interest owners in the funding of a cash call or an AFE, it being understood that if Pat Howell LLC fails to participate in the continuing operation of the Pat Howell #1 Well for any reason, it can be penalized for such non-participation under the terms of the subject JOA.

**E. Pat Howell Workover**

Under the terms of the above-described Global Resolution Proposal, CIT Capital deposited the Escrow Amount into the Okin Adams & Kilmer LLP Trust Account. The Sale Order provided that the Escrowed Amount was to be used to investigate and fund a potential workover and/or sidetrack on the Pat Howell #1 Well pursuant to an Authorization for Expenditure. On June 7, 2011, the Debtors and the Committee Filed a *Motion for Order (A) Authorizing Contract Operating Agreement with Eagle Oil & Gas, Co., (B) Authorizing Use of Funds Held in Escrow Account and (C) Granting Adequate Protection* (the "Joint Motion") [Docket No. 605]. In the Joint Motion, the Debtors and Committee requested that the Bankruptcy Court authorize the Debtors to enter into a Contract Operating Agreement with Eagle Oil & Gas Co. ("Eagle") in order to use the Escrow Amount to complete a workover and/or sidetrack of the Pat Howell #1 Well and to provide Eagle with adequate protection for its expenses and claims arising from its performance of the workover and/or sidetrack. The Bankruptcy Court approved the Joint Motion by Order dated July 7, 2011 [Docket No. 637]. However, after investigation of the site and the well, the costs to complete the workover were higher than anticipated and to date no workover or sidetrack has been completed on the Pat Howell #1 Well. Under the Plan, no workover or other Drilling Operations will be undertaken on the Pat Howell #1 Well going forward without the approval of the Liquidating Trustee and the unanimous consent of the Creditors' Oversight Committee.

**F. Claims Bar Date**

On September 22, 2010 and November 1, 2010, the Bankruptcy Court entered Orders [Docket Nos. 68 and 205] setting November 8, 2010, and March 14, 2011, as the last dates by which non-governmental entities and governmental entities, respectively, could timely File proofs of Claims or proofs of Equity Interests in the Bankruptcy Cases (as defined in the Plan, the "Bar Dates"). As evidenced by the Certificates of Service Filed with the Bankruptcy Court on September 27, 2010 and November 2, 2010 [Docket Nos. 89 and 217], the Debtors served all parties listed on the then-current creditor matrix for the Bankruptcy Cases and all governmental units with notice of the Bar Dates.

**G. Pending Adversary Proceedings**

There have been seven (7) adversary proceedings initiated in this Bankruptcy Case, three of which have been resolved and dismissed. The four pending adversary proceedings are as follows:

*Heritage Standard Corporation, individually and as Assignee of all the Working Interests in the Pat Howell Well #1 v. Apollo Perforators, Inc.,* Case Number 15,831, originally pending in the 109th Judicial District Court, Winkler County, Texas, but now removed to the Bankruptcy Court as adversary proceeding no. 10-03417. Judgment has been entered in this adversary proceeding in favor of Standard and against Apollo. That judgment is currently on appeal to the United States District Court for the Northern District of Texas.

*Heritage Standard Corporation, individually and as Assignee of all the Working Interests in the Pat Howell Well #1 v. Pathfinder Energy Services, LLC, successor in interests to and/or d/b/a Pathfinder Energy Services, Inc.,* Case Number 15,830, originally pending in the 109th Judicial District Court, Winkler County, Texas, now removed to the Bankruptcy Court as Adversary Proceeding No. 10-03419. *This adversary proceeding is currently scheduled for trial in March 2013.*

*Endeavor Energy Resources, L.P. , Acme Energy Services, Inc. d/b/a Big Dog Drilling and Acme Energy Services, Inc. d/b/a Rig Movers Express v. Heritage Standard Corporation and Heritage Consolidated, LLC, Adversary Proceeding No. 11-03047.* Judgment has been entered in this adversary proceeding in favor of Standard and Consolidated dismissing all of plaintiffs' claims against the estates and avoiding all of plaintiffs' alleged liens. That judgment is currently on appeal to the United States District Court for the Northern District of Texas.

*Federal Insurance Company v. City of Midland, Heritage Consolidated LLC, Heritage Standard Corporation and the Texas Railroad Commission*, Adversary Number 11-03512-hdh, pending in the United States Bankruptcy Court for the Northern District of Texas, Dallas, Division.

For a description of the nature of each of these suits and their procedural status reference is made to Sections IX(C) and IX(D) below.

**H. Environmental Claims**

The City of Midland asserted administrative and unsecured claims against the Debtors for alleged salt water contamination in the Cenozoic Pecos Alluvium Aquifer (the "Aquifer"), which is located approximately 70 miles from the City of Midland and extends across the counties of Crane, Ector, Loving, Pecos, Reed, Upton, Ward and Winkler in Texas and into New Mexico. On November 15, 2010, the City of Midland filed its *Motion for Estimation of Claim for Purpose of Allowance, Voting, And Determining Plan Feasibility, and Request for Determination that Remediation Claim is Entitled to Administrative Expense Priority* [Docket No. 256] (the "Estimation Motion"), seeking the Bankruptcy

Court's estimation of the City of Midland's unliquidated Claims resulting from the alleged contamination of the Aquifer and a determination that the anticipated costs of remediating the Aquifer are entitled to priority under the Bankruptcy Code as administrative expenses (the "Midland Claims").

The Debtors believed that the contamination potentially caused by Standard's operations was significantly limited in scope and the Debtors disputed the City of Midland's contentions that the operations could have caused the extensive damage alleged in the Midland Claims. Nevertheless, since the Debtors were advised of the contamination, they plugged the subject wells and worked directly with the Texas Railroad Commission (the "RRC"), the Texas state agency which enforces Texas environmental laws for contamination related to oil and gas operations in the state, to develop and implement a comprehensive remediation plan (the "Ritter Plan") to identify the "plume" of contamination, remediate the area and compensate the City of Midland for any water pumped from the Aquifer. This Ritter Plan has been in place since 2008 and in 2010 the RRC approved the final requirements for the Debtors in connection with any contamination caused by the Debtors in the Aquifer. The Ritter Plan had an original estimated cost of approximately $6.5 million.

By its Order entered February 1, 2011 [Docket No. 463], the Bankruptcy Court ruled on the Estimation Motion and essentially agreed with the Debtors and approved the Ritter Plan and concluded that completion of the Ritter Plan would be sufficient to satisfy any and all damage claims by the City of Midland. The Bankruptcy Court further ruled that the asserted claims with respect to such estimated cost of $6.5 million will hold administrative priority.

To date, the Debtors have expended approximately $3 million for remediation in connection with the Ritter Plan. This effort has been funded for the most part through the Debtors' pollution and umbrella insurance policies issued by Federal Insurance Company ("Federal Insurance") despite its reservation of rights. These policies originally had available coverage limits of $11 million, so they should be sufficient to cover and satisfy the estimated cost of the Ritter Plan. However, Federal Insurance has taken the position that at least a portion of the remediation costs under the Ritter Plan are not covered under the existing policy terms. This potentially excluded portion relates to a specific area around the existing TH-6 recovery well. While this coverage exclusion is contested by the Debtors, the original remediation cost estimate for this area under the Ritter Plan is approximately $800,000. This cost estimate includes approximately $100,000.00 - $125,000.00 for the drilling and equipping of an initial test well in the area which the RRC has now agreed to commence and drill at its own expense and waive any right of reimbursement from the Estates. Accordingly, the Debtors may be required to fund the Remediation Reserve in an amount sufficient to partially secure the Estates' remaining potential exposure on this contingent liability.

Separately, the RRC has agreed to waive all administrative priority claims for fines and penalties associated with the alleged contamination and limit the claims to $457,000.00 to be allowed as a general unsecured claim and paid on a pro rata basis.

On March 29, 2011, the City of Midland filed its *Motion for Relief from Automatic Stay to Pursue Claims Against Debtors' Insurer* (the "Midland Stay Motion") [Docket No. 528] requesting that Midland be allowed to recover its allowed $6.5 million administrative claim against the Debtors' insurer. After numerous objections were filed and a hearing was held, the Bankruptcy Court entered an Order (the "Midland Order"), dated June 6, 2011, granting the Midland Stay Motion in part by maintaining the automatic stay until August 31, 2011 to allow the Debtors time to confirm a plan; however, since the Plan was not confirmed by such date, the stay was automatically modified as of such date to allow the City of Midland to pursue its claims against the insurance company directly [Docket No. 601]. On June 17, 2011, the City of Midland filed an appeal of the Midland Order, but it was not resolved prior to the August 31, 2011 date so on September 1, 2011, the City of Midland dismissed the appeal and filed suit

against Federal Insurance in the District Court of Midland County for declaratory judgment and breach of contract. Federal Insurance also filed a Complaint with the Bankruptcy Court seeking its own declaratory judgment that it is meeting its obligations under the applicable policies [Docket No. 673]. These suits by the City of Midland and by Federal Insurance remain pending and have not been resolved as of the date of this Amended Disclosure Statement.

For a more complete discussion of the Midland Claims and the Debtors' allegations in defense, parties are referred to the pleadings on file with the Bankruptcy Court in connection with the Estimation Motion and the risk factors set forth in Section XII(A) herein.

Separately, the Debtors have estimated that its plugging and abandonment liabilities ("P&A Costs") for all of their other operations under Texas law should not exceed $763,300.00. The original estimate provided by the RRC on these costs was $915,755.88; however, the RRC has now provided a new cost estimate of $1,635,404.39 purportedly based on current estimates for the Midwest Region. The RRC asserts that it is entitled to an injunction requiring the Debtors to immediately plug all but the A.G. Hill Well. The RRC, therefore, contends that in order to satisfy the P&A Costs in full, the Debtors' escrow called for under the Plan should contain $1,635,404.39 rather than "up to $400,000."

The Debtors believe the RRC estimate is overstated and will investigate these costs further and attempt to reach a consensus on the costs with the RRC. Additionally, the Debtors have a $50,000.00 bond in place with the RRC, anticipate offsets of these expenses through the sale of salvaged equipment up to $100,000.00 and have insurance available for the three monitoring wells with an aggregate expense of approximately $26,000.00. The total gross estimate by the Debtors also assume that the A.G. Hill #1 Well and Pat Howell #1 Well are not sold by the Liquidating Trustee and the P&A Costs associated with those wells is transferred to a buyer. The Debtors intend to satisfy or establish a fund to partially secure the payment of all potential P&A Costs on or before the Effective Date, which together with revenue from ongoing operations should be sufficient to satisfy this liability. The Debtors will demonstrate at Confirmation that they will have available cash at Confirmation to pay the P&A Costs in full.

## I. Wisenbaker Settlement

Confirmation of the Plan shall effect a settlement of any claims of the Debtors against Wisenbaker and the Wisenbaker Related Parties (except as to their respective obligations, if any, under the Plan, under any settlement agreement or mutual release entered into in connection with the Plan, and under the Section 6 JOA) on the following terms:

(a) Subordination of Claims. Wisenbaker and each Wisenbaker Related Party (except for Pat Howell LLC as to rights and interests under the Section 6 JOA) have agreed to subordinate all of their pre-petition Claims against the Debtors to all Allowed Secured Claims and Allowed General Unsecured Claims, and such subordinated Claims shall be included in Class 8 (Allowed Subordinated Claims) of the Plan; provided, however that the last pre-petition charges by Disposal (for $44,523) and Gathering ($37,799) for August 2010 and part of September 2010 services will be Allowed and will be included in Class 5 (Allowed General Unsecured Claims) of the Plan.

(b) Salt Water Disposal Agreement. Disposal shall enter into a salt water disposal agreement with the Estate/Liquidating Trust substantially in the form of the salt water disposal agreement entered into between Disposal and Permian Atlantis, but with the following changes:

(i) the Primary Term of the salt water disposal agreement will be four (4) years, rather than two (2) years, from the Effective Date;

(ii) a provision will be added to the salt water disposal agreement that will allow the operator of the Pat Howell #1 Well under the Section 6 JOA to transport gas through Disposal's pipeline at then current market rates from the Pat Howell #1 Well;

(iii) the operator of the Pat Howell #1 Well will have the option (but not the obligation) to purchase the pipeline and rights of way from Disposal for a total cost of $121,000 payable in 12 equal monthly installments (with no portion of that charge being assessed against Pat Howell LLC); and

(iv) the rights under this part (iv) and under part (iii) above may be assigned by the Debtors or the Liquidating Trust to the operator of the Pat Howell #1 Well and/or the operator under the Section 6 JOA, and the remaining rights to water disposal may be assigned by the Debtors or the Liquidating Trust to any party assuming the obligations to remediate water on Non-Section 6 Assets.

(c) Consent Required for certain Actions. Pat Howell LLC, as well as any successors or assigns, has agreed that it will not undertake, and shall not undertake, (i) any effort to drill, work-over and/or develop the Pat Howell #1 Well until the earlier of December 31, 2012, or the Effective Date, and, additionally (ii) any effort to drill, work-over and/or develop the Pat Howell #1 Well for a period of four (4) years from the Effective Date, in either case without the prior written consent of the other 81.25% ownership interest in the Pat Howell #1 Well.

(d) Payment of Suspended Revenue. All suspended revenues (estimated by the Debtors to be approximately $36,000) and future revenues related to or arising from the interests of the Wisenbaker Related Parties under the A.G. Hill #1 Well shall be released and paid per the terms of the Section 6 JOA.

(e) Releases. The Wisenbaker Related Entities (except as to their respective obligations under this Plan, the Section 6 JOA, and any settlement agreement or other written agreement entered into between them and the Debtors) shall receive full and complete releases of any all claims and causes of action which have or can be asserted by or on behalf of the Debtors, their Estates and/or the Liquidating Trust pursuant to the Bankruptcy Code or applicable non-bankruptcy law. Such releases will be from the Debtors and not from any individual Creditor of the Debtors. For purposes of clarity, nothing contained in this settlement shall impair, effect, release or otherwise infringe on any direct and independent claims and causes of action that any Creditor or third party has or may have against the Wisenbaker Related Parties, including, without limitation, those claims identified on **Exhibit "C"** hereto.

(f) Options on Section 6 Assets. Pat Howell LLC has agreed that in the event the Liquidating Trustee desires to sell the Pat Howell # 1 Well, the Debtors' interests in the AG Hill #1 Well and/or the balance of the Section 6 Assets as a whole, Pat Howell LLC will agree to the inclusion of its interests in the Pat Howell #1 Well as part of the package of assets to be sold. In the event that a buyer desires to purchase all of the Section 6 Assets (including the Pat Howell #1 Well), Pat Howell LLC will consent to such sale and agrees that four percent (4.00%) of the total net sales price received for the Section 6 Assets (including 100% of the Pat Howell #1 Well) shall be allocated to Pat Howell LLC's eighteen and three-fourths percent (18.75%) interest in the Pat Howell #1 Well. In the event that a potential buyer does not desire to purchase the 18.75% interest in the Pat Howell well owned by Pat Howell LLC, then in such event Pat Howell LLC has agreed not to object or impede any such sale of the remainder of the Pat Howell #1 Well, the AG #1 Hill well and/or the balance of the Section 6 Assets.

(g) Apollo Litigation. Pat Howell LLC agrees that the Estates or the Liquidating Trust (as appropriate) shall receive twenty-five (25%) of Pat Howell LLC's share of any net recovery in the Apollo Litigation.

# VII.

## SUMMARY OF THE CLAIMS, CLASSIFICATION AND TREATMENT UNDER THE PLAN

### A. Introduction

A summary of the principal provisions of the Plan relating to the treatment of Classes of Claims and Equity Interests is set out herein. The summary is qualified in its entirety by the Plan itself, which is controlling in the event of any conflict. Additionally, the estimated amount of allowable Claims in the various Classes are estimates only and are not intended to be exact determinations. While the Debtors have made every effort to reasonably estimate such amounts, there is no guarantee that such estimates are accurate. Moreover, none of the descriptions herein below in relation to such estimates shall constitute an admission on the part of the Plan Proponents to the validity of any Disputed Claims. Any Claim which is not Allowed by an Order of the Bankruptcy Court or pursuant to a settlement approved by an Order of the Bankruptcy Court may be Disallowed or reduced in amount if an objection has been, or is timely hereafter, Filed and sustained by the Bankruptcy Court. As of December 10, 2010, approximately 250 Proofs of Claim had been filed. The aggregate face value of these claims substantially exceeds the amount of claims set forth in the Bankruptcy Schedules. Although the Debtors believe that many Proofs of Claim are overstated and/or filed in duplicate, the Debtors are only in the initial stage of the Claims reconciliation process and they expect that a significant portion of that process will occur after the Effective Date of the Plan.

### B. Classification of Claims and Equity Interests

The Plan provides for the division of Claims against and Equity Interests in the Debtors (except Administrative Claims and Priority Tax Claims) into Classes. A Claim is classified within a particular Class only to the extent that the Claim qualifies under the description of that Class. A Proof of Claim asserting a Claim which is properly includable in more than one Class is only entitled to inclusion within a particular Class to the extent that it qualifies under the description of such Class, and shall be included within different Class(es) to the extent that it qualifies under the description of such different Class(es). The Plan classifies Claims and Equity Interests as follows:

Unclassified Claims

Allowed Administrative Claims
Allowed Priority Tax Claims

Classified Claims and Equity Interests

| | |
|---|---|
| Class 1 | Allowed Ad Valorem Tax Claims |
| Class 2 | Allowed Priority Claims |
| Class 3 | Allowed M&M Secured Claims |
| Class 4 | Allowed Other Secured Claims |
| Class 5 | Allowed General Unsecured Claims |
| | Class 5A—Claims against Heritage Consolidated |
| | Class 5B—Claims against Heritage Standard |
| Class 6 | Allowed Environmental Claims |
| Class 7 | Allowed CIT Deficiency Claim |
| Class 8 | Allowed Subordinated Claims |
| Class 9 | Allowed Equity Interests |

**C. Treatment of Unclassified Claims Under the Plan**

**1. Treatment of Allowed Administrative Claims**

Except as otherwise provided herein, the holder of an Allowed Administrative Claim, in full satisfaction, settlement, release and discharge of, and in exchange for such Claim, shall be paid by the Liquidating Trust such holder's Allowed Claim in one Cash payment on the later of (i) the Effective Date (or as soon as reasonably practicable thereafter) or (ii) fifteen Business Days following the date such Claim is Allowed by Non-Appealable Order; or (b) receive such other less favorable treatment that may be agreed upon in writing by the Liquidating Trustee and the holder of such Claim.

**2. Treatment of Allowed Priority Tax Claims**

Each holder of an Allowed Priority Tax Claim, in full satisfaction, settlement, release and discharge of, and in exchange for such Allowed Priority Tax Claim, shall be paid by the Liquidating Trustee in accordance with Section 1129(a)(9)(c) of the Bankruptcy Code, over a period not exceeding five years after the Effective Date, commencing as soon as funds are available, with interest accruing thereon from and after the Effective Date at the Plan Interest Rate.

**D. Treatment of Classified Claims Against and Equity Interests In the Debtors Under the Plan**

**1. Treatment of Allowed Ad Valorem Tax Claims (Class 1)**

Each holder of an Allowed Ad Valorem Tax Claim against the Estates shall, at the election of the Liquidating Trustee, (A) receive Distributions from the Liquidating Trust in the amount of such holder's Allowed Ad Valorem Tax Claim plus interest at the Plan Interest Rate from the Petition Date until such Claim has been satisfied in full as and at the time provided under ARTICLE VIII of the Plan; or (B) receive such other less favorable treatment that may be agreed upon in writing by such holder and the Liquidating Trustee. This treatment shall be in exchange for and in full satisfaction and discharge of the holder's Allowed Ad Valorem Tax Claim.

**2. Treatment of Allowed Priority Claims (Class 2)**

Each holder of an Allowed Priority Claim against the Estates shall, at the election of the Liquidating Trustee, (A) receive Distributions from the Liquidating Trust in the amount of such holder's Allowed Priority Claim plus interest at the Plan Interest Rate from the Petition Date until such Claim has

been satisfied in full as and at the time provided under ARTICLE VIII of the Plan; or (B) receive such other less favorable treatment that may be agreed upon in writing by such holder and the Liquidating Trustee. This treatment shall be in exchange for and in full satisfaction and discharge of the holder's Allowed Priority Claim.

**3. Treatment of Allowed M&M Secured Claims (Class 3)**

Each holder of an Allowed M&M Secured Claim against the Estates shall (A) receive Distributions from the Liquidating Trust in the pro rata amount of such holder's Allowed M&M Secured Claim from the applicable assets identified in subclasses 3A or 3B, plus interest at the Plan Interest Rate to the extent allowable under Title 11 from the Petition Date until such Claim has been satisfied in full, as and at the time provided under ARTICLE VIII of the Plan; or (B) receive such other less favorable treatment that may be agreed upon in writing by such holder, and the Liquidating Trustee. This treatment shall be in exchange for and in full satisfaction and discharge of the holder's Allowed M&M Secured Claim.

Subclass 3A shall be comprised of Allowed Section 6 M&M Secured Claims to be satisfied solely from the Section 6 Assets with any resulting deficiency claim to be included with General Unsecured Claims in Class 5.

Subclass 3B shall be comprised of Allowed Non-Section 6 M&M Secured Claims to be satisfied solely from the net sale proceeds of the Non-Section 6 Assets with any resulting deficiency claim to be included with General Unsecured Claims in Class 5.

**4. Treatment of Allowed Other Secured Claims (Class 4)**

Each holder of an Allowed Other Secured Claim against the Estates shall (A) receive Distributions from the Liquidating Trust in the amount of such holder's Allowed Other Secured Claim plus interest to the extent allowable under Title 11 at the Plan Interest Rate from the Petition Date until such Claim has been satisfied in full, as and at the time provided under ARTICLE VIII of the Plan; or (B) receive such other less favorable treatment that may be agreed upon in writing by such holder and the Liquidating Trustee. This treatment shall be in exchange for and in full satisfaction and discharge of the holder's Allowed Other Secured Claim.

**5. Treatment of Allowed General Unsecured Claims (Class 5)**

Each holder of an Allowed General Unsecured Claim against the Estates shall (A) receive Distributions from the Liquidating Trust in the amount of such holder's Allowed General Unsecured Claim plus interest to the extent allowable under Title 11 at the Plan Interest Rate from the Petition Date until such Claim has been satisfied in full, as and at the time provided under ARTICLE VIII of the Plan; or (B) receive such other less favorable treatment that may be agreed upon in writing by such holder and the Liquidating Trustee. This treatment shall be in exchange for and in full satisfaction and discharge of the holder's Allowed General Unsecured Claim.

**6. Treatment of Allowed Environmental Claim (Class 6)**

The Allowed Environmental Claims against the Estates shall (A) be deemed satisfied in full through the performance of the Ritter Work Plan funded solely from the proceeds of the Federal Insurance Policies as expenses are incurred until the Ritter Plan is satisfied or the proceeds of the Federal Insurance Policies have been exhausted, except with respect to TH 6 remediation expenses which shall be paid by Federal Insurance to the extent, if any, ordered by the Bankruptcy Court in its resolution of the

coverage issues; or (B) receive such other less favorable treatment that may be agreed upon in writing by the City of Midland, the Liquidating Trustee and the RRC.

**7. Treatment of Allowed CIT Deficiency Claim (Class 7)**

The holder of the Allowed CIT Deficiency Claim shall (A) receive Distributions from the Liquidating Trust in the amount of such holder's Allowed CIT Deficiency Claim plus interest at the Plan Interest Rate to the extent allowable under Title 11 from the Petition Date until such Claim has been satisfied in full, as and at the time provided under ARTICLE VIII of the Plan; or (B) receive such other less favorable treatment that may be agreed upon in writing by such holder and the Liquidating Trustee. This treatment shall be in exchange for and in full satisfaction and discharge of the holder's Allowed CIT Deficiency Claim.

**8. Treatment of Allowed Subordinated Claims (Class 8)**

Each holder of an Allowed Subordinated Claim shall (A) receive Distributions from the Liquidating Trust in the amount of such holder's Allowed Subordinated Claim plus interest at the Plan Interest Rate to the extent allowable under Title 11 from the Petition Date until such Claim has been satisfied in full, as and at the time provided under ARTICLE VIII of the Plan; or (B) receive such other less favorable treatment that may be agreed upon in writing by such holder, the Committee, and the Liquidating Trustee. This treatment shall be in exchange for and in full satisfaction and discharge of the holder's Allowed Subordinated Claim.

**9. Treatment of Allowed Equity Interests (Class 9)**

On the Effective Date, each then-issued and outstanding Equity Interest in the Debtors shall (A) receive Distributions from the Liquidating Trust as and at the time provided under ARTICLE VIII of the Plan; or (B) receive such other less favorable treatment that may be agreed upon in writing by such holder, the Committee, and the Liquidating Trustee. This treatment shall be in exchange for and in full satisfaction and discharge of the holder's Allowed Equity Interest.

## VIII.
## MEANS FOR IMPLEMENTATION OF THE PLAN

### A. The Liquidating Trust

The Plan provides for all remaining assets of the Debtors (other than the Excluded Assets) to be transferred to a Liquidating Trust which will be managed by the Liquidating Trustee. The initial Liquidating Trustee shall be selected by the Committee. The Liquidating Trustee shall retain and have all the rights, powers and duties necessary to carry out his or her responsibilities under the Plan, and as otherwise provided in the Confirmation Order and Liquidating Trust Agreement; provided, however, that the Liquidating Trustee shall obtain the consent of the Creditors' Oversight Committee on any material decisions, as set forth in more detail in the Plan and the Liquidating Trust Agreement, including, without limitation, obtaining unanimous consent of the Creditors' Oversight Committee with respect to any Drilling Operations. The Liquidating Trustee shall be the representative of the Estates appointed pursuant to Bankruptcy Code § 1123(b)(3)(B) and shall be required to perform his or her duties as set forth in the Plan.

*Responsibilities of Liquidating Trustee*

The responsibilities of the Liquidating Trustee shall be specified in the Plan and the Liquidating Trust Agreement and shall include (i) the receipt, management, supervision, and protection of the Liquidating Trust Assets on behalf of the beneficiaries of the Liquidating Trust; (ii) pursuit of objections to Disputed Claims; (iii) investigation, analysis, prosecution, and if necessary and appropriate, compromise of the claims and the Debtors' interest in Causes of Action included among the Liquidating Trust Assets, including without limitation Avoidance Actions and non-bankruptcy causes of action against third parties; (iv) calculation and implementation of all Distributions to be made under the Plan to holders of Allowed Claims; (v) marketing, selling, leasing, or otherwise disposing of all of the Liquidating Trust Assets; (vi) filing all required tax returns and paying taxes and all other obligations of the Liquidating Trust; (vii) keeping or causing to be kept books and records regarding all material matters related to the Liquidating Trust; and (viii) such other responsibilities as may be vested in the Liquidating Trustee pursuant to the Plan, the Liquidating Trust Agreement, orders of the Bankruptcy Court, or as may be necessary and proper to carry out the provisions of the Plan.

*Powers of Liquidating Trustee*

The powers of the Liquidating Trustee shall be specified in the Plan and the Liquidating Trust Agreement and shall include the power to (i) invest funds; (ii) make Distributions; (iii) pay taxes and other obligations owed by the Liquidating Trust or incurred by the Liquidating Trustee; (iv) engage and compensate from the Liquidating Trust Assets, consultants, agents, employees and professional persons to assist the Liquidating Trustee with respect to the Liquidating Trustee's responsibilities; (v) retain and compensate from the Liquidating Trust Assets, the services of experienced auctioneers, brokers, and/or marketing agents to assist and/or advise in the sale or other disposition of the Liquidating Trust Assets; (vi) liquidate and dispose of the Liquidating Trust Assets; (vii) compromise and settle Claims and Causes of Action; (viii) act on behalf of the Debtors and the Estates in all adversary proceedings and contested matters pending in the Bankruptcy Court and in all actions and proceedings pending elsewhere; (ix) commence and/or pursue any and all actions involving Liquidating Trust Assets that could arise or be asserted at any time, unless otherwise waived or relinquished in the Plan; and (x) act and implement the Plan, the Liquidating Trust Agreement, and orders of the Bankruptcy Court; provided however, that the Liquidating Trustee shall obtain the consent of the Creditors' Oversight Committee on all material decisions regarding the Liquidating Trust Assets as set forth in more detail in the Liquidating Trust Agreement and this Plan, including obtaining unanimous consent of the Creditors' Oversight Committee with respect to any Drilling Operations The Liquidating Trustee shall exercise such powers in accordance with the provisions of the Plan and the Liquidating Trust Agreement

The Liquidating Trustee shall establish reasonable reserves (including adequate reserves for Disputed Claims that may become Allowed Claims after the Effective Date) and accounts at banks and other financial institutions, in a clearly specified fiduciary capacity, into which cash and property may be deposited and checks drawn or withdrawals made to pay or Distribute such amounts as permitted or required for reasonable fees, expenses and liabilities of the Liquidating Trust pursuant to the Plan and the Liquidating Trust Agreement. Such funds shall not be subject to any claim by any Person except as provided under the Plan.

*Compensation of Liquidating Trustee and Professionals*

The Liquidating Trustee's compensation shall be determined by mutual agreement of the Liquidating Trustee and the Committee prior to the Effective Date. The payment of the fees of the Liquidating Trustee and any professionals retained by the Liquidating Trustee shall be made from the Liquidating Trust Assets. All costs, expenses and obligations incurred by the Liquidating Trustee in

administering the Plan or in any manner connected, incidental or related thereto, in effecting Distributions (including the reimbursement of reasonable expenses) shall be paid from the Liquidating Trust Assets. Such expenses shall be paid as they are incurred without the need for Bankruptcy Court approval.

The Liquidating Trustee shall have the right to retain the services of attorneys, accountants, and other professionals that, in the discretion of the Liquidating Trustee, are necessary to assist the Liquidating Trustee in the performance of his or her duties. The reasonable fees and expenses of such professionals shall be paid by the Liquidating Trustee from the Liquidating Trust Assets upon the submission of statements or invoices approved by the Liquidating Trustee. Professionals of, among others, the Debtors and the Committee, shall be eligible for retention by the Liquidating Trustee, and former employees of the Debtors shall be eligible for retention by the Liquidating Trustee

*Limitation of Liability*

Under the Plan, neither the Liquidating Trustee nor Creditors' Oversight Committee shall be liable for any act or omission taken or omitted to be taken in his or her capacity as the Liquidating Trustee, other than acts or omissions resulting from such Liquidating Trustee's willful misconduct, gross negligence or fraud. The Liquidating Trustee may, in connection with the performance of his or her functions, and in his or her sole, absolute discretion, consult with attorneys, accountants and agents, and shall not be liable for any act taken, omitted to be taken, or suffered to be done in accordance with advice or opinions rendered by such professionals. Notwithstanding such authority, the Liquidating Trustee shall be under no obligation to consult with attorneys, accountants or his or her agents, and his or her determination to not do so should not result in imposition of liability on the Liquidating Trustee unless such determination is based on willful misconduct, gross negligence or fraud. The Liquidating Trust shall indemnify and hold harmless the Liquidating Trustee and his or her agents, representatives, professionals, and employees from and against and in respect to any and all liabilities, losses, damages, claims, costs and expenses, including, but not limited to attorneys' fees and costs arising out of or due to their actions or omissions, or consequences of such actions or omissions, with respect to the Liquidating Trust or the implementation or administration of the Plan; provided, however, that no such indemnification will be made to such Persons for actions or omissions that constitute willful misconduct, gross negligence or fraud.

**B. Establishment of Liquidating Trust**

On the Effective Date, the Debtors and the Liquidating Trustee shall execute the Liquidating Trust Agreement creating the Liquidating Trust. A copy of the Liquidating Trust Agreement is attached to the Plan as Exhibit "D." Following the Effective Date, the liquidation of the Estates shall be conducted by the Liquidating Trust, the Liquidating Trustee of which shall liquidate the Liquidating Trust Assets, object to Disputed Claims and Equity Interests, and make Distributions pursuant to the Plan and the Liquidating Trust Agreement. The Liquidating Trust shall not receive or retain cash or cash equivalents in excess of a reasonable amount to meet the Claims and contingent liabilities (including Disputed Claims) or to maintain the value of the Liquidating Trust Assets, make timely Distributions, and not unduly prolong the duration of the Liquidating Trust. The Liquidating Trustee will hold and manage the Liquidating Trust Assets in accordance with the Plan and the Liquidating Trust Agreement, subject to consent from the Creditors' Oversight Committee with regard to Drilling Operations and other material decisions as described in the Plan and the Liquidating Trust Agreement. No Drilling Operations will be commenced or performed on the Pat Howell # 1 Well or the A.G. Hill #1 Well without the approval of the Liquidating Trustee and the unanimous consent of the Creditors' Oversight Committee.

The beneficiaries of the Liquidating Trust shall be the holders of Allowed Claims and Equity Interests who shall receive a beneficial interest in the Liquidating Trust in accordance with their

respective treatment under the terms of the Plan and the Liquidating Trust Agreement. The beneficial interests in the Liquidating Trust will not be represented by certificates and will not be transferable except pursuant to the laws of descent and distribution or otherwise by operation of law; provided, however, that such prohibition on transferability of beneficial interests is not intended to impair the ability of holders of Claims to assign their Claims pursuant to and in accordance with the Bankruptcy Rules and applicable law.

**C. Purpose of the Liquidating Trust**

The Liquidating Trust shall be established for the benefit of Creditors of the Estates and the primary purposes of the Liquidating Trust shall be:

(1) to own, hold, pursue, manage and dispose of the Liquidating Trust Assets and any other assets for the benefit of the Creditors of the Estates;

(2) to litigate, prosecute, settle or otherwise resolve the Causes of Action belonging to the Liquidating Trust;

(3) to defend any counterclaims relating to the Causes of Action belonging to the Liquidating Trust; and

(4) to do anything necessary, related or incidental to the foregoing.

**D. Transfer of Assets to Liquidating Trust**

On the Effective Date and after the execution of the Liquidating Trust Agreement, all remaining property of the Estates (other than the Excluded Assets) shall be, and shall be deemed to be, transferred Free and Clear to the Liquidating Trustee to hold in the Liquidating Trust, including the Section 6 Assets, the remaining Escrow Amount, all Cash and cash equivalents in the Debtors' bank accounts, all tangible and intangible property, personal and real property, intellectual property, contractual rights, defenses, Causes of Action, Avoidance Actions, Debtors' attorney-client privilege as to all matters, and all other assets and rights of every kind whatsoever owned or possessed by the Debtors (other than the Excluded Assets); provided however, that all asserted M&M Secured Claims, and their corresponding Liens, shall continue in the same right and capacity until an agreement on the amount and validity of the M&M Secured Claim and Lien, or a determination is made as evidenced by a Non-Appealable Order, after appropriate notice and hearing, as to the validity and amount of the M&M Secured Claims and Liens and these claims are paid in full or fully reserved. The Liquidating Trustee shall hold such property in trust and in its exclusive possession, custody and control.

After the Effective Date, the Liquidating Trustee may present such Order(s) or assignment(s) to the Bankruptcy Court, suitable for filing in the records of every county or governmental agency where the Liquidating Trust Assets are or were located, which provide that such property is conveyed to the Liquidating Trustee to be held in the Liquidating Trust. The Order(s) or assignment(s) may designate all Liens, Claims, encumbrances, or other interests which appear of record and/or from which the property is being transferred and assigned. The Plan shall be conclusively deemed to be adequate notice that such Lien, Claim, encumbrance, or other interest is being extinguished, and no notice, other than by the Plan, shall be given prior to the presentation of such Order(s) or assignment(s) except as to such M&M Secured Claims and Liens which are preserved pursuant to the terms of the Plan. Any Person having a Lien, Claim, encumbrance, or other interest in or against any Liquidating Trust Assets other than the holders of the M&M Secured Claims and corresponding Liens and the Section 6 Operator's Lien, by failing to object to confirmation of the Plan, shall be conclusively deemed to have consented to the transfer and

assignment of such Liquidating Trust Assets Free and Clear to the Liquidating Trustee to be held in the Liquidating Trust and to be handled and distributed in accordance with the Plan and the Liquidating Trust Agreement.

Except for the rights of beneficiaries of the Liquidating Trust as set forth in the Plan and the Liquidating Trust Agreement, all property transferred to the Liquidating Trustee from any of the Estates shall be Free and Clear of all Claims, interests, Liens and encumbrances, and such property shall remain as property of the Liquidating Trust until distributed pursuant to the Plan and the Liquidating Trust Agreement. On the Effective Date, a stay of all actions (to the same extent as set forth in section 362(a) of the Bankruptcy Code) with respect to the Estates, the Liquidating Trust, the Liquidating Trustee and the Liquidating Trust Assets shall be and remain in effect pending consummation of the Plan. The transfer of assets to the Liquidating Trustee pursuant to the Plan shall not constitute a default or breach under, or result in any forfeiture whatsoever with respect to, any asset or property interest transferred to the Liquidating Trustee.

The RRC asserts that the Liquidating Trustee (or some operator authorized under Texas law) must assume the P-4s for each of the Debtors' wells (including holding a valid P-5, posting the required financial assurance, and otherwise complying with applicable Texas state law. In furtherance of the Plan, the Liquidating Trustee shall assure that the New Operator under the Section 6 JOA has complied with all filing requirements of the RRC and Texas state law. As of the Effective Date, Standard, including its affiliates, owners and the Estates, shall have no further responsibilities or obligations with respect to the operation of Section 6 or any of the Liquidating Trust Assets, including, without limitation, the responsibility to account for and distribute production to working interest and royalty owners, comply with all filing requirements with the RRC and provide financial assurances required of operators under Texas state law. No Drilling Operations may be commenced or performed on the Pat Howell # 1 Well or A.G. Hill #1 Well without the prior consent of the Liquidating Trustee and the unanimous prior consent of the Creditors' Oversight Committee.

**E. Termination of Liquidating Trust**

The duties, responsibilities and powers of the Liquidating Trustee shall terminate after all causes of action transferred and assigned to the Liquidating Trust or involving the Liquidating Trustee on behalf of the Liquidating Trust are fully resolved and the Liquidating Trust Assets have been liquidated and/or distributed in accordance with the Plan and the Liquidating Trust Agreement. The Liquidating Trust shall terminate no later than five (5) years from the Effective Date. However, if warranted by the facts and circumstances provided for in the Plan, and subject to the approval of the Bankruptcy Court upon a finding that an extension is necessary for the purpose of the Liquidating Trust, the term of Liquidating Trust may be extended for a finite period based on the particular circumstances at issue. Each such extension must be approved by the Bankruptcy Court with notice thereof to all of the beneficiaries of the Liquidating Trust.

**F. Assumed Contracts**

Except as otherwise set forth in this Plan or the Confirmation Order, on the Effective Date, the Designated Contracts shall be assumed by the Debtors and assigned to the Liquidating Trust, and the Liquidating Trustee on behalf of the Liquidating Trust shall be deemed to be the legal counterparty to such contracts. The Section 6 JOA shall be included within the Designated Contracts and shall be assumed and assigned to the Liquidating Trust with all terms and conditions remaining in full force and effect except for the designation and approval of the New Operator and except to the extent of any conflict with the terms of the Plan. The New Operator shall be selected by the Committee prior to Confirmation, disclosed at the Confirmation Hearing and approved by the Court under the Plan. On the

Effective Date, the New Operator shall be deemed approved as the operator under the Section 6 JOA in which event the Confirmation Order shall contain findings and conclusions that the New Operator has been so designated and approved as operator under the Section 6 JOA. Those findings and conclusions shall serve as the written consent of the counterparties to the Section 6 JOA and those findings and conclusions shall be binding on all parties to such Section 6 JOA.

**G. Oil and Gas Leases**

To the extent any of the remaining Oil and Gas Leases in the Estates constitute executory contracts or unexpired leases of real property under Bankruptcy Code § 365, such Oil and Gas Leases shall be assumed by the respective Debtor and assigned to the Liquidating Trustee to be held in the Liquidating Trust and, unless otherwise ordered by the Bankruptcy Court, or held in suspense pursuant to prior court order, the related cure amount shall be $0. To the extent any of the Oil and Gas Leases constitute contracts or other property rights not assumable under Bankruptcy Code § 365, such Oil and Gas Leases shall be transferred and assigned to the Liquidating Trustee pursuant to Section 6.08 of the Plan. Except for the defaults of a kind specified in Bankruptcy Code §§ 365(b)(2) and 541(c)(1) (which defaults the Debtors and the Liquidating Trust will not be required to cure), or as otherwise provided herein, the legal, equitable and contractual rights of the counterparties to such Oil and Gas Leases shall be unaltered by the Plan.

**H. Litigation Recoveries; Preservation and Resolution of Causes of Action**

The net proceeds from settlements, proceeds from judgment and other recoveries associated with the Eunice Litigation, the Apollo Litigation, the Pathfinder Litigation, and any other Causes of Action or claims held by the Debtors and transferred to the Liquidating Trustee under Section 6.03 of the Plan, shall also be part of the Liquidating Trust Assets to be distributed from the Liquidating Trust in accordance with the Plan and the Liquidating Trust Agreement. The Liquidating Trustee shall be vested with authority and standing to prosecute and handle all such litigation and shall make all decisions related thereto as to the Estates' interest in the litigation, including with respect to any settlements.

Under the terms of the Plan, on the Effective Date, all Causes of Action will vest in and be transferred to the Liquidating Trust. "Causes of Action" is defined under the Plan as the Estates' interests (by ownership, assignment or proxy) in any and all rights, claims, causes of action, litigation, suits, proceedings, rights of setoff, rights of recoupment, complaints, defenses, counterclaims, cross-claims and affirmative defenses of any kind or character whatsoever whether known or unknown, asserted or unasserted, reduced to judgment or otherwise, liquidated or unliquidated, fixed or contingent, matured or unmatured, disputed or undisputed, secured or unsecured, assertable directly or derivatively, currently existing or hereafter arising, whether set forth in the Bankruptcy Schedules and whether arising under the Bankruptcy Code or other applicable law, in contract or in tort, in law, in equity or otherwise, based in whole or in part upon any act or omission or other event occurring, prior to the Effective Date, including, but not limited to all (a) claims pursuant to Bankruptcy Code § 362; (b) claims and defenses such as fraud, mistake, duress, usury, and fraudulent transfers; (c) claims under Bankruptcy Code § 510(c); (d) the Apollo Litigation; (e) the Eunice Litigation; (f) the Environmental Reimbursement Claims; (g) the D&O Claims; and (h) all preference actions and Avoidance Actions.

Specifically, the Plan provides that the Liquidating Trustee shall be appointed representative of the respective Estates pursuant to Bankruptcy Code § 1123(b)(3)(B) with respect to the Causes of Action which are part of the Liquidating Trust Assets, including the Apollo Litigation, the Pathfinder Litigation, the Environmental Reimbursement Claims, and all other Causes of Action held or controlled by the Debtors including, without limitation, any and all Causes of Action against the persons and entities listed in Exhibit "B" to the Plan and incorporated herein by reference. Except as otherwise ordered by the

Bankruptcy Court and subject to any releases in the Plan, on the Effective Date, all Causes of Action shall vest in the Liquidating Trust and the Liquidating Trustee may, and shall have standing to, prosecute, enforce, sue on, and settle or compromise (or decline to do any of the foregoing) any or all of such Causes of Action on behalf of the Debtors' interest in such Causes of Action or any interests assigned to or controlled by the Debtors. The Liquidating Trustee and his or her attorneys and other professional advisors shall have no liability for pursuing or failing to pursue any such Causes of Action.

The Plan further provides that at any time after the Confirmation Date and before the Effective Date, notwithstanding anything in the Plan to the contrary, the Debtors, with the consent of the Committee, may settle some or all of the Causes of Action that would be Liquidating Trust Assets and/or any of the Disputed Claims subject in each case to obtaining any necessary Bankruptcy Court approval. The Estates' interest in the proceeds from the settlement of a Cause of Action shall constitute an asset of the applicable Estate and shall vest in the Liquidating Trust on the Effective Date in accordance with the Plan.

**I. Directors, Managers and Officers of the Debtors**

Effective as of the Effective Date, all of the directors, officers, and/or managers of the Debtors shall be removed and the Liquidating Trustee shall have the sole authority regarding whether to retain any employees of the Debtors to help manage the Section 6 Assets and/or any other Assets of the Liquidating Trust.

**J. Amendment of Debtor's Certificates and Agreements**

To the extent necessary or required, the Debtors' certificates of incorporation or formation, articles of incorporation or organization, operating agreements, bylaws, and limited liability company agreements (as applicable) shall be amended and filed (if required) with the appropriate secretary of state's office on the Effective Date, or as soon thereafter as is reasonably practicable. All necessary action will be taken to prohibit the issuance of non-voting equity securities of the Debtors to the extent required by Bankruptcy Code § 1123; provided that any such prohibition shall apply only for so long as Bankruptcy Code § 1123 is in effect and applicable to the Debtors and will have no force and effect beyond that required by Bankruptcy Code § 1123. Copies of the proposed form of the amendments, if any, to the Debtors' certificates of incorporation or formation, articles of incorporation or organization, operating agreements, and limited liability company agreements shall be included in the Plan Supplement.

**K. Authority**

All actions and transactions contemplated under the Plan shall be authorized upon Confirmation of the Plan without the need of further approvals, notices or meetings of the Debtors' directors, officers, managers, and/or members, other than the notice provided by serving the Plan on (a) all known holders of Claims against the Debtors' Estates; and (b) all current holders of Equity Interests in the Debtors. Specifically, all amendments to the certificates of incorporation or formation, articles of incorporation or organization, operating agreements, limited liability company agreements, and/or bylaws of the Debtors and all other corporate action on behalf of the Debtors as may be necessary to put into effect or carry out the terms and intent of the Plan may be effected, exercised, and taken without further action by the Debtors' directors, officers, managers, and/or members with like effect as if effected, exercised, and taken by unanimous action of the directors, officers, managers, and/or members of the Debtors (as applicable). The Confirmation Order shall include provisions dispensing with the need of further approvals, notices or meetings of the Debtors or holders of Equity Interests and authorizing and directing any director, officer, manager, or member of each respective Debtor to execute any document, certificate or agreement necessary to effectuate the Plan on behalf of such Debtor.

**L. Dissolution of Committee**

The Committee shall continue in existence until the Effective Date to exercise those powers and perform those duties specified in Bankruptcy Code § 1103. Unless otherwise ordered by the Bankruptcy Court, on the Effective Date, (a) the Committee shall be dissolved and its members shall be released of all their duties, responsibilities and obligations in connection with the Cases, the Plan and the implementation of the same; and (b) the retention or employment of the Committee's Professionals and other agents shall terminate.

**O. Creditors' Oversight Committee.**

The Liquidating Trustee shall establish a committee, consisting of no more than three (3) creditors from the existing Committee, to consult with the Liquidating Trustee regarding the Liquidating Trust Assets. The initial members of the Creditors' Oversight Committee shall be selected by the Committee. The Creditors' Oversight Committee shall only exist so long as there are at least two (2) creditors willing to serve. No compensation to the members of the creditors' Oversight Committee shall be paid by the Liquidating Trustee from the Liquidating Trust Assets; provided, however, that reasonable expenses of the Creditors' Oversight Committee may be reimbursed by the Liquidating Trustee at his discretion. The Creditors' Oversight Committee shall have standing as a party in interest to enforce the terms and provisions of the Liquidating Trust Agreement and this Plan. The Creditors' Oversight Committee may take action by majority vote of its members; provided, however, that unanimous consent of all members of the Creditors' Oversight Committee shall be required in order to commence or perform any Drilling Operations. The Creditors' Oversight Committee shall have the authority to retain counsel if necessary to resolve a dispute with the Liquidating Trustee and the reasonable fees and expenses of such counsel shall be a cost of administration of the Liquidating Trust. The members of the Creditors' Oversight Committee shall not be liable for any act done or omitted to be done as a member of the Creditors' Oversight Committee while acting in good faith. The members of the Creditors' Oversight Committee shall not be liable in any event except for gross negligence or willful fraud or misconduct. CIT Capital and its affiliates shall not be entitled to participate in or be a member of the Creditors' Oversight Committee.

## IX.
## LEGAL PROCEEDINGS AFFECTING THE DEBTORS AND ESTATES

This Article of this Amended Disclosure Statement contains a discussion of certain specific Causes of Action held by the Estates and which shall be preserved under the Plan for assertion by the Liquidating Trust.

**A. Preservation of Rights of Action; Settlement of Litigation Claims**

The Liquidating Trustee shall be appointed representative of the respective Estates pursuant to Bankruptcy Code § 1123(b)(3)(B) with respect to the Causes of Action which are part of the Liquidating Trust Assets, including the Apollo Litigation, the Pathfinder Litigation, the Eunice Litigation, the Environmental Reimbursement Claims, and all other Causes of Action held by the Debtors. Except as otherwise ordered by the Bankruptcy Court and subject to any releases in the Plan, on the Effective Date, all Causes of Action shall vest in the Liquidating Trust and the Liquidating Trustee may, and shall have standing to, prosecute, enforce, sue on, and settle or compromise (or decline to do any of the foregoing) any or all of such Causes of Action on behalf of the Debtors' interest in such Causes of Action or any interests assigned to or controlled by the Debtors. The Liquidating Trustee and his or her attorneys and other professional advisors shall have no liability for pursuing or failing to pursue any such Causes of Action.

**B. Settlement of Litigation Claims and Disputed Claims**

At any time after the Confirmation Date and before the Effective Date, notwithstanding anything in the Plan to the contrary, the Debtors, with the consent of the Committee, may settle some or all of the Causes of Action that would be Liquidating Trust Assets or the Disputed Claims subject to obtaining any necessary Bankruptcy Court approval. The Estates' interest in the proceeds from the settlement of a Cause of Action shall constitute an asset of the applicable Estate that shall vest in the Liquidating Trust on the Effective Date in accordance with the Plan.

As noted above, the Plan preserves all Causes of Action, unless expressly provided otherwise, and provides for them to be asserted by the Liquidating Trust from and after the Effective Date of the Plan. In accordance with section 1123(b)(3) of the Bankruptcy Code, the Plan further provides that the Liquidating Trust will have standing, on and after the Effective Date of the Plan, to pursue the Causes of Action transferred to it and will be deemed appointed as the representative of the Estates for the purpose of enforcing, prosecuting and settling such transferred Causes of Action.

**The Plan expressly rejects any *res judicata* or preclusive effect that confirmation of the Plan might otherwise have on any such claims or Causes of Action that vest in the Liquidating Trust.**

**C. Litigation Pending as of the Petition Date**

As of the Petition Date, one or more Debtors were party to the following actions. The status of each is also noted below:

*Heritage Standard Corporation, individually and as Assignee of all the Working Interests in the Pat Howell Well #1 v. Pathfinder Energy Services, LLC, successor in interests to and/or d/b/a Pathfinder Energy Services, Inc.*, Case Number 15,830, originally pending in the 109th Judicial District Court, Winkler County, Texas, now removed to the Bankruptcy Court as adversary proceeding no. 10-03419.

Status: Standard, individually and as Assignee of all the Working Interests in the Pat Howell #1 Well, initiated the above-referenced litigation against Pathfinder Energy Services, LLC ("Pathfinder") on May 3, 2010, asserting claims of negligence for damages caused by misdirected drilling services provided by Pathfinder during the drilling of the Pat Howell #1 Well. Due to Pathfinder's negligence, Standard has been damaged in excess of $700,000.00. The lawsuit is currently set for trial in March 2013 and no discovery has been commenced.

*Heritage Standard Corporation, individually and as Assignee of all the Working Interests in the Pat Howell Well #1 v. Apollo Perforators, Inc.,* Case Number 15,831, originally pending in the 109th Judicial District Court, Winkler County, Texas, but now removed to the Bankruptcy Court as adversary proceeding no. 10-03417.

Status: Standard, individually and as Assignee of all the Working Interests in the Pat Howell #1 Well, initiated the above-referenced litigation against Apollo Perforators, Inc. ("Apollo") on May 3, 2010, asserting claims of negligence for damages caused by the wire line services provided by Apollo during the drilling of the Pat Howell #1 Well. Consolidated and Pat Howell, LLC subsequently joined the lawsuit as a result of their working interest ownership in the Pat Howell #1 Well which was damaged by Apollo's negligence. In February 2012, the Bankruptcy Court conducted a trial in the litigation and ruled in favor of Plaintiffs granting judgment against Apollo. Apollo has appealed

the Bankruptcy Court's ruling to the United States District Court for the Northern District of Texas.

*Heritage Standard Corporation and Heritage Consolidated, LLC. v. Rock Tool, Ltd., and Sonic Petroleum Services, Ltd., v. Michael Wisenbaker, Lakehills Production, Inc., Stratco Operating Company, Inc., Thomas J. Stratton, Jan Stratton, Staley Operating Company, George G. Staley, Trius Energy, LLC, J. Scott Tyson, Dennis Rosini, Thomas Hayley, Jeff Ragland, and JR Operating Company,* Case Number 15,732, pending in the 109th Judicial District Court, Winkler County, Texas.

Status: Standard and Consolidated initiated the above-referenced litigation against Rock Tool, Ltd. ("Rock Tool") and Sonic Petroleum Services, Ltd. ("Sonic") on October 20, 2009, asserting claims for a declaratory judgment that former orders purporting to allow foreclosing of Rock Tool and Sonic's mineral liens on the A.G. Hill, Well No. 1, Section 6, Block 74, PSL Survey, Winkler County, Texas are improper, action to quiet title, trespass to try title, and violations of the Texas Civil Practice and Remedies Code § 12.002. Rock Tool and Sonic filed a counterclaim against Standard and Consolidated, among others, for breach of contract, quantum meruit, unjust enrichment, fraud and conspiracy to defraud, single business enterprise and alter ego, declaratory judgment, foreclosure of mineral liens, and the appointment of a receiver. Rock Tool and Sonic formerly contracted with Stratco Operating Company, Inc. ("Stratco"). Stratco failed to pay Rock Tool and Sonic for the work allegedly performed and sought to hold Standard and Consolidated liable for Stratco's failure to make payment to Rock Tool and Sonic. In the counterclaim, Rock Tool was seeking damages of $130,050.52 and Sonic was seeking damages of $37,063.07. Rock Tool and Sonic further sought to foreclose the mineral lien they were asserting on all of Section 6, Block 74 PSL Survey in Winkler County, Texas.

The lawsuit and the counterclaims were in the discovery phase of the litigation when they were stayed as a result of the Bankruptcy filing. Subsequent thereto, the Debtors entered into negotiations with Rock Tool and Sonic and a settlement of claims against the Estates was entered into and approved by the Bankruptcy Court, which provided for the allowance of a portion of their claims as general unsecured claims, the release of all putative liens against the Estates and the dismissal of the litigation against the Debtors.

Pursuant to the settlement, on July 29, 2011, the Bankruptcy Court entered its Order Dismissing or Nonsuiting Certain Causes of Action as to the Debtors and Remanding Remainder of State Court Case to the District Court, 109th Judicial District, Winkler County, Texas for All Further Proceedings.

*ABC Rental Tools, Inc. and Eunice Well Servicing Co. v. Heritage Standard Corporation, Individually and as Assignee of All the Working Interests in Tubb Estate 22 #2 v. ABC Rental Tools, Inc., Eunice Well Serving Co. and Teaco Energy Service, Inc.,* Case Number 15,484, originally pending in the 109th Judicial District Court, Winkler County, Texas, but removed to the Bankruptcy Court as adversary proceeding no. 10-03420.

Status: This is a lawsuit filed by vendors providing materials and/or services to wells owned and/or operated by the Debtors. ABC Rental Tools, Inc. ("ABC") and Eunice Well Servicing Co. ("Eunice") initiated the above-referenced litigation against Standard on May 19, 2008 asserting claims of breach of contract and suit on a sworn account for Standard's alleged failure to pay for materials, machinery, supplies, services and/or

performance of labor and services provided by ABC and Eunice, used in connection with the operation and maintenance of oil and gas wells.

ABC sought damages of $889,182.35. ABC further asserted its entitlement to mineral liens against several of the Non-Section 6 wells. Eunice sought damages of $1,607,800.53. Eunice further asserted its entitlement to mineral liens against several of the Non-Section 6 wells.

Standard denied either Eunice or ABC were entitled to any recovery in this lawsuit. On June 18, 2010, Standard filed its Third Amended Counterclaim in the lawsuit against ABC, Eunice and Teaco Energy Service, Inc. ("Teaco"), asserting counterclaims for negligence, breach of contract, and breach of warranty. Standard alleged damages in excess of $10,000,000.00 as a result of the actions by ABC, Eunice and Teaco during the workover of the Tubb Estate 22 #2 well in 2007, which resulted in the destruction of the Tubb Estate 22 #2 well, including the wellbore. ABC, Eunice and Teaco's acts significantly damaged the Tubb Estate 22 #2 well, resulting in permanent loss of the value of the well and permanent reduction in the capability of production from the well.

Following the filing of summary judgment motions by ABC and Eunice but prior to trial, the parties participated in a mediation and solved claims among them.

Acme Energy and Endeavor Energy

*Acme Energy Services, Inc. d/b/a Big Dog Drilling v. Heritage Standard Corporation, Heritage Consolidated, LLC, George G. Staley, Trius Energy, LLC, Brian Kerrigan, as Trustee for the Benefit of CIT Capital USA, Inc., and CIT Capital USA, Inc., on its own behalf and as Administrative Agent for Undisclosed Lenders,* Case Number 15,681, pending in the 109th Judicial District Court, Winkler County, Texas.

*Acme Energy Services, Inc. d/b/a Rig Movers Express v. Heritage Standard Corporation, Heritage Consolidated, LLC, George G. Staley, Trius Energy, LLC, Brian Kerrigan, as Trustee for the Benefit of CIT Capital USA, Inc., and CIT Capital USA, Inc., on its own behalf and as Administrative Agent for Undisclosed Lenders*, Case Number 15,687, pending in the 109th Judicial District Court, Winkler County, Texas.

*Endeavor Energy Resources, L.P. v. Heritage Standard Corporation, Heritage Consolidated, LLC, George G. Staley, Trius Energy, LLC, Brian Kerrigan, as Trustee for the Benefit of CIT Capital USA, Inc., and CIT Capital USA, Inc., on its own behalf and as Administrative Agent for Undisclosed Lenders,* Case Number 15,682, pending in the 109th Judicial District Court, Winkler County, Texas.

Nature of Suits: These are related lawsuits filed by the three plaintiffs referenced above (collectively, the "Endeavor Plaintiffs") all of which contracted with Lakehills Production in connection with the drilling of the A.G. Hill Well No. 1. The lawsuits were stayed as to the Debtors as of the Petition Date. On January 28, 2011, the Endeavor Plaintiffs initiated a single adversary proceeding in the Bankruptcy Court seeking declaratory relief as to the validity and priority of their claims and liens against the Debtors and their assets based on the same alleged acts and conduct that were raised in the Winkler County state court suits previously filed.

Acme Energy Services, Inc. d/b/a Big Dog Drilling ("Big Dog") initiated its state court suit against Standard and Consolidated on July 16, 2009 asserting claims for quantum meruit and foreclosure of its alleged mineral liens for Standard and Consolidated's alleged failure to pay for the hauling and furnishing of materials, machinery, or supplies and/or performance of labor and services and is seeking damages of $862,725.85 plus attorney's fees. Acme Energy Services, Inc. d/b/a Rig Movers Express ("Rig Movers") initiated its state court suit against Standard and Consolidated on July 21, 2009 asserting claims for quantum meruit and foreclosure of its alleged mineral liens for Standard and Consolidated's alleged failure to pay for the hauling and furnishing of materials, machinery, or supplies and/or performance of labor and services and is seeking damages of $146,744.75 plus attorney's fees. Endeavor Energy Resources, L.P. ("Endeavor") filed its state court suit against Standard and Consolidated on July 16, 2009, asserting claims for quantum meruit and foreclosure of its alleged mineral liens for Standard and Consolidated's alleged failure to pay for the hauling and furnishing of materials, machinery, or supplies and/or performance of labor and services provided by Endeavor, used in connection with the operation and maintenance of oil and gas wells. Endeavor is seeking damages of $168,824.11, plus attorney's fees.

These state court proceedings were stayed as to the Debtors but have otherwise proceeded against the remaining defendants. In January 2011, the Endeavor Plaintiffs reasserted these same claims and allegations in a separate and consolidated adversary proceeding in the Bankruptcy Court as described in Section D below.

*Nova Mud, Inc. v. Heritage Standard Corporation, Heritage Consolidated, LLC, George G. Staley, Trius Energy, LLC, Brian Kerrigan, as Trustee for the Benefit of CIT Capital USA, Inc., and CIT Capital USA, Inc., on its own behalf and as Administrative Agent for Undisclosed Lenders,* Case Number 15,683, pending in the 109th Judicial District Court, Winkler County, Texas.

Status: This is a lawsuit filed by a vendor. Nova Mud, Inc. ("Nova") initiated the above-referenced litigation against Standard and Consolidated on July 17, 2009, asserting claims for quantum meruit and foreclosure of its alleged mineral liens for Standard and Consolidated's alleged failure to pay for the hauling and furnishing of materials, machinery, or supplies and/or performance of labor and services provided by Nova, used in connection with the operation and maintenance of oil and gas wells. Nova is seeking damages of $146,744.75 plus attorney's fees. Nova is further seeking to foreclose the mineral lien it is asserting on all of Section 6, Bock 74, PSL Survey, in Winkler County, Texas. Standard and Consolidated deny liability and deny that Nova is entitled to a lien, as Nova did not contract with either Standard or Consolidated in connection with the services and materials Nova furnished. This lawsuit was in the discovery phase of the litigation when it was stayed as a result of the bankruptcy filing.

*Frac Tech Services, LLC v. Heritage Standard Corporation,* Case Number 15,774, pending in the 109th Judicial District Court, Winkler County, Texas.

Status: This is a lawsuit filed by a vendor. Frac Tech Services, LLC ("Frac Tech") initiated the above-referenced litigation against Standard on February 12, 2010 asserting claims for breach of contract/suit on a sworn account for Standard's alleged failure to pay for oil-well simulation services provided by Frac Tech. Frac Tech is seeking damages of $153,720.95, plus attorney's fees. This lawsuit was in the discovery phase of the litigation when it was stayed as a result of the bankruptcy filing.

*W&W Energy Services v. Heritage Standard Corporation and Heritage Resources, Inc.*, Case Number 15,833, pending in the 109th Judicial District Court, Winkler County, Texas.

Status: This is a lawsuit filed by a vendor. W&W Energy Services ("W&W") initiated the above-referenced litigation against Standard on May 7, 2010 asserting claims for breach of contract, suit on a sworn account, foreclosure of its alleged mineral liens, and quantum meruit for Standard's alleged failure to pay for material, labor, equipment machinery and/or supplies provided by W&W, used in connection with the transportation or hauling of equipment used in mineral activities. W&W is seeking damages of $4,006.80, plus attorney's fees. W&W is further seeking to foreclose the mineral lien it is asserting on Well #1022, Tubb Estate #22, Section 22, Block C-23, PSL Survey, in Winkler County, Texas. This lawsuit was in the early stages of the litigation when it was stayed as a result of the bankruptcy filing.

*Suttles Logging, Inc. v. Heritage Standard Corporation*, Case Number 15,829, pending in 109th Judicial District Court, Winkler County, Texas.

Status: This is a lawsuit filed by a vendor. Suttles Logging, Inc. ("Suttles") initiated the above-referenced litigation against Standard on April 30, 2010 asserting claims for breach of contract, suit on a sworn account, quantum meruit, unjust enrichment and foreclosure of its alleged mineral liens for Standard's alleged failure to pay for material and services provided by Suttles, used in connection with the operation and maintenance of oil and gas wells. Suttles is seeking damages of $93,820.00 plus attorney's fees. Suttles is further seeking to foreclosure the mineral lien it is asserting on the Pat Howell # 1 Well, SLI-455, Section 6, Block 74, Abstract #521, PSL Survey, in Winkler County, Texas. This lawsuit was in the early stages of the litigation when it was stayed as a result of the bankruptcy filing.

*O-Tex Pumping, LLC v. Heritage Standard Corporation,* Case Number 15,843, pending in the 109th Judicial District Court, Winkler County, Texas.

Status: This is a lawsuit filed by a vendor. O-Tex Pumping, LLC ("O-Tex") initiated the above-referenced litigation against Standard on June 3, 2010 asserting claims for breach of contract, suit on a sworn account, quantum meruit and foreclosure of its alleged mineral lien for Standard's alleged failure to pay for material and services provided by O-Tex used in connection with the operation and maintenance of oil and gas wells. O-Tex is seeking damages of $184,947.65, plus attorney's fees. O-Tex is further seeking to foreclose the mineral lien it is asserting on Section 6, Block 74, PSL/Moreland Survey, in Winkler County, Texas. This lawsuit was in the early stages of the litigation when it was stayed as a result of the bankruptcy filing.

*Unicom Services, Inc. v. Lakehills Production, Inc., Stratco Operating Company, Heritage Standard Corporation, Heritage Consolidated, LLC and Trius Energy*, Case Number 15,813, pending in the 109th Judicial District Court, Winkler County, Texas.

Status: This is a lawsuit filed by a vendor. Unicom Services, Inc. ("Unicom") initiated the above-referenced litigation against Standard and Consolidated on March 31, 2010, asserting claims for breach of contract, suit on a sworn account, quantum meruit and foreclosure of its alleged mineral liens in connection with Standard and Consolidated's alleged failure to pay for rental, transportation charges, repairs, interest and maintenance on certain equipment provided by Unicom, used in connection with the operation and

maintenance of oil and gas wells. Unicom is seeking damages of $8,116.03, plus attorney's fees. Unicom is further seeking to foreclose the mineral lien it is asserting on Section 6, Block 74, PSL/Moreland Survey, in Winkler County, Texas. This lawsuit was in the early stages of the litigation when it was stayed as a result of the bankruptcy filing.

*J.G. Solis Corporation v. Heritage Standard Corporation*, Case Number 15,844, pending in the 109th Judicial District Court, Winkler County, Texas.

Status: This is a lawsuit filed by a vendor. J.G. Solis Corporation d/b/a Liberty Pump and Supply Company ("J.G. Solis") initiated the above-referenced litigation against Standard on June 3, 2010 asserting claims for suit on a sworn account and quantum meruit for Standard's alleged failure to pay for goods, services or merchandise provided by J.G. Solis. J.G. Solis is seeking damages of $147,594.63, plus attorney's fees. This lawsuit was in the early stages of the litigation when it was stayed as a result of the bankruptcy filing.

*Foundation Energy Fund II, LLC v. Heritage Standard Corporation,* Case Number DC-09-15873, pending in the 68th Judicial District Court, Dallas County, Texas.

Status: Foundation Energy Fund II, LLC ("Foundation Energy") initiated the above-referenced litigation against Standard on November 25, 2009 asserting claims for breach of a contract (a joint operating agreement), negligence, gross negligence and a declaratory judgment. Foundation Energy alleges it owns a working interest and a revenue interest in a well in Winkler County, Texas known as Tubb Estate 1-25, located in Section 25, Block C-23, PSL Survey in Winkler County, Texas. Foundation Energy alleges Standard breached a joint operating agreement by failing to obtain Foundation Energy's written consent before reworking, plugging, backing or deepening the well in which Foundation Energy alleges it maintains an interest. Foundation Energy has not alleged a certain dollar amount of damages it is seeking. Standard maintains that written consent was properly obtained from Foundation Energy. The lawsuit was set for a default judgment and/or dismissal hearing on October 11, 2010 at 9:00 a.m., when it was stayed as a result of the bankruptcy filing.

JMR *Industries, LTD v. Heritage Standard Corporation,* Case Number DC-10-06637, pending in the 298th Judicial District Court, Dallas County, Texas.

Status: This is a lawsuit filed by a vendor. JMR Industries, LTD ("JMR Industries") initiated the above-referenced litigation against Standard on June 7, 2010 asserting claims for breach of a lease agreement for various equipment, including portable generators, portable light towers and related items. JMR Industries is seeking damages of $95,687.39, plus attorney's fees. This lawsuit was in the early stages of the litigation when it was stayed as a result of the bankruptcy filing.

Coastal *Chemical Co., LLC v. Heritage Standard Corp.*, Case Number DC-10-06682, pending in the 192nd Judicial District Court, Dallas County, Texas.

Status: This is a lawsuit filed by a vendor. Coastal Chemical Co., LLC ("Coastal Chemical") initiated the above-referenced litigation against Standard on June 7, 2010 asserting a claim for a suit on a sworn account in connection with Standard's alleged failure to pay for various chemical products provided by Coastal Chemical. Coastal

Chemical is seeking damages of $244,723.48, plus attorney's fees. This lawsuit was in the early stages of the litigation when it was stayed as a result of the bankruptcy filing.

*Simons Petroleum, Inc. v. Heritage Standard Corporation,* Case Number DC-10-07768-A, pending in the 14th Judicial District Court, Dallas County, Texas.

Status: This is a lawsuit filed by a vendor. Simons Petroleum, Inc. ("Simons") initiated the above-referenced litigation against Standard on June 10, 2010 asserting claims for breach of contract, suit on a sworn account, unjust enrichment, quantum meruit, and foreclosure of its alleged mineral lien in connection with Standard's alleged failure to pay for labor, services or materials provided by Simons, used in connection with the operation and maintenance of oil and gas wells. Simons is seeking damages of $274,698.95, plus attorney's fees. Simons is further seeking to foreclose the mineral lien it is asserting on Section 6, Block 74, PSL/Moreland Survey, in Winkler County, Texas. This lawsuit was in the early stages of the litigation when it was stayed as a result of the bankruptcy filing.

*Lonnie McDade v. Michael B. Wisenbaker, Heritage Standard Corporation, Heritage Resources, Inc., Heritage Gathering Corporation, Heritage Disposal Corporation, Heritage Oil, L.P., Case Inlet, L.P., SSBW, L.P., Chase Avenue Corporation, Rancho Heilo Brazos, L.P.,* Case Number DC-10-09517, pending in the 116th Judicial District Court, Dallas County, Texas.

Status: Lonnie McDade ("McDade") initiated the above-referenced litigation against Standard and several other affiliated companies on August 4, 2010, asserting claims of breach of contract, request for declaratory relief and an application for temporary injunction against Standard related to his former employment with Standard. On August 30, 2010, Standard filed various counterclaims against McDade, including breach of agreement, fraud and fraudulent misrepresentations and unjust enrichment in connection with McDade's former employment. On October 12, 2010, an Order of Closing was entered in the case as to Defendant Standard due to its bankruptcy filing.

*Texas Energy Services, LLC, a Delaware Limited Liability Company, d/b/a Texas Energy Services, successor in interest to Texas Energy Services, L.P. v. Heritage Standard Corporation,* Case Number 10-02-48821-CV, pending in the 79th Judicial District Court, Jim Wells County, Texas.

Status: This is a lawsuit filed by a vendor. Texas Energy Services, LLC, a Delaware Limited Liability Company, d/b/a Texas Energy Services, successor in interest to Texas Energy Services, L.P. ("Texas Energy") initiated the above-referenced litigation against Standard on February 25, 2010, asserting claims for breach of contract, suit on a sworn account, quantum meruit, unjust enrichment and foreclosure of alleged mechanics liens in connection with Standard's alleged failure to pay for oilfield well services provided by Texas Energy, used in connection with the operation and maintenance of oil and gas wells. Texas Energy is seeking damages of $61,212.38, plus attorney's fees. Texas Energy is further seeking to foreclose the mechanics lien it is asserting on the Tubb Estate Well #25-1, in Winkler County, Texas. This lawsuit was in the early stages of the litigation when it was stayed as a result of the bankruptcy filing.

*Forbes Energy Services, LLC, successor in interest to CC Forbes Company, L.P. v. Heritage Standard Corporation,* Case Number 10-02-48822-CV, pending in the 79th Judicial District Court, Jim Wells County, Texas.

Status: This is a lawsuit filed by a vendor. Forbes Energy Services, LLC, successor in interest to CC Forbes Company, L.P. ("CC Forbes") initiated the above-referenced litigation against Standard on February 25, 2010, asserting claims for breach of contract, suit on a sworn account, quantum meruit, unjust enrichment and foreclosure of alleged mechanics liens in connection with Standard's alleged failure to pay for oilfield well services provided by CC Forbes, used in connection with the operation and maintenance of oil and gas wells. CC Forbes is seeking damages of $793,844.84, plus attorney's fees. CC Forbes is further seeking to foreclose the mechanics lien it is asserting on the Tubb Estate Well #25-1, in Winkler County, Texas. This lawsuit was in the early stages of the litigation when it was stayed as a result of the bankruptcy filing.

*EXPRO Americas, LLC v. Heritage Standard Corp.*, Case Number 962853, pending in the County Court at Law Number 1, Harris County, Texas.

Status: This is a lawsuit filed by a vendor. EXPRO Americas, LLC ("EXPRO") initiated the above-referenced litigation against Standard on May 20, 2010 asserting a claim of a suit on a sworn account in connection with Standard's alleged failure to pay for services provided by EXPRO. EXPRO is seeking damages of $48,621.99, plus attorney's fees. This lawsuit was in the early stages of the litigation when it was stayed as a result of the bankruptcy filing.

*Kuykendall Bottom Hole Pressure, Inc. v. Heritage Standard Corp.*, Case Number CC15685, pending in the County Court at Law No. 1, Midland County, Texas.

Status: Kuykendall Bottom Hole Pressure, Inc. ("Kuykendall") initiated the above-referenced litigation against Standard on July 12, 2010 asserting a claim of a suit on a sworn account in connection with Standard's alleged failure to pay for services provided by Kuykendall. Kuykendall is seeking damages of $11,638.50, plus attorney's fees. This lawsuit was in the early stages of the litigation when it was stayed as a result of the bankruptcy filing.

*Warrior Energy Services Corporation d/b/a Bobcat Pressure Control v. Heritage Standard Corporation,* Case Number 3:09-cv-02086-L, pending in the United States District Court for the Northern District of Texas, Dallas Division.

Status: This is a lawsuit filed by a vendor. Warrior Energy Services d/b/a Bobcat Pressure Control ("Warrior Energy") initiated the above-referenced litigation against Standard on November 3, 2009, asserting claims for breach of contract, open account, account stated, promissory estoppel, unjust enrichment and quantum meruit in connection with Standard's alleged failure to pay for well related services and equipment provided by Warrior Energy, used in connection with the operation and maintenance of oil and gas wells. Warrior Energy sought damages of $240,005.07 plus attorney's fees. On or around June 8, 2010, the parties settled Warrior Energy's claims and agreed to administratively close the above-referenced case pending Standard's satisfaction of an agreed payment schedule, and granting Warrior Energy a Stipulated Final Judgment in the amount of $105,514.57. The Court entered the order closing the case on June 22, 2010. However, Standard failed to comply with the terms of the agreed payment

schedule, and on August 13, 2010, Warrior Energy filed a Motion to Reopen Administratively Closed Case for the purpose of entering the Stipulated Final Judgment. To date, the case has not been reopened.

*ITS Rental and Sales, Inc. v. Heritage Standard Corporation,* Case Number DC-10-09664-A, pending in the 14th Judicial District Court, Dallas County, Texas.

Status: This is a lawsuit filed by a vendor. ITS Rental and Sales, Inc. d/b/a International Tubular Services ("ITS") initiated the above-referenced litigation against Standard on August 6, 2010, asserting claims for breach of contract, suit on a sworn account, and quantum meruit, in connection with Standard's alleged failure to pay for services, equipment and supplies provided by ITS, used in connection with the operation and maintenance of oil and gas wells. ITS is seeking damages of $224,917.97, plus attorney's fees. Standard's answer or otherwise responsive was not yet due when the litigation was stayed as a result of the bankruptcy filing.

*Arguijo Oilfield Services, Inc. v. Heritage Standard Corporation,* Case Number 15,885, pending in the 109th Judicial District Court, Winkler County, Texas.

Status: This is a lawsuit filed by a vendor. Arguijo Oilfield Services, Inc. ("Arguijo") initiated the above-referenced litigation against Standard on August 12, 2010, asserting a claim for a suit on a sworn account in connection with Standard's alleged failure to pay for services provided by Arguijo, used in connection with the operation and maintenance of oil and gas wells. Arguijo is seeking damages of $193,414.52, plus attorney's fees. This lawsuit was in the early stages of the litigation when it was stayed as a result of the bankruptcy filing.

*Aries Well Service, Inc. v. Heritage Standard Corporation,* Case Number 15,882, pending in the 109th Judicial District Court, Winkler County, Texas.

Status: This is a lawsuit filed by a vendor. Aries Well Service, Inc. ("Aries") initiated the above-referenced litigation against Standard on August 5, 2010, asserting claims for breach of contract, suit on a sworn account, quantum meruit, promissory estoppel and foreclosure of alleged mineral liens in connection with Standard's alleged failure to pay for maintenance and repair services provided by Aries, used in connection with the operation and maintenance of oil and gas wells. Aries is seeking damages of $469,997.28, plus attorney's fees. Aries is further seeking to foreclose the mineral liens it is asserting on the Pat Howell #1 well, Section 6, Block 74, PSL/Moreland Survey, in Winkler County, Texas, the Tubb "9" Unit #2 well, Section 9, Block 74 PSL/Moreland Survey in Winkler County, Texas, the Tubb Estate 22 #2 well, Section 22, Block C-23, PSL Survey in Winkler County, Texas, the Tubb Estate #3 well, Section 22, Block C-23, PSL Survey in Winkler County, Texas, the Tubb Estate 25 #1 well, Section 25, Block C-23 PSL Cowden CC Survey in Winkler County, Texas, the Tubb Estate 25 #3 well, Section 25, Block C-23 PSL Cowden CC Survey in Winkler County, Texas, the Tubb Estate 75 #1 well, Section 1, Block 75 PSL/C.C. Cowden Survey in Winkler County, Texas, the Wolfe Unit #2 well, Section 24, Block C-23, PSL/C.C. Cowden Survey in Winkler County, Texas, the Wolfe Unit #4 well, Block C-23, PSL/C.C. Cowden Survey in Winkler County, Texas, the Wolfe Unit #5 well, Block C-23, PSL/C.C. Cowden Survey in Winkler County, Texas, the Wolfe Unit #5 well, Block C-23, PSL/C.C. Cowden Survey in Winkler County, Texas, the Wolfe Unit #6 well, Block C-23, PSL/C.C. Cowden Survey in Winkler County, Texas, and the Wolfe Unit #7 well, Block

C-23, PSL/C.C. Cowden Survey in Winkler County, Texas. This lawsuit was in the early stages of the litigation when it was stayed as a result of the bankruptcy filing.

*4-Star Tank Rental, L.P. v. Heritage Standard Corporation,* Case Number 15,886, pending in the 109th Judicial District Court, Winkler County, Texas.

Status: This is a lawsuit filed by a vendor. 4-Star Tank Rental, L.P. ("4-Star") initiated the above-referenced litigation against Standard on August 12, 2010, asserting claims for breach of contract and foreclosure of alleged mechanics liens in connection with Standard's alleged failure to pay for services, labor and materials provided by 4-Star, used in connection with the operation and maintenance of oil and gas wells. 4-Star is seeking damages of $61,813.60, plus attorney's fees. 4-Star is further seeking to foreclose the mechanics liens it is asserting on all of Section 22, Block C-23, PSL Survey, in Winkler County, Texas, all of Section 9, Block 74, PSL Survey in Winkler County, Texas and all of Section 6, Block 74, PSL Survey in Winkler County, Texas. This lawsuit was in the early stages of the litigation when it was stayed as a result of the bankruptcy filing.

*Aquila Drilling Co., L.P. v. Heritage Standard Corporation and Heritage Consolidated, LLC,* Case Number 172,966-B, pending in the 78th Judicial District Court, Wichita County, Texas.

Status: This is a lawsuit filed by a vendor. Aquila Drilling Co., L.P. ("Aquila") initiated the above-referenced litigation against Standard and Consolidated on July 16, 2010, asserting claims for breach of contract, suit on a sworn account, and quantum meruit in connection with Standard and Consolidated's alleged failure to pay for labor, materials, machinery and supplies provided by Aquila, used in connection with the operation and maintenance of oil and gas wells. Aquila is seeking damages of $5,114,093.47, plus attorney's fees. This lawsuit was in the early stages of the litigation when it was stayed as a result of the bankruptcy filing.

*Butch's Rat Hole & Anchor Service, Inc. v. Heritage Standard Corporation*, Case Number 10-03-22079, pending in the 286th Judicial District Court, Hockley County, Texas.

Status: This is a lawsuit filed by a vendor. Butch's Rat Hole & Anchor Service, Inc. ("Butch's Rat Hole") initiated the above-referenced litigation against Standard on March 23, 2010 asserting a claim of a suit on a sworn account in connection with Standard's alleged failure to pay for goods and services provided by Butch's Rat Hole. Butch's Rat Hole is seeking damages of $14,526.00, plus attorney's fees. On August 24, 2010, Butch's Rat Hole filed its Motion for Summary Judgment on all claims against Standard. Butch's Rat Hole's Motion for Summary Judgment has been adjourned as a result of the bankruptcy filing.

*Well Foam, Inc. v. Heritage Standard Corporation*, Case Number 15,728, pending in the 109th Judicial District Court, Winkler County, Texas.

Status: This is a lawsuit filed by a vendor. Well Foam, Inc. ("Well Foam") initiated the above-referenced litigation against Standard on December 3, 2009, asserting claims for suit on a sworn account and quantum meruit for Standard's alleged failure to pay for goods, services or merchandise provided by Well Foam. Well Foam is seeking damages of $156,660.05, plus attorney's fees. This lawsuit was in the discovery stage of litigation when it was stayed as a result of the bankruptcy filing.

*Professional Fluid Services, LLC v. Heritage Standard Corp.*, Case Number 2009-7723-A, pending in the 78th Judicial District Court, Lafayette Parish, Louisiana.

Status: This is a lawsuit filed by a vendor. Professional Fluid Services, Inc. ("Professional Fluid") initiated the above-referenced litigation against Standard on December 3, 2009, asserting a claim for a suit on an open account for Standard's alleged failure to pay for equipment and services provided by Professional Fluid. Standard and Professional Fluid entered into a settlement of the litigation, with a Consent Judgment in the amount of $73,200.00 which required an initial payment of $35,000.00 in May 2010 and the remaining balance to be paid by July 15, 2010. To date, Standard has not made the payment due July 15, 2010. This litigation was stayed as a result of the bankruptcy filing.

**D. Post-Petition Litigation**

As of the date of this Amended Disclosure Statement, one or more of the Debtors have become a party to the following post-petition adversary proceedings in the Bankruptcy Case. The status of each is also noted below.

*Regency Field Services, LLC v. Heritage Standard Corporation, George G. Staley and JR Operating Company*, Adversary Proceeding No. 10-03402-hdh.

Status: This was a Complaint for Interpleader filed by Regency Field Services, LLC ("Regency") seeking to deposit into the registry of the Court certain funds owed to the working and royalty owners for gas purchased by Regency from producing properties operated by Standard. Standard and certain of the owners contested the relief by Regency. An agreement was subsequently reached among the parties providing for the distribution of held funds and the continued distribution of funds going forward and to reimburse Regency for a portion of its fees incurred in connection with its action. The action was thereafter dismissed and the adversary was closed on March 21, 2011.

*Endeavor Energy Resources, L.P. , Acme Energy Services, Inc. d/b/a Big Dog Drilling and Acme Energy Services, Inc. d/b/a Rig Movers Express v. Heritage Standard Corporation and Heritage Consolidated, LLC*, Adversary Proceeding No. 11-03047.

Status: On January 28, 2011, the Endeavor Plaintiffs initiated a single adversary proceeding in the Bankruptcy Court seeking declaratory relief as to the validity and priority of their putative claims and mineral liens against the Debtors and certain of their assets based on the same alleged acts and conduct that were raised in the Winkler County state court suits filed prior to the Bankruptcy Case and described in Section C above.

Standard and Consolidated deny liability and deny that the Endeavor Plaintiffs are entitled to a mineral lien for the primary reason that they did not contract with either Standard or Consolidated in connection with the services and materials furnished.

In August 2011, the Debtors sought and obtained leave to file an third party complaint against Trius Energy, LLC ("Trius") based primarily on Trius' obligations to indemnify the Debtors for any and all claims and obligations arising from putative claims and liens related to the A.G. Hill Well operations, such as those asserted by the Endeavor Plaintiffs. Thereafter, the Debtors obtained a default judgment against Trius on its claims for indemnification.

In September 2011, the Endeavor Plaintiffs sought leave to amend their complaint for declaratory relief to add Trius and Cheyenne Prospect JV and to assert additional relief for constructive trust and equitable lien rights based upon alleged fraud and/or inequitable conduct by the Debtors. The Bankruptcy denied the request to add Cheyenne Prospect JV, but allowed the Endeavor Plaintiffs to amend their complaint to attempt to plead facts supporting their additional claims.

On December 15, 2011, the Debtors filed their motion to dismiss the additional claims asserted by the Endeavor Plaintiffs in their amended complaint based on their failure to assert a claim for which relief could be granted. The Bankruptcy Court granted the Debtors' motion on February 10, 2012.

On February 17, 2011, the Bankruptcy Court granted the Debtors' motion for summary judgment as to all remaining relief requested by the Endeavor Plaintiffs in the adversary proceeding.

The Endeavor Plaintiffs have appealed the Bankruptcy Court's orders dismissing the additional claims and granting summary judgment and such appeals are pending as of the filing of this Amended Disclosure Statement.

*Federal Insurance Company v. City of Midland, Heritage Consolidated LLC, Heritage Standard Corporation and the Texas Railroad Commission*, Adversary No. 11-03512-hdh.

Status: Federal Insurance filed its complaint seeking declaratory relief as to the method and timing of funding the obligations to satisfy the Environmental Claims asserted by the City of Midland and the scope of its coverage obligations to the Debtors under policies of insurance issued for their benefit. With respect to the scope of insurance coverage, Federal Insurance has taken the position that at least a portion of the remediation costs under the Ritter Plan are not covered under the existing policy terms. This potentially excluded portion relates to a specific area around the existing TH-6 recovery well. While this coverage exclusion is contested by the Debtors, and the extent of required remediation is questionable as well as whether the Debtors caused any such contamination, the original cost estimate for this portion of the Ritter Plan was $800,000. In August 2012, the RRC advised the Debtors that it intended to commence drilling two monitoring wells in the TH-6 area in accordance with the Ritter Plan and subsequently agreed to fund those operations and agreed in writing to waive any and all claims or rights of reimbursement for such costs from the Estates. As a result, the remaining cost estimate for the Debtors' potential share of the TH-6 remediation under the Ritter Plan should be no more than approximately $675,000.00.

As a result of further settlement negotiations, the Court entered that certain *Agreed Order for Continuance and Stay of Proceedings* [Docket No. 28] providing for the abatement of the remediation under the Ritter Plan, except for monitoring reports, and the postpone of the trial setting. The parties are required to submit an agreed scheduling order in the adversary proceeding on or before January 15, 2013. No discovery has been conducted by the parties.

**E. Potential Litigation**

As noted above, the Plan preserves all Causes of Action, unless expressly provided otherwise and provides for them to be transferred to the Liquidating Trust. In addition to the Causes of Action which

have already been asserted by the Estates (discussed in prior sections of this Amended Disclosure Statement), the Estates do or may hold the following Causes of Action:

**1. Avoidance Causes of Action**

Pursuant to Sections 547 and 550 of the Bankruptcy Code, a trustee (or debtor in possession pursuant to Section 1107 of the Bankruptcy Code) may avoid and recover any transfer of an interest of the debtor in property to or for the benefit of a creditor if such transfer (i) was for or on account of an antecedent debt owed by the debtor before the transfer was made, (ii) was made while the debtor was insolvent, (iii) was made within ninety (90) days of the bankruptcy filing, and (iv) resulted in the creditor receiving more on account of the debt than if the transfer had not been made, the debtor were liquidated under Chapter 7 of the Bankruptcy Code, and the creditor were limited to recovery on the debt through the Chapter 7 process. For creditors who are considered "insiders" of the Debtors, that look back period is extended to one year.

The Estates may hold such claims against the recipients of payments reflected on the Statement of Financial Affairs Filed for the Debtors on September 27, 2010 [Docket No. 92 and Docket No. 24 in the Standard Case], in response to Item No. 3 (the "Lookback Payment Listings"). The Lookback Payment Listings, which will be amended as explained hereinbelow, are incorporated herein by reference for all intents and purposes. **Creditors shown on the Lookback Payment Listings are hereby notified that the Plan preserves the right to pursue claims and Causes of Action for the avoidance and recovery of actually or constructively fraudulent transfers for the benefit of the Liquidating Trust following confirmation of the Plan**.

The Debtors estimate that they made payments in the approximate amount of $960,000.00 to vendors[12] within the ninety-day period preceding the Petition Date and payments of approximately $1.4 million to creditors who were related parties and/or insiders within the one-year period preceding the Petition Date. [13] The vast majority of the insider/related party transfers represent payments on existing royalty and working interests on various wells from which joint interest billings were paid. These payments by amount and payee will be listed in the Bankruptcy Statements of Financial Affairs as will be amended prior to the hearing this Disclosure Statement. Based upon an initial review of the transfers and nature of the payments, the Debtors and Committee do not anticipate material recoveries, if any, from the transferees; however, such review is ongoing. In order to preserve claims for the Liquidating Trustee against potential preference defendants, the Debtors have secured tolling agreements against those parties who the Debtors and Committee believe may have exposure to the estate. No material analysis has been made on potential defenses to the non-insider claims. The Debtors have also secured tolling agreements from insiders who received transfers during the one year period prior to the Petition Date in order to preserve potential claims pending approval of the settlement which is incorporated in the Plan.

Under section 548 of the Bankruptcy Code and various state laws, a debtor may recover certain prepetition transfers of property, including the grant of a security interest in property, made while insolvent to the extent the debtor receives less than fair value for such property. In addition, avoidance actions exist under sections 544, 545, 549 and 553(b) of the Bankruptcy Code that allow a debtor to avoid

[12] This does not include amounts for professionals, whose payments will be reflected in response to question 9 of the amended Statement of Financial Affairs.

[13] The Debtors' Statement of Financial Affairs presently on file reflects transfers of $3,201,342.90 to creditors who are non-siders and $5,905,842.84 to creditors who are related parties or insiders. Upon further review as part of the disclosure process and avoidance claim analysis, it was discovered that these transfers also included all gross payments for royalty and working interests (with no deductions for JIB payments) and normal payroll to employees. Accordingly, the Debtors will be filing an amendment to its Statement of Financial Affairs to reflect the actual transfer to creditors during the applicable periods.

and/or recover certain property. As of the date of the distribution of this Amended Disclosure Statement, the Debtors and Committee have not yet estimated the potential recovery from the prosecution of their Avoidance Actions but they do not believe that such amounts will be material.

**2. Subordination Causes of Action**

Pursuant to section 510(c) of the Bankruptcy Code, after notice and a hearing, a bankruptcy court may, under principles of equitable subordination, subordinate for purposes of distribution all or part of an allowed claim to all or part of another allowed claim. Causes of action under Section 510(c) of the Bankruptcy Code are referred to as "Subordination Causes of Action." Pursuant to Section 6.01 of the Plan, the following entities have conditionally agreed to subordinate the majority of their claims to the other creditors of these Estates consistent with the Global Resolution Proposal: Case Inlet, L.P., Heritage Disposal, Heritage Gathering, Heritage Oil, L.P., Heritage Resources, Inc., SSB, L.P., the Chase Avenue Corporation, Wise Oil Venture, Kaloni Place Interests and Michael B. Wisenbaker. Assuming the settlement is approved and the claims of these parties are subordinated, the Debtors do not believe that there will be any Subordination Causes of Action necessary. However, to the extent they are necessary, the Debtors do or may hold Subordination Causes of Action, which are specifically reserved and will vest in the Liquidating Trust.

**3. Collection Causes of Action**

As of the date hereof, certain parties owe amounts to the Debtors on account of the Debtors oil and gas operations. To the extent that amounts owing to the Debtors are currently past due or may hereafter become past due, the Estates may hold various claims against such parties for collection of the amounts owing. Any claims arising from such obligations shall constitute part of the Causes of Action specifically reserved and will vest in the Liquidating Trust.

**4. Notice of Preservation of Causes of Action**

The Debtors believe that substantial Causes of Action exist which could be asserted by the Debtors and/or the Estates against third parties. In addition to claims and Causes of Action held by the Estates and specifically referenced in the Plan or this Amended Disclosure Statement, the additional persons presently known to the Debtors who may constitute defendants to claims or Causes of Action preserved or reserved under the Plan are listed in the *Schedule of Potential Litigation Defendants and Potential and Retained Claims and Causes of Action* attached as Exhibit "B" to the Plan. The potential Causes of Action presently known to the Debtors which may have arisen under contract, tort, general corporate or securities laws are also listed on Exhibit "B" to the Plan. It is possible that Estate representatives and their successors may discover other Persons who may be liable, as well as other Causes of Action, beyond those listed in Exhibit "B." The fact that Causes of Action and Persons may be currently unknown to the Debtors does not evidence any intention to waive or release them. The Debtors wish to make clear that they wish to invoke all doctrines available which may expand statutes of limitations including, but not limited to, the discovery rule.

**PLEASE TAKE NOTICE: WITH THE EXCEPTION OF THOSE CAUSES OF ACTION THAT ARE EXPRESSLY RELEASED OR WAIVED UNDER THE TERMS OF THE PLAN, ALL CAUSES OF ACTION OF THE DEBTORS AND THEIR ESTATES, WHETHER OR NOT SPECIFIED HEREIN, WILL BE PRESERVED AND TRANSFERRED TO THE LIQUIDATING TRUST. THE LACK OF DISCLOSURE OF ANY PARTICULAR CAUSE OF ACTION SHALL NOT BE DEEMED TO PRECLUDE OR CONSTITUTE *RES JUDICATA,* RELEASE OR WAIVER OF ANY SUCH CAUSE**

**OF ACTION, IT BEING THE INTENTION OF THE PLAN PROPONENTS FOR THE PLAN TO PRESERVE AND TRANSFER TO THE LIQUIDATING TRUST ANY AND ALL CAUSES OF ACTION HELD BY THE DEBTORS OR THEIR ESTATES PRIOR TO AND/OR AS OF THE EFFECTIVE DATE OF THE PLAN, AND ANY CAUSES OF ACTION OF THE DEBTORS OR ESTATES WHICH COME INTO BEING THEREAFTER.**

The Debtors cannot presently estimate the amount of recovery which might be made on these Causes of Action to be preserved and transferred to the Liquidating Trust.

### 5. Potential Lawsuits by the Texas Railroad Commission

The Texas Railroad Commission asserts that it can seek injunctive relief against Standard both to address the Aquifer contamination as well as to perform and/or fund the Debtors' plugging and abandonment obligations under Texas law. With respect to the Aquifer contamination, the Debtors believe this potential liability has already been determined by the Bankruptcy Court and is to be remedied pursuant to the Court-approved Ritter Plan. Any injunctive relief sought by the Texas Railroad Commission which is inconsistent with the Bankruptcy Court's rulings would be contested on this and other grounds by the Debtors and likely the subsequently appointed Liquidating Trustee.

## X.
## OTHER SIGNIFICANT PLAN PROVISIONS

### A. Treatment of Executory Contracts and Unexpired Leases

Except to the extent (a) the Debtor previously has assumed or rejected an executory contract or unexpired lease, (b) prior to the Effective Date, the Bankruptcy Court has entered an Order assuming an executory contract or unexpired lease, (c) at the Confirmation Hearing, the Bankruptcy Court approves the assumption of any executory contracts or unexpired leases, or (d) the executory contract or unexpired lease is a Designated Contract set forth on Exhibit "C" to the Plan, the Debtors' executory contracts and unexpired leases shall be deemed rejected on the Effective Date, pursuant to Bankruptcy Code §§ 365 and 1123. The executory contracts and unexpired leases identified on Exhibit "C" of the Plan, which shall be the Designated Contracts, shall be assumed by the applicable Debtor and assigned to the Liquidating Trustee to be held in the Liquidating Trust. The Debtors and Committee are not including any existing oil & gas leases within the definition of Designation Contracts as such are not "executory contracts" under the meaning of the Bankruptcy Code. Any such oil & gas leases are construed as assets of the Estates to be transferred to the Liquidating Trust; however, to the extent that any oil & gas lease is or could be construed as an executory contract, the Debtors and Committee reserve the right to supplement its list of Designated Contracts accordingly.

The Plan shall serve as, and shall be deemed to be, a motion for entry of an order approving the assumption of the Designated Contracts and the transfer of the Designated Contracts to the Liquidating Trustee to be held in the Liquidating Trust, both as of the Effective Date. Except as otherwise set by Order of the Court, any objection to the assumption and vesting of, or the proposed cure amount under, the Designated Contracts must be made as an objection to Confirmation of the Plan. If no objection to the assumption and vesting of, or the proposed cure amount under, any particular Designated Contract is Filed and timely served, an Order (which may be the Confirmation Order) that approves the assumption and assignment of, and the proposed cure amount under, each respective Designated Contract may be entered by the Bankruptcy Court. If any such objections are Filed and timely served, a hearing with respect to the assumption and assignment or cure of any of the Designated Contracts, and the objections

thereto, shall be scheduled by the Bankruptcy Court, which hearing may, but is not required to, coincide with the Confirmation Hearing.

If the Bankruptcy Court approves the assumption and assignment of one or more Designated Contracts, those Designated Contracts shall be deemed Assumed Contracts, and they shall be assumed by the applicable Debtor and assigned to the Liquidating Trustee effective as of the Effective Date. Any Cure Claims relating to the assumption and transfer of an executory contract or unexpired lease and ordered to be paid by the Bankruptcy Court shall be paid by the Liquidating Trust on or as soon as reasonably practicable after the Effective Date. Such Cure Claims shall be satisfied in full and final satisfaction of all defaults, including arrearages, under the Assumed Contracts as of the Effective Date.

**B. Distributions Under the Plan**

Distributions under the Plan will only be made to Creditors holding Allowed Claims and Allowed Equity Interests. A Claim is "Allowed" under the Plan: (a) to the extent that it is listed in the Schedules in a liquidated, non-contingent, and undisputed amount, but only if no Proof of Claim is Filed with the Bankruptcy Court to evidence such Claim on or before the Bar Date; or (b) as evidenced by a Proof of Claim Filed on or before the Bar Date, but only to the extent asserted in a liquidated amount, and only if no objection to the allowance of the Claim, and no motion to expunge the Proof of Claim, is Filed on or before the Claims Objection Deadline;[14] or (c) to the extent allowed by a Final Order of the Bankruptcy Court.

**1. Proceeds of Federal Insurance Policies.**

The proceeds of the Federal Insurance Policies shall not be subject to the waterfall described below. All proceeds from the Federal Insurance Policies shall be utilized for the payment of fees and expenses consistent with prior orders of the Bankruptcy Court and the Plan or as determined by the Bankruptcy Court.

**2. Waterfall**

The Liquidating Trustee shall use the Liquidating Trust Assets to pay the costs and expenses of the Liquidating Trust, and to the extent that the Liquidating Trustee determines that there is excess Cash available in the Liquidating Trust for Distribution to holders of Claims and Equity Interests, then Distributions of Cash from the Liquidating Trust shall be made to holders of Allowed Claims as follows:

- first, to holders of Allowed Ad Valorem Tax Claims (or, with respect to Ad Valorem Tax Claims that are Disputed Claims, to an appropriate reserve account as determined by the Liquidating Trustee) until all such Allowed Ad Valorem Tax Claims are paid or reserved in full;

- second, to holders of Allowed Priority Claims (or, with respect to Priority Claims that are Disputed Claims, to an appropriate reserve account as determined by the Liquidating Trustee) until all such Allowed Priority Claims are paid or reserved in full;

- third, to holders of Allowed M&M Secured Claims (or, with respect to M&M Secured Claims that are Disputed Claims, to an appropriate reserve account as determined by the

[14] The "Claims Objection Deadline" is defined in the Plan as ninety (90) days after the Effective Date of the Plan, unless extended by the Bankruptcy Court, for cause shown, upon motion Filed with the Bankruptcy Court on or prior to such date.

Liquidating Trustee) until all such Allowed M&M Secured Claims are paid or reserved in full;

- fourth, to holders of Allowed Other Secured Claims (or, with respect to Other Secured Claims that are Disputed Claims, to an appropriate reserve account as determined by the Liquidating Trustee) until all such Allowed Other Secured Claims are paid or reserved in full;

- fifth, to holders of Allowed General Unsecured Claims (or, with respect to General Unsecured Claims that are Disputed Claims, to an appropriate reserve account as determined by the Liquidating Trustee) until all such Allowed General Unsecured Claims are paid or reserved in full;

- sixth, to holders of Allowed Environmental Claims (or, with respect to Environmental Claims that are Disputed Claims, to an appropriate reserve account as determined by the Liquidating Trustee) until all such Allowed Environmental Claims are paid or reserved in full; provided, however, that if the Liquidating Trustee has a reasonable expectation of receiving sufficient proceeds from the Federal Insurance Policies to cover and satisfy the Allowed Environmental Claims in full, then the Liquidating Trustee may skip to the next step in the waterfall unless and until such time as it is determined that the proceeds of the Federal Insurance Policies will not be sufficient to satisfy the Allowed Environmental Claims in full;

- seventh, to holder of the CIT Deficiency Claim until such CIT Deficiency Claim is paid in full;

- eighth, to holders of Allowed Subordinated Claims (or, with respect to Subordinated Claims that are Disputed Claims, to an appropriate reserve account as determined by the Liquidating Trustee) until all such Allowed Subordinated Claims are paid or reserved in full; and

- ninth, any remaining amounts in the Liquidating Trust shall be distributed (a) 50% pro rata to holders of General Unsecured Claims, (b) 30% to CIT Capital, (c) 10% pro rata to holders of Equity Interests in Consolidated, and (d) 10% pro rata to holders of Equity Interests in Standard.

**3. Cash Distributions**

At any time that the Liquidating Trustee, subject to the approval of the Creditors' Oversight Committee as required by the Plan and Liquidating Trust Agreement, determines that sufficient Cash exists in the Liquidating Trust to make a Distribution to holders of Allowed Claims pursuant to the provisions of the Plan, including Section 8.02 of the Plan, the Liquidating Trustee shall make such Cash Distribution Pro Rata to holders of Allowed Claims on a Class-by-Class basis.

**4. Distributions by Agent or Servicer**

The Liquidating Trustee shall make all Distributions required under the Plan, except with respect to a Claim whose Distribution is governed by an agreement and is administered by an agent or servicer, which Distributions shall be deposited with the appropriate agent or servicer, who shall deliver such Distributions to the holders of Claims in accordance with the provisions of the Plan.

**5. Means of Cash Payment**

Cash payments made pursuant to the Plan shall be in U.S. funds, by appropriate means, including by check or wire transfer.

**6. Delivery of Distribution**

Distributions to holders of Allowed Claims shall be made (a) at the addresses set forth on the Proofs of Claim Filed by such holders (or at the last known address of such holders if no Proof of Claim is Filed or if the Liquidating Trustee has been notified of a change of address); (b) at the addresses set forth in any written notices of address changes delivered to the Liquidating Trustee (or the Debtors if prior to the Effective Date) after the date of any related Proof of Claim; or (c) if no Proof of Claim has been Filed and the Debtors and Liquidating Trustee have not received a written notice of a change of address, then at the addresses reflected in the Bankruptcy Schedules, if any.

**7. Fractional Dollars; *De Minimis* Distributions**

Notwithstanding any other provision of the Plan, payments of fractions of dollars shall not be made. Whenever any payment of a fraction of a dollar under the Plan would otherwise be called for, actual payment made shall reflect a rounding of such fraction to the nearest whole dollar (up or down). No payment of less than $25.00 with respect to any Claim shall be made unless a request therefor is made in writing to the Liquidating Trustee. Notwithstanding the foregoing, the Liquidating Trustee may, in his or her discretion, make payments of fractions of dollars and/or of less than $25.00.

**8. Withholding and Reporting Requirements**

In connection with the Plan and all Distributions hereunder, the Liquidating Trustee shall, to the extent applicable, comply with all tax withholding and reporting requirements imposed by any federal, state, local, or foreign taxing authority, and all Distributions hereunder shall be subject to any such withholding and reporting requirements. The Liquidating Trustee shall be authorized to take any and all actions that may be reasonably necessary or appropriate to comply with such withholding and reporting requirements.

**9. Setoffs**

The Liquidating Trustee may, but shall not be required to, set off against any Claim, and the payments or other Distributions to be made pursuant to the Plan in respect of such Claim, claims of any nature whatsoever that the Debtors or the Liquidating Trust may have against the holder of such Claim; provided, however, neither the failure to do so nor the allowance of any Claim hereunder shall constitute a waiver or release by the Liquidating Trustee of any Claim against such holder, unless otherwise agreed to in writing by such holder and the Liquidating Trustee.

**10. Unclaimed Distributions**

Any Cash or property held for the benefit of any holder of an Allowed Claim, if unclaimed by the distributee within six (6) months after the Distribution shall be redeposited into the general Liquidating Trust funds and be made available for other Allowed Claims and Equity Interests, and all liability and obligations of the Debtors and the Liquidating Trust to such distributee with respect thereto shall thereupon cease notwithstanding any federal or state escheat laws to the contrary. Such holder shall be deemed to have forfeited its claim for such unclaimed Distribution and shall be forever barred and enjoined from asserting any claim for the unclaimed Distribution against any Debtor, any Estate, the

Liquidating Trustee, the Liquidating Trust, or their respective properties and assets. The Liquidating Trustee and his or her respective agents and attorneys are under no duty to take any action to either (i) attempt to locate any Claim holder, or (ii) obtain an executed Internal Revenue Service Form W-9 from any Claim holder.

**11. Duty to Disgorge Overpayments**

To the extent that a Claim may be an Allowed Claim in more than one Class, the holder of such Claim shall not be entitled to recover more than the full amount of its Allowed Claim. The holder of an Allowed Claim that receives more than payment in full of its Allowed Claim shall immediately return any excess payments to the Liquidating Trustee. In the event that the holder of an Allowed Claim fails to return an excess payment, the Liquidating Trustee may bring suit against such holder for the return of the overpayment in the Bankruptcy Court or any other court of competent jurisdiction.

**C. Means for Resolving Disputed Claims**

Pursuant to the Plan, all objections to Claims must be Filed on or before the Claims Objection Deadline. Any Disputed Claim as to which an objection is not Filed on or before the Claims Objection Deadline will be deemed to constitute an Allowed Claim under the Plan following the Claims Objection Deadline.

The Plan further provides that the Liquidating Trustee shall File objections to Claims and serve such objections upon the holders of each of the Claims to which objections are made. Subject to the limitations set forth in the Plan, the Liquidating Trustee shall be authorized to resolve all Disputed Claims by withdrawing or settling such objections thereto, or by litigating to judgment in the Bankruptcy Court (or such other court having competent jurisdiction) the validity, nature, and/or amount thereof. If the Liquidating Trustee and the holder of a Disputed Claim agree to compromise, settle, and/or resolve a Disputed Claim, then the Liquidating Trustee may compromise, settle, and/or resolve such Disputed Claim without further Bankruptcy Court approval. Otherwise, the Liquidating Trustee may only compromise, settle, and/or resolve such Disputed Claim with Bankruptcy Court approval.

Any Proofs of Claim that are Filed after the applicable Bar Date, including amendments to existing Proofs of Claim, or applications for the allowance of an Administrative Claim that are Filed after the Post-Confirmation Bar Date, shall be deemed invalid and Disallowed unless authorized by Order of the Bankruptcy Court.

Notwithstanding any other provision of the Plan, no payments or Distribution by the Liquidating Trustee shall be made with respect to all or any portion of a Disputed Claim unless and until all objections to such Disputed Claim have been settled or withdrawn or have been determined by Non-Appealable Order, and the Disputed Claim, or some portion thereof, has become an Allowed Claim.

**D. Conditions to Confirmation and Effectiveness of the Plan**

In addition to meeting the requirements of section 1129 of the Bankruptcy Code, each of the following events shall occur on or before the Effective Date; provided however, except as otherwise provided in this Section 6.07, the Plan Proponents may waive in writing any or all of the following events, whereupon the Effective Date shall occur without further action by any Person:

(a) the Confirmation Order, in a form and substance reasonably acceptable to each of the Plan Proponents shall have been entered by the Bankruptcy Court and shall not be subject to a stay and shall include findings, among others, that (i) the Plan is confirmed with respect to the Debtors; (ii) the

Plan Proponents have acted in good faith and in compliance with the applicable provisions of the Bankruptcy Code as set forth in Bankruptcy Code § 1125(e); and (iii) the Debtors are authorized to take all actions and consummate all transactions contemplated under the Plan;

(b) all documents, instruments, and agreements provided under, or necessary to implement, the Plan shall have been executed and delivered by the applicable parties;

(c) all other documents required to be included in the Plan Supplement, each in form and substance reasonably acceptable to the Plan Proponents, shall have been duly and validly executed and delivered by the parties thereto and all conditions to their effectiveness shall have been satisfied or waived;

(d) all material documents, instruments, and agreements provided under, or necessary to implement, the Plan, including, but not limited to, one or more bills of sale and assignment and assumption agreements providing for the assignment and conveyance by the respective Debtors of all of the Liquidating Trust Assets (all of which shall be in form and substance acceptable to the Debtors and the Committee) shall have been executed and delivered by the applicable parties.

## E. Effects of Confirmation of the Plan

### 1. Discharge

On the Effective Date, the Debtors, their Estates and their respective assets and properties are automatically and forever discharged and released from all Claims and are vested in the Liquidating Trust to the fullest extent permitted under Bankruptcy Code § 1141. Except as otherwise set forth in the Plan or the Confirmation Order, the rights afforded under the Plan and the treatment of Claims and Equity Interests under the Plan are in exchange for and in complete satisfaction, discharge, and release of, all Claims, including any interest accrued on any Claims, against the Debtors, the Estates and the Liquidating Trust. Except as set forth in the Plan or the Confirmation Order, Confirmation shall discharge the Debtors and the Liquidating Trust from all Claims or other debts that arose before the Effective Date, and all debts of a kind specified in Bankruptcy Code §§ 502(g), (h), or (i), whether or not (i) a Proof of Claim based on such debt is Filed or deemed Filed under Bankruptcy Code § 501; (ii) a Claim based on such debt is Allowed; or (iii) the holder of a Claim based on such debt has accepted the Plan.

### 2. Legal Binding Effect

The provisions of the Plan shall bind all holders of Claims and Equity Interests and their respective successors and assigns, whether or not they accept the Plan. On and after the Effective Date, except as expressly provided in the Plan, all holders of Claims, Liens and Equity Interests shall be precluded from asserting any Claim, Cause of Action or Liens against the Debtors, the Estates, the Liquidating Trust, and their respective property and assets based on any act, omission, event, transaction or other activity of any kind that occurred or came into existence prior to the Effective Date.

### 3. Moratorium, Injunction and Limitation of Recourse for Payment.

**EXCEPT AS OTHERWISE PROVIDED IN THE PLAN OR BY SUBSEQUENT ORDER OF THE BANKRUPTCY COURT, UPON CONFIRMATION OF THE PLAN (AND FROM AND AFTER THE EFFECTIVE DATE) ALL PERSONS WHO HAVE HELD, HOLD, OR MAY HOLD CLAIMS OR LIENS AGAINST, OR EQUITY INTERESTS IN, THE DEBTORS OR THEIR PROPERTIES ARE PERMANENTLY ENJOINED FROM TAKING ANY OF THE FOLLOWING ACTIONS AGAINST THE DEBTORS, THE ESTATES, THE LIQUIDATING**

**TRUST, OR ANY OF THEIR RESPECTIVE PROPERTY OR OTHER ASSETS ON ACCOUNT OF ANY SUCH CLAIMS OR EQUITY INTERESTS: (A) COMMENCING OR CONTINUING, IN ANY MANNER OR IN ANY PLACE, ANY ACTION OR OTHER PROCEEDING; (B) ENFORCING, ATTACHING, COLLECTING OR RECOVERING IN ANY MANNER ANY JUDGMENT, AWARD, DECREE OR ORDER; (C) CREATING, PERFECTING OR ENFORCING ANY LIEN OR ENCUMBRANCE; (D) ASSERTING A SETOFF, RIGHT OF SUBROGATION, NETTING OR RECOUPMENT OF ANY KIND AGAINST ANY DEBT, LIABILITY OR OBLIGATION DUE TO THE DEBTORS; AND (E) COMMENCING OR CONTINUING, IN ANY MANNER OR IN ANY PLACE, ANY ACTION THAT DOES NOT COMPLY WITH OR IS INCONSISTENT WITH THE PROVISIONS OF THE PLAN; PROVIDED, HOWEVER, THAT NOTHING CONTAINED HEREIN OR IN THE CONFIRMATION ORDER SHALL ENJOIN OR PRECLUDE SUCH PERSONS FROM EXERCISING THEIR RIGHTS PURSUANT TO AND CONSISTENT WITH THE TERMS OF THE PLAN. SUCH INJUNCTION SHALL EXTEND TO AND FOR THE BENEFIT OF ANY SUCCESSORS OR ASSIGNEES OF THE DEBTORS, LIQUIDATING TRUST, AND THEIR RESPECTIVE PROPERTIES AND INTEREST IN PROPERTIES. SUCH INJUNCTION SHALL NOT PRECLUDE ANY RIGHT OF AN ENTITY TO ASSERT A SEPARATE AND DIRECT CLAIM THAT IS NOT PROPERTY OF THE ESTATE AGAINST A PARTY THAT IS NOT A DEBTOR OR THE LIQUIDATING TRUST.**

**THE CONFIRMATION ORDER SHALL, AMONG OTHER THINGS, CONTAIN, DIRECT AND PROVIDE FOR THE FOREGOING INJUNCTION.**

**4. Term of Injunction or Stays**

**ANY INJUNCTION OR STAY ARISING UNDER OR ENTERED DURING THE CASE UNDER BANKRUPTCY CODE §§ 105 AND 362 OR OTHERWISE THAT IS IN EXISTENCE ON THE CONFIRMATION DATE SHALL REMAIN IN FULL FORCE AND EFFECT UNTIL THE LATER OF THE EFFECTIVE DATE AND THE DATE INDICATED IN THE ORDER PROVIDING FOR SUCH INJUNCTION OR STAY.**

**5. Exculpation and Limitation of Liability**

**NOTWITHSTANDING ANYTHING SET FORTH HEREIN, NO HOLDER OF ANY CLAIM OR EQUITY INTEREST SHALL HAVE ANY RIGHT OF ACTION AGAINST THE DEBTORS, THE DEBTORS' OWNERS, OFFICERS AND EMPLOYEES, THE COMMITTEE, THE COMMITTEE MEMBERS, THE ESTATES, THE LIQUIDATING TRUSTEE, THE CREDITORS' OVERSIGHT COMMITTEE OR ANY OF THEIR RESPECTIVE PROPERTY AND ASSETS, OR ANY OF THEIR RESPECTIVE AGENTS AND ATTORNEYS, FOR ANY ACT OR OMISSION IN CONNECTION WITH, RELATING TO OR ARISING OUT OF THE ADMINISTRATION OF THE CASES, THE PURSUIT OF CONFIRMATION OF THE PLAN, THE CONSUMMATION OF THE PLAN, THE PREPARATION AND DISTRIBUTION OF THE DISCLOSURE STATEMENT, OR THE OFFER, ISSUANCE, SALE, OR PURCHASE OF A SECURITY OFFERED OR SOLD UNDER THE PLAN, PROVIDED SUCH EXCULPATED PERSON DID NOT AND DOES NOT ENGAGE IN WILLFUL MISCONDUCT, GROSS NEGLIGENCE OR FRAUD AND IN COMPLIANCE WITH THE APPLICABLE PROVISIONS OF THE BANKRUPTCY CODE AND PROVIDED FURTHER THAT SUCH EXCULPATION SHALL NOT EXTEND TO SUCH EXCULPATED PERSON'S RIGHTS AND OBLIGATIONS UNDER THE PLAN OR THE LIQUIDATING TRUST AGREEMENT.**

**6. Release and Covenant Not to Sue.**

**NOTWITHSTANDING ANYTHING SET FORTH HEREIN, ON THE EFFECTIVE DATE, EACH OF THE RELEASED PARTIES SHALL BE DEEMED TO HAVE IRREVOCABLY RELEASED AND DISCHARGED THE OTHER RELEASED PARTIES, AND THE AGENTS, ATTORNEYS, ACCOUNTANTS, INVESTMENT BANKERS, FINANCIAL ADVISORS, AND PROFESSIONALS, IF ANY, EMPLOYED BY ANY OF THE RELEASED PARTIES (BUT SOLELY IN THE CAPACITIES SO EMPLOYED), OF AND FROM ANY CLAIM OR CAUSE OF ACTION, WHETHER KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, ASSERTED OR NOT ASSERTED, SCHEDULED OR NOT SCHEDULED, NOW EXISTING OR HEREAFTER ARISING, IN LAW, EQUITY OR OTHERWISE, AND WHETHER ARISING UNDER THE BANKRUPTCY CODE OR OTHER APPLICABLE LAW, ARISING FROM OR RELATED TO ACTS OR OMISSIONS OCCURRING ON OR BEFORE THE EFFECTIVE DATE IN CONNECTION WITH, BASED ON, RELATING TO OR IN ANY MANNER ARISING FROM, IN WHOLE OR IN PART, THE DEBTORS, THE DEBTORS' RESTRUCTURING, THE CASES, THE NEGOTIATION OF ANY SETTLEMENT OR AGREEMENT IN THE 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 EQUITY INTEREST THAT IS TREATED IN THE PLAN, THE BUSINESS OR CONTRACTUAL ARRANGEMENTS BETWEEN ANY DEBTOR AND ANY RELEASED PARTY RELATING TO THE RESTRUCTURING OF CLAIMS AND EQUITY INTERESTS PRIOR TO OR IN THE CASES, THE NEGOTIATION, FORMULATION, PREPARATION OR DISTRIBUTION OF THE PLAN AND THE DISCLOSURE STATEMENT, OR RELATED AGREEMENTS, INSTRUMENTS OR OTHER DOCUMENTS, AND THE RELEASED PARTIES COVENANT NOT TO SUE ANY OF THE OTHER PARTIES IDENTIFIED IN SECTION 11.06 OF THE PLAN WITH RESPECT TO THE CLAIMS AND CAUSES OF ACTION RELEASED HEREIN (ALL OF THE FOREGOING BEING HEREIN CALLED THE "RELEASED CLAIMS"); PROVIDED, HOWEVER, THAT (I) NOTWITHSTANDING THE FOREGOING, THE RELEASED PARTIES SHALL NOT RELEASE AND DISCHARGE THE FORMER OFFICERS, AGENTS, AND ACCOUNTANTS, IF ANY, EMPLOYED BY ONE OR MORE OF THE DEBTORS OF AND FROM ANY CLAIM OR CAUSE OF ACTION; AND (II) NO RELEASED PARTIES SHALL BE RELEASED AND DISCHARGED FROM (AND THE RELEASED CLAIMS SHALL NOT INCLUDE) OBLIGATIONS UNDER THE PLAN, THE LIQUIDATING TRUST AGREEMENT, OR ANY CLAIM OR CAUSE OF ACTION ARISING FROM OR RELATED TO ACTS OR OMISSIONS INVOLVING FRAUD OR WILLFUL MISCONDUCT. EACH OF THE RELEASED PARTIES REPRESENTS AND WARRANTS THAT EACH SUCH RELEASED PARTY HAS NOT TRANSFERRED, PLEDGED OR OTHERWISE ASSIGNED TO ANY OTHER PERSON OR ENTITY ALL OR ANY PORTION OF ANY CLAIM RELEASED UNDER SECTION 11.06 OF THE PLAN OR ANY RIGHTS OR ENTITLEMENTS WITH RESPECT THERETO AND THE EFFECTUATION OF THIS RELEASE DOES NOT VIOLATE OR CONFLICT WITH THE TERMS OF ANY CONTRACT TO WHICH SUCH RELEASED PARTY IS A PARTY OR BY WHICH SUCH RELEASED PARTY OTHERWISE IS BOUND.**

**THE RELEASES IN SECTION 11.06 OF THE PLAN ARE SPECIFICALLY INTENDED TO OPERATE AND BE APPLICABLE EVEN IF IT IS ALLEGED, CHARGED OR PROVEN THAT ALL OR SOME OF THE CLAIMS OR DAMAGES RELEASED WERE SOLELY AND COMPLETELY CAUSED BY ANY ACTS OR OMISSIONS, WHETHER NEGLIGENT OR GROSSLY NEGLIGENT OF OR BY ONE OR MORE OF THE RELEASED PARTIES.**

**7. Insurance**

Confirmation and consummation of the Plan shall have no effect on insurance policies of any of the Debtors or their current or former directors and officers (including, but not limited to, director and officer liability policies to the extent that the Debtors or their current or former directors and officers have any rights under such policies) in which any of the Debtors or their current or former directors and officers are or were an insured party. Each insurance company is prohibited from, and the Confirmation Order shall include an injunction against, denying, refusing, altering or delaying coverage for any Debtors (or their current or former directors and officers) or the Liquidating Trust on any basis regarding or related to any of the Debtors' Cases, the Plan or any provision within the Plan, including the treatment or means of liquidation set out within the Plan for insured Claims.

**8. Insurance Policies Vested in Liquidating Trust**

The Federal Insurance Policies shall vest in the Liquidating Trust Free and Clear on the Effective Date under the terms of the Plan. On and after the Effective Date, with the exception of whatever the Debtors, the Committee and Federal Insurance agree is still subject to a reservation of rights, the Federal Insurance Policies shall not be subject to any reservation of rights by Federal Insurance, and Federal Insurance shall be prohibited from commencing any actions to recover benefits previously paid by Federal Insurance pursuant to the Federal Insurance Policies. Federal Insurance is prohibited from, and the Confirmation Order shall include an injunction against, denying, refusing, altering or delaying coverage under the Federal Insurance Policies on any basis regarding or related to any of the Debtors' Cases, this Plan or any provision within this Plan, including the treatment or means of liquidation set out within this Plan for insured claims.

**F. Modification of the Plan**

With the prior, written consent of all Plan Proponents, the Plan Proponents may alter, amend, or modify the Plan or any Plan Documents under Bankruptcy Code § 1127(a) at any time prior to the Confirmation Date. With the prior, written consent of all Plan Proponents, after the Confirmation Date and prior to the Effective Date, the Plan Proponents may, under Bankruptcy Code § 1127(b), (a) amend the Plan so long as such amendment shall not materially and adversely affect the treatment of any holder of a Claim; (b) commence proceedings in the Bankruptcy Court to remedy any defect or omission or reconcile any inconsistencies in the Plan, the Disclosure Statement, or the Confirmation Order; and (c) amend the Plan as may be necessary to carry out the purposes and effects of the Plan so long as such amendment does not materially or adversely affect the treatment of holders of Claims or Equity Interests under the Plan; provided, however, prior notice of any amendment shall be served in accordance with the Bankruptcy Rules or Order of the Bankruptcy Court.

**G. Retention of Jurisdiction**

Under Bankruptcy Code §§ 105(a) and 1142, and notwithstanding entry of the Confirmation Order and occurrence of the Effective Date, the Bankruptcy Court shall retain exclusive jurisdiction over all matters arising out of, and related to, the Cases, the Liquidating Trust, and the Plan, to the fullest extent permitted by law, including, among other things, jurisdiction to:

(a) allow, disallow, determine, liquidate, classify, estimate or establish the priority or secured or unsecured status of any Claim or Equity Interest, including the resolution of any application or request for payment of any Administrative Claim, and the resolution of any objections to the allowance or priority of Claims or Equity Interest;

(b) hear and determine all Fee Applications;

(c) determine any and all adversary proceedings, motions, applications, and contested or litigated matters, including, but not limited to, all Causes of Action, and consider and act upon the compromise and settlement of any Claim or Causes of Action;

(d) enter such orders as may be necessary or appropriate to construe, execute, implement, or consummate the provisions of the Plan, the Liquidating Trust Agreement, and all property, contracts, instruments, releases, and other agreements or documents transferred, vested, or created in connection therewith;

(e) hear and determine disputes arising in connection with the interpretation, implementation, consummation, or enforcement of the Plan, the Liquidating Trust Agreement, the Confirmation Order, any transactions or payment contemplated hereby, or any disputes arising under agreements, documents or instruments executed in connection therewith;

(f) consider any modifications of the Plan, the Disclosure Statement, and the Liquidating Trust Agreement, in each case to the extent requiring the approval of the Bankruptcy Court, cure any defect or omission, or reconcile any inconsistency in any order of the Bankruptcy Court, including the Confirmation Order;

(g) issue injunctions, enter and implement other orders, or take such other actions as may be necessary or appropriate to restrain interference by any Person with the implementation, consummation, or enforcement of the Plan, the Confirmation Order or any other order of the Bankruptcy Court;

(h) hear and determine any matters arising in connection with or relating to the Plan, the Disclosure Statement, the Confirmation Order, the Liquidating Trust, or any contract, instrument, release, or other agreement or document created in connection with the Plan, the Disclosure Statement, the Confirmation Order, or the Liquidating Trust;

(i) enforce all orders, judgments, injunctions, releases, exculpations, indemnifications and rulings entered in connection with the Cases;

(j) hear and determine matters concerning state, local, and federal taxes in accordance with Bankruptcy Code §§ 346, 505 and 1146 (including the expedited determination of taxes under Bankruptcy Code § 505(b);

(k) hear and determine all matters related to the property of the Estates, the Debtors, or the Liquidating Trust, from and after the Effective Date;

(l) hear and determine such other matters as may be provided in the Confirmation Order and as may be authorized under the provisions of the Bankruptcy Code;

(m) hear and determine all matters with respect to the assumption or rejection of executory contracts or unexpired leases and the allowance of cure amounts;

(n) 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;

(o) hear and determine any other matters related to the Plan and not inconsistent with the Bankruptcy Code;

(p) determine any other matters that may arise in connection with or are related to the Plan, the Disclosure Statement, the Disclosure Statement Order, the Confirmation Order, the Liquidating Trust Agreement, any of the Plan Documents or any other contract, instrument, release or other agreement or document related to the Plan, the Disclosure Statement or the Plan Supplement;

(q) hear any other matter not inconsistent with the Bankruptcy Code; and

(r) enter final decrees closing the Case.

Nothing contained in the Plan shall be construed so as to limit the rights of the Liquidating Trustee to commence or to prosecute any Cause of Action (in which it has an interest), in any court of competent jurisdiction.

## XI.

## COMPARISON OF PLAN TO ALTERNATIVES

### A. Chapter 7 Liquidation

The most realistic alternative to the Plan is conversion of the Bankruptcy Cases from proceedings under Chapter 11 of the Bankruptcy Code to proceedings under Chapter 7 of the Bankruptcy Code. A Chapter 7 case, sometimes referred to as a "straight liquidation," requires the liquidation of all of the debtor's assets by a Chapter 7 trustee. The cash realized from liquidation is subject to distribution to creditors in accordance with section 726 of the Bankruptcy Code. Whether a bankruptcy case is one under Chapter 7 or Chapter 11, allowed secured claims, allowed administrative claims and allowed priority claims, unless subordinated pursuant to section 510 of the Bankruptcy Code, are entitled to be paid in cash, in full, before unsecured creditors and equity interest holders receive anything. Thus, in a Chapter 7 case, the recovery, if any, to creditors holding non-priority unsecured claims will depend upon the net proceeds left in the estate after all of the debtor's assets have been reduced to cash and all claims of higher priority have been satisfied in full.

Chapter 7 liquidation theoretically adds an additional layer of expense. As referenced above, conversion of a bankruptcy case to Chapter 7 will trigger the appointment of a Chapter 7 trustee having the responsibility of liquidating the debtor's assets. Pursuant to sections 326 and 330 of the Bankruptcy Code, the Chapter 7 trustee will be entitled to reasonable compensation in relation to the level of disbursements made to creditors, as follows: (a) up to 25% of the first $5,000 disbursed; (b) up to 10% of the amount disbursed in excess of $5,000 but not in excess of $50,000; (c) up to 5% of any amount disbursed in excess of $50,000 but not in excess of $1,000,000; and (d) up to 3% of any amount disbursed in excess of $1,000,000. Additionally, the Chapter 7 trustee will be entitled to retain his or her own professionals to assist in the liquidation and administration of the estate. The fees and expenses of such professionals, to the extent allowed, are also entitled to priority in payment as administrative claims. Chapter 7 administrative costs are entitled to priority in payment over Chapter 11 administrative costs. Nevertheless, Chapter 11 administrative costs continue to have priority over all other non-administrative priority claims and non-priority unsecured claims in the bankruptcy case.

Also, conversion to Chapter 7 could result in the appointment of a trustee having no experience or knowledge of the prior proceedings in the bankruptcy case or of the debtor's business, its books and records and its assets.

The Plan Proponents are opposed to conversion of the Bankruptcy Cases to Chapter 7 for several reasons. First, the Plan Proponents believe that the conversion of the Bankruptcy Cases will eliminate the

ability to avoid the inevitable lien disputes between and among the Estates and their respective creditors. The Global Resolution Proposal, which is incorporated in the Plan, provides for the resolution of lien related litigation which the Plan Proponents estimate would exhaust most if not all of the remaining assets of the Estates. Second, the benefits and agreements set forth in the Global Resolution Proposal can be more effectively noticed, approved and implemented through the Plan and the Liquidating Trust rather than a straight liquidation under Chapter 7. Third, by maintaining the Bankruptcy Cases in Chapter 11 and confirming the Plan, the assertion of additional claims can be prevented. Fourth, a substantial amount of time would be required in order for the Chapter 7 trustee and his or her professionals to become familiar with the Debtors, their prior business operations, assets, and pending litigation in order to wind the case up effectively.

Finally, conversion of the Bankruptcy Cases to Chapter 7 will not otherwise materially alter the path of the Debtors. In this regard, often creditors will seek conversion of a Chapter 11 case in order to force a liquidation of the debtor's assets instead of the reorganization of the debtor's business. Here, the Plan provides for the structured liquidation of the Debtors' assets through the Liquidating Trust; therefore, conversion will not lead to a different ultimate result.

With respect to the "best interest of creditors" test of section 1129(a)(7) of the Bankruptcy Code, the Debtors do not believe that Creditors will achieve a greater recovery under Chapter 7 than under the Plan. Inasmuch as the Plan is a plan of liquidation, the comparison of likely distributions to holders of Allowed Claims under the Plan to likely distributions to holders of Allowed Claims in a Chapter 7 proceeding is similar, except that the Debtors contend that the Plan incorporates beneficial compromises which may not be available in chapter 7, and in a Chapter 7 proceeding the potential for additional administrative expense and additional Claims demonstrates that distributions under the Plan are likely to exceed, or at least be equal to, the distributions that would be made under Chapter 7.

Attached to this Amended Disclosure Statement as **Exhibit "C"** is the *Liquidation Analysis*, which quantifies the foregoing and other related, forward looking projections in comparing the Plan to an alternative chapter 7 liquidation. *See also* Article XIII (Material Risks and Uncertainties). As evidenced by the Liquidation Analysis, the anticipated range of recoveries under the Plan are greater than under a chapter 7 liquidation.

### B. Alternative Plans

To date, other than the Original Plan that was superseded by the Plan, no other proposed Chapter 11 plans have been Filed in the Bankruptcy Cases, and it is not anticipated that any other proposed Chapter 11 plan will be Filed.

### C. Dismissal

The most remote alternative possibility is dismissal of the Bankruptcy Cases. If dismissal were to occur, the Debtors would no longer have the protection of the automatic stay and other applicable provisions of the Bankruptcy Code. Dismissal would force a race among Creditors to take control and dispose of the Debtors' available assets, and unsecured creditors, on an aggregate basis, would very likely fail to realize any recovery on their Claims.

## XII.
## MATERIAL UNCERTAINTIES AND RISKS

In considering whether to vote to accept or reject the Plan, Creditors and Equity Interest holders entitled to vote should consider the following risks associated with the Plan: (a) that all of the conditions

to confirmation of the Plan are not satisfied or waived (as applicable); (b) that all of the conditions to the effectiveness of the Plan are not satisfied or waived (as applicable) or that such conditions are delayed by a significant period of time; (c) that estimations and projections may ultimately prove to be materially inaccurate; and (d) that the prosecution of Causes of Action does not result in significant recoveries.

There can also be no assurance that the Plan will not be modified up to and through the Confirmation Date, and the Plan Proponents reserve the right to modify the Plan, subject to compliance with the Bankruptcy Code, in the event the modification becomes warranted or necessary in furtherance of confirmation.

**A. Environmental Liabilities Alleged in Connection with Operation of the Debtors' Business**

Holders of Claims and Equity Interests voting on the Plan should additionally evaluate the potential impact of the claims asserted by the RRC in connection with the Ritter Plan, the RRC's claims for penalties and fines and the Midland Claims asserted by the City of Midland relating to the alleged contamination of the Aquifer from the Debtors' operations in Winkler County, Texas. The RRC has an administrative priority claim for remediation of the Aquifer which is estimated to be $6.5 million. While the Debtors believe that most if not all of the costs of the Ritter Plan will be covered by available insurance, the insurer has been covering expenses subject to a reservation of rights under the policy. There is always a risk that the insurer refuses coverage at some point. In fact, Federal Insurance has already asserted that at least a portion of the remediation costs under the Ritter Plan are not covered under the existing policy terms. This potentially excluded portion relates to a specific area around the existing TH-6 monitoring well. While this coverage exclusion is contested by the Debtors, and the extent of, and responsibility for, further remediation required for this area, is questionable, the original remediation cost estimate for this area under the Ritter Plan is approximately $800,000. The RRC has advised the Debtors that it will be initiating two monitoring wells in the TH-6 area at its own expense. Accordingly, the estimated exposure to the Estates under the Ritter Plan should be reduced by the costs of at least one of those wells at a cost of approximately $175,000.00. As a result of the foregoing, he Debtors may be required to fund the Remediation Reserve in an amount sufficient to partially secure the Estates' potential exposure on this contingent liability. The Debtors are seeking confirmation of the scope of insurance coverage but will likely not have a judicial determination prior to Confirmation.

**B. Sources of Funding**

Holders of Claims and Equity Interests voting on the Plan should additionally evaluate the potential impact of the sources of funding for the Plan. Funding for the Plan will come from proceeds of litigation recoveries and the continued operation and potential sale of the Section 6 Assets. It is possible that there may be no appreciable litigation recoveries from pending litigation, including specifically the Apollo Litigation. Likewise, it is unlikely, although possible, that there may be no appreciable production from the Section 6 Assets or that the Liquidating Trustee will not be able to sell the Section 6 Assets for an acceptable purchase price. However, the Debtors believe the Plan is feasible, and that the risk that no litigation recoveries or production from the Section 6 Assets will be realized is minimal.

**C. Technical Risks Related to the Workover or Sidetrack of the Pat Howell #1 Well**

Holders of Claims and Equity Interests voting on the Plan should additionally evaluate the potential impact of the technical risks of performing any Sidetrack or workover of the Pat Howell #1 Well. The Plan contemplates that Creditors could be paid a significant portion of their recovery using the production from the Pat Howell #1 Well. While the Debtors believe, based on geoscientific evidence and reserve reports, that a Sidetrack or workover of the Pat Howell #1 Well might be successful, such work is inherently risky and there is no guarantee of results. Even though a sidetrack or workover is intended to

increase production, there is no guarantee of that result. Further, if a sidetrack or workover fails, the Pat Howell #1 Well may be damaged. Accordingly, no sidetrack, workover, or other Drilling Operations will be commenced or performed on the Pat Howell #1 Well without the prior consent of the Liquidating Trustee and the unanimous consent of the Creditors' Oversight Committee.

Holders of Claims and Equity Interests voting on the Plan should additionally evaluate the potential bankruptcy risks associated in voting for a Plan, for example:

(a) Objections to Classifications.Bankruptcy Code § 1122 provides that a plan may place a claim or equity interest in a particular class only if such claim or equity interest is substantially similar to the other claims or equity interests of such class. The Plan Proponents believe that the classification of Claims and Equity Interests under the Plan complies with the requirements set forth in the Bankruptcy Code. However, there can be no assurance that the Bankruptcy Court will reach the same conclusion.

(b) Risk of Non-Confirmation of the Plan.Even if all Classes of Claims and Equity Interests that are entitled to vote accept it, the Plan might not be confirmed by the Bankruptcy Court. Bankruptcy Code § 1129 sets forth the requirements for confirmation and requires, among other things, that the confirmation of a plan is not likely to be followed by the liquidation or the need for further financial reorganization of a debtor, and that the value of distributions to dissenting creditors and equity interest holders not be less than the value of distributions such creditors and equity interest holders would receive if a debtor were liquidated under chapter 7 of the Bankruptcy Code. The Debtors believe that the Plan satisfies all the requirements for Confirmation of the Plan under the Bankruptcy Code. However, there can be no assurance that the Bankruptcy Court will also conclude that the requirements for Confirmation of the Plan have been satisfied.

(c) Non-Occurrence of Effective Date of Plan.Even if all Classes of Claims and Equity Interests that are entitled to vote accept the Plan, the Plan may not become effective. The Plan sets forth conditions to the occurrence of the Effective Date that could remain unsatisfied. The Debtors believe that they will satisfy all requirements for consummation under the Plan. However, there can be no assurance that the Bankruptcy Court will conclude that the requirements for consummation of the Plan have been satisfied.

(d) Appeal of the Confirmation Order.The Confirmation Order may be the subject of an appeal. If the Confirmation Order is vacated on appeal (assuming an appeal could be taken and such appeal would not be rendered moot due to substantial consummation of the Plan prior to prosecution), the Plan would fail.

## XIII.
## CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

### A. Introduction

The following summary is a general discussion of certain anticipated U.S. federal income tax consequences of the Plan. This summary only addresses tax consequences to Classes of Creditors that are voting on the Plan. It does not address Classes of Creditors who are unimpaired or otherwise entitled to payment in full in Cash or Interest Holders (who will be deemed to have rejected the Plan).

This summary only addresses Creditors who acquired their Claims directly from the Debtors and, therefore, does not address special tax considerations that may apply to Creditors who acquired their

Claims in a secondary purchase (such as the market discount rules that may recharacterize as ordinary income any gain recognized on exchange of Claims).

This summary does not address all categories of Creditors, some of which (including foreign persons, persons related to the Debtors within the meaning of the Internal Revenue Code of 1986, as amended (the "Tax Code"), life insurance companies, banks, financial institutions, tax-exempt organizations, real estate investment trusts, regulated investment companies, dealers or traders in securities, Creditors that are (or hold Claims through) partnerships or other pass-through entities and holders of Claims who are themselves in bankruptcy) may be subject to special rules not addressed herein. This summary also does not address any state, local, or foreign tax considerations applicable to any Creditor.

This summary is based upon relevant provisions of the Tax Code, the applicable Treasury regulations promulgated thereunder ("Tax Regulations"), judicial authority, published rulings, and such other authorities considered relevant, all as of the date hereof and all of which are subject to change possibly with retroactive effect. The U.S. federal income tax consequences of the Plan are complex and are subject to significant uncertainties. The Debtors have not requested a ruling from the Internal Revenue Service ("IRS"), nor have the Debtors obtained an opinion of counsel with respect to these matters. There can be no assurance that the IRS will not take positions concerning the consequences of the Plan that are different from those discussed below.

THE SUMMARY SET FORTH BELOW IS INCLUDED FOR GENERAL INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF A CLAIM. EACH CREDITOR AND EQUITY INTEREST HOLDER IS URGED TO CONSULT ITS OWN TAX ADVISOR AS TO THE CONSEQUENCES OF THE PLAN UNDER U.S. FEDERAL AND APPLICABLE STATE, LOCAL, AND FOREIGN TAX LAWS.

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, YOU ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS DISCLOSURE STATEMENT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON BY YOU, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON YOU UNDER THE TAX CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS ADDRESSED HEREIN; AND (C) YOU SHOULD SEEK ADVICE BASED ON YOUR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

### B. Federal Income Tax Consequences Associated with Transfers to the Liquidating Trust

The Plan provides for the establishment of the Liquidating Trust and the transfer of all assets (other than the Excluded Assets) of the Debtors, including Causes of Action, to the Liquidating Trust. The Debtors intend that the Liquidating Trust be classified as a "liquidating trust" within the meaning of Section 301.7701-4(d) of the Tax Regulations. Accordingly, the transfer of assets by the Debtors to the Liquidating Trust shall be treated as a transfer to the beneficiaries of the Liquidating Trust (the "Trust Beneficiaries") for all purposes of the Tax Code (e.g., sections 61(a)(12), 483, 1001, 1012, and 1274) followed by a deemed transfer of such assets by such Trust Beneficiaries to the Liquidating Trust. The Liquidating Trust shall be considered a "grantor trust", and, thus, the Trust Beneficiaries shall be treated as the grantors and deemed owners of the Liquidating Trust. The Liquidating Trustee shall value the transferred assets and notify in writing the Trust Beneficiaries of such valuations. The assets transferred to the Liquidating Trust shall be valued consistently by the Liquidating Trustee and the Trust Beneficiaries, and these valuations will be used for all federal income tax purposes.

The Liquidating Trustee shall file tax returns for the Liquidating Trust as a grantor trust pursuant to Section 1.671-4(a) of the Tax Regulations. All earnings of the Liquidating Trust, including earnings or income retained in reserve accounts or as reserves, shall be allocated to the Trust Beneficiaries on an annual basis, and each Trust Beneficiary shall be responsible to report and pay the taxes due on its allocable share of the Liquidating Trust's income whether or not amounts are actually distributed by the Liquidating Trustee to the Trust Beneficiaries to pay the tax. As a grantor trust, the Liquidating Trust will not have any separate liability for federal income tax relating to, or arising from, the conveyance, preservation or liquidation of the assets of the Liquidating Trust. However, the Liquidating Trustee shall be responsible for withholding all taxes required by law, and shall timely file all required federal, state or local tax returns, including information reporting returns, and shall promptly pay, from the assets of the Liquidating Trust, all taxes determined to be due. If it is determined that any taxes are owed by the Liquidating Trust, the Liquidating Trustee may pay from the Liquidating Trust Assets any such tax liability arising out of the operations of the Liquidating Trust or ownership of the assets of the Liquidating Trust. The Liquidating Trust may establish a reserve sufficient to pay any accrued or potential tax liability arising out of the operations of the Liquidating Trust or ownership of the assets of the Liquidating Trust. Notwithstanding anything herein to the contrary, in calculating and making the payments due to Allowed Claims under the Plan, the Liquidating Trustee shall be authorized to deduct from such payments any necessary withholding amount.

**C. Federal Income Tax Consequences to the Debtors**

Under the terms of the Plan, all assets (other than Excluded Assets) of the Debtors and the Estates will be transferred to the Liquidating Trust. As described in the preceding section, the transfer of the assets by the Debtors to the Liquidating Trust will be treated for federal income tax purposes as transfers of such assets by the Debtors to the Trust Beneficiaries as payment on their Claims against the Debtors, followed by the transfer of such assets by the Trust Beneficiaries to the Liquidating Trust in exchange for interests in the Liquidating Trust. Accordingly, the Debtors will recognize gain (or loss) on the deemed transfer of each asset to the Trust Beneficiaries to the extent the value of such asset exceeds (or is less than) the Debtors' tax basis in such asset.

The Debtors may realize income from the cancellation of indebtedness ("COD income") to the extent the transfer of assets to the Liquidating Trust is not considered to satisfy Claims in full. Generally, COD income is subject to tax unless an exception or exclusion applies. Section 108(a)(1) of the Tax Code sets forth five circumstances in which COD income is excluded from gross income, including COD income realized by reason of the discharge of indebtedness of the taxpayer if the discharge occurs in a bankruptcy case under Title 11 of the United States Code. In the case of a debtor that is classified as a partnership for federal income tax purposes, the exclusions (including the bankruptcy exclusion) are applied at the partner level, not at the partnership level. If a taxpayer excludes COD income from gross income by application of one of the exclusion provisions of Section 108(a)(1) of the Tax Code, then the taxpayer must reduce the amount of certain of its tax attributes (i.e., net operating loss carry forwards, tax credits, capital loss carry forwards, etc.) by the amount of the excluded COD income to the extent such attributes remain after determination of the taxpayer's taxable income for the year of discharge.

In the case of Standard, an entity classified as a corporation for federal income tax purposes, any COD income realized as a result of the discharge of Claims may be excluded from gross income since such discharge occurs in a bankruptcy case under Title 11 of the United States Code. Consequently, tax attributes of Standard remaining after determination of its taxable income for the tax year of discharge will be subject to reduction based on the amount of excluded COD income. Consolidated is an entity classified as a partnership for federal income tax purposes. Accordingly, any COD income realized by Consolidated will not be excluded from gross income based on the Section 108(a)(1) exclusions. Rather,

any COD income realized by Consolidated will be allocated among its members in accordance with applicable tax law and any applicable exclusions must be applied at the Consolidated member level.

**D. Federal Income Tax Consequences to Creditors and Equity Interest Holders**

As described above, the transfer of the assets by the Debtors to the Liquidating Trust will be treated for federal income tax purposes as transfers of such assets by the Debtors to the Creditors and Equity Interest Holders (i.e., the Trust Beneficiaries) as payment on their Claims against the Debtors, followed by the transfer of such assets by the Trust Beneficiaries to the Liquidating Trust in exchange for interests in the Liquidating Trust. Accordingly, a Creditor or Equity Interest Holder will recognize gain (or loss) on the deemed exchange of its Claim for Liquidating Trust Assets to the extent the value of such assets deemed received exceeds (or is less than) such Creditor's or Equity Interest Holder's tax basis in its Claim and such Creditor or Equity Interest Holder will take a fair market value basis in its share of the Liquidating Trust Assets. The amount and character of any gain or loss recognized by a Creditor or Equity Interest Holder will depend on the individual circumstances of such Creditor or Equity Interest Holder. A Creditor or Equity Interest Holder may recognize gain or loss once more when the Liquidating Trust Assets are reduced to cash and distributed.

**E. Tax Withholding**

The Plan provides for the Liquidating Trustee to comply with all tax withholding and reporting requirements validly imposed on the Liquidating Trust by any governmental authority. Accordingly, the Plan provides that Distributions made pursuant thereto shall be subject to any applicable withholding and reporting requirements, and authorizes Liquidating Trustee to take all actions necessary or appropriate to comply with such withholding and reporting requirements, including, without limitation, payment of applicable withholding taxes from a Claimant's or Equity Interest Holder's Distribution, and conditioning a Person's Distributions upon receipt of necessary tax reporting information from a Claimant or Equity Interest Holder.

## XIV.
## CONCLUSION

The Debtors and Committee believe that the Plan complies with section 1129 of the Bankruptcy Code and is fair and equitable and in the best interests of the Debtors, their Estates and Creditors. Accordingly, the Debtors and Committee urge Creditors and Equity Interest holders receiving Ballots to vote to accept the Plan.

DATED: December 12, 2012

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