UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
GALVESTON DIVISION

IN RE:	§	
	§	
TEKOIL & GAS CORPORATION	§	**CASE NO. 08-80270**
TEKOIL AND GAS GULF COAST, LLC	§	**CASE NO. 08-80405**
	§	
DEBTORS.	§	**Jointly Administered Under Case**
	§	**No. 08-80270**
	§	
	§	

DEBTORS' DISCLOSURE STATEMENT WITH RESPECT TO AMENDED JOINT PLAN OF REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

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TABLE OF CONTENTS

I. INTRODUCTION

Tekoil & Gas Corporation ("Tekoil") and Tekoil and Gas Gulf Coast, LLC ("Gulf Coast"), the above-captioned debtors and debtors-in-possession herein (collectively, the "Debtors") submit this Disclosure Statement With Respect to Joint Plan of Reorganization (the "Disclosure Statement"). This Disclosure Statement is to be used in connection with the solicitation of votes on the Amended Joint Plan of Reorganization dated November __, 2009 (the "Plan"), filed and proposed jointly by the Debtors. A copy of the Plan is attached hereto as **Exhibit A.** Unless otherwise defined herein, capitalized terms used herein have the meanings ascribed thereto in the Plan (see Article I of the Plan entitled "Definitions, Construction, and Interpretation").

For a summary of the proposed treatment of your Claim or Interest under the Plan, please see the chart on pages ____ below.

II. NOTICE TO HOLDERS OF CLAIMS AND INTERESTS

The purpose of this Disclosure Statement is to enable Holders of Claims and Interests in the Debtors whose Claims and Interests are impaired under the Plan to make an informed decision in exercising their right to vote to accept or reject the Plan.

THIS DISCLOSURE STATEMENT CONTAINS INFORMATION THAT MAY BEAR UPON YOUR DECISION TO ACCEPT OR REJECT THE PLAN. PLEASE READ THIS DOCUMENT CAREFULLY.

On _____, 2009, the Bankruptcy Court conducted a hearing on the adequacy of the Disclosure Statement and subsequently entered an order pursuant to section 1125 of the Bankruptcy Code (the "Disclosure Statement Order") approving this Disclosure Statement as containing information of a kind, and in sufficient detail, adequate to enable a hypothetical, reasonable investor, typical of the solicited Holders of Claims against and Interests in the Debtors, to make an informed judgment with respect to the acceptance or rejection of the Plan. A copy of the Disclosure Statement Order is included in the materials accompanying this Disclosure Statement. APPROVAL OF THIS DISCLOSURE STATEMENT BY THE BANKRUPTCY COURT DOES NOT CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT REGARDING THE FAIRNESS OR MERITS OF THE PLAN.

THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

Each Holder of a Claim or Interest entitled to vote to accept or reject the Plan should read this Disclosure Statement and the Plan in their entirety before voting. No solicitation of votes to accept or reject the Plan may be made except pursuant to this Disclosure Statement and section 1125 of the Bankruptcy Code. Except for the Debtors and their professionals, no person has been authorized to use or promulgate any information concerning the Debtors, their business, or

the Plan, other than the information contained herein, in connection with the solicitation of votes to accept or reject the Plan. No Holder of a Claim or Interest entitled to vote on the Plan should rely upon any information relating to the Debtors, their business, or the Plan other than that contained in the Disclosure Statement and the exhibits hereto. Unless otherwise indicated, the source of all information set forth herein is the Debtors and their professionals.

After carefully reviewing this Disclosure Statement, including the attached exhibits, please indicate your acceptance or rejection of the Plan by voting in favor of or against the Plan on the enclosed ballot and returning the same to the address set forth on the ballot, in the enclosed return envelope so that it will be received by the Debtors' tabulation agent, Neligan Foley LLP, 325 North St. Paul, Suite 3600, Dallas, Texas 75201, Attention: Kathy Gradick, no later than 5:00 p.m. Central Time on _____2010.

If you do not vote to accept the Plan, or if you are the Holder of an unimpaired Claim, you may be bound by the Plan if it is accepted by the requisite Holders of Claims or Interests. See "Solicitation of Votes; Voting Procedures," "Vote Required for Class Acceptance," and "Cramdown" in Article IX ("Confirmation of the Plan") below.

TO BE SURE YOUR BALLOT IS COUNTED, YOUR BALLOT MUST BE RECEIVED NO LATER THAN 5:00 P.M. CENTRAL TIME, ON _____. For detailed voting instructions and the name, address, and phone number of the person you may contact if you have questions regarding the voting procedures, see "Ballots and Voting Deadline" in Section IX.A.1 below.

Pursuant to section 1128 of the Bankruptcy Code, the Bankruptcy Court has scheduled a hearing to consider confirmation of the Plan (the "Confirmation Hearing"), on **_____, 2010, at _____ Central Time**, in the United States Bankruptcy Court for the Southern District of Texas, located at 515 Rusk Avenue, Houston, Texas 77002. **The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be filed and served on or before _____, 2010**, in the manner described in Section IX.B ("Confirmation Hearing") below.

THE DEBTORS AND THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS (THE "COMMITTEE") SUPPORT CONFIRMATION OF THE PLAN AND URGE ALL HOLDERS OF IMPAIRED CLAIMS AND INTERESTS TO ACCEPT THE PLAN.

III. EXPLANATION OF CHAPTER 11

A. Overview of Chapter 11

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Pursuant to chapter 11, the debtor-in-possession attempts to reorganize its business for the benefit of the debtors, its creditors, and other parties in interest.

The commencement of a chapter 11 case creates an estate comprising all the legal and equitable interests of the debtor in property as of the date the bankruptcy petition is filed. Sections 1101, 1107, and 1108 of the Bankruptcy Code provide that a debtor may continue to

operate its business and remain in possession of its property as a "debtor in possession" unless the bankruptcy court orders the appointment of a trustee. In the present chapter 11 cases, the Debtors have remained in possession of their properties and operated their businesses as debtors-in-possession.

The filing of a chapter 11 petition also triggers the automatic stay provisions of the Bankruptcy Code. Section 362 of the Bankruptcy Code provides, *inter alia*, for an automatic stay of all attempts to collect prepetition claims from the debtor or otherwise interfere with its property or business. Except as otherwise ordered by the bankruptcy court, the automatic stay remains in full force and effect until the effective date of a confirmed plan of reorganization.

The formulation of a plan of reorganization is the principal purpose of a chapter 11 case. The plan sets forth the means for satisfying the claims against and interests in the debtor. Generally, unless a trustee is appointed, only the debtor may file a plan during the first 120 days of a chapter 11 case (the "Exclusive Period"). However, section 1121(d) of the Bankruptcy Code permits the court to extend or reduce the Exclusive Period upon a showing of "cause." After the Exclusive Period has expired, a creditor or any other party in interest may file a plan, unless the debtor has filed a plan within the Exclusive Period, in which case, the debtor is generally given 60 additional days (the "Solicitation Period") during which it may solicit acceptances of its plan. The Solicitation Period may also be extended or reduced by the court upon a showing of "cause." In the Debtors' Bankruptcy Cases, the Bankruptcy Court extended the Exclusive Period and the Solicitation Period through February 12, 2009, and April 13, 2009, respectively.

B. Plan of Reorganization

Although referred to as a plan of reorganization, a plan may provide anything from a complex restructuring of a debtor's business and its related obligations to a simple liquidation of the debtor's assets. After a plan of reorganization has been filed, the holders of claims against or interests in a debtor are permitted to vote to accept or reject the plan. Before soliciting acceptances of the proposed plan, section 1125 of the Bankruptcy Code requires the debtor to prepare a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment about the plan. This Disclosure Statement is presented to Holders of Claims against and Interests in the Debtors to satisfy the requirements of section 1125 of the Bankruptcy Code.

If all classes of claims and interests accept a plan of reorganization, the bankruptcy court may nonetheless deny confirmation of the plan unless the court independently determines that the requirements of section 1129 of the Bankruptcy Code have been satisfied. Section 1129 sets forth the requirements for confirmation of a plan and, among other things, requires that a plan meet the "best interests" test and be "feasible." The "best interests" test generally requires that the value of the consideration to be distributed to the holders of claims and interests under a plan may not be less than those parties would receive if the debtor was liquidated pursuant to a hypothetical liquidation under chapter 7 of the Bankruptcy Code. Under the "feasibility" requirement, the court generally must find that there is a reasonable probability that the debtor will be able to meet its obligations under its plan without the need for further financial reorganization.

The Debtors believe that the Plan satisfies all the applicable requirements of section 1129(a) of the Bankruptcy Code, including, in particular, the "best interests of creditors" test and the "feasibility" requirement. The Debtors support confirmation of the Plan and urge all Holders of impaired Claims to accept the Plan.

Chapter 11 does not require that each holder of a claim against or interest in a debtor vote in favor of a plan of reorganization in order for the bankruptcy court to confirm the plan. At a minimum, however, the plan must be accepted by a majority in number and two-thirds in amount of those claims actually voting in at least one class of impaired claims under the plan. The Bankruptcy Code also defines acceptance of the plan by a class of interests (equity securities) as acceptance by holders of two-thirds of the number of shares actually voting. In the present case, only the Holders of Claims or Interests who are entitled to vote on the Plan, and who actually vote on the Plan, will be counted as either accepting or rejecting the Plan.

In addition, classes of claims or interests that are not "impaired" under a plan of reorganization are conclusively presumed to have accepted the plan and, thus, are not entitled to vote. Accordingly, acceptances of a plan will generally be solicited only from those persons who hold claims or interests in an impaired class. A class is "impaired" if the legal, equitable, or contractual rights attaching to the claims or equity interests of that class are modified in any way under the plan. Modification for purposes of determining impairment, however, does not include curing defaults and reinstating maturity or payment in full in cash. All Classes of Claims and Interests are impaired under the Plan except Class 1 (Other Priority Claims), which is unimpaired. Administrative Claims and Priority Tax Claims are unclassified; their treatment is prescribed by the Bankruptcy Code, and the holders of such Claims are not entitled to vote on the Plan. Further, classes of claims or interests that do not receive or retain any property under a plan of reorganization are conclusively deemed to have rejected the plan and thus are not entitled to vote. No Holder of a Claim in Class 8 (Subordinated Claims) or Class 9 (Intercompany Claims) and no Holder of an Interest in Class 11 (Interests in Gulf Coast) will receive or retain any property under the Plan and, therefore, such Holders are deemed to have rejected the plan and are not entitled to vote. Based on the foregoing principles, each Holder of a Claim in Classes 2, 3, 4, 5, 6, and 7 and Interests in Class 10 (Interests in Tekoil) shall be entitled to vote on the Plan.

The bankruptcy court may also confirm a plan of reorganization even though fewer than all classes of impaired claims and interests accept it. For a plan of reorganization to be confirmed despite its rejection by a class of impaired claims or interests, the proponent of the plan must show, among other things, that the plan does not "discriminate unfairly" and that the plan is "fair and equitable" with respect to each impaired class of claims or interests that has not accepted the plan.

Under section 1129(b) of the Bankruptcy Code, a plan is "fair and equitable" as to a class of rejecting claims if, among other things, the plan provides: (a) with respect to secured claims, that each such holder will receive or retain on account of its claim property that has a value, as of the effective date of the plan, equal to the allowed amount of such claim; and (b) with respect to unsecured claims and equity interests, that the holder of any claim or equity interest that is junior

to the claims or equity interests of such class will not receive or retain on account of such junior claim or equity interest any property at all unless the senior class is paid in full.

A plan does not "discriminate unfairly" against a rejecting class of claims if (a) the relative value of the recovery of such class under the plan does not differ materially from that of any class (or classes) of similarly situated claims, and (b) no senior class of claims is to receive more than 100% of the amount of the claims in such class.

The Debtors believe that the Plan has been structured so that it will satisfy these requirements as to any rejecting Class of Claims or Interests, and can therefore be confirmed, if necessary, over the objection of any Class of Claims or Interests. The Debtors thus reserve the right to request confirmation of the Plan under the "cramdown" provisions of section 1129 of the Bankruptcy Code.

The Debtors believe, and will demonstrate at the Confirmation Hearing, that confirmation and consummation of the Plan are in the best interests of creditors and that the Plan will provide maximum return to creditors.

IV. SUMMARY OF THE PLAN

A. General Overview

During the Bankruptcy Cases, substantially all of the Debtors' assets have been sold with the approval of the Court and converted to cash. Under the Plan, the cash proceeds of the sales of the Debtors' assets in the estates as of the Effective Date will be distributed to creditors in accordance with the provisions of the Bankruptcy Code and, as applicable, the agreement of specific creditors. In addition, the Debtors will transfer all Causes of Action and certain other assets to a Creditor Trust created under the Plan, and the Creditor Trustee will make Distributions from the net proceeds of prosecuting and liquidating the Causes of Action and other assets to holders of Allowed General Unsecured Claims pursuant to the Plan.

B. Classification and Treatment of Claims and Interests

The Plan, though proposed jointly by both of the Debtors, constitutes a separate plan for each Debtor. Thus, the Plan separately treats Claims based on the individual Debtor that is obligated for such Claims, except with respect to Class 6 General Unsecured Claims, which Class is treated as a single Class for voting and distribution purposes. For all Classes other than Class 6 General Unsecured Claims, the Plan contemplates separate sub-Classes for each Debtor for voting and distribution purposes and Ballots will be tabulated separately for each of the Debtors with respect to each Debtor's Plan. Thus, each of the Classes of Claims, except for Class 6, will exist separately for each of the Debtors. The following is a summary of the classification and treatment of Claims and Interests under the Plan.

The Administrative Claims and Priority Tax Claims (i.e., unclassified claims) shown below constitute the Debtors' estimate of the amount of such Claims, taking into account amounts, if any, paid or projected to be paid prior to the Effective Date. The total amount of Claims shown below reflects the Debtors' current estimate of the likely amount of such Claims, subject to the resolution by settlement or litigation of Claims that the Debtors believe are subject

to disallowance or reduction. Reference should be made to the entire Disclosure Statement and to the Plan for a complete description of the classification and treatment of Claims and Interests.

THIS IS ONLY A SUMMARY OF CERTAIN PROVISIONS OF THE PLAN. THE PLAN INCLUDES OTHER PROVISIONS THAT MAY AFFECT YOUR RIGHTS. YOU ARE URGED TO READ THE PLAN IN ITS ENTIRETY BEFORE VOTING ON THE PLAN.

1. Unclassified Claims Against the Debtors

In accordance with section 1123(a)(1) of the Bankruptcy Code, unclassified Claims against the Debtors consist of Administrative Claims and Priority Tax Claims. Based on its books and records and its projections for future expenses, the Debtors presently estimate the amounts of such Claims as follows:

Administrative Claims against the Debtors	$2,473,800[1]
Priority Tax Claims against Tekoil	zero[2]
Priority Tax Claims against Gulf Coast	$52,282.31[3]

The above estimate of Administrative Claims includes the following categories:

Ordinary Course Professional Fees:	$8,800
Post-Petition Trade/GLO Claims:	$225,000
Professional Fees and Expenses:	$2,240,000

All professional fees and expenses are subject to review and approval by the Bankruptcy Court pursuant to section 330 of the Bankruptcy Code. Currently, the Debtors estimate the following Administrative Claims attributable to professional fees and expenses through the Effective Date of the Plan:

Brad Walker, Gulf Coast's Chief Restructuring Officer	$435,000 (including $426,967 paid as of 11/20/2009)
William Roberts (Gulf Coast's financial consultant)	$280,000 (including $274,665 paid as of 11/20/2009)

[1] This estimate of Administrative Claims does not include any amount for post-petition salaries, expenses or other compensation that may be requested by a Person who was an Insider of a Debtor on the Petition Date, including any amounts listed on a Debtor's Monthly Operating Report. All Claims for such amounts are classified as Subordinated Claims in Classes 8A and 8B.

[2] On July 21, 2008, the Internal Revenue Service filed proof of claim #12, asserting a Priority Tax Claim in the amount of $4,999 for 2007 income taxes. However, on May 14, 2009, the Internal Revenue Service filed an amended proof of claim #12, reducing such claim to zero.

[3] The priority tax claim estimate is based proof of claim #32 filed against Gulf Coast by the Texas State Comptroller of Public Accounts for franchise tax and prepetition interest, but excludes penalties asserted in such claim because such penalties are not for actual pecuniary loss and thus are not entitled to priority status. Gulf Coast reserves the right to object to this claim.

Neligan Foley LLP (Debtors' counsel)	$1,100,000[4]
Porter & Hedges, LLP (Committee counsel)	$425,000 (including $175,000 paid as of 8/18/2009)

The Holder of any Administrative Claim other than (i) a Fee Claim, (ii) an Allowed Administrative Claim, or (iii) a liability incurred and paid before the Effective Date in the Ordinary Course of Business by the Debtors must file an application for the allowance of such Administrative Claim with the Bankruptcy Court within thirty (30) days after the Effective Date and serve such application on all parties required to receive such application. Such application must include at a minimum (i) the name of the holder of the Claim, (ii) the amount of the Claim, and (iii) the basis of the Claim. Failure to timely and properly file and serve the application (as required under Section 2.01(a) of the Plan) shall result in the Administrative Claim being forever barred. Objections to such requests must be filed and served pursuant to the Bankruptcy Rules on the requesting party, the Creditor Trustee and the Debtors within twenty (20) days after the filing of the applicable request for payment of an Administrative Claim.

Each Professional who holds or asserts an Administrative Claim that is a Fee Claim for compensation for services rendered and reimbursement of expenses incurred prior to the Effective Date shall be required to file a Fee Application with the Bankruptcy Court within forty-five (45) days after the Effective Date and serve such Fee Application on all parties required to receive such Fee Application. Failure to timely and properly file and serve a Fee Application as required under Section 2.01(b) of the Plan shall result in the Fee Claim being forever barred. No Fee Claim will be deemed Allowed until an order allowing the Fee Claim becomes a Final Order. Objections to Fee Applications must be filed and served pursuant to the Bankruptcy Rules on the Professional to whose application the objection is filed, the Creditor Trustee and the Debtors within twenty (20) days after the filing of the applicable Fee Application. No hearing may be held until the objection period has expired.

An Administrative Claim with respect to which notice has been properly filed under Section 2.01(a) of the Plan shall become an Allowed Administrative Claim if no objection is filed. If an objection is filed, the Administrative Claim shall become an Allowed Administrative Claim only to the extent Allowed by a Final Order. An Administrative Claim that is a Fee Claim, and with respect to which a Fee Application has been properly filed and served pursuant to Section 2.01(b) of the Plan, shall become an Allowed Administrative Claim only to the extent Allowed by a Final Order.

Except to the extent that a Holder of an Allowed Administrative Claim has been paid prior to the Effective Date, or agrees to a different treatment, each Holder of an Allowed Administrative Claim shall receive from the Debtor, in full satisfaction and release of and exchange for such Administrative Claim, and after the application of any retainer held by such Holder, Cash equal to the Allowed amount of such Administrative Claim within ten (10) Business Days after the Allowance Date with respect to such Allowed Administrative Claim.

[4] This estimate reflects a voluntary fee reduction of approximately $300,000 by the Debtors' counsel, recognizing that although the difficulty in these cases warranted the work performed, Debtors' counsel did not believe it should seek approval of more than $1.1 million in fees.

The DIP Loan Claim has been paid in full, and all Claims and Liens arising under or related to the DIP Loan Claim, the DIP Loan Facility, and/or the DIP Loan Order have been fully satisfied and released. Accordingly, the Holder of the DIP Loan Claim shall not receive any other or further payment or retain any Lien on account of the DIP Loan Claim on or after the Effective Date.

On or as soon as reasonably practicable after the later of (a) the Initial Distribution Date or (b) the Allowance Date with respect to an Allowed Priority Tax Claim, each Holder of an Allowed Priority Tax Claim, in full satisfaction, release, settlement of and exchange for such Claim, shall receive (a) Cash equal to the Allowed amount of such Priority Tax Claim, or (b) such other treatment to which such Holder and the Debtor or the Creditor Trust agree in writing. Notwithstanding the foregoing, the Holder of an Allowed Priority Tax Claim shall not be entitled to receive any payment on account of any penalty arising with respect to or in connection with the Allowed Priority Tax Claim.

The Debtors shall timely pay to the United States Trustee all quarterly fees incurred pursuant to 28 U.S.C. § 1930(a)(6). Any fees due as of the most recent quarterly invoice prior to the Confirmation Date will be paid in full within thirty (30) days after the Effective Date. After the Effective Date, the Debtors shall pay all United States Trustee quarterly fees for the Debtors as they accrue until the Bankruptcy Cases are closed. Each Debtor shall serve on the United States Trustee a quarterly financial report for such Debtor for each quarter (or portion thereof) that its Bankruptcy Case remains open.

2. Classified Claims and Interests

The following is an estimate of the numbers and amounts of classified Claims and Interests to receive treatment under the Plan, and their respective treatment:

UNLESS OTHERWISE NOTED, THE DEBTORS' ESTIMATES OF THE NUMBER AND AMOUNT OF CLAIMS IN EACH CLASS SET FORTH IN THE TABLE BELOW INCLUDE ALL CLAIMS ASSERTED AGAINST THE DEBTORS WITHOUT REGARD TO THE VALIDITY OR TIMELINESS OF THE FILING OF THE CLAIMS. THUS, BY INCLUDING ANY CLAIM IN THE ESTIMATES SET FORTH BELOW, THE DEBTORS ARE NOT WAIVING THEIR RIGHT OR THE RIGHT OF THE CREDITOR TRUST TO OBJECT TO ANY CLAIM ON OR BEFORE THE OBJECTION DEADLINE ESTABLISHED BY THE PLAN. IN ADDITION, THE DEBTORS HAVE NOT YET UNDERTAKEN AN ANALYSIS OF POTENTIAL AVOIDANCE ACTIONS, AND THE DEBTORS ARE NOT WAIVING THEIR RIGHT OR THE RIGHT OF THE CREDITOR TRUST TO ASSERT AVOIDANCE ACTIONS PURSUANT TO THE PLAN. PAYMENTS RECEIVED BY NON-INSIDER CREDITORS WITHIN NINETY (90) DAYS PRIOR TO THE PETITION DATE AND BY INSIDER CREDITORS WITHIN ONE YEAR PRIOR TO THE PETITION DATE ARE LISTED IN THE DEBTORS' SCHEDULES ON FILE WITH THE COURT. COPIES OF THE SCHEDULES ARE AVAILABLE FOR EXAMINATION ON PACER OR BY WRITTEN REQUEST SENT TO THE DEBTORS' COUNSEL.

IN SOME INSTANCES, THE DEBTORS' SCHEDULES REFLECT AN AMOUNT SUBSTANTIALLY LESS THAN THE AMOUNT CLAIMED IN A PROOF OF CLAIM. IN

OTHER INSTANCES, CREDITORS HAVE FILED A CLAIM SCHEDULED BY GULF COAST AGAINST TEKOIL AND VICE VERSA, OR HAVE FILED THE SAME CLAIM AGAINST BOTH DEBTORS. ANY DISPUTE REGARDING THE VALIDITY AND AMOUNT OF THESE CLAIMS, OR THE VALIDITY, PRIORITY OR AMOUNT OF ANY CLAIM ASSERTED OR SCHEDULED AS A SECURED CLAIM OR ANY RELATED LIEN, WILL BE RESOLVED BY THE BANKRUPTCY COURT, AND THE DEBTORS AND THE CREDITOR TRUSTEE RESERVE ALL RIGHTS TO OBJECT TO CLAIMS FILED IN THE BANKRUPTCY CASES.

Class	Treatment
Class 1A: Other Priority Claims against Tekoil: Estimated Amount: $16,800.00[5] Estimated Number: 2 **Class 1B: Other Priority Claims against Gulf Coast:** Estimated Amount: $15,918.65[4] Estimated Number: 19	Unimpaired. On or as soon as reasonably practicable after the later of (a) the Initial Distribution Date or (b) the Allowance Date with respect to an Other Priority Claim, the Holder of such Allowed Other Priority Claim shall receive from the relevant Debtor, in full satisfaction, settlement and release of and in exchange for such Allowed Other Priority Claim, (a) Cash equal to the Allowed amount of such Other Priority Claim or (b) such other treatment as may be agreed upon in writing by the relevant Debtor and such Holder. To the extent an Allowed Other Priority Claim entitled to priority treatment under 11 U.S.C. §§ 507(a)(4) and (5) exceeds the statutory cap applicable to such Claim, such excess shall be treated as a Class 6A or Class 6B General Unsecured Claim, as applicable to the relevant Debtor.
Class 2 – Chambers County Secured Tax Claims against Gulf Coast Agreed Amount: $957,128.52 Number: 2	Impaired. The Chambers County Secured Tax Claims shall be deemed Allowed in the aggregate agreed amount of $957,128.52, in full resolution and compromise of all taxes for years prior to 2009 and all related penalties and interest with respect to all properties listed in the proofs of claim filed by the Chambers County Tax Claimants. On or as soon as reasonably practicable after the Effective Date, the Holders of such Allowed Chambers County Secured Tax Claims shall receive from Gulf Coast, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Chambers County Secured Tax Claims, Cash in the amount of $957,128.52; provided that if such amount is paid after December 31, 2009, then such amount shall bear simple interest at the rate of twelve percent (12%) per annum from January 1, 2010 until paid in full.

[5] Three claimants (John Barton, Cris Garcia, and Rich Holdings, Inc.) filed proofs of claim against each Debtor that include amounts totaling $600,000 that the claimants assert are entitled to priority. However, the claimants did not identify any basis for the priority status of these amounts. The Debtors and/or the Creditor Trustee will object to these claims because, *inter alia*, they are duplicative and are not entitled to priority. Thus, these amounts are not included in the estimates of Other Priority Claims against the Debtors, and are instead included in the estimates of Class 6 General Unsecured Claims against the Debtors.

Class	Treatment
	Each Holder of an Allowed Chambers County Secured Tax Claim shall retain its Lien in the Collateral that secures its Claim or the proceeds of such Collateral (to the extent such Collateral is or has been sold by Gulf Coast free and clear of such Lien) to the same extent and with the same priority as such Lien held as of the Petition Date until the Holders of the Allowed Chambers County Secured Tax Claims have been paid in full all amounts due under the preceding paragraph.
Class 3A –Secured Tax Claims against Tekoil Estimated Amount: $0[6] Estimated Number: 0 **Class 3B – Other Secured Tax Claims against Gulf Coast** Estimated Amount: $26,800[7] Estimated Number: 5	Impaired. On or as soon as reasonably practicable after the later of (a) the Initial Distribution Date or (b) the Allowance Date with respect to an Allowed Class 3A Secured Tax Claim against Tekoil or an Allowed Class 3B Other Secured Tax Claim against Gulf Coast, the Holder of such Allowed Claim shall receive from the relevant Debtor, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Claim, (a) Cash equal to the value of its Allowed Claim, including interest thereon at the rate provided under applicable non-bankruptcy law pursuant to 11 U.S.C. § 511 from the Petition Date through the date such Claim is paid in full, or (b) such other treatment as may be agreed upon in writing by the relevant Debtor and such Holder. Each Holder of such an Allowed Claim shall retain its Lien in the Collateral that secures its Claim or the proceeds of such Collateral (to the extent such Collateral is or has been sold by the relevant Debtor free and clear of such Lien) to the same extent and with the same priority as such Lien held as of the Petition Date until (a) the Holder of such Allowed Claim (i) has been paid Cash equal to the value of its Allowed Claim or (ii) has been afforded such other treatment as to which the relevant Debtor and such Holder shall have agreed upon in writing, or (b) such purported Lien has been determined by a Final Order of the Bankruptcy Court to be invalid or otherwise avoidable. To the extent that a Class 3A Claim or a Class 3B Claim exceeds the value of the interest of the Estate in the property that secured such Claim, such Claim shall be deemed Disallowed pursuant to Bankruptcy Code section 502(b)(3).

[6] Two taxing authorities filed proofs of claim against Tekoil asserting secured ad valorem taxes totaling $1,263.90. The Debtors believe these taxes are owed by Gulf Coast, not Tekoil. Thus, for purposes of estimating the amount and number of claims in Classes 3A and 3B, the Debtors have treated such claims as claims against Gulf Coast.

[7] This amount consists of ad valorem tax claims by various counties or independent school districts reflected in the Schedules, proofs of claim filed by the relevant claimants, and/or the Debtors' agreements with the relevant claimants. This amount may not include all penalties and interest asserted by such claimants.

Class	Treatment
Class 4A – J. Aron Secured Claim against Tekoil Estimated Amount: $43,715,427 Number: 1	Impaired. On or as soon as reasonably practicable after the Initial Distribution Date, J. Aron shall receive a Cash payment in the amount of ten dollars ($10.00) from Tekoil, in full satisfaction, settlement, compromise, release and discharge of and in exchange for the Allowed Class 4A J. Aron Secured Claim against Tekoil and all Liens in the Collateral securing such Claim. If any portion of the Class 4A J. Aron Secured Claim against Tekoil is Disallowed because it exceeds the value of the interest of the Estate in the property that secures such Claim, such excess amount shall constitute and be treated as an Allowed General Unsecured Claim against Tekoil under Class 6A of the Plan. However, in consideration for the release of certain claims against J. Aron provided in Section 9.03 of the Plan, J. Aron shall waive any Distribution it otherwise would receive on account of any Class 6A General Unsecured Claim that could arise under Bankruptcy Code section 506 or otherwise. In such event, J. Aron shall not receive any Distribution on account of any Class 6A General Unsecured Claim, and any such Distribution to which J. Aron would otherwise be entitled shall be delivered to the Creditor Trust.
Class 4B – J. Aron Secured Claim against Gulf Coast Estimated Amount: $43,715,427 Number: 1	Impaired. On or as soon as reasonably practicable after the Initial Distribution Date, J. Aron shall be entitled to receive from Gulf Coast, in full satisfaction, settlement, compromise, release and discharge of and in exchange for the Allowed Class 4B J. Aron Secured Claim against Gulf Coast and all Liens in the Collateral securing such Claim, Cash equal to the value of such Claim as of the Effective Date. In consideration for the release of certain claims against J. Aron provided in Section 9.03 of the Plan, J. Aron has agreed and consented that, before any Distribution whatsoever is made to J. Aron on account of its Allowed Class 4B Claim, (a) such Cash shall be used first to pay Allowed Administrative Claims and Allowed Priority Tax Claims, and (b) any such Cash that remains after payment of Allowed Administrative Claims and Allowed Priority Tax Claims shall be divided and paid as follows: eighty-two and one-half percent (82.5%) to J. Aron and seventeen and one-half percent (17.5%) to the Creditor Trust. Further, as of the Effective Date, J. Aron shall release, assign, and convey to the Creditor Trust all right, title, and interest in and to the GBE Conditional Payment and any Distribution arising at any time from or on account of the GBE Conditional Payment that J. Aron would otherwise be entitled to receive at any time, and any and all Liens related thereto.

Class	Treatment
	Except as provided in this Section 5.06, J. Aron shall retain its Lien in the Collateral that secures the Allowed Class 4B J. Aron Secured Claim or the proceeds of such Collateral (to the extent such Collateral is or has been sold by Gulf Coast free and clear of such Lien) to the same extent and with the same priority as such Lien held as of the Petition Date until the full amount of Cash to which J. Aron is entitled under this Section 5.06 has been distributed to the Holders of Allowed Administrative Claims and Allowed Priority Tax Claims, to the Creditor Trust, and to J. Aron, as applicable, pursuant to this Section 5.06. If any portion of the Class 4B J. Aron Secured Claim against Gulf Coast is Disallowed because it exceeds the value of the interest of the Estate in the property that secures such Claim, such excess amount shall constitute and be treated as an Allowed General Unsecured Claim against Gulf Coast under Class 6B of the Plan. However, in consideration for the release of certain claims against J. Aron provided in Section 9.03 of the Plan, J. Aron shall waive any Distribution it otherwise would receive on account of any Class 6B General Unsecured Claim that could arise under Bankruptcy Code section 506 or otherwise. In such event, J. Aron shall not receive any Distribution on account of any Class 6B General Unsecured Claim, and any such Distribution to which J. Aron would otherwise be entitled shall be delivered to the Creditor Trust.
Class 5A – Other Secured Claims against Tekoil The Class 5A Claims of each Holder shall be treated in a separate subclass, as follows: **Class 5A.1: Exterran Energy Solutions, L.P.** Estimated Amount: zero[8] Estimated Number: 3 **Class 5A.2: J-W Power Co.** Estimated Amount: zero[7] Estimated Number: 1	Impaired. Class 5A shall contain separate subclasses for each Other Secured Claim. Each subclass is deemed to be a separate class for all purposes under the Bankruptcy Code and the Plan. **Classes 5A.1 and 5A.2: Exterran Energy Solutions, L.P. and J-W Power Company**: In consideration of the treatment of the Class 5B.2 and Class B.3 Other Secured Claims asserted by Exterran Energy Solutions, L.P. ("Exterran") and J-W Power Company against Gulf Coast provided in Sections 5.07(e) and 5.07(f) of the Plan, the Other Secured Claims in Classes 5A.1 and 5A.2 against Tekoil shall be disallowed or withdrawn with prejudice and no Distributions shall be made on account of such Claims. The Holders of such Claims shall retain its Lien in the Collateral that secures such Claims to the same extent and with

[8] The Debtors believe that the Class 5A Other Secured Claims asserted against Tekoil by Exterran and JW Power are, in fact, wholly unsecured because there is no property in the Estate of Tekoil that is subject to the Liens asserted by either such Creditor. Thus, the Debtors believe that all Claims in Classes 5A.1 and 5A.2 will be Disallowed in their entirety and that neither Exterran nor JW Power will receive any Distribution on account of such Other Secured Claims.

Class	Treatment
Class 5A.3: Other Holders Estimated Amount: zero (none known) Estimated Number: zero (none known)	the same priority as such Lien held as of the Petition Date until the Other Secured Claims against Gulf Coast in Classes 5B.2 and 5B.3 have been paid in full pursuant to the Plan. **Class 5A.3: Other Holders:** On or as soon as reasonably practicable after the later of (a) the Initial Distribution Date or (b) the Allowance Date with respect to an Other Secured Claim, the Holder of an Class 5A.3 Allowed Other Secured Claim against Tekoil shall receive from Tekoil, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Other Secured Claim, (a) Cash equal to the value of such Claim, including interest thereon required to be paid pursuant to the Bankruptcy Code, or (b) such other treatment as may be agreed upon in writing by Tekoil and such Holder. If any portion of an Other Secured Claim is Disallowed because it exceeds the value of the interest of Tekoil's Estate in the property that secures such Claim, such excess amount shall constitute and be treated as an Allowed General Unsecured Claim under Class 6A of the Plan. The Holder of an Allowed Other Secured Claim in Class 5A.3 shall retain its Lien in the Collateral that secures its Claim or the proceeds of such Collateral (to the extent such Collateral is or has been sold by Tekoil free and clear of such Lien) to the same extent and with the same priority as such Lien held as of the Petition Date until (a) the Holder of such Allowed Other Secured Claim has been (i) paid Cash equal to the value of such Claim, or (ii) afforded such other treatment as to which Tekoil and such Holder shall have agreed upon in writing, or (b) such purported Lien has been determined by a Final Order of the Bankruptcy Court to be invalid or otherwise avoidable.

Class	Treatment
Class 5B – Other Secured Claims against Gulf Coast The Class 5B Claims of each Holder shall be treated in a separate subclass, as follows: **Class 5B.1: State of Texas, General Land Office** Estimated Amount: $100,000 Number: 1 **Class 5B.2: Exterran Energy Solutions, L.P.** Agreed Amount: $650,000 Number: 4 **Class 5B.3: J-W Power Company** Agreed Amount: $265,000 Number: 1 **Class 5B.4: Mirex/Dolphin Capital** Estimated Amount: zero[9] Number: 1 **Class 5B.5: Prosper Operators, Inc.** Estimated Amount: zero[10] Number: 1 **Class 5B.6: S&J Diving, Inc.**	Impaired. Class 5B shall contain separate subclasses for each Other Secured Claim. Each subclass is deemed to be a separate class for all purposes under the Bankruptcy Code and the Plan. **Class 5B.1: Texas General Land Office:** On or as soon as reasonably practicable after the Effective Date, Gulf Coast shall pay the Texas General Land Office, in full satisfaction, settlement, release and discharge of and in exchange for the Class 5B.1 Allowed Other Secured Claim, Cash in the amount of $83,171.16 plus interest at the rate of $29.59 per diem from August 1, 2009 until such Allowed Claim is paid in full. The Texas General Land Office shall retain its Lien in the Collateral that secures its Class 5B.1 Other Secured Claim to the same extent and with the same priority as such Lien held as of the Petition Date until the Texas General Land Office has been paid in full the amount due under the preceding paragraph. **Class 5B.2: Exterran:** On or as soon as reasonably practicable after the Effective Date, in full satisfaction, settlement, release and discharge of and in exchange for the Class 5B.2 Allowed Other Secured Claim, Gulf Coast shall pay Exterran Cash in the amount of $650,000.00, and, in addition, Exterran shall retain any and all deposits it received at any time from Gulf Coast. Further, as of the Effective Date, all Causes of Action (including Avoidance Actions) against Exterran shall be waived and released. Upon its receipt of the foregoing Cash payment, Exterran shall (a) waive any and all Claims (including without limitation, Administrative Claims and any Claim for compressor demobilization fees or expenses incurred at any time) for any

[9] Mirex/Dolphin filed a proof of claim against Gulf Coast in the amount of $18,043.59, asserting that such claim is secured based on a Lien arising from a lease of personal property. However, the Debtors believe that this Class 5B.4 Other Secured Claim is, in fact, wholly unsecured because such property was destroyed by Hurricane Ike and, thus, there is no property in Gulf Coast's Estate that is subject to the Lien asserted by Mirex/Dolphin. Thus, the Debtors believe that Mirex/Dolphin's Class 5B.4 Claim will be Disallowed in its entirety and that Mirex/Dolphin will not receive any Distribution on account of such Other Secured Claim. Instead, such Claim will be classified and treated as a General Unsecured Claim in Class 6B, and it is included in the estimate of such Claims in this Disclosure Statement.

[10] Prosper Operators, Inc., S&J Diving, Inc., and Wood Production Services, Inc. filed proofs of claim against Gulf Coast in the amounts of $838,792.93, $25,376.22, and $50,771.78, respectively. Each such claimant contends that its claim is secured by a lien against certain property in Gulf Coast's estate. However, Gulf Coast believes that the liens of these claimants are junior to the liens of other claimants with liens against the same property. Gulf Coast further believes that the claims subject to the senior liens exceed the value of the Collateral and, thus, that the junior liens asserted by Prosper Operators, Inc., S&J Diving, Inc., and Wood Production Services, Inc. have no value. *See* Section VI.C.12 below. Thus, Gulf Coast believes that that these claimants' claims in Classes 5B.5, 5B.6, and 5B.7 will be Disallowed in their entirety and that these claimants will not receive any Distribution on account of such Other Secured Claims. Instead, such Claims will be classified and treated as a General Unsecured Claims in Class 6B, and they are included in the estimate of such Claims in this Disclosure Statement.

Class	Treatment
Estimated Amount: zero[9] Number: 1 **Class 5B.7: Wood Group Production Services, Inc.** Estimated Amount: zero[9] Number: 1 **Class 5B.8: Other Holders** Estimated Amount: zero (none known) Estimated Number: zero (none known)	other Distribution from the Debtors' Estates, and (b) withdraw with prejudice all proofs of Claim and motions or requests for the allowance and payment of an Administrative Claim that it has filed against the Debtors in the Bankruptcy Cases; provided, that Exterran does not waive any claims it may have against parties other than the Debtors. Exterran shall retain its Lien in the Collateral that secures its Class 5B.2 Other Secured Claim to the same extent and with the same priority as such Lien held as of the Petition Date until Exterran has been paid in full the amount due under the preceding paragraph. **Class 5B.3: J-W Power Company:** On or as soon as reasonably practicable after the Effective Date, Gulf Coast shall pay J-W Power Company, in full satisfaction, settlement, release and discharge of and in exchange for the Class 5B.3 Allowed Other Secured Claim, Cash in the amount of $265,000. Upon its receipt of the foregoing Cash payment, J-W Power shall (a) waive any and all Claims (including without limitation, Administrative Claims) for any other Distribution from the Debtors' Estates, and (b) withdraw with prejudice all proofs of Claim it has filed against the Debtors in the Bankruptcy Cases J-W Power Company shall retain its Lien in the Collateral that secures its Class 5B.3 Other Secured Claim to the same extent and with the same priority as such Lien held as of the Petition Date until J-W Power Company has been paid in full the amount due under the preceding paragraph. **Class 5B.4: Mirex/Dolphin Capital** **Class 5B.5: Prosper Operators, Inc.** **Class 5B.6: S&J Diving, Inc.** **Class 5B.7: Wood Group Production Services, Inc.** **Class 5B.8: Other Holders** On or as soon as reasonably practicable after the later of (a) the Initial Distribution Date or (b) the Allowance Date with respect to an Other Secured Claim in Classes 5B.4, 5B.5, 5B.6, 5B7, and 5B.8, the Holder of an Allowed Other Secured Claim in any such Class shall receive from Gulf Coast, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Other Secured Claim, (a) Cash equal to the value of such Claim, including interest thereon required to be paid pursuant to the Bankruptcy Code, or (b) such other treatment as may be agreed upon in writing by Gulf Coast and such Holder. If any portion of an Other Secured Claim in Class 5B.4, 5B.5, 5B.6, 5B7, or 5B.8 is Disallowed because it exceeds the value of the interest of Gulf Coast's Estate in the property that secures such Claim, such excess amount shall constitute and be treated as an Allowed General Unsecured Claim against Gulf Coast under Class 6B of the Plan.

Class	Treatment
	The Holder of an Allowed Other Secured Claim in Class 5B.4, 5B.5, 5B.6, 5B7, or 5B.8 shall retain its Lien in the Collateral that secures its Claim or the proceeds of such Collateral (to the extent such Collateral is or has been sold by Gulf Coast free and clear of such Lien) to the same extent and with the same priority as such Lien held as of the Petition Date until (a) the Holder of such Allowed Other Secured Claim has been (i) paid Cash equal to the value of such Claim, or (ii) afforded such other treatment as to which Gulf Coast and such Holder shall have agreed upon in writing, or (b) such purported Lien has been determined by a Final Order of the Bankruptcy Court to be invalid or otherwise avoidable.
Class 6A – General Unsecured Claims against Tekoil: [11] Estimated Amount: $42,048,876[12] Estimated Number: 45 **Class 6B – General Unsecured Claims against Gulf Coast:**[10] Estimated Amount: $33,851,979[11] Estimated Number: 303	Impaired Except to the extent that a Holder of an Allowed General Unsecured Claim has been paid prior to the Effective Date or agrees to a different treatment, after all Allowed Administrative Claims, all Allowed Priority Tax Claims, and Allowed Claims in Classes 1 through 5 have been paid or otherwise satisfied in full as provided in the Plan, each Holder of an Allowed General Unsecured Claim shall receive from the Creditor Trust in full satisfaction, release and discharge of and in exchange for such Claim, a Pro Rata share of the Distributions available for Class 6 Creditors from the Creditor Trust. The Creditor Trustee may make multiple Distributions to Holders of Allowed General Unsecured Claims. The Creditor Trustee shall determine the amount and timing of such Distributions in his sole discretion.
Class 7A –Claims of J. Aron (other than a J. Aron Secured Claim), Goldman, Sachs & Co. and MTGLQ Investors, L.P. against Tekoil Estimated Amount: unknown Estimated Number: 3 **Class 7B –Claims of J. Aron (other than a J. Aron Secured Claim), Goldman, Sachs & Co. and MTGLQ Investors, L.P. against**	On or as soon as reasonably practicable after the Initial Distribution Date, J. Aron, Goldman, Sachs & Co. and MTGLQ Investors, L.P. shall each receive a Cash payment in the amount of ten dollars ($10.00) from each of the Debtors, in full satisfaction, settlement, release and discharge of and in exchange for the Allowed Claims of J. Aron, Goldman, Sachs & Co. and MTGLQ Investors, L.P. in Classes 7A and 7B.

[11] In some instances, Tekoil included a claim in its Schedules for which the creditor filed a proof of claim against Gulf Coast, or vice versa. For purposes of estimating the amount and number of claims in Classes 6A and 6B, the Debtors have classified such Claims in accordance with the Debtors' Schedules rather than in accordance with the filed proof of claim.

[12] This estimate includes amounts stated in proofs of claim filed in both of the Debtors' Bankruptcy Cases that appear to represent duplicate claims, including without limitation, five proofs of claim totaling $21,510.000 filed in both cases by John Barton, Cris Garcia, Masters Resources, Moss Oilfield Construction Services, LLC, and Rich Holdings, LLC.

Class	Treatment
Gulf Coast Estimated Amount: unknown Estimated Number: 3	
Class 8A – Subordinated Claims against Tekoil[13] Estimated Amount: $2,106,359.86 Estimated Number: 30 **Class 8B – Subordinated Claims against Gulf Coast:**[12] Estimated Amount: $75,894.92 Estimated Number: 5	Impaired Holders of Subordinated Claims shall not be entitled to receive or retain, and shall not receive or retain, any property under the Plan on account of such Subordinated Claims.
Class 9A – Intercompany Claims against Tekoil Estimated Amount: $0 Estimated Number: 0 **Class 9B – Intercompany Claims against Gulf Coast** Estimated Amount: $231,386 Estimated Number: 1	Impaired On the Effective Date, all Intercompany Claims shall be cancelled, and Holders of Intercompany Claims shall not be entitled to receive or retain, and shall not receive or retain, any property under the Plan on account of such Intercompany Claims.
Class 10 – Interests in Tekoil Number of Holders: 287	Impaired. If (a) Tekoil obtains a loan or an investment as of the Effective Date on terms that will be disclosed no later than 14 days before the commencement of the hearing to approve this Disclosure Statement, and (b) at least $750,000 of such loan or investment is paid in Cash into escrow by the relevant lender or investor no later than 5 days before the commencement of the hearing to approve this Disclosure Statement, which $750,000 shall be transferred to Tekoil from escrow on the Effective Date for payment of Allowed Claims in accordance with the priority provided by the Bankruptcy Code and the Plan, then all Holders of Class 10 Interests in Tekoil shall retain such Interests (but no other Distributions on account of such Interests) from and after the Effective Date. In such event, the Class 10 Interests held as of the Voting Deadline will be diluted, to an extent that will be disclosed at least 14 days before the commencement of the hearing to approve this Disclosure Statement, by the issuance of new Interests in Tekoil to such new lender or investor. The

[13] The definition of "Subordinated Claim" in Section 1.79 of the Plan includes "any Claim, including an Administrative Claim, asserted by (i) a Person who was an Insider of a Debtor on the Petition Date, (ii) an affiliate of an Insider of a Debtor, or (iii) the Holder of an Interest in a Debtor." A non-exclusive list of Persons whose Claims are classified as Subordinated Claims and shall be treated in Class 8A or Class 8B is attached to the Plan as Exhibit A. Any Holder of such a Claim who objects to the classification and treatment of its Claims as Subordinated Claims must file an objection to such classification and treatment no later than the deadline set by the Bankruptcy Court for filing objections to confirmation of the Plan. The estimated amount of Class 8A Subordinated Claims includes $969,000 claimed by Gerald Goodman and Mark Western, who were Insiders of Tekoil on the Petition Date, and $53,317.36 claimed by Wiener, Goodman & Co., an affiliate of Gerald Goodman.

Class	Treatment
	record date for Distributions, if any, to equity holders in Class 10 will be the Effective Date. Alternatively, if the conditions in the foregoing paragraph are not satisfied, then as of the Effective Date, all Class 10 Interests in Tekoil shall be canceled and extinguished, and the Holders of such Interests will not receive or retain any property on account of such Interests.
Class 11 – Interests in Gulf Coast Number of Holders: 2	As of the Effective Date, all Interests in Gulf Coast shall be canceled and extinguished, and the Holders of such Interests will not receive or retain any property on account of such Interests.

C. Means of Implementation of the Plan

1. Vesting of Assets

Except as otherwise provided in the Plan, the property and assets of each Debtor's Estate shall revest in the respective Debtor on the Effective Date free and clear of all Claims and Interests, but subject to the obligations of the Debtors as set forth in the Plan and the Confirmation Order. Commencing on the Effective Date, the Debtors may deal with their assets and property and conduct their businesses without any supervision by, or permission from, the Bankruptcy Court or the Office of the United States Trustee, and free of any restriction imposed on the Debtors by the Bankruptcy Code or by the Bankruptcy Court during the Bankruptcy Cases.

2. Sources for Plan Distributions and Operations of Creditor Trust

All Cash necessary for payment of Allowed Claims to be paid in Cash by the Debtors under the Plan will be obtained from the Debtors' Cash on hand as of the Effective Date, and all other Cash received by the Debtors from any source after the Effective Date. All Cash necessary for payment of Allowed Claims to be paid in Cash by the Creditor Trust and for payment of the expenses of the Creditor Trust will be obtained from the Trust Property or the proceeds therefrom.

3. Limited Substantive Consolidation of Class 6 General Unsecured Claims

Based upon the Debtors' prepetition operations and other factors, the Debtors believe a limited substantive consolidation is necessary and appropriate to achieve a fair and meaningful distribution to Holders of Allowed Class 6 General Unsecured Claims. In particular, the Debtors were in fact operated and managed as a single business enterprise. Further, the Debtors believe that their unsecured creditors dealt with the Debtors as a single economic unit and did not rely on either Debtor's separate identity or separate assets in providing goods and services or extending credit to either Debtor. For example, many unsecured creditors provided goods and services to or for the benefit of Gulf Coast but the underlying contracts were with Tekoil, and Tekoil issued payment for those goods and services. Further, neither Debtor currently has any significant unencumbered cash with which to pay Allowed General Unsecured Claims. The sole sources of

any Cash that may be distributed to Holders of Allowed Class 6 General Unsecured Claims under Section 5.06 of the Plan will be the net proceeds of the liquidation of the Causes of Action transferred to the Creditor Trust on the Effective Date and any proceeds from the GBE Conditional Payment. In these circumstances, the Debtors believe that a limited substantive consolidation of Class 6 General Unsecured Claims is appropriate.

Accordingly, for the purposes of effectuating the Plan, including for purposes of voting on and confirmation of the Plan, and Distributions to Class 6 Creditors under the Plan, the Debtors are seeking authority under section 105 of the Bankruptcy Code to substantively consolidate the Debtors solely with respect to Creditors who hold Class 6 General Unsecured Claims. The Plan will serve as a motion seeking entry of an order (which may be the Confirmation Order) consolidating the Debtors, as described and to the limited extent set forth above solely with respect to Class 6 General Unsecured Claims. Unless an objection to such consolidation is made in writing by any Creditor affected by the Plan, filed with the Bankruptcy Court and served on the Debtors and the Creditors Committee and their counsel on or before ten (10) days before the Voting Deadline or such other date as may be fixed by the Bankruptcy Court, the limited substantive consolidation order (which may be the Confirmation Order) may be entered by the Bankruptcy Court. If any such objections are timely filed, a hearing with respect to thereto will occur at or before the Confirmation Hearing.

Such consolidation (other than for purposes of effectuating the Plan) will not affect: (a) the legal and corporate structures of the Debtors; (b) pre- and post-Effective Date Liens or security interests that are required to be maintained pursuant to the Plan or in connection with contracts or leases entered into by the Debtors during the Bankruptcy Cases or Executory Contracts that have been or will be assumed; (c) distributions or proceeds from insurance policies of the Debtors; or (d) the vesting of assets in the Creditor Trust under Section 6.04(b)of the Plan.

4. The Creditor Trust

a. Establishment of the Creditor Trust.

On the Effective Date, the Creditor Trust shall be established and shall become effective, and the Creditor Trustee shall execute the Creditor Trust Agreement.

b. Transfer and Vesting of Assets.

On the Effective Date, (i) $50,000 in Cash, (ii) all Causes of Action and (iii) all right, title, and interest of J. Aron in and to the GBE Conditional Payment and any Distribution arising from or on account of the GBE Conditional Payment that J. Aron would otherwise be entitled to receive at any time, and any and all Liens related thereto, shall be transferred to and vest in the Creditor Trust. To the extent any Cause of Action is not transferable by a Debtor to the Creditor Trust under applicable law, such Debtor shall retain such Cause of Action and the Creditor Trustee shall be entitled to prosecute such Cause of Action in the name of such Debtor for the benefit of the Creditor Trust. In addition, all property of the Estates, if any, remaining after (y) the Debtors have paid in full all Allowed Administrative Claims, Allowed Priority Tax Claims, and Allowed Claims in Classes 1-5 and 7, and (z) Gulf Coast has paid J. Aron all Cash, if any,

that is payable to J. Aron pursuant to Section 5.06 of the Plan shall be promptly paid, delivered and/or transferred to and vest in the Creditor Trust. All property paid, delivered and/or transferred to the Creditor Trust at any time shall constitute Trust Property, free and clear of all Claims, Liens, interests and encumbrances, and shall thereafter be administered, liquidated by sale, collection, recovery, or other disposition and distributed by the Creditor Trust in accordance with the terms of the Plan and the Creditor Trust Agreement.

c. Assumption of Liabilities.

Except as otherwise provided in the Plan (including, without limitation, Section 6.07 of the Plan), the Creditor Trust and Creditor Trustee (solely in his capacity as Creditor Trustee and not in his individual capacity) shall assume liability for and the obligations to make the Distributions required to be made to Holders of Allowed Class 6 General Unsecured Claims under the Plan and the Creditor Trust Agreement, but shall not otherwise assume liabilities of the Debtors.

d. Creditor Trust Distributions and Operating Expenses.

The Creditor Trustee shall liquidate all of the Trust Property and shall distribute the net proceeds of such liquidation in accordance with the Plan and the Creditor Trust Agreement. Except as otherwise provided in the Plan, the timing and amount of all Distributions payable by the Creditor Trust pursuant to the Plan shall be within the sole discretion of the Creditor Trustee. The Creditor Trustee may reserve and use Cash from the Trust Property, in such amounts as the Creditor Trustee shall deem reasonable in his sole discretion, for the payment of expenses of the Creditor Trust and the Creditor Trustee, including without limitation, professional fees and expenses, costs of Distributions, and the prosecution and resolution of Causes of Action and objections to Claims.

e. Duration of Creditor Trust.

The Creditor Trust shall continue to exist until (i) the Bankruptcy Court has entered a Final Order closing the Bankruptcy Cases pursuant to Bankruptcy Code section 350(a) and (ii) the Creditor Trustee has administered all assets of the Creditor Trust, made a final Distribution to Holders of Allowed Class 6 General Unsecured Claims as provided in the Plan, and performed all other duties required by the Plan and the Creditor Trust Agreement. As soon as practicable after the final Distribution Date, the Creditor Trustee shall seek entry of a Final Order closing the Bankruptcy Cases pursuant to Bankruptcy Code section 350(a).

f. Creditor Trustee.

(i) **Appointment.** The Creditor Trustee shall be a Person selected by the Creditors Committee and approved by the Bankruptcy Court in the Confirmation Order. The appointment of the Creditor Trustee shall be effective as of the Effective Date. Any successor Creditor Trustee shall be appointed by the current Creditor Trustee as set forth in the Creditor Trust Agreement.

(ii) **Term.** Unless the Creditor Trustee resigns or dies earlier, the Creditor Trustee's term shall expire upon termination of the Creditor Trust pursuant to the Plan and/or the Creditor Trust Agreement.

(iii) **Powers and Duties.** The Creditor Trustee shall have the powers and duties set forth in the Plan and the Creditor Trust Agreement. The Creditor Trustee will be a representative of the Debtors' Estates pursuant to Bankruptcy Code section 1123(b)(3) and as such will have the power to prosecute all Causes of Action in the name of the Creditor Trust or as necessary in the name of the Debtors. The Creditor Trustee shall be governed in all things by the terms of the Creditor Trust Agreement and the Plan. The Creditor Trustee shall administer the Creditor Trust and its assets and make Distributions in accordance with the Plan. The Creditor Trustee shall be authorized, empowered and directed to take all actions necessary to comply with the Plan and exercise and fulfill the duties and obligations arising thereunder, including without limitation the following:

(1) Perfect and secure the Creditor Trust's right, title and interest to any and all property of the Creditor Trust;

(2) Administer, sell, liquidate, or otherwise dispose of all assets of the Creditor Trust in accordance with the terms of the Plan and the Creditor Trust Agreement;

(3) Distribute the proceeds from the liquidation of the Trust Property as specified herein;

(4) Execute any documents, instruments, contracts, and agreements necessary and appropriate to carry out the powers and duties of the Creditor Trust;

(5) Pay and discharge any costs, expenses, fees or obligations deemed necessary to preserve the Trust Property or any part thereof or to preserve the Creditor Trust;

(6) Purchase insurance as is necessary to insure and protect Trust Property, and to protect the Creditor Trust and the Creditor Trustee from liability;

(7) Open, maintain, and administer bank accounts as necessary to discharge the duties of the Creditor Trustee under the Plan and the Creditor Trust Agreement;

(8) Employ such attorneys, accountants, auctioneers, engineers, agents, brokers, managers, consultants, investigators, expert witnesses, tax specialists, other professionals, and clerical assistants as the Creditor Trustee may deem necessary. The Creditor Trustee shall be entitled to rely reasonably upon the advice of retained professionals and shall not be liable for any action taken in reliance on such advice. The reasonable and

necessary fees and expenses of all such professionals and clerical assistants shall be charged as expenses of the Creditor Trust and shall be paid upon approval of the Creditor Trustee;

(9) Exercise any and all powers granted to the Creditor Trustee by any agreements or by federal or Texas common law or statutory law that serve to increase the extent of the powers granted to the Creditor Trustee hereunder;

(10) Sue and be sued and represent the Estates and the Creditor Trust before the Bankruptcy Court and other courts of competent jurisdiction with respect to matters concerning the Plan or the Creditor Trust;

(11) Comply with all applicable laws, regulations, and orders of the Bankruptcy Court and any other court of competent jurisdiction over the matters set forth herein;

(12) Investigate, analyze, commence, prosecute, litigate, compromise, and otherwise administer the Causes of Action for the benefit of the Creditor Trust and its beneficiaries as set forth in the Plan and the Creditor Trust Agreement, and take all other necessary and appropriate steps to collect, recover, settle, liquidate, or otherwise reduce to Cash the Causes of Action, and to negotiate and effect settlements and Lien releases with respect to all related Claims and Liens as set forth in the Plan and the Creditor Trust Agreement;

(13) Exercise such other powers as may be vested in the Creditor Trust or the Creditor Trustee pursuant to the Plan, the Creditor Trust Agreement, or any Final Order of the Bankruptcy Court and do all other acts that may be necessary or appropriate for the final liquidation and distribution of the assets of the Creditor Trust;

(14) Review all fee applications filed by Professionals employed during the Bankruptcy Cases and have authority to object to same; and

(15) Review all Claims and have authority to object to same.

(iv) **Fees and Expenses.** Unless otherwise provided in the Plan, compensation of the Creditor Trustee and the costs and expenses of the Creditor Trust and the Creditor Trustee (including without limitation professional fees and expenses) shall be paid from the Trust Property or the proceeds thereof. The reasonable fees and expenses of the Creditor Trustee or the Creditor Trustee's professionals shall be paid as necessary to discharge the Creditor Trustee's duties under the Plan and the Creditor Trust Agreement, which payments shall not require approval or an order of the Bankruptcy Court. If a dispute arises regarding the fees or expenses of the Creditor Trustee or the Creditor Trustee's professionals, the undisputed portion of such fees and expenses may be paid pending the resolution of the disputed portion of such fees and expenses without approval or an order of the Bankruptcy Court. The Creditor Trustee may

deduct all fees expenses reasonably incurred by the Creditor Trustee or the Creditor Trustee's professionals in administering, preserving, maintaining or liquidating the assets of the Creditor Trust from such assets or the proceeds of such assets prior to making any Distribution of such assets or proceeds under the Plan.

(v) **Indemnification and Limitation of Liability.** The Creditor Trustee shall not be liable for actions taken or omitted in his capacity as the Creditor Trustee, except those acts arising out of his own fraud, willful misconduct, or gross negligence. The Creditor Trustee shall be entitled to indemnification and reimbursement for all losses, fees, and expenses in defending any and all of his actions or inactions in his capacity as the Creditor Trustee, except for any actions or inactions involving his own fraud, willful misconduct, or gross negligence. Any indemnification claim of the Creditor Trustee shall be satisfied from the assets of the Creditor Trust.

g. Distributable Cash; Investment.

The Creditor Trustee shall collect all funds constituting property of the Creditor Trust and, pending distribution, shall deposit such funds with a federally insured financial institution with a minimum of $200 million in capital and that provides banking services. The Creditor Trustee will deposit funds so that they are adequately insured. Notwithstanding the foregoing, the Creditor Trustee may invest all Cash received into the Creditor Trust (including any earnings thereon or proceeds therefrom) in the same manner as chapter 7 trustees are required to invest funds pursuant to the guidelines of the United States Trustee's Office, provided that the Creditor Trustee shall invest funds held in only demand and time deposits, such as short-term certificates of deposit, in banks or savings institutions, or other temporary, liquid and low-risk investments, such as Treasury bills. The Creditor Trustee shall hold all such funds until they are distributed pursuant to the Plan to Creditors with Allowed Claims or to other parties as provided in the Plan or the Creditor Trust Agreement.

h. Resignation.

The Creditor Trustee may resign at any time by giving written notice to the Bankruptcy Court, and such resignation shall be effective upon the date provided in such notice. In the case of the resignation of the Creditor Trustee, the resigning Creditor Trustee shall appoint a successor Creditor Trustee, whereupon such resigning Creditor Trustee shall convey, transfer and set over to such successor Creditor Trustee by appropriate instrument or instruments all property of the Creditor Trust then unconveyed or otherwise undisposed of and all other assets then in his possession and held under the Plan or the Creditor Trust Agreement. Without further act, deed or conveyance, a successor Creditor Trustee shall be vested with all the rights, privileges, powers and duties of the Creditor Trustee, except that the successor Creditor Trustee shall not be liable for the acts or omissions of his predecessor(s). Each succeeding Creditor Trustee may in like manner resign and another may in like manner be appointed in his place.

i. Reporting Duties.

Within 120 days after the end of each calendar year following the Effective Date and concurrently with the filing of a motion to close the Bankruptcy Cases pursuant to Bankruptcy

Code section 350, the Creditor Trustee will file with the Bankruptcy Court an un-audited written report and account showing (i) the assets and liabilities of the Creditor Trust at the end of such quarter or upon termination, (ii) any changes in the assets or liabilities of the Creditor Trust that have not been previously reported, and (iii) any material action taken by the Creditor Trustee in the performance of its duties under the Creditor Trust and under the Plan that has not been previously reported.

j. Trust Implementation.

On or as soon as practical after the Effective Date, the Debtors shall execute any documents or other instruments as may be necessary to cause title to the Trust Property to be transferred to the Creditor Trust, however, notwithstanding the non-execution of such documents, title to the Trust Property will automatically vest in the Creditor Trust on the Effective Date.

k. Tax Treatment of the Creditor Trust.

The Creditor Trust to be established for the benefit of Holders of Allowed General Unsecured Claims is intended to qualify as a grantor trust for federal income tax purposes. All items of income, deduction, credit or loss of the Creditor Trust shall be allocated for federal, state and local income tax purposes among the Holders of Allowed General Unsecured Claims.

5. Preservation and Settlement of Causes of Action

In accordance with Bankruptcy Code section 1123(b)(3), the Creditor Trust shall retain all of the Causes of Action, a nonexclusive description of which is set forth in the Disclosure Statement, and other similar claims, counterclaims, rights, defenses, setoffs, recoupments, and actions in law or equity arising under the Bankruptcy Code or applicable non-bankruptcy law. The Creditor Trustee and the Creditor Trust may enforce, sue on, settle or compromise (or decline to any of the foregoing) any of all of the Causes of Action and other similar claims, counterclaims, rights, defenses, setoffs, recoupments, and actions, and may prosecute and enforce all defenses, counterclaims, and rights that have been asserted or could be asserted by a Debtor against or with respect to all Claims asserted against such Debtor or property of such Debtor's Estate.

At any time before the Effective Date, notwithstanding anything in the Plan to the contrary, the Debtors may settle any Cause of Action pursuant to Bankruptcy Rule 9019 with the approval of the Bankruptcy Court and upon notice as provided in the Bankruptcy Rules. From and after the Effective Date, the Creditor Trustee and/or the Creditor Trust, in accordance with the terms of the Plan and the Creditor Trust Agreement, will determine whether to bring, settle, release, compromise, enforce or abandon such rights (or decline to any of the foregoing) in accordance with the procedures and notice provisions set forth in Section 10.04 of the Plan.

6. Termination of Creditors Committee

The Creditors Committee will continue in existence until the Effective Date, to exercise those powers and perform those duties specified in section 1103 of the Bankruptcy Code, and

will perform such other duties as it may have been assigned by the Bankruptcy Court prior to the Effective Date. On the Effective Date, the Creditors Committee will be dissolved and its members will be deemed released by the Debtors and their Estates of all their duties, responsibilities and obligations in connection with the Bankruptcy Cases, and from all claims and causes of action relating to or arising directly or indirectly from services performed; provided that this provision does not release members of the Creditors Committee from any Cause of Action that may be asserted against them. On the Effective Date, the retention or employment of the Creditors Committee's Professionals and other agents will terminate, except as is necessary to address Fee Applications filed by the Creditors Committee or its Professionals. Upon the dissolution of the Creditors Committee, no notice to the Creditors Committee that might otherwise be required pursuant to an order of the Bankruptcy Court shall be required.

7. Effectuating Documents; Further Transactions

On the Effective Date, the Creditor Trust, the Creditor Trustee, and the employees, agents, attorneys and professionals of the Creditor Trust shall be authorized and directed, without further Order of the Bankruptcy Court, to execute, deliver, file, and record all agreements, instruments and contracts, and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions, and consummate, the Plan or to otherwise comply with applicable law.

8. Potential Operation of Tekoil After the Effective Date

Since the Petition Date, Tekoil's business activities have been negligible. However, Tekoil's management is currently engaged in discussions with one or more parties who may provide at least $750,000 in Cash to Tekoil for the payment of Allowed Claims under the Plan in the priority provided by the Bankruptcy Code. Such Cash would be provided as a loan and/or an investment, in exchange for the issuance of new stock in Tekoil upon the Effective Date. Thus, this transaction, if consummated, would dilute the equity interests in Tekoil of all current Holders of Class 10 Interests in Tekoil. The detailed terms of the potential loan to or investment in Tekoil, and the extent of such dilution, have not yet been determined. Such terms, if finalized by Tekoil, will be set forth in a supplement to the Disclosure Statement that Tekoil will file with the Bankruptcy Court no later than fourteen (14) days before the commencement of the hearing to approve the Disclosure Statement. Further, as a condition for such transaction, any new lender or investor shall be required to deposit $750,000 in Cash into escrow no later than five (5) days before the commencement of the hearing to approve the Disclosure Statement. If the foregoing conditions are not satisfied, then Tekoil will not issue any equity interests in Tekoil to any party at any time, and all existing Class 10 Interests in Tekoil shall be canceled as of the Effective Date of the Plan.

9. Dissolution of the Debtors

At any time after the Effective Date, the Creditor Trustee, in his sole discretion, may cause Tekoil and/or Gulf Coast to be dissolved in accordance with applicable law; provided, however, that if Holders of Class 10 Interests in Tekoil retain such Interests pursuant to Section 5.10 of the Plan, the Creditor Trustee shall not have authority to cause Tekoil to be dissolved.

10. Discharge of Debtors

Pursuant to Bankruptcy Code section 1141(d)(3), confirmation of the Plan will not discharge any Claims against the Debtors; provided however that no Holder of a Claim may, on account of such Claim, seek or receive any payment or other Distribution from, or seek recourse against, either Debtor, the Creditor Trust, the Creditor Trustee, and/or their respective successors, assigns and/or property, except as expressly provided in the Plan.

Notwithstanding the foregoing, if Holders of Class 10 Interests in Tekoil retain such Interests pursuant to Section 5.10 of the Plan and Tekoil continues to engage in business after consummation of the Plan or all or substantially all property of Tekoil's estate is not liquidated under the Plan, then upon the Effective Date: (a) entry of the Confirmation Order shall act as a discharge and release under Bankruptcy Code section 1141(d)(1)(A) of all Claims against and Interests in Tekoil and Tekoil's assets and properties, arising at any time before the Effective Date, regardless of whether a proof of Claim or Interest was filed, whether the Claim or Interest is Allowed, or whether the Holder of the Claim or Interest votes to accept the Plan or is entitled to receive a Distribution under the Plan; (b) any Holder of a discharged Claim against or Interest in Tekoil shall be precluded from asserting against Tekoil or any of its assets or properties any other or further Claim or Interest based on any document, instrument, act, omission, transaction or other activity of any kind or nature that occurred before the Effective Date; and (c) the Confirmation Order shall be a judicial determination of discharge of all liabilities of Tekoil to the extent allowed under section 1141, and Tekoil shall not be liable for any Claims against or Interests in Tekoil and will only have the obligations as are specifically provided for in the Plan.

11. Injunction

Except as otherwise provided in the Plan, the Confirmation Order shall provide, among other things, that from and after the Effective Date, all Holders of Claims against and Interests in the Debtors are permanently enjoined from taking any of the following actions against the Debtors, the Creditor Trust, and the Creditor Trustee, or any of their property on account of any such Claim or Interest: (a) commencing or continuing in any manner or in any place, any action or other proceeding; (b) enforcing, attaching, collecting, or recovering by any manner or means any judgment, award, decree, or order; (c) creating, perfecting, or enforcing any encumbrance or Lien; (d) asserting a setoff, subrogation, 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 conform to or comply with, or is inconsistent with, the provisions of the Plan; provided, however, that nothing contained herein shall preclude such Persons from exercising their rights pursuant to and consistent with the terms of the Plan or the Confirmation Order. If allowed by the Bankruptcy Court, any Person injured by any willful violation of such injunction shall recover actual damages, including costs and attorneys' and experts' fees and disbursements, and, in appropriate circumstances, may recover punitive damages, from the willful violator.

12. Release

As of the Effective Date, each of the Debtors and their Estates and their respective representatives, successors, and assigns, including without limitation any chapter 7 or chapter

11 trustee for either Debtor, and the Creditor Trust will be deemed to forever release, waive, and discharge all claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action, and liabilities of any nature whatsoever, including without limitation any and all claims based on contract, tort, lender liability, or other theory of liability or recovery, in connection with or related to the Debtors, the conduct of the Debtors' businesses, the Bankruptcy Cases, the Prepetition Loan Documents, the DIP Loan Facility, or the Plan (other than the rights of the Debtors or the Creditor Trust to enforce the Plan and any agreements or documents delivered or executed thereunder), whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity, or otherwise, that are based in whole or in part on any act, omission, transaction, event, or other occurrence taking place or occurring on or prior to the Effective Date in any way relating to the Debtors, the Bankruptcy Cases, the Prepetition Loan Documents, the DIP Loan Facility, or the Plan, and that may be asserted solely by or on behalf of the Debtors, the Estates, or their respective representatives, successors, and assigns against (a) J. Aron, (b) Goldman, Sachs & Co., (c) MTGLQ Investors, L.P., (d) Brad Walker in his capacity as the Chief Restructuring Officer of Gulf Coast, (e) William Roberts in his capacity as the financial and management consultant to Gulf Coast, (f) all Professionals of the Debtors, (g) the Creditors Committee, its members (solely in their capacity as such and not in their individual capacity), and its Professionals, and (h) all officers, directors, agents, partners, members, affiliates, and employees of the foregoing.

13. Exculpation.

The Debtors' Professionals, Brad Walker in his capacity as the Chief Restructuring Officer of Gulf Coast, William Roberts in his capacity as the financial and management consultant to Gulf Coast, the members of the Creditors Committee (solely in their capacity as such and not in their individual capacity), and the Creditors Committee's Professionals, and any of such parties' respective successors, and assigns, shall not have or incur any liability or obligation, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, and whether asserted or assertable directly or derivatively, in law, equity, or otherwise, to any Holder of a Claim or Interest or any other Person for any act or omission originating or occurring on or after the Petition Date through and including the Effective Date in connection with, relating to, or arising out of the Debtors, the Estates, the administration of the Bankruptcy Cases, the operation of the Debtors' business during the Bankruptcy Cases, the formulation, negotiation, preparation, filing, dissemination, approval, or confirmation of the Plan, the Disclosure Statement, the solicitation of votes for or confirmation of the Plan, the consummation or administration of the Plan, or the property to be liquidated and or distributed under the Plan, except for their willful misconduct or gross negligence as determined by a Final Order of a court of competent jurisdiction. The foregoing parties will be entitled to rely reasonably upon the advice of counsel in all respects regarding their duties and responsibilities under the Plan.

14. Term of Bankruptcy Injunction or Stays

Unless otherwise provided in the Plan or an order of the Bankruptcy Court (including without limitation the Confirmation Order), all injunctions or stays provided in the Bankruptcy Cases under Bankruptcy Code section 105 or 362, or otherwise, and in existence on the

Confirmation Date, shall remain in full force and effect until the Effective Date. Upon the Effective Date, the injunction provided in Section 9.04 of the Plan shall apply.

15. Effectuating Documents; Further Transactions; Timing

The Debtors and the Creditor Trustee are authorized to execute, deliver, file, or record such contracts, instruments, releases, and other agreements or documents and to take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan. All transactions that are required to occur on the Effective Date under the terms of the Plan shall be deemed to have occurred simultaneously, unless otherwise provided in the Plan.

D. Executory Contracts and Unexpired Leases

The Plan constitutes and incorporates a motion by the Debtors to reject, as of the Effective Date, all Executory Contracts to which either Debtor is a party, except for any Executory Contracts that (a) has been assumed or rejected pursuant to Final Order of the Bankruptcy Court, or (b) is the subject of a separate motion to assume pursuant to section 365 of the Bankruptcy Code to be filed and served by the applicable Debtor no later than ten (10) Business Days before the Confirmation Hearing. The Confirmation Order shall constitute an order of the Bankruptcy Court under section 365 of the Bankruptcy Code approving the rejection or assumption, as applicable, of such Executory Contracts as of the Effective Date.

Except as otherwise provided in a Final Order of the Bankruptcy Court, pursuant to sections 365(a), (b), (c) and (f) of the Bankruptcy Code, all Cure Claims that may require payment under section 365(b)(1) of the Bankruptcy Code under any Executory Contract that is assumed pursuant to a Final Order of the Bankruptcy Court (which may be the Confirmation Order) shall be paid by the relevant Debtor(s) within two (2) Business Days after (a) the amount of the Cure Claim is agreed to in writing by the Debtor and the other party to the Executory Contract or (b) entry of a Final Order establishing the amount of the Cure Claim. If a party to an assumed Executory Contract has not filed an appropriate pleading on or before the date of the Confirmation Hearing disputing the amount of any Cure Claim designated by the Debtor, the cure of any other defaults, the promptness of the Cure Claim payments, or the provisions of adequate assurance of future performance, then such party shall be deemed to have waived its right to dispute such matters. Any party to an assumed Executory Contract that receives full payment of a Cure Claim shall waive the right to receive any payment on a Class 6 General Unsecured Claim that relates to or arises out of such assumed Executory Contract.

If the rejection of an Executory Contract results in damages to the other party or parties to such Executory Contract, a Claim for such damages shall be forever barred and shall not be enforceable against the Debtors or their properties or agents, successors, or assigns, unless a proof of Claim is filed with the Bankruptcy Court and served upon the Debtors by the earlier of (a) thirty (30) days after the Effective Date or (b) such other deadline as the Bankruptcy Court may set for asserting a Claim for such damages.

Any Rejection Claim arising from the rejection of an Executory Contract shall be treated as a Class 6 General Unsecured Claim pursuant to the Plan, except as limited by the provisions

of sections 502(b)(6) and 502(b)(7) of the Bankruptcy Code and mitigation requirements under applicable law. Nothing contained herein shall be deemed an admission by the Debtors or any other party in interest that the rejection of any Executory Contract shall give rise to or result in a Rejection Claim or shall be deemed a waiver by the Debtors or any other party in interest of any objections to such Rejection Claim if asserted.

All employee compensation, benefit, indemnification and pension programs of the Debtors, if any, including any programs subject to sections 1114 and 1129(a)(13) of the Bankruptcy Code that the Debtors entered into before or after the Petition Date and have not been previously terminated, shall be deemed to be, and shall be treated as though they are, executory contracts that are rejected and terminated under the Plan as of the Effective Date.

V. DESCRIPTION OF THE DEBTORS

A. History and Corporate Structure

1. Tekoil

Tekoil is an independent energy company engaged, either directly or through affiliates, in the exploration for, and development and production of, crude oil and natural gas in Canada and the United States. Tekoil is a publicly held Delaware corporation and trades on the NASDAQ Over-the-Counter Bulletin Board. Tekoil was originally incorporated in Florida in 2004, before becoming a publicly traded Delaware corporation by way of reverse takeover with Pexcon, Inc. in July 2005. As of the Petition Date, Tekoil had approximately 287 shareholders holding 55,700,000 shares of outstanding and authorized Tekoil common stock.

As of the Petition Date, Tekoil's operations in Canada were conducted through its provisional corporation registered in Newfoundland, Canada, and qualified to do business in Canada on April 19, 2006. Tekoil also owns Tekoil Rig Development Corporation, Tekoil & Gas Marine Operations, Inc., and Tekoil & Gas Oilfield Services, Inc., each a wholly owned subsidiary of Tekoil, none of which has any assets, operations, or creditors.

2. Gulf Coast

Tekoil's primary asset consists of a seventy-five percent (75%) limited liability company membership interest in Gulf Coast. As of the Petition Date, Goldman Sachs & Co. ("Goldman") owned the remaining 25% membership interest in Gulf Coast, and Goldman transferred such interest to Galveston Bay Energy, LLC ("GBE") in connection with the sale of Gulf Coast's assets to GBE (see Section VI.C.11 herein).

Gulf Coast is a Delaware limited liability company, which was formed in May 2007 for the purpose of acquiring oil and gas properties in Galveston Bay, Texas, commonly referred to as the Trinity Bay, Redfish Reef, Fishers Reef, and North Point Bolivar Fields (together with all related platforms, equipment, leases and contracts, the "Properties"). The Properties include oil and gas leases issued by the State of Texas General Land Office ("GLO"), which comprise approximately 20,000 acres and 125 oil and gas wells located in Galveston and Chambers Counties, Texas.

Prior to the Petition Date, Tekoil served as the sole managing member of Gulf Coast, pursuant to a Management Services Agreement, dated as of May 11, 2007, by and among Tekoil and Gulf Coast. Most of Tekoil's debt arises from services provided to Gulf Coast. In many instances Tekoil entered into contracts or obligations which directly benefited Gulf Coast.

B. J. Aron Secured Claim

Gulf Coast's acquisition of the Properties was financed with a $50 million loan arranged by Goldman Sachs E&P Capital, a division of Goldman, through its affiliate, J. Aron, pursuant to that certain Credit and Guaranty Agreement, dated as of May 11, 2007, as amended, supplemented or otherwise modified (the "Credit Agreement"), by and among Gulf Coast, J. Aron (individually and as Lead Arranger, Syndication Agent and Administrative Agent for the benefit of the Pre-Petition Lenders), and Tekoil and other guarantor parties thereto. The credit extended by the Pre-Petition Lenders under the Credit Agreement was structured as a $50 million term loan evidenced by a promissory note payable to J. Aron, in its individual capacity.

As part of the financing, Goldman received a minority 25% managing interest in Gulf Coast (the other 75% is held by Tekoil); a warrant to purchase 900,000 shares of Tekoil's common stock at a strike price of $.50 per share over a five-year term and certain other rights to participate in future debt and equity financings of Tekoil; a 2% overriding royalty interest in the Properties, which was issued to MTGLQ Investors, LP, an affiliate of Goldman. Gulf Coast also entered into a Master ISDA Agreement and Hedging Agreement with J. Aron, which obligations were secured on a *pari passu* basis with the obligations under the Credit Agreement. Gulf Coast's obligations under the Credit Agreement, Master ISDA Agreement and all other agreements (the "Prepetition Loan Documents") executed in connection with the financing arrangement are secured by perfected liens and security interests in and to all, or substantially all, of Gulf Coast's assets and the proceeds of those assets, including without limitation, the proceeds of the sale of those assets to GBE (see Section VI.C.11 herein).

Tekoil is a guarantor of Gulf Coast's obligations under the Prepetition Loan Documents and has pledged its membership interest in Gulf Coast, and all cash and non-cash proceeds, rents, products and profits of or from such membership interest in Gulf Coast as security for its guaranty obligations.

C. Events Leading to Chapter 11

Almost immediately after execution of the Prepetition Loan Documents and before the Debtors had an opportunity to develop their assets, J. Aron declared the Credit Agreement in default for non-monetary obligations, including failure to issue certain title opinions and post a bond to the Texas Railroad Commission (the "TRC"). Gulf Coast and Tekoil cured those defaults by executing an amendment to the Credit Agreement in July 2007, which allowed additional time to provide certain title opinions and permitted Gulf Coast to borrow an additional $6.7 million from J. Aron to post the TRC bond and pay J. Aron an additional fee.

Thereafter, in August and October 2007 and in January 2008, J. Aron declared a series of additional defaults under the Credit Agreement, each resulting in increased requirements under the pre-petition credit facility and additional fees to J. Aron.

In addition, immediately upon acquiring the Properties, Tekoil discovered that substantial expenditures were required to bring the Properties into compliance with various regulatory bodies, including the GLO, TRC and U.S. Coast Guard. These unexpected costs, coupled with J. Aron's increased fees as a result of non-monetary defaults, limited Tekoil's and Gulf Coast's ability to fund development from existing sources. At the same time, the credit markets had taken a tumble and J. Aron had refused to advance funds for development. As a result, Tekoil and Gulf Coast were forced to seek funding from third-party sources to meet their respective requirements to contribute capital to Gulf Coast in the amounts of $7.5 million and $5 million, respectively, under the Credit Agreement.

On October 24, 2007, Tekoil entered into an unsecured loan agreement with Tri Star Capital Ventures Limited ("Tri-Star") for an $8.5 million loan ("Tri-Star Loan") to fund the required capital contribution to Gulf Coast and to fund working capital.[14] The loan proceeds were intended to fund development and capital expenditures, but were instead used to make Tekoil's capital contribution to Gulf Coast and to pay J. Aron interest and principal payments. Five days after Tekoil made its required capital contribution and executed a third amendment to the Credit Agreement, J. Aron declared yet another default.

By that time, Tekoil had completed a field audit and was working on solving some of the operational issues inherited from the prior owner of the Properties. By late 2007, Tekoil and Gulf Coast had a design for a salt water disposal system for Red Fish Reef and submitted a budget to J. Aron to install the new system and significantly increase production. J. Aron, however, did not consent to the proposal; nor would J. Aron permit Tekoil and Gulf Coast to utilize equity contributions to Gulf Coast for capital expenditures.

In January 2008, Tekoil and Gulf Coast executed a fourth amendment to the Credit Agreement to cure the fourth default. The new amendment imposed additional new requirements under the credit facility, including monthly principal payments of $1 million per month through June 2008 and $2 million per month thereafter. At the same time, Tekoil and Gulf Coast continued to face resistance from J. Aron to expend funds for certain operational improvements, which Tekoil and Gulf Coast believed would have increased production.

Throughout the first five months of 2008, Tekoil continued to attempt to work with J. Aron to fund operational expenses and development. At the same time, Tekoil sought outside investors to retire the J. Aron debt and fund development of the assets. In late May, J. Aron once again declared the Credit Agreement in default. On May 29, 2008, J. Aron issued a notice of default, acceleration and demand under the Prepetition Loan Documents and on May 30, 2008, noticed for foreclosure all pledged assets, including the Properties owned by Gulf Coast and Tekoil's majority interest in Gulf Coast. After efforts to structure a work out with J. Aron failed, Tekoil filed for relief under chapter 11 of the Bankruptcy Code on June 10, 2008. After

[14] The Tri-Star Loan was guaranteed by Mark Western, Gerald Goodman, Frank Clear and Richard Creitzman, each a director of Tekoil (collectively the "Tekoil Directors"). On June 17, 2008, Tri-Star initiated arbitration proceedings against the Tekoil Directors in London, England, based on their guarantees. The arbitrator issued an award in favor of Tri-Star against the Tekoil Directors in the amount of $8.5 million plus interest.

additional unsuccessful negotiations with J. Aron, Gulf Coast filed its chapter 11 petition on August 29, 2008.

VI. THE DEBTORS' BANKRUPTCY CASES

A. Commencement of the Bankruptcy Cases

Tekoil filed for protection under the Bankruptcy Code on June 10, 2008. Gulf Coast filed its chapter 11 petition on August, 29, 2008. Both proceedings were assigned to and remain pending before the Honorable Letitia Z. Paul, United States Bankruptcy Judge in the Southern District of Texas, Galveston Division.

B. Assets of Tekoil and Gulf Coast

Tekoil's Schedules reflect that as of June 10, 2008, the assets of Tekoil included cash of $28,000; real property in Canada valued at $408,000 (which was sold with Court approval, *see* § VI.C.10 below) buildings and equipment valued at $263,730; office equipment, furnishings and business supplies, estimated to be worth approximately $30,000; vehicles used in the business, with a combined "blue book" value of $40,935; and its 75% membership interest in Gulf Coast valued at approximately $15.2 million.

Gulf Coast's Schedules reflect that as of August 29, 2008, the assets of Gulf Coast included approximately $90,859 in cash; a certificate of deposit in the amount of approximately $5.87 million to secure Gulf Coast's compliance with GLO bonding requirements for potential plugging and abandonment obligations; $1,627,397.93 in accounts receivable; vessels and vehicles used in the business with an estimated value of $1,565,000; platforms, tanks, pipelines, gathering stations, and other equipment valued at $4,183,900; and prepaid insurance in the amount of $626,315.

C. Significant Events in the Bankruptcy Cases

1. Joint Administration

On September 5, 2008, Tekoil and Gulf Coast filed a Motion for Joint Administration of Cases. The Court granted the motion and ordered the joint administration of the Bankruptcy Cases by order entered on October 1, 2008.

2. Schedules and Statement of Financial Affairs

On July 15, 2008, Tekoil filed its Schedules, and Statement of Financial Affairs. On October 2, 2008, Gulf Coast filed its Schedules and Statement of Financial Affairs. On March 31, 2009, Gulf Coast filed its amended Schedules and Statement of Financial Affairs.

3. Retention of Professionals

a. Bankruptcy Counsel to the Debtors

On August 27, 2008, Tekoil filed an "Application of Debtor and Debtor-in-Possession for Order Authorizing the Retention and Employment of Neligan Foley, LLP as Nunc Pro Tunc Counsel to the Debtor" (the "NF-Tekoil Application"). The NF-Tekoil Application was granted by an order entered on September 19, 2008.

On October 27, 2008, Gulf Coast filed an "Application of Debtor and Debtor-in-Possession for Order Authorizing the Retention and Employment of Neligan Foley, LLP Nunc Pro Tunc Counsel as Counsel to the Debtor" (the "NF-Gulf Coast Application"). The NF-Gulf Coast Application was granted by an order entered on November 19, 2008.

b. Counsel to the Official Unsecured Creditors Committee

On August 20, 2008, the Creditors Committee filed its "Application to Approve the Employment of Porter & Hedges, LLP as Counsel for the Official Committee of Unsecured Creditors Effective as of April 30, 2008" and on October 11, 2008, filed its "Amended Application to Employ Porter & Hedges, LLP as Counsel for the Official Committee of Unsecured Creditors" for the jointly administered cases (the "Porter & Hedges Application"). The Porter & Hedges Application was approved by an order entered on October 16, 2008.

c. Chief Restructuring Officer for Gulf Coast

On September 3, 2008, the Debtors filed an Application for an Order Pursuant to 11 U.S.C. § 328(a) and Fed. R. Bankr. Proc. 2014(a) Authorizing the Employment and Retention of Brad Walker as Chief Restructuring Officer for Gulf Coast and Request for Approval of Amendment to Amended and Restated Operating Agreement ("CRO Application"). On September 11, 2008, the Court issued an Order approving the CRO Application. Pursuant to such Order, Brad Walker has served as the CRO of Gulf Coast, with authority to make all decisions regarding Gulf Coast's operations. Mr. Walker's employment in that capacity shall continue until the earlier of his resignation, the confirmation of a plan of reorganization, the conversion of the Gulf Coast Bankruptcy Case to a chapter 7 proceeding, or the Bankruptcy Court's entry of a Final Order terminating his employment.

d. Financial and Management Consultant to Gulf Coast

On October 24, 2008, Gulf Coast filed its "Application of Tekoil and Gas Gulf Coast, LLC, Debtor and Debtor-in-Possession, for An Order Authorizing the Employment and Retention of William L. Roberts as Financial and Management Consultant to the Debtor" (the "Roberts Application"). On December 9, 2008, the Court entered an order granting the Roberts Application.

e. Procedures Motion

On October 24, 2008, the Creditors Committee filed a Motion for Administrative Order Establishing Procedure for Interim Compensation and Reimbursement of Expenses of

Professionals ("Procedures Order"). On November 19, 2008, the Court entered an order granting the Procedures Order.

4. Official Committee of Unsecured Creditors of the Debtors

On June 30, 2008, the United States Trustee's Office formed the Official Committee of Unsecured Creditors of Tekoil, which was amended on July 9, 2008 and superseded by the Appointment of the Official Committee of Unsecured Creditors for the Jointly Administered Cases on October, 8, 2008, as amended on December 19, 2008, to add an additional member.

The members of the Creditors Committee are:

GEOPHYSICAL PURSUIT, INC.
Attention: Jeff Springmeyer
3501 Allen Parkway
Houston, TX 77019

FUSION PETROLEUM TECHNOLOGIES, INC.
8665 New Trails Drive, Suite 125,
The Woodlands, TX 77381-4278

CREEL & ASSOCIATES, INC.
Attention: Harry L. Price
1400 Broadfield Blvd. Suite 250
Houston, TX 77084-4111

BAKER & HOSTETLER, LLP
Attention: Pamela Gale Johnson
Laura Lawton Gee
1000 Louisiana, Suite 2000
Houston, TX 77002

LONGFELLOW ENERGY, LP
Attn: Matthew McCann, General Counsel
4801 Gaillardia Parkway, Suite 225
Oklahoma City, OK 73142

TRI STAR CAPITAL VENTURES, LIMITED
c/o Bruce Ruzinsky
Jackson Walker L.L.P.
1401 McKinney, Suite 1900
Houston, TX 77010

5. Motion to Appoint Chapter 11 Trustee in Tekoil

On August 13, 2008, J. Aron filed an Emergency Motion to Appoint a Chapter 11 Trustee Pursuant to 11 U.S.C. § 1104 (the "Trustee Motion," docket no. 88) in Tekoil's Bankruptcy Case. In the Trustee Motion, J. Aron alleged post-petition mismanagement and inappropriate actions by Tekoil, including placing mineral leases in jeopardy of termination for failure to resolve reporting obligations with the GLO, corporate governance disputes and conversion of property and misuse of J. Aron's collateral. Tekoil disputed J. Aron's allegations in the Trustee Motion.

Tekoil and J. Aron, together with the Creditors Committee, reached a compromise to resolve the Trustee Motion. Under the compromise, Tekoil and Goldman agreed to (a) a consensual Chapter 11 filing for Gulf Coast; (b) the retention of Brad Walker as Chief Restructuring Officer for Gulf Coast to manage Gulf Coast; and (c) an organized sale of the Properties pursuant to a Court-approved schedule. Further, J. Aron and affiliates of Goldman consented to Gulf Coast's use of J. Aron's cash collateral and to advance additional funds to Gulf Coast as debtor-in-possession financing.

6. Use of Cash Collateral and Post Petition Financing

On September 4, 2008, the Debtors filed an "Emergency Motion for Interim and Final Orders (I) Authorizing Secured Post-Petition Financing, (II) Granting Security Interests and According Superpriority Administrative Claim Status, (III) Authorizing Use of Cash Collateral, and (IV) Scheduling a Final Hearing" (the "DIP Motion").

On September 11, 2008, the Court entered an interim order authorizing the use of cash collateral and approving post petition financing pursuant to an interim budget approved by J. Aron. Thereafter, the Court held subsequent hearings and entered four additional interim orders authorizing the continued use of cash collateral and post petition financing in the amount of $400,000, pursuant to subsequent interim budgets. A final hearing was held on January 15, 2009, and the final order approving the DIP Motion was entered on January 16, 2009.

On or about July 31, 2009, Gulf Coast paid J. Aron all amounts due under the DIP Loan Facility, using proceeds of the sale of substantially all of the assets of Gulf Coast to GBE. Thus, the DIP Loan Claim has been paid in full and all liens and security interests securing or related to the DIP Loan Claim have been extinguished and released.

7. Texon, L.P. Purchase Agreement and Compromise between the Debtors, the Creditors Committee and J. Aron

On or about September 28, 2007, Gulf Coast entered into a certain Purchase Agreement with Texon, L.P. ("Texon") under which Texon agreed to purchase certain oil/condensate production owned or controlled by Gulf Coast. By mistake, the agreement was entered into in the name of Tekoil instead of Gulf Coast. In June 2008, Texon suspended payment under the Purchase Agreement pending direction from the Court as to the proper party entitled to receive payment. At that time, Texon owed approximately $961,389.72 for Gulf Coast production purchased in June and July 2008.

On July 2, 2008, Tekoil filed a motion to assign the Purchase Agreement to Gulf Coast. The Court denied the motion without prejudice, and ordered Tekoil to instead file a motion directing Texon to pay funds owed under the contract into the Court's registry. On August 11, 2008, Tekoil filed a motion for an order directing Texon to pay funds owed under the Purchase Agreement into the Court registry. On September 5, 2008, the Court issued an order directing Texon to pay all funds owed under the Purchase Agreement into the registry of the Court.

On September 5, 2008, the Debtors, together with the Creditors Committee and J. Aron, filed an emergency motion to approve a settlement regarding the disposition of the Texon funds. Pursuant to the settlement, the parties agreed to release the Texon proceeds to Gulf Coast conditioned upon J. Aron providing post-petition financing pursuant to the DIP Motion and the negotiation of an order granting the DIP Motion acceptable to the Creditors Committee. On September 11, 2008, the Court granted the motion and approved the settlement thereby authorizing the release of the funds owed by Texon under the Purchase Agreement to Gulf Coast.

8. Rejection of Certain Executory Contracts and Leases

In the fall of 2008, Gulf Coast filed several motions to reject various contracts and leases Gulf Coast determined were not needed for operations or essential to reorganization. In each

instance the Bankruptcy Court entered an order granting Gulf Coast's motion to reject. These contracts and leases include the following: charter agreements for various vessels, including the Carp, Who Dat, Mater's Meteor, Mary Ray, and the Houma II; a barge lease with Mirage Oilfield Services, LLC; two equipment leases with Aggreko LLC; a computer support contract with NOVA Computer Solutions; and a real property lease on Oak Island.

9. Geophysical Pursuit, Inc.'s Motion for Protective Order; Motion to Lift Stay; and, Motion to Compel Assumption and Rejection of Master License Agreement

On June 16, 2008, Geophysical Pursuit, Inc. ("GPI") filed an Emergency Motion for Order Protecting Trade Secrets and Related Confidential Information against Tekoil seeking to prohibit disclosure of seismic data licensed to Tekoil pursuant to a Master License Agreement dated May 24, 2007 ("License Agreement"). Tekoil filed a response to that motion on June 20, 2008. Although Tekoil had no objection to a protective order consistent with the confidentiality requirements of the License Agreement; Tekoil objected that GPI improperly sought to impose requirements exceeding those of the License Agreement. The Court entered an order granting GPI's motion on June 23, 2008 (the "Protective Order").

Shortly thereafter, on July 9, 2008, GPI filed a motion seeking relief from the automatic stay ("Lift Stay Motion") to permit GPI to terminate the License Agreement and a Motion to Compel the Debtor to Assume or Reject Seismic Data License (which was denied without prejudice and refiled by GPI on July 16, 2008) ("Motion to Compel"). Tekoil filed objections to both motions because GPI's interests are adequately protected as a result of the Protective Order and Tekoil should not be compelled to assume or reject the License Agreement until confirmation to preserve value to the estate and provide for an effective reorganization.

In January 2009, GPI and the Debtors stipulated that the Debtors would not use GPI's seismic data without prior written notice to GPI and that the parties would attempt to resolve GPI's motions. In the event no agreement is reached, the parties agree that GPI may request a hearing on its motions.

10. Motion to Sell Canadian Property Owned by Tekoil

Prepetition, Tekoil purchased a house at 25 Mountbatten Drive, St. John's, NL, Canada, (together with certain related personal property, the "Canadian Property") with the proceeds of a mortgage loan from CIBC Mortgage, Inc. ("CIBC"), dated September 12, 2006, in the original amount of $296,250. As of the Petition Date, CIBC held a first-priority lien against the house. As of the Petition Date, Tekoil owed CIBC on the loan approximately $287,690 in Canadian dollars or $282,704 in U.S. dollars based on the U.S./Canadian exchange rate applicable as of that date. The loan by CIBC was guaranteed by Gerald Goodman, Tekoil's Chief Financial Officer.

On April 24, 2009, Tekoil filed a Motion to Authorize Sale of Residential Real Property and Related Personal Property Free and Clear of All Liens, Claims, Encumbrances, and Interests, requesting authority to sell the Canadian Property free and clear of the liens held by CIBC and any other property. On May 28, 2009, the Court entered an Agreed Order authorizing such sale and certain expenditures by Tekoil from the proceeds of the sale. Shortly thereafter, the sale of the Canadian Property closed and after the payment of the debt owed to CIBC and all other expenditures approved by the Court, Tekoil received approximately $60,000 in

unencumbered funds from the net proceeds of the sale. Since the closing, Tekoil has used a portion of those unencumbered funds to pay certain post-petition expenses in the ordinary course of business. As of October 31, 2009, the remaining balance of those unencumbered funds in Tekoil's Estate was approximately $11,500.

11. Motion to Approve Bidding Procedures and Sale of Gulf Coast Assets

On April 15, 2009, Gulf Coast filed a Motion to (A) Approve Bid Procedures and Protections; (B) Authorize Sale Free and Clear of All Liens, Claims, Encumbrances, and Interests; (C) Authorize Assumption and Assignment of Executory Contracts and Fix Cure Amounts; (D) Approve Form and Manner of Notice Related Thereto; and (E) Grant Related Relief (the "Bid/Sale Motion"), seeking (a) an initial order (the "Bidding Order") approving procedures for the submission of bids and a subsequent auction for the sale of all or substantially all of Gulf Coast's assets, and approving a "stalking horse" bid submitted by ERG Resources, LLC ("ERG") in the form of a Purchase and Sale Agreement dated April 13, 2009 (the "PSA"), and (b) a separate order, following the bid and auction procedure, approving the sale of all or substantially all of Gulf Coast's assets, and the assumption and assignment of certain executory contracts and related cure amounts, to the highest bidder.

On April 15, 2009, the Court entered the Bidding Order, which, *inter alia*, set May 29, 2009 as the bidding deadline, scheduled an auction for June 2, 2009, and scheduled a hearing on June 10 to consider the approval of the sale of all or substantially all of Gulf Coast's assets to the highest bidder.

Gulf Coast did not receive any bids by the bidding deadline other than ERG's stalking horse bid. Nonetheless, Gulf Coast held the auction on June 2, 2009, but no parties appeared to submit bids. Thus, Gulf Coast declared ERG the successful bidder.

On June 24, 2009, the Court held a hearing to consider approval of the sale of Gulf Coast's assets to GBE, an affiliate of ERG to which ERG assigned its rights under the PSA. Prior to the hearing, GBE demanded a reduction of the Cash Payment portion of the Purchase Price (as those terms are defined in the PSA[15]). Due to the lack of alternative purchasers, Gulf Coast, J. Aron, and the Creditors Committee reluctantly agreed to reduce the Cash Payment from $6,200,000 to $5,550,000 based on GBE's commitment not to seek any further reductions of the Purchase Price and to close the sale on June 30, 2009. On June 24, 2009, the Court entered an agreed order (the "Sale Order") approving the sale to GBE. Among other things, the Sale Order also approved (a) the assumption and assignment to GBE of certain executory contracts and a cure payment to Erskine Energy, LLC and (b) a payment to Exterran Energy Solutions, LLC ("Exterran") for certain post-petition amounts claimed by Exterran.

Gulf Coast was prepared to close the sale to GBE on June 30 as provided and stipulated in the Sale Order. However, GBE refused to close on that date. Instead, on July 3, GBE notified Gulf Coast that GBE was terminating the sale purportedly because certain alleged conduct by Gulf Coast, which ERG and GBE claimed to have discovered only after the June 24 sale hearing, made it impossible for Gulf Coast to close and would have caused GBE to be in violation of regulations applicable to the Leases under Texas law immediately upon Gulf Coast's conveyance

[15] In addition to the Cash Payment, the other components of the Purchase Price that were due and payable by GBE at or before the closing of the sale to GBE consisted of: (a) a Deposit in the amount of $500,000; and (b) a cash payment of $1,500,000, which Gulf Coast was required to pay to J. Aron to repay the DIP Loan Claim.

of the Leases to GBE at the closing. Further, ERG demanded the return of the Deposit from Gulf Coast. Gulf Coast disputed those assertions and denied that ERG was entitled to a return of the Deposit. GBE eventually offered to close on the sale and waive its demand for the return of the Deposit if the Cash Payment due from GBE at the closing were reduced from $5,550,000 to $3,200,000. Gulf Coast reluctantly agreed, again due to the lack of an alternative higher bidder, and filed a motion seeking the Court's approval of the sale to GBE at the reduced purchase price. On July 30, 2009, the Court entered an order approving the sale to GBE at the reduced price and ordered the parties to close the sale on July 31.

The sale of substantially all of the assets of Gulf Coast to GBE was closed on July 31, 2009. On that date, Gulf Coast received a cash payment from GBE in the amount of $4,700,000 (which included the Cash Payment of $3,200,000 plus $1,500,000 that Gulf Coast was required to pay to J. Aron to repay the DIP Loan Claim). On and after July 31, 2009, Gulf Coast has made the following disbursements and payments from the $4,700,000 received from GBE on July 31 and the $500,000 Deposit received from ERG under the PSA: (a) $1,524,830 paid to J. Aron in full satisfaction of the DIP Loan Claim; (b) $660,000 to Amegy Bank, N.A. to increase the letter of credit necessary to satisfy Gulf Coast's bonding requirements with the GLO for potential plugging and abandonment obligations as of the closing with GBE; (c) $80,000 to maintain insurance on Gulf Coast's assets; (d) $125,326 to Exterran to satisfy the payment required by the Sale Order; (e) $74,702 to counsel for the Creditors Committee in compliance with the Court's order approving such counsel's first interim fee application; and (f) approximately $42,000 for expenses required to maintain the validity of certain mineral leases sold to GBE. Accordingly, as of November __, 2009, the total amount of cash in Gulf Coast's debtor-in-possession bank accounts that is attributable to the net proceeds of the sale to GBE is approximately $2,693,142.

12. Complaint to Determine Priority and Validity of Certain Liens

On November 12, 2009, Gulf Coast initiated adversary proceeding no. 09-08021 by filing a Complaint to Determine Validity and Priority of Certain Liens, and Objections to Related Claims against Prosper Operators, Inc., S&J Diving, Inc., and Wood Group Production Services, Inc. (the "Junior Lien Claimants"). In the Complaint, Gulf Coast seeks the Court's determination that the liens asserted by the Junior Lien Claimants attach only to the proceeds of the sale to GBE; that such liens are junior to the liens held by J. Aron against the proceeds of the sale to GBE; that such sale proceeds are insufficient to pay J. Aron's Secured Claim against Gulf Coast in full; that the liens asserted by the Junior Lien Claimants have no value; and, thus, that the Secured Claims asserted by the Junior Lien Claimants should be disallowed in their entirety and treated solely as General Unsecured Claims. In addition, Gulf Coast contends that one or more of the liens asserted by the Junior Lien Claimants is invalid under applicable non-bankruptcy law and that the amount of the claims of one or more of the Junior Lien Claimants is excessive. Gulf Coast will seek a ruling as to the validity of the liens asserted by the Junior Lien Claimants before the Confirmation Hearing.

VII. POST-PETITION OPERATIONS AND EVENTS

A. Hurricane Gustav and Hurricane Ike and Project Restart

Beginning in late August 2008, Gulf Coast shut down operations in anticipation of Hurricane Gustav and then Hurricane Ike. Hurricane Ike struck the Texas Gulf coast on

September 13, 2008, causing significant damage to Gulf Coast's onshore facilities and offshore platforms, boats and properties. As a result, Gulf Coast's operations were effectively shut down in late August and early September 2008. In the weeks following Hurricane Ike, Gulf Coast's crew surveyed all offshore and onshore facilities to ensure the wells and facilities were safe from spills and further damage. Gulf Coast was one of the first companies in the Galveston Bay region to arrange tours for insurance adjustors and engineers to assess the extent of damage and file insurance claims. In addition, within days following the hurricane, Gulf Coast commenced immediate clean-up actions to recover bottom tank oil spilled from a breach of its oil tank on Goat Island resulting from Hurricane Ike, to ensure the facilities remained safe and to address any potential spills.

Since the storms, Gulf Coast worked diligently to locate and preserve assets damaged by the storms, file insurance claims where appropriate, make repairs where needed, and return leased equipment and other items determined not usable for future operations. Within the weeks of the storms, Gulf Coast relocated its field operations to its Point Barrow facility and relocated or redeployed assets from Oak Island to Point Barrow. In addition, Gulf Coast moved its administrative offices from Spring to Dallas, Texas. By the end of October 2008, Gulf Coast laid off all employees, except for a minimal field crew.

By mid November, Gulf Coast formulated its restoration plan termed "Project Restart." Under that plan, Gulf Coast focused on bringing the following three facilities into production as a matter of first priority: Fishers Reef, Trinity Bay and Point Bolivar. The plan focused on resuming production without rebuilding the entire facilities, salvaging all overboard equipment and cleaning up the wreckage. As a result of these efforts, Gulf Coast brought the first of its four fields, Fishers Reef (C2 Facility), back into production in February 2009. A second producer, Erskine Energy, was able to come back on-line at that time due to Gulf Coast's remediation efforts at the C2 and Point Barrow facilities. By July 2009, Gulf Coast had completed salvage of all overboard equipment at its off shore facilities except Red Fish Reef.

B. Force Majeure

On December 5, 2008, as a result of the damage caused by Hurricane Ike, the GLO issued Gulf Coast a suspension of certain leases by reason of force majeure, with respect to production and leases, beginning August 30, 2008 and continuing until January 30, 2009. The GLO granted extensions of force majeure through April 15, 2009, but denied Gulf Coast's requests for any further extension. Gulf Coast was unable to restore production from all of its leases before the expiration of the force majeure extension on April 15, 2009. Accordingly, Gulf Coast paid shut-in royalties totaling approximately $51,000 to the GLO to maintain various leases that were subject to the prior force majeure suspensions. Gulf Coast eventually sold these lease to GBE.

C. Compliance Issues with the GLO

Gulf Coast worked diligently to resolve various compliance issues with the GLO regarding the validity of certain leases that the GLO asserted were potentially terminated for various reasons, including a lack of production necessary to maintain the leases. A favorable resolution of these issues was critical because the leases at issue comprised central components in any sale of substantially all of the assets in Gulf Coast's Estate. For several months, Gulf

Coast engaged in an arduous process of reviewing its leases and land files, re-filing production reports as required, submitting voluminous data to the GLO, and conferring with GLO representatives at length in an effort to establish the validity of the leases that were disputed by the GLO. Ultimately, the GLO consented to the validity of all leases that had been in question, and those leases were sold to GBE (*see* Section VI.C.11 above). Gulf Coast also worked through various regulatory issues with the TRC, and conducted field testing and additional reporting to complete various required TRC forms, including P-4's, P-5's and H-15's.

D. Plugging and Abandonment and Environmental Liabilities and Obligations

After identifying 96 wells operated by Gulf Coast as non-producing as of November 11, 2008, the TRC increased Gulf Coast's bonding requirement to a total of $6,010,000 to cover the potential cost of plugging and abandoning ("P&A") these non-producing wells. Gulf Coast satisfied its bonding obligation to the TRC by maintaining a letter of credit with Amegy Bank, N.A. and funding that letter of credit with cash maintained in an account at Amegy. In June 2009, the TRC subsequently determined that additional wells operated by Gulf Coast were non-producing and accordingly increased Gulf Coast's bonding requirements by $660,000 to a total of $6,670,000.

The non-producing wells subject to the P&A bonding requirements were among the assets to be sold to GBE under the PSA between Gulf Coast and ERG. The PSA required Gulf Coast to fund an additional $660,000 under its letter of credit with Amegy at or before the closing with GBE to cover this additional bond requirement. Gulf Coast used $660,000 of the sale proceeds from GBE to satisfy this requirement and effectively transferred the entire bond, in the amount of $6,670,000, to GBE at the closing of the sale on July 31, 2009.

Under the PSA, GBE assumed all P&A obligations and liabilities of Gulf Coast and all liabilities or obligations of Gulf Coast under any federal, state or local law or regulation relating to pollution or protection of the environment arising from or relating to the operation or ownership of the assets sold to GBE under the PSA prior to July 31, 2009, except for any such liability or obligation of Gulf Coast that is the result of the willful misconduct of Gulf Coast Thus, the Plan provides that neither Gulf Coast, the Creditor Trust, nor the Creditor Trustee shall have any liability for any such liabilities and obligations assumed by GBE.

E. Insurance Claims and Settlement

Gulf Coast filed an approximate $600,000 claim with St. Paul Fire and Marine Insurance Company for the clean-up of spillage resulting from Hurricane Ike at the Goat Island and North Bolivar Point production and storage facilities. The insurer paid this claim directly to the party performing the clean-up work.

Gulf Coast also filed approximately $25 million in claims with Lloyds of London to reflect a total loss of all its offshore facilities and the Goat Island facility, and minimal damage to other onshore facilities as a result of damages caused by Hurricane Ike. Gulf Coast's secured lender, J. Aron, had a first-priority security interest in the Lloyds policy and was a loss payee under that policy. Thus, J. Aron asserted the right to receive any proceeds from the policy paid by Lloyds. Lloyds raised certain coverage issues regarding the claims made by Gulf Coast under the policy. On June 12, 2009, Gulf Coast filed a motion to approve a partial settlement with Lloyds and J. Aron pursuant to which (a) Lloyds would pay $5,000,000 to J. Aron in partial settlement of Gulf Coast's claims under the policy (which had an aggregate limit of $7,500,000),

and (b) the insured parties under the policy would retain the right to make additional claims under the policy. On August 5, 2009, the Court entered an order approving the settlement, and Lloyds has paid the $5,000,000 settlement amount to J. Aron. To the extent any additional claims are paid under the policy, the Debtors believe that Goldman would be the ultimate recipient of those payments. Thus, the Debtors do not expect to receive any additional payments under the Lloyds policy.

VIII. LITIGATION

A. Pending Litigation

The following is a description of litigation involving the Debtors pending as of their respective Petition Date or commenced after the Petition Date in violation of the automatic stay, 11 U.S.C. § 362:

Cause No.	Plaintiff(s)	Defendant(s)	Court	Nature of Suit
08-06-05558	Fusion Petroleum Technologies, Inc.	Tekoil and Gulf Coast	359th Judicial District of Montgomery County, Texas	Collection of unpaid invoices
CV0800551	Trident Steel Corporation	Gulf Coast	253 Judicial District Court of Liberty County, Texas	Collection of unpaid invoices
8277SC	ACE Transportation, Inc.	Gulf Coast	Justice Court, Precinct 1, Montgomery County, Texas	Collection of unpaid invoices. Agreed judgment against Gulf Coast entered on August 28, 2009.
2008-2223SC	Pro Field Services	Gulf Coast	Small Claims Court, Precinct One, Lavaca County, Texas	Default judgment entered on September 8, 2008 in the amount of $5,431.08 for unpaid invoices in violation of the automatic stay
2008-11614A	Professional Wireline Rentals, LLC	Amegy Bank National Association, Bank of Nova Scotia, and Gulf Coast	190th Judicial District Court, Harris County, Texas	Garnishment of amounts, if any, owed by Gulf Coast to Masters Resources, LLC
2007-15466	Erskine Energy Production Company	Masters Resources, LLC, Richard H. Lee, John W. Barton, Rich Holdings, LLC, Masters Oil & Gas LLC, Masters Pipeline, LLC and Gulf Coast	55th Judicial District Court, Harris County, Texas	Breach of contract and declaratory judgment
923,275	Spirit Oilfield Supply	Gerald Goodman and Gulf Coast	County Court at Law No. 1, Harris County, Texas	Collection of unpaid invoices[16]

[16] A default judgment was entered against Mr. Goodman on February 2, 2009.

	Tri Star Capital Ventures Limited	Tekoil, Mark Western, Gerald Goodman, Frank Clear, Richard Creitzman	London, England	Arbitration against Tekoil as borrower and individual guarantors for default of the Tri Star Loan

B. Potential Litigation

Potential Causes of Action that may be retained, enforced, and asserted by the Debtors and/or their authorized representative(s), including the Creditor Trust and/or the Creditor Trustee as a representative of the Debtors' estates under 11 U.S.C. § 1123(b)(3) after the Effective Date, are still being evaluated by the Debtors, but are believed to include the following, without limitation:

-Claims against current and/or former officers, directors and/or other key managerial personnel of the Debtors arising from their acts, errors and omissions in such capacities, including without limitation, a breach of any of the following fiduciary duties, among others, to the Debtors and/or their creditors: a duty not to usurp corporate opportunities; a duty of utmost good faith; a duty of loyalty; and a duty of care. Many of the grounds on which such claims could be asserted are described in the Trustee Motion (*see* Section VI.C.5 above). Such claims could also be based on assertions regarding, among others, negligence and incompetence that resulted in, among other things, drastically reduced production, increased operating costs, negative cash flow, and operating losses; the hiring of unqualified personnel; payment of excessive salaries; the waste of corporate assets; the lack of adequate financial controls; inadequate management experience; failure to hire personnel with sufficient energy industry experience; inadequate capitalization; the failure to prepare reports required by the State of Texas or the provision of inaccurate or false information in reports submitted to the State of Texas; the improper acquisition of assets in Canada and/or diversion of resources to those assets; service in positions of management responsibility at both Debtors and/or other businesses that resulted in irreconcilable conflicts of interest and rendered those directors, officers or other key managerial personnel incapable of discharging their duties.

-Claims against Creel & Associates, Inc., for breach of contract and misreporting in connection with operational accounting services provided to Tekoil in connection with the Consulting Agreement, dated June 5, 2007.

- Claims against Erskine Energy, LLC, Erskine Energy Partners, II, LP, and affiliates for unpaid amounts due Gulf Coast for joint interest billings, lease operating, remediation efforts at C2 & Point Barrow and other expenses incurred by Gulf Coast as operator.

- Claims against certain transportation and facility users, including but not limited to Erskine Energy, for unpaid processing and related fees.

-Claims against ERG Resources, L.L.C., Marlin Energy Southwest GP, LLC and Whitson Energy for gas imbalances, misstating gas deliveries, improper nominations, and delivering improper product at the Aggie Junction sales facility.

-Claims against ERG Resources, L.L.C. and/or GBE to reimburse Gulf Coast for providing insurance on the assets that Gulf Coast sold to GBE for a period following the closing of such sale on July 31, 2009.

-Claims against Suard Barge Service, Inc., Suard Workover, Inc., and/or related entities (collectively, "Suard") for the return of a $75,000 deposit paid by Gulf Coast to Suard for work and/or barge rental that Suard did not perform.

-Claims against Masters Resources, LLC, Masters Pipeline, LLC, Masters Oil & Gas, LLC, and affiliates for possible breach of contract, fraudulent conveyance, misrepresentation and related claims to the extent property and/or obligations were not accurately represented in connection with the assignment and sale of oil, gas and mineral properties and other assets to Gulf Coast in May 2007.

In addition, the Debtors may have claims against various creditors and other parties to avoid certain payments by the Debtors to those parties before the Petition Date as preferential or fraudulent transfers. Payments to creditors that might be subject to recovery as a preference may be insulated by a variety of defenses, including the new value defense, the ordinary course defense, recoupment and other defenses. No representation is made herein with respect to whether any avoidance actions will yield a material dividend to unsecured creditors. Any non-Insider party who received a transfer, including, e.g., a payment on a prior debt or an assignment of a working interest, might be subject to a preference claim if the transfer occurred within 90 days before the Petition Date. Any transfer to an Insider within a year before the Petition Date may be subject to a recovery as an avoidable preference. Any party concerned about potential exposure to either a preference, fraudulent conveyance or other avoidance action is urged to consult counsel. A list of parties who may have received transfers within the foregoing periods is set forth in the Debtors' Statements of Financial Affairs, the relevant portions of which are attached hereto as **Exhibit B**.

The Debtors also believe that they have substantial defenses, offsets, counterclaims and/or other rights and objections that may be asserted in order to reduce some or all of the claim amounts asserted by various creditors. In addition, the Debtors intend to preserve all lawful claims, counterclaims, claim objections, defenses, and setoff or recoupment rights under any applicable law. All Causes of Action will be transferred to the Creditor Trust for prosecution, with all proceeds to be utilized to fund recoveries to the General Unsecured Creditors.

IX. CONFIRMATION OF THE PLAN

A. Solicitation of Votes; Voting Procedures

1. Ballots and Voting Deadline

A ballot to be used for voting to accept or reject the Plan, together with an addressed return envelope, is enclosed with all copies of this Disclosure Statement mailed to all Holders of Claims and Interests entitled to vote. BEFORE COMPLETING YOUR BALLOT, PLEASE READ CAREFULLY THE INSTRUCTION SHEET THAT ACCOMPANIES THE BALLOT.

The Bankruptcy Court has directed that in order to be counted for voting purposes, ballots for the acceptance or rejection of the Plan must be received no later than 5:00 p.m. Central Time on _____, at the following address:

Kathy Gradick
Neligan Foley LLP
325 North St. Paul, Suite 3600
Dallas, Texas 75201
Fax: 214-840-5301

YOUR BALLOT MAY NOT BE COUNTED IF IT IS RECEIVED AT THE ABOVE ADDRESS AFTER 5:00 P.M. CENTRAL TIME ON _____, 2010. FACSIMILE BALLOTS WILL BE ACCEPTED NO LATER THAN 5:00 P.M. CENTRAL TIME ON _____.

2. Parties in Interest Entitled to Vote

Any Holder of a Claim against or Interest in the Debtors as of the date the Disclosure Statement Order is entered and whose Claim or Interest has not previously been disallowed by the Bankruptcy Court is entitled to vote to accept or reject the Plan, if such Claim or Interest is impaired under the Plan and either (a) such Holder's Claim or Interest has been scheduled by the Debtors (and such Claim or Interest is not scheduled as disputed, contingent, or unliquidated) or (b) such Holder has filed a proof of claim or proof of interest on or before the applicable Bar Date.

3. Definition of Impairment

As set forth in section 1124 of the Bankruptcy Code, a class of claims or equity interests is impaired under a plan of reorganization unless, with respect to each claim or equity interest of such class, the plan:

(a) leaves unaltered the legal, equitable, and contractual rights of the holder of such claim or equity interest; or

(b) notwithstanding any contractual provision or applicable law that entitles the holder of a claim or equity interest to demand or receive accelerated payment of such claim or equity interest after the occurrence of a default:

(i) cures any such default that occurred before or after the commencement of the case under the Bankruptcy Code, other than a default of a kind specified in section 365(b)(2) of the Bankruptcy Code;

(ii) reinstates the maturity of such claim or interest as it existed before such default;

(iii) compensates the holder of such claim or interest for any damages

incurred as a result of any reasonable reliance on such contractual provision or such applicable law; and

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

4. Classes Impaired Under the Plan

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

Class 2: Chambers County Secured Tax Claims Against Gulf Coast

Class 3A: Secured Tax Claims Against Tekoil

Class 3B: Other Secured Tax Claims Against Gulf Coast

Class 4A: J. Aron Secured Claim Against Tekoil

Class 4B: J. Aron Secured Claim Against Gulf Coast

Class 5A: Other Secured Claims Against Tekoil, with the Claims of each Holder treated in a separate subclass, as follows:

Class 5A.1: Exterran Energy Solutions, L.P.
Class 5A.2: J-W Power Company
Class 5A.3: Other Holders

Class 5B: Other Secured Claims Against Gulf Coast, with the Claims of each Holder treated in a separate subclass, as follows:

Class 5B.1: State of Texas, General Land Office
Class 5B.2: Exterran Energy Solutions, L.P.
Class 5B.3: J-W Power Company
Class 5B.4: Mirex/Dolphin Capital
Class 5B.5: Prosper Operators, Inc.
Class 5B.6: S&J Diving, Inc.
Class 5B.7: Wood Group Production Services, Inc.
Class 5B.8: Other Holders

Class 6A: General Unsecured Claims Against Tekoil

Class 6B: General Unsecured Claims Against Gulf Coast

Class 7A: Claims of J. Aron (other than a J. Aron Secured Claim), Goldman, Sachs & Co. and MTGLQ Investors, L.P. Against Tekoil

Class 7B: Claims of J. Aron (other than a J. Aron Secured Claim), Goldman, Sachs & Co. and MTGLQ Investors, L.P. Against Gulf Coast

Class 10: Interests in Tekoil

Classes of claims that are not "impaired" under a plan of reorganization are conclusively presumed to have accepted the plan and thus are not entitled to vote. Claims in Classes 1A and 1B are unimpaired under the Plan and therefore, are not entitled to vote. Likewise, classes of claims or equity interests that are impaired and will not receive any distribution under the Plan are deemed to have rejected the plan and are not entitled to vote. Claims against the Debtors in Classes 8A, 8B, 9A and 9B and Interests in Gulf Coast in Class 11 are impaired and the Holders of such Claims and Interests will not receive any Distribution under the Plan, and are thus conclusively deemed to reject the Plan and are not entitled to vote to accept or reject the Plan.

5. Vote Required For Class Acceptance

The Bankruptcy Code defines acceptance of a plan by a class of claims as acceptance by holders of at least two-thirds in dollar amount and more than one-half in number of the claims of that class that actually cast ballots for acceptance or rejection of the Plan.

B. Confirmation Hearing

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of a plan. By order of the Bankruptcy Court, **the Confirmation Hearing on the Plan has been scheduled for _____, 2010 at _____ Central Time** in the Bankruptcy Court located at 515 Rusk Avenue, Houston, Texas 77002. The Bankruptcy Court may adjourn the Confirmation Hearing from time to time without further notice except for an announcement made at the confirmation hearing or any adjournment thereof.

Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of a plan. **Any objection to confirmation of the Plan must be made in writing and filed with the Bankruptcy Court on or before _____, 2010 at 5:00 p.m. Central Time** at the following address:

Clerk of the United States Bankruptcy Court
515 Rusk Avenue
Houston, Texas 77002

In addition, any such objection must be served upon the following parties, together with proof of service, so that they are ***actually received*** **by such parties no later than 5:00 p.m. Central Time on _____, 2010**:

Patrick J. Neligan, Jr. Neligan Foley LLP 325 N. St. Paul, Suite 3600 Dallas, TX 75242 (214) 840-5301 (Fax) Email: pneligan@neliganlaw.com COUNSEL FOR THE DEBTORS	John F. Higgins Porter & Hedges LLP 1000 Main Street, 36th Floor Houston, TX 77002-6336 (713) 226-6248 (Fax) Email: jhiggins@porterhedges.com COUNSEL FOR THE COMMITTEE
Ellen Hickman United States Trustee Office of the United States Trustee 515 Rusk Street, Suite 3516 Houston, Texas 77002	

Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014 and the Disclosure Statement Order. **UNLESS AN OBJECTION TO CONFIRMATION IS SERVED AND FILED ON THE DEBTORS AND THE OTHER NOTICE PARTIES AND THEIR COUNSEL SO THAT IT IS ACTUALLY RECEIVED BY NO LATER THAN 5:00 P.M. CENTRAL TIME ON _____, THE BANKRUPTCY COURT MAY NOT CONSIDER IT.**

The Debtors believe that the key dates leading up to and including the Confirmation Hearing may be summarized as follows:

1. **_____, 2010 at 5:00 p.m. Central Time**: Deadline for parties entitled to vote on the Plan to have their ballots received by the tabulation agent, and deadline for parties to file and serve any objection to confirmation of the Plan.

2. **_____, 2010 at __:__ _.m. Central Time**: Commencement of the Confirmation Hearing.

C. Requirements For Confirmation of a Plan

At the Confirmation Hearing, the Bankruptcy Court must determine whether the Bankruptcy Code's requirements for confirmation of the Plan have been satisfied, in which event the Bankruptcy Court will enter an order confirming the Plan. As set forth in section 1129 of the Bankruptcy Code, these requirements 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 promised by the debtor, plan proponents, or 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 Bankruptcy Court as reasonable.

5. (a) (i) The proponent of the plan has disclosed 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 debtors, or a successor to the debtor under the plan; and

(ii) the appointment to, or continuance in, such office of such individual, is consistent with the interests of creditors and equity security holders and with public policy; and

(b) the proponent of the plan has disclosed 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 interests:

(a) each holder of a claim or interest of such class has accepted the plan or will receive or retain under the plan on account of such claim or interest property of a value, as of the effective date of the plan, that is not less than the amount that such holder would so receive or retain if the debtor liquidated on such date 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, the 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 interests:

(a) such class has accepted the plan; or

(b) 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; and

(c) with respect to a claim of a kind specified in section 507(a)(8) of the Bankruptcy Code, the holder of a 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; 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); 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), 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 described in subparagraph (c) above.

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

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

12. All fees payable under 28 U.S.C. § 1930, as determined by the Bankruptcy Court at the hearing on confirmation of the plan, have been paid or the plan provides for the payments 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, at any time prior to confirmation of the plan, for the duration of the period the debtors have obligated itself to provide such benefits.

The Debtors believe that the Plan satisfies all the statutory requirements of chapter 11 of the Bankruptcy Code, that they have complied or will have complied with all the requirements of chapter 11, and that the Plan is proposed in good faith.

The Debtors believe that Holders of all Allowed Claims and Interests impaired under the Plan will receive property under the Plan having a present value as of the Effective Date not less than the amounts likely to be received if the Debtors were liquidated in a case under chapter 7 of the Bankruptcy Code. At the Confirmation Hearing, the Bankruptcy Court will determine whether Holders of Allowed Claims or Allowed Interests would receive greater distributions under a chapter 7 liquidation than they would receive under the Plan.

D. Cramdown

If an impaired Class of Claims or Interests does not accept the Plan, the Bankruptcy Court may still confirm the Plan at the request of the Debtors if, as to each impaired Class that has not accepted the Plan, the Bankruptcy Court determines that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to that Class. A plan of reorganization "does not discriminate unfairly" within the meaning of the Bankruptcy Code if no Class receives more than it is legally entitled to receive for its claims or equity interests.

"Fair and equitable" has different meanings with respect to the treatment of secured and unsecured claims. As set forth in section 1129(b)(2) of the Bankruptcy Code, those meanings are as follows:

1. With respect to a class of *secured claims*, the plan provides:

(a) (i) that the holders of such claims retain the liens securing such claims, whether the property subject to such liens is retained by the debtors or transferred to another entity, to the extent of the allowed amount of such claims; and

(ii) 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 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 clause (a) and (b) of this subparagraph; or

(c) the realization by such holders of the "indubitable equivalent" of such claims.

2. With respect to a class of *unsecured claims*, the plan provides:

(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) the holder of any claim or 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 interest any property.

3. With respect to a class of *equity interests*, the plan provides:

(a) that each holder of an interest of such class receive or retain on account of such 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 interest; or

(b) that the holder of any interest that is junior to the interests of such class will not receive or retain under the plan on account of such junior interest any property.

In the event that any impaired Class of Claims or Interests does not accept the Plan, the Bankruptcy Court will determine at the Confirmation Hearing whether the Plan is fair and equitable with respect to, and does not discriminate unfairly against, any rejecting impaired Class of claims or equity interests. For the reasons set forth above, the Debtors believe the Plan does not discriminate unfairly against, and is fair and equitable with respect to, each impaired Class of Claims or Interests.

X. RISK FACTORS

The following is intended as a summary of certain risks associated with the Plan, but it is not exhaustive and must be supplemented by the analysis and evaluation made by each Holder of a Claim or Interest of the Plan and this Disclosure Statement as a whole with such Holder's own advisors.

A. Insufficient Acceptances

For the Plan to be confirmed, each impaired Class of Claims and Interests that will receive or retain property under the Plan is given the opportunity to vote to accept or reject the Plan. With regard to such impaired voting Classes, the Plan will be deemed accepted by a Class of impaired Claims if the Plan is accepted by claimants of such Class actually voting on the Plan who hold at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the total Allowed Claims of the Class voted. The Plan will be deemed accepted by a Class of impaired

Interests if the Plan is accepted by claimants of such Class actually voting on the Plan who hold at least two-thirds (2/3) of the number of shares actually voting. Only those members of a Class who vote to accept or reject the Plan will be counted for voting purposes. The Debtors reserve the right to request confirmation pursuant to the cramdown provisions in section 1129(b) of the Bankruptcy Code, which will allow confirmation of the Plan regardless of the fact that a particular Class of Claims or Interests has not accepted the Plan. However, there can be no assurance that any impaired Class of Claims or Interests under the Plan will accept the Plan or that the Debtors could succeed in using the cramdown provisions of the Bankruptcy Code to achieve confirmation of the Plan.

B. Confirmation Risks

The following specific risks exist with respect to confirmation of the Plan:

(i) Any objection to confirmation of the Plan filed by a member of a Class of Claims or Interests can either prevent confirmation of the Plan or delay confirmation for a significant period of time.

(ii) Since the Debtors may be seeking to obtain approval of the Plan over the rejection of one or more impaired Classes of Claims or Interests, the cramdown process could delay confirmation.

C. Conditions Precedent

Confirmation of the Plan and occurrence of the Effective Date are subject to certain conditions precedent that may never occur. The Debtors, however, are working diligently with the Creditors Committee, various creditors, and other parties in interest to ensure that all conditions precedent are satisfied.

D. Risk that Allowed Claims Will be Higher than Estimated

The projected distributions and recoveries set forth in this Disclosure Statement are based on the Debtors' initial estimate of Allowed Claims, without having undertaken a substantive review of all filed claims. However, there can be no assurance that the Debtors' estimates will prove to be accurate. The ultimate distributions and recoveries may be substantially less than estimated.

E. Risk of Administrative Insolvency Due to Administrative Claims

Based on the Debtors' current estimates, the Allowed amount of all Administrative Claims may exceed the amount of Cash available to pay such claims. If so, either or both of the Debtors could be administratively insolvent due to the inability to pay Allowed Administrative Claims in full on the Effective Date of the Plan. Under those circumstances, the Debtors would be unable to meet the necessary requirements for plan confirmation under the Bankruptcy Code and may need to consider dismissal of one or both of the Bankruptcy Cases or conversion of such case(s) to Chapter 7 of the Bankruptcy Code. Alternatively, the Plan could be confirmed under those circumstances if the Holders of Allowed Administrative Claims consent to receiving

less than full payment of their Allowed Administrative Claims to the extent necessary to enable the Debtors to be administratively solvent.

XI. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

The Debtors have reviewed the alternative to the Plan, which is the liquidation of the Debtors under chapter 7. After studying this alternative, the Debtors have concluded that the Plan is the best option for creditors because the Plan was drafted to maximize recoveries to Holders of Allowed Claims, assuming confirmation of the Plan and consummation of the transactions contemplated by the Plan. The following discussion provides a summary of the Debtors' analysis leading to the conclusion that the Plan will provide the highest value to Holders of Allowed Claims.

The Debtors believe that chapter 7 conversion would result in substantial diminution in the value to be realized by Holders of Allowed Claims because of (1) additional administrative expenses involved in the appointment of a chapter 7 trustee and attorneys, accountants, and other professionals to assist such trustee in a chapter 7 proceeding; (2) additional expenses and claims, some of which would be entitled to priority in payments, that would arise by reason of the chapter 7 administration and liquidation; and (3) the substantial delay, beyond the time when Distributions would be made if the Plan were confirmed, that would elapse before creditors would receive any distribution in respect of their Claims. Considering these factors, the value of the Debtors' assets (consisting primarily of cash and Causes of Action), and the likely amount of allowed administrative and secured claims in these cases, the only potential source of Distributions to Holders of Allowed General Unsecured Claims in a chapter 7 liquidation scenario would be the net proceeds from the liquidation of the Causes of Action to be transferred to the Creditor Trust.

In contrast, the Plan provides that in addition to the net proceeds from the liquidation of such Causes of Action, J. Aron will contribute to the Creditor Trust 17.5% of any cash distribution it receives on account of its Class 4 J. Aron Secured Claim, after payment of Allowed Administrative Claims, Allowed Secured Tax Claims, and Allowed Other Secured Claims that are senior to the J. Aron Secured Claim. Further, under the Plan, J. Aron will waive any distribution on account of its General Unsecured Claims (which otherwise could be Allowed for tens of millions of dollars) arising from the deficiency attributable to the extent to which its Secured Claims are undersecured. Thus, the Debtors believe that the Plan will provide a higher recovery, or at least as great a recovery, to creditors than a chapter 7 liquidation would allow.

XII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The following is a brief summary of certain federal income tax consequences of the implementation of the Plan that Holders of Claims and Interests should consider. This summary does not address all aspects of federal income taxation that may be relevant to all persons considering the Plan. Special federal income tax considerations not discussed in this summary may be applicable to, among other persons, financial institutions, insurance companies, foreign corporations, tax-exempt institutions and persons who are not citizens or residents of the United

States. In addition, this summary does not discuss the effect of any foreign, state or local tax law, the effect of which may be significant.

This summary is based on the Internal Revenue Code of 1986, as amended ("IRC"), the regulations promulgated thereunder, judicial decisions, and administrative positions of the Internal Revenue Service (the "IRS"). All Section references in this summary are to sections of the IRC. Any change in the foregoing authorities may be applied retroactively in a manner that could adversely affect persons considering the Plan.

No ruling will be sought from the IRS with respect to the federal income tax aspects of the Plan and there can be no assurance that the conclusions set forth in this summary will be accepted by the IRS. No opinion has been sought or obtained with respect to the tax aspects of the Plan.

THIS SUMMARY IS INTENDED FOR GENERAL INFORMATION ONLY. PERSONS CONSIDERING THE PLAN ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE REORGANIZATION OF THE DEBTORS, THE RECEIPT OF ANY PAYMENT UNDER THE PLAN, AND THE IMPACT ON THAT PERSON OR ANY OTHER PERSON OF ANY OBLIGATION IMPOSED UNDER THE PLAN.

IRS Circular 230 Disclosure: To ensure compliance with requirements imposed by the IRS in Circular 230, you are hereby informed that (i) any tax advice contained in this Disclosure Statement is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code, (ii) the advice is written to support the promotion or marketing of the transactions or matters addressed in the Disclosure Statement and (iii) each Holder should seek advice based on its particular circumstances from an independent tax advisor.

A. Tax Consequences to the Debtors

1. Gain or Loss on Disposition of Assets

The Debtors will recognize gain or loss on the sale of any asset or on the transfer of assets by the Debtors to the Creditor Trust. The gain or loss recognized will equal the difference between the (i) the "amount realized" and (ii) the adjusted tax basis of the asset sold or transferred. The "amount realized" by the Debtors will equal the amount of cash received on a sale of an asset or the fair market value of any assets transferred to the Creditor Trust. Any gain recognized by the Debtors will be subject to federal income tax at the regular corporate tax rate or alternative minimum tax rate, whichever is greater. In calculating their tax liability, the Debtors may offset any gain by available net operating losses in calculating their regular income tax liability. By contrast, in calculating their alternative minimum tax liability, net operating losses may not offset more than 90 percent of the alternative minimum tax amount.

2. Discharge-of-Indebtedness Income

In addition to gain or loss, implementation of the Plan may also result in the Debtors realizing discharge of indebtedness ("DOI") income. The IRC generally provides that a debtor

must include in income the amount of DOI it realizes when a creditor accepts less than full payment in satisfaction of its debt. The realized amount of DOI is generally the difference between the amount of indebtedness and the amount received by the creditor in exchange for the indebtedness. However, Section 108(a) provides that DOI will not be included in the debtor's taxable income if the debtor is under the jurisdiction of a court under Title 11 of the United States Code (related to bankruptcy) and the DOI is granted by the court or is pursuant to a plan approved by the court. In the event Section 108(a) excludes DOI from the Debtors' income, the Debtors' tax attributes will be reduced by the amount of DOI income so excluded. The tax attributes are generally reduced in a prescribed order and include net operating losses ("NOLs"), general business credit carryovers, capital loss carryovers and the tax basis of its assets. In the alternative, the Debtors may make an election to alter the order of attribute reduction such that the tax basis of depreciable property would be reduced first.

The Debtors will realize DOI with respect to any Claim that is discharged under the Plan to the extent of the difference between the amount of such Claim and the amount of consideration paid to the respective Holder pursuant to the Plan. Under Section 108(e)(2), the Debtors will not realize DOI with respect to any Claim that is discharged under the Plan to the extent payment of the discharged Claim would have given rise to a deduction.

B. Tax Consequences To Holders of Interests

Under the Plan, the Holders of Interests will likely not retain their Interests or receive any Distribution. Alternatively, as described in Section IV.C.8 above, Holders of Interests in Tekoil may retain their Interests but at a reduced percentage of outstanding shares. The amount, character and timing of any loss recognized by the Holder of any Interest depends on a variety of factors, including the individual circumstances of such Holder. Holders of Interests should consult with their own tax advisor to determine the impact of the loss, retention, or dilution of an equity interest in either Debtor.

C. Tax Consequences to Holders of Claims.

Holders of Allowed Administrative Claims, Allowed Priority Tax Claims, and Allowed Claims in Classes 1-7 may receive Cash distributions from the Debtors or the Creditor Trust under the Plan. Holders of Claims in Classes 6A and 6B will initially receive beneficial interests in the Creditor Trust.

The Debtors believe, based on current law, that Holders of Claims in Classes 6A and 6B will be required, for federal income tax purposes, to treat the transfer of any assets by the Debtors to the Creditor Trust as a transfer of such assets to the Holders (with each Holder receiving an undivided beneficial interest in such assets), followed by such Holders' transfer of such assets to the Creditor Trust in exchange for undivided beneficial interests therein. The Creditor Trust is intended to be treated as a "grantor trust" for federal income tax purposes. Accordingly, each person that holds a beneficial interest in the Creditor Trust shall be treated for federal income tax purposes, as a direct owner of an undivided beneficial interest in the assets of the Creditor Trust.

In the Confirmation Order or as soon as practicable after the Effective Date, but in no event later than ninety (90) days thereafter, the Creditor Trustee shall make a good faith determination of the fair market value to the Creditor Trust of the trust assets and shall apprise all known Holders of Claims in Classes 6A and 6B in writing of such valuation (and indicate in such writing such Holders' percentage ownership interest in the Trust based on such Holders' relative beneficial interest in the Trust as of the Effective Date, determined as if all Claims in each such Class were Allowed Claims), and such valuation shall be used consistently by all such parties (including, without limitation, the Debtors, the Creditor Trustee and the Holders of such Claims) for all federal income tax purposes.

In general, each Holder of an Allowed Claim may recognize gain or loss in an amount equal to the difference between (i) the "amount realized" by such Holder in satisfaction of its Claim (other than any Claim representing accrued but unpaid interest) and (ii) such Holder's adjusted tax basis in such Claim (other than any Claim representing accrued but unpaid interest). The "amount realized" by a Holder will equal the sum of the Cash and the aggregate fair market value of any property received by such Holder pursuant to the Plan (such as a Holder's receipt of Cash from a Debtor or a Holder's undivided beneficial interest in the assets transferred to the Creditor Trust).

Where gain or loss is recognized by a Holder in respect of its Allowed Claim, the character of such gain or loss (i.e., long-term or short-term capital, or ordinary) will depend on a number of factors, including the tax status of the Holder, whether the Claim constituted a capital asset in the hands of the Holder and how long it had been held, whether the Claim was originally issued at a discount or acquired at a market discount and whether and to what extent the Holder had previously taken a bad debt deduction in respect of the Claim.

After the Effective Date, any amount a Holder receives as a Distribution from the Creditor Trust in respect of its beneficial interests in the Creditor Trust should not be included, for federal income tax purposes, in the Holder's amount realized in respect of its Allowed Claim but should be separately treated as a Distribution received in respect of such Holder's beneficial interests in the Creditor Trust.

A Holder that receives Cash in satisfaction of a Claim may recognize ordinary income or loss to the extent that Cash is received in respect of accrued interest attributable to such Claim. The manner in which such Cash is allocated between accrued interest and principal for these purposes may be unclear under present law. A Holder that was not previously required to include in income accrued but unpaid interest attributable to its Claim and that surrenders its Claim pursuant to the Plan may be treated as having received interest income to the extent that any Cash received is treated for federal income tax purposes as a payment of accrued but unpaid interest, regardless of whether the Holder realizes an overall gain or loss. A Holder who previously included in income accrued but unpaid interest attributable to its Claim will likely recognize an ordinary loss to the extent that such accrued but unpaid interest is not satisfied in full.

D. Tax Treatment of Creditor Trust.

The Creditor Trust to be established under the Plan for the benefit of Holders of Claims is intended to qualify as a grantor trust for federal income tax purposes. In general, a grantor trust is not a separate taxable entity but rather is treated for federal income tax purposes as a pass-through entity. The IRS has issued administrative pronouncements the general criteria for obtaining an IRS ruling as to the grantor trust status of a liquidating trust under a chapter 11 plan. The Creditor Trust has been structured with the intention of complying with such general criteria. Pursuant to the Plan, all parties (including the Debtors, the Creditor Trustee and the holders of beneficial interests in the Creditor Trust) are required to treat, for federal income tax purposes, the Creditor Trust as a grantor trust of which the holders of are the owners and grantors. While the following discussion assumes that the Creditor Trust would be so treated for federal income tax purposes, no ruling has been requested from the IRS concerning the tax status of the Creditor Trust as a grantor trust. Accordingly, there can be no assurance that the IRS would not take a contrary position to the classification of the Creditor Trust as a grantor trust. If the IRS were to challenge successfully such classification, the federal income tax consequences to the Creditor Trust and the Holders of Claims in Classes 6A and 6B could vary from those discussed herein.

1. Tax Reporting.

Each holder of a beneficial interest in the Creditor Trust will be required to report on its federal income tax return(s) the holder's allocable share of any income, gain, loss, deduction or credit recognized or incurred by the Creditor Trust. The Creditor Trust's taxable income will be allocated Pro Rata among the holders of beneficial interests in the Creditor Trust based on their relative beneficial interests in the Creditor Trust. The character of items of income, deduction and credit to any holder and the ability of such holder to benefit from any deduction or losses may depend on the particular situation of such holder.

The federal income tax reporting obligation of a holder of a beneficial interest in the Creditor Trust is not dependent upon the Creditor Trust distributing any Cash or other proceeds. Therefore, a holder of a beneficial interest in the Trust may incur a federal income tax liability regardless of the fact that the Creditor Trust has not made, or will not make, any concurrent or subsequent Distributions to the holder. If a holder incurs a federal tax liability but does not receive Distributions commensurate with the taxable income allocated to it in respect of any beneficial interests in the Creditor Trust it holds, the holder may be entitled to a subsequent or offsetting loss.

The Creditor Trustee will file with the IRS returns for the Creditor Trust as a grantor trust pursuant to Treasury Regulations Section 1.671-4(a). The Creditor Trustee will also send to each holder of a beneficial interest in the Creditor Trust a separate statement setting forth the holder's share of items of income, gain, loss, deduction or credit and will instruct the holder to report such items on its federal income tax return.

2. Information Reporting and Withholding.

All Distributions to Holders of Claims and Interests are subject to any applicable withholding (including employment tax withholding). Under the IRC, interest, dividends and other "reportable payments" may, under certain circumstances, be subject to "backup withholding" then in effect. Backup withholding generally applies if the Holder (a) fails to furnish his social security number or other taxpayer identification number ("TIN"), (b) furnishes an incorrect TIN, (c) fails properly to report interest or dividends or (d) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is his correct number and that he is not subject to backup withholding. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions.

THE FOREGOING SUMMARY OF CERTAIN MATERIAL FEDERAL INCOME TAX CONSEQUENCES HAS BEEN PROVIDED FOR 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 OR INTEREST. EACH HOLDER OF A CLAIM OR INTEREST IS URGED TO CONSULT ITS OWN TAX ADVISORS FOR THE FEDERAL, STATE, LOCAL AND FOREIGN INCOME AND OTHER TAX CONSEQUENCES THAT MAY BE APPLICABLE UNDER THE PLAN.

XIII. CONCLUSION

The Debtors urge Holders of Claims and Interests to vote to **ACCEPT** the Plan and to evidence such acceptance by returning their ballots so that they will be received by **5:00 p.m. Central Time on _____, 2010.**

TEKOIL & GAS COMPANY

By: */s/ Mark Western* (by permission)

Mark Western
Its Chief Executive Officer

TEKOIL AND GAS GULF COAST, L.P

By: */s/ Brad Walker* (by permission)

Brad Walker
Its Chief Restructuring Officer

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