

**UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF COLORADO**

In re: RANCHER ENERGY, CORP.,)	Case No. 09-32943 MER
)	
Debtor.)	Chapter 11
)	

**DISCLOSURE STATEMENT FOR SECOND AMENDED
PLAN OF REORGANIZATION**

Rancher Energy Corp., (“Rancher”) Debtor-in-Possession in the above-captioned case submits this Disclosure Statement for Second Amended Plan of Reorganization (the “Disclosure Statement”) pursuant to § 1125 of the Bankruptcy Code, 11 U.S.C. §101 *et seq.* (the “Bankruptcy Code”), to all known holders of claims against Rancher’s chapter 11 bankruptcy estate in order to disclose information deemed to be material, important, and necessary for creditors of Rancher to make an informed decision in exercising their right to vote for acceptance or rejection of the Debtor’s Second Amended Plan of Reorganization (the “Plan”). The Plan has been filed with the United States Bankruptcy Court for the District of Colorado (the “Court”), and a copy of the Plan is attached as Exhibit 1 hereto.¹

THIS DISCLOSURE STATEMENT HAS NEITHER BEEN APPROVED NOR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, AND THE COMMISSION HAS NOT RENDERED AN OPINION UPON THE ACCURACY OR ADEQUACY OF ANY STATEMENTS CONTAINED IN THIS DOCUMENT. BANKRUPTCY COURT APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT IMPLY BANKRUPTCY COURT APPROVAL OF THE PLAN. IN THE EVENT OF ANY INCONSISTENCIES BETWEEN THE PLAN AND THIS DISCLOSURE STATEMENT, THE PROVISIONS OF THE PLAN SHALL CONTROL.

**I. PROCEDURE REGARDING APPROVAL OF DISCLOSURE
STATEMENT AND VOTING PROCEDURES AND CONFIRMATION
OF THE PLAN**

This Disclosure Statement is provided to all of Rancher’s creditors, equity security holders and other parties in interest entitled to it under the Bankruptcy Code. This Disclosure Statement is intended to provide adequate information to enable the typical creditor, equity security holder, or other party in interest to make an informed decision to accept or reject the Plan. **YOU ARE ENCOURAGED TO READ THE PLAN, THIS DISCLOSURE STATEMENT, AND ALL EXHIBITS THERETO IN THEIR ENTIRETY BEFORE VOTING ON THE PLAN.** Prior to its distribution to all creditors, equity security holders and

¹ Capitalized terms not otherwise defined have meanings given in the Plan.

other parties in interest, the Court approved this Disclosure Statement by Order dated _____, 2012 as containing adequate information; however, Court approval of this Disclosure Statement does not imply Court approval of the Plan.

A. Voting on the Plan

Your vote on the Plan is important. The Plan can be implemented only if it is confirmed by the Court. The Plan can be confirmed only if, among other things, it is accepted by the holders of two thirds in amount and more than one-half in number of the Claimants holding Claims in at least one impaired Class who actually vote on the Plan. In the event the requisite acceptances are not obtained from the other impaired Classes, the Court may nevertheless confirm the Plan if the Court finds that it is fair and equitable to the Class or Classes rejecting it.

Holders of Claims or Interests in Classes 1, 2, 3, 4, 5, 6, 8 and 9 are impaired. Holders of Allowed Claims or Allowed Interests in these Classes are therefore entitled to vote. If you have a disputed, contingent or unliquidated claim, you must have your claim estimated by the Court in order to vote.

Because Claims in Class 7 are unimpaired, this Class is deemed to accept the Plan, and holders of Claims this Class will not vote on the Plan.

The Court will hold a hearing on confirmation of the Plan on _____, and will then, among other things, determine the results of the vote. The date on which the Court approves the Plan is the "Confirmation Date," and the "Effective Date" is the date that is thirty (30) days after the Confirmation Date (unless an appeal is taken and a stay of the confirmation order is obtained, or Rancher, by notice filed with the Court, elects an earlier Effective Date). Objections to Confirmation are due on or before _____.

A ballot pursuant to which the holder of an Allowed Claim may vote on the Plan accompanies this Disclosure Statement. **Completed ballots should be mailed or otherwise delivered so as to be received no later than 5:00 p.m. Mountain Time on _____ to:**

Christian C. Onsager
Michael J. Guyerson
Onsager, Staelin & Guyerson, LLC
1873 S. Bellaire St., Suite 1401
Denver, CO 80222

If your ballot is damaged or lost, or if you have any questions concerning voting, you may contact Christian C. Onsager (email: consager@osglaw.com) or Michael Guyerson (email: mguyerson@osglaw.com) or by phone at (303) 512-1123.

Rancher will not count votes that do not contain the required signature. Rancher will not count votes that do not indicate acceptance or rejection as votes accepting the Plan. The Record Date for having an Allowed Interest under Classes 5, 6 and 7 will be the date set by the Court pursuant

to motion that will be at least ten days prior to the deadline for mailing the Plan to Interest holders for purposes of voting. Rancher has engaged two vendors, Corporate Stock Transfer, Inc. and Broadridge, to assist debtor determining a complete and accurate list of Interest Holders. In addition, Rancher will contract with Corporate Stock Transfer, Inc. and Broadridge to ensure that this Disclosure Statement is distributed to beneficial holders of Interests. Rancher's professionals will tabulate ballots.

B. Cram Down

The Bankruptcy Code allows the Court to confirm a plan of reorganization or to "cram down" a plan of reorganization despite its rejection by a class of impaired claims under some circumstances. The Bankruptcy Code provides that if an impaired class rejects a proposed plan, then the plan cannot be confirmed unless at least one class of claims that is impaired under that plan has accepted it. In this regard, the Court must determine acceptance without including any vote by any insider, and further, the Court must conclude that the plan "does not discriminate unfairly, and is fair and equitable" with respect to the claims of the impaired class. Rancher will invoke its right to request the Court to confirm the Plan under such circumstances.

C. Acceptance of the Plan

Section 1126 of the Bankruptcy Code provides different requirements for acceptance of a plan for holders of claims and holders of interests as follows:

A class of claims has accepted a plan if such plan has been accepted by creditors, other than any entity designated under subsection (e) of this section, that hold at least two-thirds in amount and more than one-half in number of the allowed claims of such class held by creditors, other than any entity designated under subsection (e) of this section, that have accepted or rejected such plan.

A class of interests has accepted a plan if such plan has been accepted by holders of such interests, other than any entity designated under subsection (e) of this section, that hold at least two-thirds in amount of the allowed interests of such class held by holders of such interests, other than any entity designated under subsection (e) of this section, that have accepted or rejected such plan.

Subsection (e) provides that on request of a party in interest, and after notice and a hearing, the Court may designate any entity whose acceptance or rejection of the plan is not in good faith, or is not solicited or procured in good faith or in accordance with the provisions of title 11 of the United States Code.

II. HISTORY OF THE DEBTOR

A. Origin of the Business.

Rancher was incorporated as Metalex Resources, Inc., ("Metalex") on February 4, 2004, a Nevada corporation. Metalex became publicly traded on April 22, 2005 with the stated purpose of exploring for precious metals in the Province of British Columbia, Canada. Metalex found no commercially exploitable deposits or reserves of gold. On April 19, 2006, Metalex

changed its name to Rancher Energy Corp. Rancher then focused its business on oil and gas exploration and production in the Rocky Mountains. In June, 2006, Rancher began acquiring oil and gas properties in Wyoming and Montana.

B. Rancher's Oil and Gas Operations

A. As of 2007 Rancher's business strategy was to use modern tertiary recovery techniques on older, historically productive fields with proven, in-place oil and gas. Using water flood injection and CO₂ flooding, coupled with other leading edge hydrocarbon recovery techniques such as 3-D seismic data and directional drilling, Rancher expected to extract proven in-place oil that remains behind in mature fields. Rising energy demand and strong oil prices combined with advances in oil recovery made this strategy profitable to other companies in the industry.

Rancher acquired its significant oil and gas holdings in January, 2007 for approximately \$67 million. By the middle of 2007, Rancher had acquired oil and gas properties with proved and unproved reserves worth an estimated \$79 million. In 2007 and 2008, Rancher assembled a team of technical staff with expertise in applying secondary and tertiary enhanced oil recovery techniques and, specifically, water flooding and CO₂ injection.

Until March 14, 2011, when Rancher sold substantially all of its assets to Linc Energy Petroleum (Wyoming), Inc. ("Linc") (the "Linc Asset Sale"),² Rancher operated four oil and gas fields, including the South Glenrock A Field, South Glenrock B Field, the Big Muddy Field, and the Cole Creek South Field in the Powder River Basin, Wyoming in the Rocky Mountain region of the United States. The oil production from Rancher's properties was relatively high quality crude, ranging in gravity from 34 to 36 degrees, and low in sulfur. Rancher sold its oil to a crude aggregator on a month-to-month term. The oil was transported by truck, with loads picked up daily. The prices Rancher received were based on daily price postings for Wyoming Sweet crude oil, adjusted for gravity, plus approximately \$2.12 to \$2.35 per barrel

C. Rancher's Prepetition Financial Structure

i. Rancher's Prepetition Capital Structure

Rancher is a publicly traded company (ticker ID: RNCHQ) and has current outstanding common shares of 119,316,723 out of a total of 275,000,000 authorized shares, par value (\$0.0001) each. Rancher also has reserved 54,382,565 shares for outstanding warrants and 11,441,000 for options for a total of 185,390,288 shares. Thus only 89,609,172 shares currently remain available for issue. Warrant holders are provided common stock based on a deemed current value of the warrants.

ii. Rancher's Principal Prepetition Assets

On December 22, 2006, Rancher purchased certain oil and gas properties for \$46,750,000, before adjustments for the period from the effective date to the closing date, plus

² The Linc Asset Sale is described in more detail in Section III(C)(iv), below.

costs of \$323,657 and warrants to purchase 250,000 shares of common stock. The oil and gas properties consisted of (i) a 100% working interest (79.3% net revenue interest) in the Cole Creek South Field, and (ii) a 93.6% working interest (74.5% net revenue interest) in the South Glenrock B Field. Both fields are located in Converse County Wyoming in the Southern Powder River Basin. On January 4, 2007, Rancher acquired the Big Muddy and South Glenrock A Fields, also located in the Southern Powder River Basin. The total purchase price was \$25,000,000 and closing costs were \$672,638.

As of the Petition Date, Rancher's principal assets were interests in oil and gas producing properties in Wyoming (the "Properties"). The value of Rancher's Properties was difficult to estimate, but Gustavson Associates prepared a report dated February 26, 2010 (the "Gustavson Report") for Rancher in connection with Rancher's motion for the use of cash collateral. In addition, information is provided below about each of Rancher's oil and gas assets.

The Gustavson Report concluded that the proven developed and producing ("PDP") reserves on Rancher's properties had an estimated value of \$11,000,000. The proven, developed but not producing ("PDNP") reserves had an estimated value of \$17,400,000. The Gustavson Report makes a number of assumptions, the accuracy of which affects the PDNP estimate of value. For example, the PDNP estimate of value assumed that Rancher would perform well-workovers and that a certain percentage of the workovers would be successful. In addition, the PDNP estimate assumed that the total cost of the well workovers would be approximately \$4,500,000 and that the capital for the workovers would be provided to Rancher.

The proven undeveloped ("PUD") reserves to be extracted using enhanced oil recovery techniques had an estimated value in excess of \$21,700,000. The Gustavson Report makes a number of assumptions the accuracy of which affects the PUD estimate of value. For example, the PUD estimate of value assumed that Rancher would water-flood some of its properties and that a water-flood would be successful. In addition, the PUD estimate assumed the total cost of the water-flood to be approximately \$21,000,000 to \$32,500,000, and that the capital for the water-flood would be provided to Rancher.

In contrast, GasRock previously estimated the value of Rancher's oil and gas properties in an as-is condition to be \$12,500,000.

On the Petition Date, Rancher also owned machinery, equipment and vehicles with an estimated value of \$700,000; accounts receivable of approximately \$469,000; and cash performance bonds posted for the benefit of various federal and state regulatory agencies in the State of Wyoming in the face amount of approximately \$815,000.

iii. Rancher's Prepetition Debt

In October 2007, GasRock Capital, LLC ("GasRock") loaned Rancher approximately \$12,240,000 (the "GasRock Loan") to allow Rancher to begin development of its properties while Rancher sought further capital infusions. The GasRock Loan was extended through October 28, 2009 and the outstanding principal balance GasRock claimed due on the date Rancher filed its bankruptcy petition (the "Petition Date") was approximately \$10,275,000. As of the Petition Date, GasRock held prepetition security interests in substantially all of Rancher's

assets, including oil and gas properties, accounts receivable and machinery and equipment. As explained in section III(D)(ii), Rancher disputes the amount GasRock claims is due and has commenced an adversary proceeding to recover transfers of property and money to GasRock.

Rancher scheduled approximately \$325,000 in unsecured, prepetition debt to various service providers, taxing authorities and employees.

Anadarko Petroleum Corporation (“Anadarko”) filed a proof of claim against Rancher for an unliquidated amount alleging no less than \$54,000,000. Rancher disputed that any amount is due to Anadarko because Rancher believes the contract never became effective and the penalty is unenforceable. On October 13, 2010, Rancher and Anadarko agreed to settle the dispute and allow Anadarko’s claim in the amount of \$375,000. The settlement agreement has been approved by the Court.

Creditors alleging claims against Rancher have filed additional proofs of claim against Rancher totaling approximately \$2,258,701. These claims include a claim by the Bureau of Land Management (“BLM”) for approximately \$1,095,000 for certain forecasted expenses related to plugging and shutting-in wells on Rancher’s properties. Rancher believes that no amount is currently due to the BLM because Linc, the new owner of the properties, will continue to operate its wells and perform its plugging and shutting-in responsibilities, which are provided for in the Plan.

In addition, a group of shareholders (the “Shareholder Litigation Group”) have asserted claims against Rancher, John Works and a number of John Does for securities violations in the aggregate amount of \$1,776,050 in connection with a private placement of Rancher securities in 2006 and 2007. The Shareholder Litigation Group commenced two civil cases³ and asserted claims for: (1) intentional misrepresentation; (2) negligent misrepresentation; (3) concealment; (4) untrue statements or omissions in connection with the sale of a security in violation of Cal. Corp. Code § 25401; and (5) violations of federal securities laws, seeking rescission of the securities purchases and damages.

Rancher objected to the allowance of the Shareholder Litigation Group claims, and on June 30, 2011, the Court ordered that the claims of the Shareholder Litigation Group were subordinated to other claims pursuant to 11 U.S.C. § 510(b). As a result, Rancher’s Plan treats the Shareholder Litigation Group claims (classified in Class 9) as Interests and warrants to be converted to Interests under Classes 5 and 6. Insurance coverage may exist for the claims and the respective carriers have been given notice. The Plan does not affect any right of the Shareholder Litigation Group to pursue such carriers. No hearing on the merits of the claims asserted by the Shareholder Litigation Group has been set, though Rancher disputes the validity of the claims.

³ The cases were commenced in Superior Court of the State of California, County of Orange at case no. 30-2009 0012765, and in the United States District Court, Central District of California—Southern Division at case no. 09-cv-02696. The cases were dismissed and a tolling agreement was entered into between Rancher and the Frank W. Cutler and FWC Educational Trust aka Frank W. Cutler Educational Trust dated 12/15/99.³ The shareholders are Frank W. Cutler; Walfran, Ltd.; FWC Educational Trust aka Frank W. Cutler Educational Trust dated 12/15/99; James Deccio; Eva Ferencova; Erin Rahn; Ralph Karp; Dewain Campbell; Merrill McCarthy; LM, a minor by Merrill McCarthy her guardian ad litem; and BM, a minor by Merrill McCarthy her guardian ad litem.

Exclusive of the foregoing Shareholder Litigation Group claims and the claim of the BLM, Rancher estimates that general unsecured claims will total no more than \$1.3 million.

iv. Rancher's Prepetition Financial Performance

For the year ended March 31, 2009, Rancher recorded crude oil sales of \$5,140,660 on 65,308 barrels of oil at an average price of \$78.71. In 2009, pursuant to SEC accounting requirements, Rancher recorded impairment in the carrying value of its oil and gas properties of \$39,000,000 to reflect the excess carrying value over the estimated value of the assets for combined loss of \$46,000,000.

Immediately prior to the Petition Date, Rancher's daily oil production was approximately 205 barrels per day and the average net price per barrel Rancher received was approximately \$53. Rancher's quarterly revenue from the sale of oil was approximately \$696,000 with total operating expenses of approximately \$1,542,049, of which Rancher had \$781,846 in general administrative expenses.

D. Events Precipitating Bankruptcy

The final event that caused Rancher to file for bankruptcy protection was the seizure of funds in Rancher's bank account by GasRock and GasRock's threat to commence a foreclosure of Rancher's oil and gas properties in October, 2009.

i. GasRock Loan History

The enhanced oil recovery techniques Rancher intended to employ required a significant capital investment, and Rancher had sought additional equity investments and loans to satisfy its capital needs. The October, 2007 loan from GasRock was intended to be a one year loan to allow Rancher to begin work on its enhanced oil recovery techniques by re-working existing wells to increase production and revenue and to attract additional investment to fund the capital expenses necessary for water flooding and CO₂ injection of certain of its fields. In connection with GasRock Loan, and in addition to interest, GasRock required that Rancher give GasRock a 2.0% overriding royalty interest in all its oil and gas properties. The overriding royalty interest requires that Rancher pay GasRock an amount equal to 2.0% of the gross oil sold less specified tax, marketing and transportation costs.

By October, 2008, Rancher had not attracted the equity investment it needed to complete the proposed development of its oil and gas properties. On October 22, 2008, Rancher and GasRock extended the GasRock Loan. The terms of the extension required Rancher to make a \$2,240,000 principal payment to GasRock and required Rancher to give GasRock an additional 1.0% overriding royalty interest in Rancher's oil and gas properties (the "1% ORRI"). In exchange, the maturity date of GasRock Loan was extended only six months to April 30, 2009.

By April 30, 2009, Rancher was still unable to attract the investment capital or a replacement credit to repay the GasRock Loan. Six short extensions were granted between April 30 and June 3, 2009. On June 3, 2009 Rancher and GasRock entered into the eighth amendment

to GasRock Loan that extended the maturity date of the GasRock Loan to October 15, 2009. GasRock also increased the face rate of interest on the GasRock Loan to 16.0%. In exchange for the extension, GasRock required that Rancher give GasRock a 10% net profits interest in all of Rancher's oil and gas properties (the "10% NPI"). The 10% NPI requires that Rancher pay GasRock 10% of the proceeds from Rancher's oil sales, reduced only by specified tax, marketing, lease operating expenses and transportation costs.

The GasRock Loan matured on October 15, 2009 because Rancher was unable to attract capital or credit to pay the GasRock Loan. Shortly after maturity, GasRock gave Rancher notice of default and notice of its intent to foreclose on its collateral. On October 21, 2009, GasRock swept Rancher's bank accounts, taking approximately \$99,000, which left Rancher with no operating funds. Rancher filed its voluntary petition on October 28, 2009.

On January 26, 2011, Rancher obtained secured debtor-in-possession financing from Linc in the amount of \$14,700,000 (the "Linc DIP Loan"). Rancher used \$13,653,698.48 to satisfy the secured claim of GasRock, and Rancher used \$500,000 of the Linc DIP Loan to establish an escrow account to satisfy the claim asserted by GasRock for attorneys' fees incurred by GasRock in connection with the Adversary Proceeding (defined in section, C(ii), below), to the extent such claim becomes an Allowed Claim

ii. Other Events

In December, 2006, Rancher entered into a contract to purchase CO₂ from Anadarko Petroleum Corporation in anticipation of implementing its enhanced oil recovery techniques. The contract provides for a penalty of \$54,750,000 in the event Rancher breached the agreement. No pipeline to deliver the CO₂ was ever constructed, Anadarko never delivered any CO₂ to Rancher, and Rancher never purchased any CO₂ from Anadarko. As a result, Rancher asserted that the contract never became effective and that the penalty was unenforceable. Nevertheless, potential investors were concerned about investing until the enforceability of the contract was resolved. Rancher and Anadarko have settled the amount of Anadarko's claim for an allowed unsecured claim in the amount of \$375,000.

In June, 2008, the price Rancher received for a barrel of crude oil peaked at more than \$128 per barrel. That price fell to \$63 per barrel by October, 2008, and by December, 2008, bottomed at \$25 per barrel. This drop, the tightening in credit markets and the global financial crisis reduced the short term value of Rancher's oil and gas holdings and hurt Rancher's ability to obtain investment capital or permanent financing to replace GasRock.

The overriding royalty interests and 10% NPI GasRock required in connection with GasRock Loan and its extensions also contributed to Rancher's inability to obtain the necessary capital or additional credit it needed for its development and to pay the GasRock Loan. In effect, the overriding royalty interests required that Rancher pay GasRock 3.0% of the total revenue Rancher received from the sale oil each month. Similarly, the 10% NPI required that Rancher pay to GasRock 10% of the net profit it received on oil sales.

During Rancher's highest period of oil production in the term of GasRock Loan, Rancher paid more than \$16,000 to GasRock for one month on the overriding royalty interests. Because

the 10% NPI is calculated before many expenses and accrued costs are taken into account, Rancher paid more than \$29,500 in a single month to GasRock on the 10% NPI for a month in which Rancher sold 6,422 barrels of oil.

Over the course of the GasRock Loan, Rancher paid more than \$460,000 on the overriding royalty interests and the 10% NPI. GasRock did not apply these payments to GasRock Loan. This cash drain left Rancher unable to do the work necessary to increase or even sufficiently maintain oil production of some of its fields. Moreover, because the payments required under the overriding royalty interests and 10% NPI increase as production increases, no equity investment in Rancher would yield a sufficient return on the capital with those burdens on Rancher's property. Accordingly, the overriding royalty interests and 10% NPI collectively left Rancher with too little net revenue interest in the oil fields to attract additional investment.

In June, 2009 a shareholder proxy contest was commenced by a group of Rancher shareholders and ultimately a shareholder election was held on September 30, 2009. A new slate of company directors was elected as a result of the vote. Shortly after taking control, the new board terminated the company CEO and President, Mr. John Works. Mr. Richard Kurtenbach, the Chief Accounting Officer, Ms. Denise Greer, the Manager of Land & Operations, and Lisa Dimuccio, the Controller, were retained by the new board. Ms. Dimuccio has continued to act in that capacity for Rancher. Mr. Kurtenbach left Rancher in July, 2010 and Ms. Greer left Rancher in January, 2012.

III. EVENTS SINCE THE PETITION DATE

A. Operations. Until March 1, 2011 The effective date of the Linc Asset Sale, Rancher operated the Properties.⁴ Prior to the Linc Asset Sale, Rancher used funds to repair, maintain, and bring back into production dormant or idle wells with a success rate of approximately 80%. From the Petition Date through the Linc Asset Sale, Rancher was able to increase its daily oil production.

In November, 2009, the Court granted Rancher's motion for interim use of cash collateral. Rancher immediately took steps to reduce operating costs and overhead, including salary cuts of 10% - 20% for employees and the rejection of the office lease for its corporate headquarters. In addition, Rancher carried out a program of repair and remediation on a number wells that had become non-producing, resulting in a 20% increase in daily crude oil production as compared to pre-petition production levels.

Commencing in December, 2009, Rancher carried out repair and remediation work on a number of non-productive wells, bringing them back on production and increasing daily production from the fields by approximately 50 barrels or 25% compared to the pre-petition production levels. Rancher continued to evaluate the productive capabilities of the fields with the primary objective of identifying additional low cost projects to enhance production and a secondary objective to identify additional productive formations on its existing leasehold position.

⁴ The Linc Asset Sale is described in detail in Section III(C)(iv), below.

In March, 2010, with Court authorization, Rancher retained a professional geologist with extensive experience in the Powder River Basin to conduct an evaluation and analysis of the Niobrara Shale potential for hydrocarbon production in and around its fields and other aspects of its assets. That evaluation and analysis was completed in May 2010 and concluded that the Niobrara in the study area has characteristics similar to Niobrara sections where oil production was already established, making the area a viable target for development.

In October 2010, Rancher entered into a letter of intent with BWAB, Inc. for the recapitalization of Rancher through the issuance of new convertible preferred stock. Based on that letter of intent, which did not require Rancher's recovery of the 10% NPI or the 1% ORRI, Rancher filed its initial Plan and Disclosure Statement. Rancher anticipated that the parties would enter into a definitive binding agreement within a short time thereafter, but BWAB determined that it would not proceed with the recapitalization.

Rancher subsequently entered in to agreements with Linc for the Linc DIP Loan and the Linc Asset Sale, as more fully discussed in III(C)(iv), below.

In January, 2011, after Court approval, Rancher closed on the Linc DIP Loan. Rancher used the proceeds of the Linc DIP Loan to: (1) pay the GasRock Loan in full; (2) pay past due ad valorem property taxes; and (3) establish a \$500,000 escrow pending Court resolution of Rancher's objection to GasRock's claim for attorneys' fees in the Adversary Proceeding.

On March 14, 2011, after Court approval, Rancher sold substantially all of its assets to Linc in the Linc Asset Sale.

B. Financial Performance. Until the Linc Asset Sale, Rancher's monthly net revenue from production and sales increased from approximately \$225,000 for the period immediately prior to the Petition Date to approximately \$366,795.02 net revenue as of December 13, 2010, subject to normal collection and payment cycles.

Attached as Exhibit 3 are the balance sheet and profit and loss statements from Rancher's monthly operating report for the month of _____, 201__, filed with the Court.

C. Chapter 11 Events.

i. Cash Collateral.

Because GasRock claimed prepetition security interests in substantially all of Rancher's assets, Rancher could not use the funds it obtained from selling oil without the consent of GasRock or Court permission. Rancher filed its Supplemental Emergency Motion for Use of Cash Collateral (the "Cash Collateral Motion") on November 6, 2009. With the consent of GasRock and upon the record made at the November 10, 2009 hearing to consider the interim relief requested in the Motion and the final hearing held on January 27, 2010 and April 9, 2010, the use of cash collateral was allowed, albeit restricted by a Cash Collateral Budget.

Until April 1, 2010, Rancher used proceeds from oil sales to run its business with GasRock's consent. A final cash collateral hearing was concluded on April 30, 2010. On

September 2, 2010, the Court entered an order finding that GasRock's interest in cash collateral was adequately protected and granting Rancher's Motion to Use Cash Collateral. As part of the September 2nd order, the Court required Rancher to file a proposed amended final cash collateral order in cooperation with GasRock. Rancher and GasRock did not agree on the proposed form of the amended final cash collateral order. On November 16, 2010, the Court entered a final order approving Rancher's use of cash collateral incorporating terms from both Rancher's proposed order and GasRock's proposed order on cash collateral. The Order did not permit Rancher to use any cash collateral to prosecute the Adversary against GasRock.

On January 26, 2011 the Court approved the Linc DIP Loan and Rancher obtained secured debtor-in-possession financing from Linc in the amount of \$14,700,000, which Rancher used in part to satisfy the secured claim of GasRock. As a result, the cash collateral order became moot.

ii. GasRock Adversary.

On February 12, 2010, Rancher commenced an adversary proceeding (the "Adversary Proceeding") against GasRock in which Rancher seeks to avoid conveyances of property to GasRock or for damages in the amount of the property conveyed, to recognize that conveyances of property to GasRock were intended only as security, to recover damages for violations of applicable usury law and to recover payments and conveyances of property to GasRock as preferences, among other claims. In its initial disclosures in the Adversary, Rancher claimed damages in the total amount of approximately \$40,000,000 or the return of the 10% NPI and 1% ORRI plus recovery of amounts paid thereunder, and damages for GasRock's violation of applicable usury law.

Rancher's complaint (the "Complaint") in the Adversary contains nine claims for relief. The First, Second and Third Claims for Relief seek to recharacterize a 2% overriding royalty interest (the "2% ORRI"), the 1% ORRI and the 10% NPI that Rancher granted to GasRock, respectively, as security interests. The Fourth Claim for Relief seeks damages for violations of usury law. The Fifth Claim for Relief seeks to avoid as constructive fraudulent transfers under 11 U.S.C. § 548, the 1% ORRI, the 10% NPI and all payments made on the ORRI and 10% NPI. The Sixth Claim for Relief seeks to avoid as constructive fraudulent transfers under 11 U.S.C. § 544 and the applicable Uniform Fraudulent Transfer Act, the 1% ORRI, the 10% NPI and all payments made on the ORRI and 10% NPI. The Seventh Claim for Relief seeks to avoid as preferences the 1% ORRI, the 10% NPI and all payments made on the ORRI and 10% NPI within one year of the Petition Date. The Eighth Claim for Relief seeks to avoid all postpetition payments made on the ORRI and 10% NPI to the extent the ORRI and 10% NPI are avoided or recharacterized. The Ninth Claim for Relief seeks to equitably subordinate any allowed claim of GasRock.

GasRock filed a motion to dismiss all of Rancher's claims in the Adversary. On October 21, 2010, the Court entered an order dismissing Rancher's claims to recharacterize the 2% ORRI, the 1% ORRI and the 10% NPI. The Court denied GasRock's request to dismiss the other six claims.

On May 20, 2011, GasRock filed three motions for partial summary judgment seeking judgment on all of Rancher's remaining claims. Rancher filed responses to the motions for summary judgment. In addition, Rancher filed a motion for summary judgment on Rancher's objection to GasRock's claim for attorneys' fees and costs that GasRock incurred in the Adversary Proceeding. The Court issued an order stating that no trial date would be set until the motions for summary judgment were adjudicated.

On November 2, 2011, the Court entered an order denying all of GasRock's motions for partial summary judgment and requiring either consent to jurisdiction in the Bankruptcy Court or further briefing on the issue. GasRock did not consent to jurisdiction and, on December 1, 2011, Rancher and GasRock each filed briefs in the Adversary Proceeding concerning the impact on the Adversary Proceeding of the recent ruling of the U.S. Supreme Court in *Stern v. Marshall*. The Court has not yet entered an order concerning how it will proceed with the Adversary Proceeding and no trial date has been set.

The Complaint and other pleadings filed in the Adversary Proceeding are available through the Court's electronic filing system at Case No. 10-01173. There are currently no pending deadlines in the Adversary Proceeding.

iii. Plan Evaluation Options

Since October, 2009, Rancher explored a number of plan and potential field development options. The first option required investment capital sufficient to implement the CO₂ flood which was the original development plan of Rancher. The second option required sufficient capital to implement only the water flood of its Big Muddy field. The third option required a smaller capital infusion to fund the repair and re-working of current idle or down wells to increase production from current assets and to fund capital expansion and operations over a longer term while servicing the GasRock Loan. As a fourth option, Rancher considered simply operating the fields without any further capital infusion in an 'as is' operational state. Finally, Rancher considered marketing its properties for outright sale.

In April, 2010, Rancher hired General Capital Partners ("GCP") as its investment bankers. GCP pursued investment capital and potential purchasers for Rancher's assets. As part of its work, GCP created a data room and conducted an intensive marketing campaign on Rancher's behalf. Several parties offered to invest in Rancher or purchase Rancher's assets, but all offers prior to the offer from Linc were conditioned upon recovery of the 10% NPI and the 1% ORRI.

During the course of Rancher's chapter 11 bankruptcy case, Rancher aggressively pursued each option for development, and after receiving four written letters of interest as well as numerous other inquiries, and with the assistance of its advisors, concluded that selling substantially all of its assets would allow Rancher the best possibility of paying all its creditors in full.

In December, 2010, Rancher entered into an agreement with Linc as purchaser to purchase substantially all of Rancher's assets for \$20,000,000⁵ which was not contingent upon

⁵ Subject to customary adjustments and a credit to Linc in the amount of the Linc DIP Loan.

selling Rancher's properties free and clear of the disputed GasRock interests.⁶ The Linc Asset Sale was approved by the Bankruptcy Court on February 24, 2011, and the closing occurred on March 14, 2011, effective March 1, 2011.

iv. The Linc DIP Loan and Linc Asset Sale

On January 26, 2011, Rancher obtained secured debtor-in-possession financing from Linc in the amount of \$14,700,000 (the "Linc DIP Loan"). Rancher used \$13,653,698.48 to satisfy the secured claim of GasRock and used \$531,891.42 to satisfy the secured claim of Converse County, Wyoming for past due ad valorem property taxes. In addition, Rancher used \$500,000 of the Linc DIP Loan (on which no interest accrued) to establish an escrow account to satisfy the claim asserted by GasRock to pay its Claim for future attorneys' fees incurred by GasRock in connection with the Adversary Proceeding (defined in section, C(ii), above), to the extent such claim becomes an Allowed Claim.

A copy of the Senior Secured, Super-Priority Debtor-In-Possession Credit Agreement between Rancher and Linc (the "Linc Credit Agreement") is available on the Court's docket at no. 492. The Schedules to the Linc Credit Agreement were filed with the Court on December 28, 2010 and are available at docket no. 451. A hearing on the DIP Motion occurred January 12, 2011. The order approving the Linc DIP Loan was entered on January 26, 2011 and is available at docket no. 513.⁷

The Linc DIP Loan allowed Rancher to satisfy the secured claim of GasRock, which reduced Rancher's interest burden from 18% (which GasRock asserted compounded monthly) to 10% for the first sixty days of the Linc DIP Loan, increasing to 12% for the next sixty days and increasing to 14% if the Linc DIP Loan is not paid at maturity. In addition, Converse County, Wyoming agreed to waive its claim for interest and penalties on past due ad valorem property taxes, which totaled more than \$80,000. At the time, Rancher calculated its net savings resulting from the Linc DIP Loan at \$536,000 over the anticipated life of the loan.

On December 20, 2010, Rancher filed a Motion for Order Authorizing (I) Sale of Substantially All of Debtor's Assets Free and Clear of All Liens, Claims, Interests and Encumbrances; and (II) Assumption and Assignment of Certain Executory Contracts and Unexpired Leases (the "Sale Motion"). In the Sale Motion, Rancher requested authorization to sell substantially all of its assets to Linc for \$20,000,000, plus certain other compensation contingent on the outcome of the Adversary Proceeding. A copy of the Asset Purchase Agreement between Rancher and Linc (the "Linc APA") was attached to the APA Motion as Exhibit A. The Schedules to the Linc APA were filed with the Court on December 30, 2010.

In connection with the Linc APA, Linc and Rancher entered to a Litigation Agreement, which was an exhibit to the APA filed with the Court. Under the Litigation Agreement, Rancher agreed to continue to prosecute the Adversary Proceeding. Any recovery of the 1% ORR, the 2%

⁶ Pursuant to the APA, Rancher was required to seek Court approval to sell Rancher's properties free and clear of the disputed GasRock interests. Linc subsequently entered into an agreement with GasRock that Rancher would sell the properties subject to the disputed GasRock interests.

⁷ On February 2, 2011, the Court entered an amended order approving the Linc DIP Loan. The amended order corrected typographical errors and is available at docket no. 519.

ORR or the 10% NPI would be transferred to Linc in return for certain cash success bonuses. Linc also agreed to pay Rancher's attorneys' fees and costs in the adversary proceeding up to \$250,000.

On February 24, 2011, the Court entered an order approving the sale. The sale closed March 14, 2011, effective as of March 1, 2011, and a final true-up adjustment occurred in April, 2011.

Among other items, the following material assets were excluded from the Asset Sale and have been retained by Rancher: (1) Rancher's contract with Merit Energy Company, LLC ("Merit"); (2) up to \$350,000 of Rancher's cash or cash equivalents; and (3) the claims of the Debtor and the estate against GasRock in the Adversary Proceeding. If Rancher recovers from GasRock some or all of the disputed interests in the Adversary Proceeding, Rancher will receive up to an additional \$825,000 from Linc. In addition, Rancher is entitled to up to \$250,000 in reimbursement from Linc for attorney's fees and costs incurred in litigating the Adversary Proceeding. Rancher has other claims in the Adversary Proceeding that may provide recovery.

Linc is a subsidiary of Linc Energy, a publicly-traded Australian oil and gas company. More information about Linc Energy may be found at <http://www.lincenergy.com>.

Other than the transactions contemplated by the Plan, the Linc DIP Loan and the Linc APA, Rancher and Linc are neither engaged in nor have contemplated any other material transactions. None of Rancher's insiders have received or will receive any compensation on account of the closing of the Linc DIP Loan or the Linc APA. None of Rancher's insiders have been or are anticipated to be involved in the future with Linc. None of Rancher's insiders have any known relationships with Linc or Linc's insiders. Jon Nicolaysen is the trustee of the KGN Mineral Trust, which holds a royalty interest in some of Rancher's properties sold to Linc, but said interests have not been and will not be treated any differently than all other royalty interests.

v. Miscellaneous Administrative Events

Since the Petition Date, Rancher has accomplished the following:

1. Rancher has requested and obtained a Court approved deadline for filing prepetition proofs of claim;
2. Rancher has assumed all non-residential real property leases, purely as a precautionary matter;
3. Rancher has rejected its prior office space lease and an executory contract with Anadarko.
4. Rancher improved its per day oil production by approximately 20%, without the use of any Debtor-In-Possession funding or credit.

5. Rancher retained GCP as its investment bankers and business consultant to assist it in exploring of all its Plan options and in the filing of the Plan. GCP has significant experience in the oil and gas industry and in raising capital and funding.
6. Rancher has proper insurance in place, is current on payroll, payroll taxes and withholdings, has filed and is current with all Monthly Operating Reports and paid all U.S. Trustee fees to date. It has filed all required SEC filings and reports to date and continues to maintain its status as public company.
7. Rancher filed the Adversary Proceeding against GasRock to recover or recharacterize the NPI, 2% ORRI and 1% ORRI interests and payments made on those interests. Rancher also seeks damages in the Adversary Proceeding for GasRock's violation of usury laws and to subordinate any allowed claim GasRock may have.
8. Rancher filed and obtained a Court ruling authorizing its use of cash collateral over the objections of GasRock and also obtained an extension of the exclusive period to file the Plan and obtaining acceptances.
9. The Court denied the Motion to Dismiss the Adversary Proceeding filed by GasRock herein, except for Debtor's claims for re-characterization.
10. Rancher has objected to proofs of claim filed by certain persons and entities. Those claims and the current status or outcome of Rancher's objection are as follows:
 - a. The claim of LBA Realty Fund III—Company III, LLC (claim no. 31) was settled for an allowed, unsecured claim in the amount of \$285,426.27;
 - b. The claims of John Works (claim nos. 4, 5 and 6) have been settled and the settlement was approved by the Court on November 7, 2011;
 - c. By order of the Bankruptcy Court (docket no. 672), the Shareholder Litigation Group claims (proofs of claim nos. 38-49) are subject to subordination under 11 U.S.C. § 510(c);
 - d. The claims filed by leaseholders of Rancher's properties (proofs of claim nos. 28, 29, 34, 37 and 52) have been disallowed;
 - e. The objection to the administrative expense claim filed by Dufford & Brown, P.C. in the amount of \$106,774.62 was settled and approved by the Court;
 - f. The objection to the claim of Robinson, Waters & O'Dorisio is still pending and no hearing has been set thereon;
 - g. The objection to the claim by GasRock for attorneys' fees and costs related to the Adversary Proceeding is still pending; and

h. The claim of Anadarko Petroleum (proof of claim no. 3) for \$54,000,000 was settled for an allowed unsecured claim in the amount of \$375,000.

IV. PLAN OF REORGANIZATION

The following is a simplified description of the Plan. REFERENCE SHOULD BE MADE TO THE PLAN FOR A FULL ANALYSIS OF ITS CONTENTS.

Purpose of the Plan: The primary purpose of the Plan is to repay creditors. Rancher believes that its Plan is in the best interests of the creditors and the Interest holders. See “FEASIBILITY AND LIQUIDATION ANALYSIS,” Section IX, below.

General Overview: The Plan contemplates that cash will be distributed to all creditor classes in order of priority until they are paid in full or no more cash remains above the amount needed to wind up Rancher’s affairs. If Rancher is successful in paying all creditor classes in full, Rancher’s Board will wind up Rancher’s affairs and distribute any remaining cash to the shareholders, or, if the remaining cash and other assets exceed \$2.0 million, the Board may elect to continue in the oil and gas business.

Under the Plan, certain insider claimants with convertible notes are given the option of conversion, but conversion is unlikely. Warrant holders will receive common stock at a ratio of 1 share per one hundred shares purchasable under the warrant (regardless of the warrant exercise price and regardless of expiration date).

A. TREATMENT OF CLASSES OF CLAIMS AND INTERESTS

Administrative Priority Claims. Claims for administrative expenses include all costs and expenses of the administration of the Chapter 11 case allowed under § 503(b) of the Bankruptcy Code and entitled to priority under § 507(a)(1) of the Bankruptcy Code. The Plan provides for payment in full of all allowed administrative expenses on or after the Effective Date in the ordinary course of business unless paid prior thereto or if the holder of such administrative expense has agreed to a different treatment, and otherwise as soon as practicable after the Effective Date. Any administrative expense that is the subject of an objection or potential objection as of the Effective Date, and therefore has not yet been allowed by the Bankruptcy Court, will be paid in the amount ultimately allowed promptly after resolution of the objection. Rancher does not anticipate any Administrative Priority Claims out of the ordinary course of business other than Professional Fee Claims.

Rancher Energy Corp Professionals Fees to be paid as of 1/12/12				
Name of Professional	Total Amounts Owed	Less Payments	Due today:	Based on Invoices received through:

TCF Services, Inc. (Jeff Bennett)	\$161,280.92	\$ 161,280.92	\$0.00	9/20/11 (final services rendered, no other fees due/payments made)
Overton & Associates, LLC (A.L. "Sid" Overton or Mark Overton)	\$222,545.43	\$ 214,216.34	\$ 8,329.09	12/1/2011
M.A. Littman (Michael)	\$ 28,897.00	\$ 25,330.00	\$ 3,556.50	12/1/2011
Hein & Associates LLP (James Brendel)	\$183,937.45	\$ 145,791.82	\$ 38,145.63	10/30/2011
Gustavson Associates, LLC (Edwin C. Moritz)	\$ 41,061.99	\$ 41,061.99	\$ 0.00	4/1/11 (final services rendered, no other fees due/payments made)
Onsager, Staelin & Guyerson (Christian Onsager, Mike Guyerson)	\$801,305.43	\$ 661,316.69	\$ 139,988.74	12/23/2011
General Capital Partners, LLC (J. Greg Barrow)	\$535,000.00	\$ 535,000.00	\$ 0.00	Through 3/17/11- other fees contingent on Plan Confirmation and/or financial transactions
Goolsby, Finley & Associates, LLC (Andrew K. Finley)	\$ 5,350.00	\$ 5,350.00	\$ 0.00	5/28/2011
Brown, Drew & Massey, LLP	\$ 4,856.86	\$ 3,785.61	\$ 1,071.25	3/20/2011
Daniel D. Scharf, CPA	unknown	unknown	\$ 0.00	
Dufford & Brown, P.C. (Herbert Delap, Randall Feuerstein)	\$163,303.06	\$ 143,545.50	\$ 0.00	11/18/2010- pursuant to settlement approved by court
Stinson Morrison Hecker, LLP	\$ 3,152.82	\$ 3,152.82	\$ 0.00	9/26/2011

Professional Fees will continue to accrue through the Effective Date of the Plan. The Court will ultimately review and determine the allowance of all fees paid or to be paid to Rancher's attorneys and the other professionals described above. All fees of professionals approved by the Court will be paid by Rancher, although Rancher has a right of reimbursement from Linc for up to \$250,000 in fees incurred in the Adversary Proceeding, \$101,733.28 of

which has been paid so far by Linc; no such professional fees have been guaranteed by anyone else.

Fees of the United States Trustee payable under 28 U.S.C. Section 1930 will be paid on confirmation in accordance with § 1129(a)(12) of the Bankruptcy Code. Rancher has paid a quarterly fee of \$6,500.00 for each of the quarters since the Petition Date through 2010. Rancher paid a quarterly fee of \$20,000 for the first quarter of 2011 as a result of the closing of the Linc DIP Loan and the payments to GasRock and Converse County, Wyoming. Rancher is current on payments of the quarterly fees to the United States Trustee and anticipates remaining current. Accordingly, Rancher estimates the total amount due to the United States Trustee will be at most \$6,500 as of the confirmation date of its Plan of Reorganization. The obligation to pay quarterly fees will continue until the chapter 11 case is dismissed, converted or closed.

Classified Claims in the Plan as are described below:

CLASS	CLAIM	VOTING
Class 1	Secured Claim of GasRock	Impaired/Entitled to Vote
Class 2	Priority Wage Claims	Impaired/Entitled to Vote
Class 3(a)	Wyoming State Dept. of Revenue - Unsecured	Impaired/Entitled to Vote
Class 3(b)	IRS Pre-Petition Tax Claims – Unsecured	Impaired/Entitled to Vote
Class 3(c)	All Other Pre-Petition Tax Claims – Unsecured	Impaired/Entitled to Vote
Class 4(a)	General Unsecured Claims	Impaired/Entitled to Vote
Class 4(b)	BLM Unsecured Claim	Impaired/Entitled to Vote
Class 4(c)	Allowed Late-Filed Unsecured Claims	Impaired/Entitled to Vote
Class 5	Interests (common shareholders)	Impaired/Entitled to Vote
Class 6	Interests (holders of options and warrants)	Impaired/Entitled to Vote
Class 7	Employee/Retention Agreement Stock Options	Unimpaired/ Deemed to Accept
Class 8	Convertible Promissory Notes	Impaired/Entitled to Vote
Class 9	Shareholder Litigation Group	Impaired/Entitled to Vote

Voting of Claims. Each Claimant with an Allowed Claim as of the last date set by the Court on which a vote must be received in Classes 1, 2, 3, 4, 5, 6, 8 and 9 shall be entitled to vote to accept or reject the Plan.

Presumed Acceptances of Plan. Class 7 is unimpaired under the Plan and therefore is presumed to have accepted the Plan.

V. TREATMENT OF CLAIMS

The following treatment of and consideration to be received by Claimants of Allowed Claims and Allowed Interests pursuant to the Plan shall be in full settlement, release and discharge of such Allowed Claims and Allowed Interests.

Class 1 (GasRock). Class 1 consists of the Allowed Claim, if any, of GasRock for attorney's fees and costs, if any, as determined by the Court. The Class 1 Claim shall be treated consistent with the Order approving the Linc DIP Loan and the escrow agreement established pursuant thereto and otherwise as a general unsecured claim in Class 4(a).

Class 2 (Priority Wage Claims). Class 2 shall consist of all Allowed Claims entitled to priority under § 507(a)(4)(A) of the Code. Class 2 Claims shall be paid their Pro Rata share of the Asset Pool after payment of or reserve for Administrative Claims and Professional Fee Claims. Any Allowed Claim held by a Class 2 Claimant in excess of the amount entitled to priority under § 507(a)(4) of the Code shall be treated as a Class 4(a) Claim. As of the date of this Disclosure Statement, Creditors that have filed timely proofs of claim have asserted, priority wage claims against Rancher in the amount of \$14,821.72.

Class 3 (Unsecured Priority Tax Claims)

- A. Class 3(a) (Wyoming Department of Revenue)** Class 3(a) consists of the Allowed Claim of the State of Wyoming Department of Revenue for taxes entitled to priority under § 507(a)(8) of the Code. Interest on the Class 3(a) Claim shall accrue from the Petition Date at the rate specified by applicable Wyoming law, and the Claim shall be paid its share Pro Rata with all Class 3 Claims of the Asset Pool after payment of or reserve for Administrative Claims, Professional Fee Claims, and Classes 1 and 2. The State of Wyoming Department of Revenue filed proofs of claim in the total amount of \$39,988.77. Distributions to the Class 3(a) Claim(s) will be paid on or before a date that is five years after Rancher's petition date.
- B. Class 3(b) (Internal Revenue Service)** Class 3(b) consists of the Allowed Claims of the Internal Revenue Service for taxes entitled to priority under §507(a)(8) of the Code. Interest on the Class 3(b) Claims shall accrue from the Petition Date at the rate specified in § 6621(a)(2) of the Internal Revenue Code in effect on the Effective Date for any Allowed Claim of the Internal Revenue Service. The Class 3(b) Claims shall be paid their share Pro Rata with all Class 3 Claims, of the Asset Pool after payment of or reserve for Administrative Claims, Professional Fee Claims, and Classes 1 and 2. The Internal Revenue Service filed a proof of claim asserting a priority amount of \$4,284.11. Distributions to the Class 3(b) Claim(s) will be paid on or before a date that is five years after Rancher's petition date.
- C. Class 3(c) (Other Tax Claims)** Class 3(c) consists of any Allowed Claims for taxes entitled to priority under §507(a)(8) of the Code not included in Classes

3(a) and 3(b). Interest on the Class 3(c) Claims shall accrue from the Petition Date at the rate specified in applicable law and shall be paid their share Pro Rata with all Class 3 Claims of the Asset Pool after payment of or reserve for Administrative Claims, Professional Fee Claims, and Classes 1 and 2. Rancher estimates that there are no claims in this class. Distributions to the Class 3(c) Claim(s) will be paid on or before a date that is five years after Rancher's petition date.

Class 4(a) (General Unsecured Claims). Class 4(a) shall consist of Allowed General Unsecured Claims not otherwise specifically classified under the Plan. The Class 4(a) Claims shall be paid shall be paid their Pro Rata share of the Asset Pool, with interest as may be required by law, after payment in full of or reserve for Administrative Claims, Professional Fee Claims, and Classes 1, 2 and 3. Rancher has scheduled claims and creditors have asserted claims totaling \$1,054,029.54, which include the stipulated allowed claim of Anadarko Petroleum, Inc. of \$375,000, but which do not include the claims of the Shareholder Litigation Group.

Class 4(b) (BLM Allowed Unsecured Claim). Class 4(b) shall consist of the Allowed General Unsecured Claim of the BLM for plugging and reclamation liability and other claimed amounts. The Class 4(b) Claim shall be satisfied by the remediation and other well workovers as required by the BLM of Linc. Upon the Effective Date, Rancher will be released from any liability for the Class 4(b) Claim. The Operator Bond posted by Rancher for the benefit of the BLM in the current amount of \$25,000.00 shall be released from any Allowed Claim of the BLM upon Rancher's written request.

Class 4(c) (Allowed, Late-Filed Unsecured Claims). Class 4(c) shall consist of the Allowed unsecured claims that were not filed prior to the Bar Date and were not deemed by the Court as timely filed if filed after the Bar Date. The Class 4(c) Claims shall be paid their Pro Rata share of the Asset Pool monthly from time to time to the extent the Asset Pool contains at least \$1000 after payment in full of or reserve for Administrative Claims, Professional Fee Claims, and Classes 1, 2, 3 and 4(a).

Interest. In the event all Class 4(c) Claims have been paid or reserved for, Rancher will pay or reserve for from the Asset Pool, as the case may be, interest on all Class 4 Claims calculated from the Petition Date to the date of Distributions on the Class 4 Claims at the rate provided under 28 U.S.C. § 1961.

Class 5 (Shareholder Interests) Class 5 shall consist of (a) all common stock Interests in the Debtor on the Effective Date, and (b) the Allowed Claims of the Shareholder Litigation Group, which have been subordinated under § 510(b) of the Code. Attached as Exhibit 4 is list containing the following information about Rancher's shareholders: (i) the number of beneficial owners of Rancher's shares; (ii) the identity of parties holding 5% or more of the Rancher's common stock; (iii) the percentage of common stock held by officers and directors as a group. No party (other than as disclosed regarding officers and directors) who is anticipated to have 5% or more of the post-confirmation shares of Rancher has a relationship to Rancher and/or insiders and affiliates of Rancher.

Class 6 (Warrants) Class 6 shall consist of (a) all holders of warrants as shown on the

Stock and Transfer records of Rancher as of the Record Date, and (b) the Allowed Claims of the Shareholder Litigation Group to the extent the same arise from the purchase of warrants. All such warrants shall be cancelled and each Class 6 Claimant shall receive shares of the Debtor's common stock based on the following formula: one share of common stock for every 100 shares of common stock to which such Claimant would be otherwise entitled upon exercise of the warrants, regardless of the exercise price or any other terms of the warrants.

Class 7 (Employee Stock Options) Class 7 consists of Allowed Claims for stock options vested as of the Record Date as the result of management retention agreements or employee stock option agreements. Such options shall remain unimpaired. The following insiders have management retention agreements: Jon C. Nicolaysen, A.L. Sid Overton, Mathijs van Houweninge and Jeffrey B. Bennett.

Class 8 (Convertible Note Holders) Class 8 consists of Allowed Claims pursuant to Convertible Promissory Notes dated October 27, 2009. Each holder of such Notes shall retain the right to convert the Convertible Promissory Note to shares of common stock pursuant to the terms thereof, provided that (a) conversion shall be at the conversion price provided in the Convertible Promissory Note, and (b) such election is made within 10 days of the Effective Date. To the extent such holders do not elect to exercise their conversion rights, the Allowed Class 8 Claims shall be treated as Class 4(a) Claims. A list of the noteholders and the amount of each note is attached as Exhibit 5.

Class 9 (Shareholder Litigation Group) Class 9 consists of the Allowed Claims of the Shareholder Litigation Group. The Bankruptcy Court ruled that the Class 9 Claims are subject to subordination under § 510(b) of the Bankruptcy Code. The Class 9 Claim holders will be treated as holding that amount of shares shown in the records of Rancher's transfer agent and treated under Class 5. Warrants held by the Shareholder Litigation Group will be treated under Class 6.

Distributions will continue until the earlier of that date on which there are no assets of Rancher to create an Asset Pool or Classes 1 through 4 are paid in full.

VI. MEANS OF IMPLEMENTATION OF PLAN

The proceeds from the Asset Sale, income or other proceeds from the Merit Contract and other revenue Rancher may generate will be used to fund the "Asset Pool," which is that pool of cash or cash equivalents and other distributable assets of Rancher, at all times net of current accrued expenses and a reasonable reserve for future expenses to carry out the Plan as determined by the Board in its sole discretion. The funds in the Asset Pool, plus any further additions thereto, will be used for Plan purposes. The attached Exhibit 2 shows an analysis of Rancher's assets and their allocation by Classes of Claims.

Pursuant to the Linc Asset Sale, Rancher will continue to prosecute the Adversary Proceeding in accordance with the Litigation Agreement with Linc, which is described more fully on page 13 above.

At the discretion of the Rancher Board and subject to applicable corporate law, once all creditor claims are paid or reserved for in full, Rancher may (1) wind up and cease operations,

except for prosecution of the Adversary and administration of the Asset Pool, (2) remain a public company and continue in business, or (3) continue in business but convert to a private company such that its stock will no longer be publicly traded.

Rancher and its Board shall be restricted under the Plan to liquidating Rancher's assets and making distributions on Allowed Claims (or reserving funds for Disputed Claims) until all Allowed Claims are satisfied in full and funds are deposited in the Disputed Claims Reserve sufficient to pay all Disputed Claims, or Rancher's assets are fully depleted and its affairs wound up, whichever occurs first. The Plan provides that no reserve is necessary for Disputed Claims subject to subordination under § 510(b) because they are treated as Interests. In addition, the Plan provides that in no event shall Rancher be required to reserve more than \$1,000,000 for the disputed claim of GasRock.

If after all Allowed Claims are satisfied in full and funds are deposited in the Disputed Claims Reserve sufficient to pay all Disputed Claims, if any, as provided in the Plan and Rancher has more than \$1,500,000.00 in cash or other assets (or such lesser amount as the Board may determine with approval by Rancher's shareholders), including any receivable due from the existing contract with Merit Energy, then the Board may determine that it is in the best interest of its shareholders to continue Rancher's operations as a public company. In such event, Rancher would continue to operate in the oil and gas business. The focus of Rancher's activities would be the purchase of non-operating interests in producing oil and gas properties in the Rocky Mountain area, with the decision to purchase such interests depending on the economics of each prospect. In addition to the foregoing, Rancher may seek strategic transactions with other existing public and private companies to raise additional capital and invest in other oil and gas enterprises.

If the Board determines not to continue Rancher's operations, then the Board may wind up Rancher's affairs in accordance with applicable law. Until such time as a shareholder election occurs, Rancher will maintain its publicly traded status and do all that is reasonably necessary to maintain the same.

Rancher's Articles of Incorporation and Bylaws shall be amended consistent with the foregoing if necessary.

VII. EXECUTORY CONTRACTS AND LEASES.

To the extent its leases and executory contracts have not been assigned to Linc (or another purchaser) pursuant to an asset sale, Rancher will reject all executory contracts and leases that are not previously rejected, not the subject of a motion to assume or reject pending as of confirmation, or not otherwise specifically treated under the Plan, e.g. Rancher's office lease. Within ten days of the Confirmation Order, Rancher will send notice of rejection to the counterparty to any rejected lease or contract, and the counterparty will have thirty days thereafter to file a proof of claim for any rejection damages, failing which any such claim will be barred.

VIII. BANKRUPTCY CODE REQUIREMENTS

The Bankruptcy Code imposes requirements for acceptance of the Plan by creditors, minimum value of distributions, and feasibility. To confirm the Plan, the Court must find that all of these conditions and other conditions set forth in § 1129(a) of the Bankruptcy Code have been met, unless the “cram down” provisions of the Bankruptcy Code are applicable. Even if each Class of Claims accepts the Plan by the requisite majorities, the Court must undertake an independent evaluation of Plan feasibility and other statutory requirements before confirming the Plan. The conditions for minimum value and feasibility are discussed below.

The Bankruptcy Code also requires disclosure of Rancher’s proposed post-confirmation management. After confirmation of the Plan, the following persons will serve as Rancher’s officers:

<u>Officer</u>	<u>Interest</u>	<u>Compensation</u>
Jon Nicolaysen	Shareholder, option and note holder	\$10,000 per month, subject to adjustment as provided in Nicolaysen’s employment agreement

After confirmation of the Plan, the following persons will serve as Rancher’s Board until the next election pursuant to its Bylaws:

<u>Director</u>	<u>Interest</u>	<u>Compensation</u>
Sid Overton	Option and note Holder	\$5,000 per quarter
Jeff Bennett	Option and note holder	\$5,000 per quarter
Mathijs Van Houweninge	Option and note holder	\$5,000 per quarter

IX. FEDERAL INCOME TAX CONSEQUENCES

The following discussion summarizes certain expected federal income tax consequences of the implementation of the Plan. No opinion of counsel has been obtained and no ruling has been requested or obtained from the Internal Revenue Service with respect to any of the tax aspects of the Plan, and the discussion set forth herein is not binding upon the Internal Revenue Service. CREDITORS AND HOLDERS INTERESTS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE CONSEQUENCES TO THEM UNDER FEDERAL AND APPLICABLE STATE AND LOCAL TAX LAWS, OF THE CONFIRMATION AND CONSUMMATION OF THE PLAN.

Tax Consequences to Creditors. Creditors may be required to recognize income or may be entitled to a deduction as the result of the implementation of the Plan. The exact tax treatment will depend on each creditor's method of accounting and the nature of each Claim in the hands of the creditor.

Generally, a creditor will recognize gain or loss equal to the difference between the amount of cash received and the creditor's tax basis in the Claim or the Interest held. Such gain or loss may be a capital gain or loss depending upon the creditor's particular tax situation and the

nature of the creditor's Claim. Gain recognized by a creditor with respect to a Claim for which a bad debt deduction has been claimed generally will be treated as ordinary income to the extent of any such prior deduction. Gain or loss on a form of security, e.g. warrants, will generally be a capital gain or loss depending on the holder's basis. The gain or loss will be short term or long term depending on the holder's holding period.

Notwithstanding anything to the contrary above or in this Disclosure Statement, Rancher cannot opine regarding the tax consequence to any particular creditor or interest holder, and each creditor and interest holder should not rely on this summary in determining how to vote on the Plan.

Tax Consequences to Rancher. Rancher does not believe it will incur "discharge of indebtedness" income. However, its net operating loss carry-forwards may be reduced as a result. Further, because the reorganization of its capital structure results in a "change of control," the ability to carry forward its operating losses for tax purposes may be restricted.

X. INSIDER TRANSACTIONS AND AVOIDANCE ACTIONS

a. GasRock Adversary. Section III(C)(ii), above, provides a description of the transactions and claims at issue in the Adversary.

b. Purchase of Big Muddy from Wyoming Minerals Exploration, LLC

On January 4, 2007, Rancher acquired the Big Muddy and South Glenrock A Fields for \$25,000,000 from Wyoming Minerals Exploration, LLC. In 2008 and 2009, Rancher recorded an impairment in the value of the possible reserves of its oil and gas fields, some of which was attributed to the Big Muddy and South Glenrock A fields. Jon Nicolaysen, Rancher's current CEO, owned 23% of Wyoming Minerals Exploration at the time of the sale. Mr. Nicolaysen did not own any shares of Rancher at the time of sale. Mr. Nicolaysen did not become an officer of Rancher until October, 2009 when he became the CEO.

After Rancher filed its Complaint in the Adversary, GasRock demanded that Rancher investigate whether Rancher's purchase of the Big Muddy and South Glenrock A fields were improper and, specifically, whether the purchases could be attacked as fraudulent transfers. Rancher's Board, with the assistance of counsel and internal staff, conducted an investigation of the transaction. The Board's conclusion (without participation by Mr. Nicolaysen) was that Rancher paid fair value for the assets it acquired and had adequate cash and property resources to operate on a going forward basis at that time. In addition, Rancher does not believe it was insolvent at the time of the purchase because Rancher financed the acquisition through equity capital and Rancher had no significant debt at the time of the purchase, the acquisition being a cash transaction. GasRock has filed a Motion and obtained from the court authority to conduct a Rule 2004 examination of the Debtor on this matter, but has not to date scheduled any such examination.

c. Preference Analysis

Rancher's normal billing and payment cycle resulted in payment to virtually all vendors, suppliers, employees, and others on a current or 30 day basis, and thus there are no preference claims against this traditional target group of creditors.

There did not appear to be any colorable preference claims against any of the current management of Rancher, including its board members. Some board members loaned money to Rancher shortly before the Petition was filed, but none of these loans has been repaid. Under the Plan, those board members have the option of converting the debt to equity and Rancher has been informed that the director-lenders are unlikely to do so.

XI. LIQUIDATION ANALYSIS

To confirm the Plan, the Court must determine (with certain exceptions) that the Plan provides to each member of each impaired class of Allowed Claims a recovery at least equal to the distribution that such member would receive if Rancher were liquidated under chapter 7 of the Bankruptcy Code. As described below, Rancher has concluded that under the Plan each holder of a Claim will receive or retain property of a value that is equal to or greater than the amount that such holder would receive or retain if the estate of Rancher were liquidated under chapter 7.

An analysis of the possible outcomes for Rancher in a hypothetical chapter 7 case is attached as Exhibit 2. Rancher has added to Exhibit 2 the possible recovery of additional compensation in the event it successfully prosecutes the Adversary Proceeding in order to illustrate allocation of proceeds under the Plan. Because the recovery of this additional compensation is presumed to be the same either under the Plan or in a chapter 7, the comparison is the same between the Plan and a hypothetical chapter 7 and the difference (other than the potential for Rancher to stay in business under a Chapter 11) still depends on a comparison of the relative costs of the two proceedings.

As illustrated in Exhibit 2, in the event Rancher chooses to liquidate under the Plan, the difference in return to creditors and shareholders under the Plan and in a hypothetical chapter 7 case is likely to be the difference in the cost of a chapter 7 trustee's fee plus the cost of the trustee's professionals compared to the cost of the Board and the CEO plus the cost of Rancher's professionals. As shown, Rancher believes the result under the Plan is slightly better. The Plan also proposes the possibility of Rancher's resumption of business in some form and thus the possibility that it remains a public company, the stock of which continues to trade in the public market.

XII. PLAN FEASIBILITY AND RISK FACTORS

Rancher currently has sufficient cash to pay all claims that Rancher currently projects will be allowed. Rancher may become unable to pay all Allowed Claims, however, if the Allowed Claims exceed Rancher's estimate or if Rancher depletes its cash attempting to reorganize or litigate the Adversary Proceeding.

The actual amount of Allowed Claims may exceed Rancher's estimate. For example, the Bureau of Land Management (the "BLM") filed a claim in the amount of \$1,094,870 for

plugging and remediation work in the event the Properties were to stop operating. Rancher believes that the BLM's claim will be satisfied by future work performed by Linc and that the BLM's claim can be asserted only against Linc, if at all. However, if the BLM's claim were allowed in full, Rancher may not have sufficient assets to pay all claims in full.

Rancher may not succeed in the Adversary, earn the contingent compensation from Linc and recover the Escrow Account.

Rancher anticipates that its administrative expenses will total approximately \$382,000 to confirm its Plan and to perform its obligations under the Plan. The estimate does not include administrative expenses to litigate the Adversary Proceeding, which Rancher has not attempted to estimate. As a result, Rancher anticipates having sufficient cash to pay all administrative expenses.

SOLICITATION OF ACCEPTANCE OF PLAN

Rancher hereby solicits acceptance of its Plan and urges creditors to vote to accept the Plan.

Dated: February 23, 2012.

**Debtor and Debtor in Possession
Rancher Energy Corp.,**

By: /s/ Jon Nicolaysen
CEO & President

ONSAGER, STAELIN & GUYERSON, LLC

/s/Christian C. Onsager
Christian C. Onsager, #6889
Michael J. Guyerson, #11279
Andrew. D. Johnson, #36879
1873 S. Bellaire St., Suite 1401
Denver, Colorado 80222
Ph: (303) 512-1123
Fax: (303) 512-1129
consager@osglaw.com
mguyerson@osglaw.com
ajohnson@osglaw.com
Counsel for Rancher Energy Corp.

EXHIBIT 1

Plan of Reorganization

[to be appended upon approval of the Disclosure Statement]

EXHIBIT 2

Chapter 7 Liquidation Analysis and Allocation of Sale Proceeds Under Plan

EXHIBIT 2**ANTICIPATED DISTRIBUTION UNDER PLAN v. LIQUIDATION ANALYSIS**

	<u>Asset</u>	<u>Note</u>	Plan Distribution <u>Value (Liens)</u>	Chapter 7 Liquidation
Cash shown on December 2011 Monthly Operating Report			\$3,339,964	\$3,339,964
Accounts receivable and deposits			\$10,000	\$10,000
prepaid expenses			\$103,717	\$103,717
vendor deposits			\$350	\$350
certificate of deposit			\$192,334	\$192,334
retainer with professionals			\$42,000	\$42,000
Furniture, fixtures and equipment			\$16,884	\$16,884
other deposits			\$200,000	\$200,000
Litigation Bonus		1		
Potential value of other claims in Adversary		2	\$0	\$0
Litigation Funds from Linc		3	\$148,267	\$148,267
Entitlement to Funds in Escrow		4		
Net Value of Rancher's Assets			<u>\$4,053,516</u>	<u>\$4,053,516</u>
Chapter 11 Administrative Expenses		5	(\$244,254)	(\$244,254)
Priority claims (Classes 2 and 3)			(\$59,095)	(\$59,095)
Chapter 7 Trustee fee				(\$62,040)
Chapter 7 Attorneys' fees		6		(\$150,000)
Trustee Accounting Fees		7		
Rancher Operating Costs		8	(\$332,033)	
Total Administrative and Priority Claims			<u>(\$635,382)</u>	<u>(\$515,389)</u>
Net available for creditors			\$3,418,135	\$3,538,128
Estimated Unsecured Claims (Class 4)			\$1,054,029	\$1,054,029
Percent recovery on unsecured claims			100%	100%
Interest on Claims			\$10,540	\$10,540
Return to Equity (Class 5)			\$2,353,565	\$2,473,558

Note 1: It is unknown whether Rancher will receive the litigation bonus.

Note 2: No attempt is made to forecast monetary recovery besides the litigation bonus.

Note 3: This is the amount that Rancher can still request that Linc pay under the Litigation Agreement; it is not the amount Linc currently owes Rancher.

Note 4: Assumes success in defeating GasRock's claim for attorney's fees, the likelihood of which is unknown.

Note 5: Includes fees owed to date plus an estimated \$50,000 through confirmation

Note 7: Assumes Trustee retains new counsel unfamiliar with the adversary proceeding

Note 6: Assumes that the Trustee would retain administrative help to make distributions to stockholders

Note 7: Assumes that the trustee would retain an accounting firm

Note 8: Six months' worth of expenses to permit confirmation of a plan and distribution

EXHIBIT 3

Monthly Operating Report

[to be appended upon approval of the Disclosure Statement]

EXHIBIT 4

Shareholders

EXHIBIT 4 TO DISCLOSURE STATEMENT

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner*	Percent of Class (1)
<S>	<C>	<C>	<C>
Common shares	Jon C. Nicolaysen, Director, President, Chief Executive Officer (2) 999-18th Street, Suite 3400 Denver, Colorado 80202	4,450,000	3.73%
Common shares	A.L. Sid Overton (3) 999-18 Street, Suite 3400 Denver, Colorado 80202	3,750,000	3.14%
Common shares	Mathijs van Houweninge (4) 999-18 Street, Suite 3400 Denver, Colorado 80202	3,750,000	3.14%
Common shares	Jeffrey B. Bennett (5) 999-18 Street, Suite 3400 Denver, Colorado 80202	3,753,000	3.15%
Common shares	All Directors and Executive Officers as a Group (4 persons)	15,703,000	13.16%
All 5% or Greater Shareholders			
Common shares	Sergei Stetsenko Paradeplatz 4 Zurich 8001 Switzerland	8,896,000	7.45%
Common shares	Andrew P. Vander Ploeg 19 Foxtail Circle Cherry Hills Village, CO 80113	7,000,000	5.9%

</TABLE>

- (1) At March 31, 2011, the Company had 119,316,723 shares of its common stock issued and outstanding.
- (2) Mr. Nicolaysen holds 700,000 shares of common stock. In addition Mr. Nicolaysen holds a \$25,000 convertible promissory note, convertible into 1,250,000 shares of common stock at \$0.02 per share and is convertible in whole or in part. Mr. Nicolaysen also holds an option exercisable into 2,500,000 shares of common stock at \$0.035 per share.
- (3) Mr. Overton holds a \$25,000 convertible promissory note, convertible into 1,250,000 shares of common stock at \$0.02 per share and is convertible in whole or in part. Mr. Overton also holds an option exercisable into 2,500,000 shares of common stock at \$0.035 per share.
- (4) Mr. van Houweninge holds a \$25,000 convertible promissory note, convertible into 1,250,000 shares of common stock at \$0.02 per share and is convertible in whole or in part. Mr. van Houweninge also holds an option exercisable into 2,500,000 shares of common stock at \$0.035 per share.
- (5) Mr. Bennett holds 3,000 shares of common stock. In addition Mr. Bennett holds a \$25,000 convertible promissory note, convertible into 1,250,000 shares of common stock at \$0.02 per share and is convertible in whole or in part. Mr. Bennett also holds an option exercisable into 2,500,000 shares of common stock at \$0.035 per share.

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Rule 13d-3 under the Securities Exchange Act of 1934 governs the determination of beneficial ownership of securities. That rule provides that a beneficial owner of a security includes any person who directly or indirectly has or shares voting power and/or investment power with respect to such security. Rule 13d-3 also provides that a beneficial owner of a security includes any person who has the right to acquire beneficial ownership of such security within sixty days, including through the exercise of any option, warrant or conversion of a security. Any securities not outstanding which are subject to such options, warrants or conversion privileges are deemed to be outstanding for the purpose of computing the percentage of outstanding

EXHIBIT 5
Convertible Notes

Directors Loans

Jon C. Nicolaysen	10/27/09	\$25,000
A.L. Sid Overton	10/27/09	\$25,000
Mathijs van Houweninge	10/27/09	\$25,000
Jeffrey B. Bennett	10/2/09	\$25,000
Peter C. Nicolaysen	10/27/09	\$20,000
Sergei Stetsenko	10/27/09	\$20,000
Jon C. Nicolaysen	5/5/10	\$25,000