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

IN RE:	§	
	§	Case No. 16-31590-bjh
PALADIN ENERGY CORP.,	§	
	§	Chapter 11
Debtor.	§	

DISCLOSURE STATEMENT IN SUPPORT OF AMENDED PLAN OF LIQUIDATION FOR PALADIN ENERGY CORP.

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DATED: DECEMBER 12, 2017.

INTRODUCTORY DISCLOSURES

THIS DISCLOSURE STATEMENT IN SUPPORT OF PLAN OF LIQUIDATION FOR PALADIN ENERY CORP. (THE "DISCLOSURE STATEMENT"), FILED BY THE DEBTOR (DEFINED BELOW), SUMMARIZES CERTAIN PROVISIONS OF THE PLAN OF LIQUIDATION FOR PALADIN ENERGY CORP. (THE "PLAN"), INCLUDING PROVISIONS RELATING TO THE PLAN'S TREATMENT OF CLAIMS AGAINST THE DEBTOR. THE DISCLOSURE STATEMENT ALSO SUMMARIZES CERTAIN FINANCIAL INFORMATION CONCERNING THE DEBTOR AND THE CLAIMS ASSERTED AGAINST THE DEBTOR IN THE BANKRUPTCY CASE. WHILE THE DEBTOR BELIEVES THAT THE DISCLOSURE STATEMENT CONTAINS ADEQUATE INFORMATION WITH RESPECT TO THE INFORMATION SUMMARIZED, CREDITORS SHOULD REVIEW THE ENTIRE PLAN AND EACH OF THE DOCUMENTS REFERENCED HEREIN, AND SHOULD SEEK THE ADVICE OF THEIR OWN COUNSEL BEFORE CASTING THEIR BALLOTS.

EXCEPT FOR THE INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT AND ITS EXHIBITS, NO REPRESENTATIONS CONCERNING THE DEBTOR, THE DEBTOR'S ASSETS AND LIABILITIES, THE PAST OR FUTURE OPERATION OF THE DEBTOR, THE PLAN, OR ALTERNATIVES TO THE PLAN ARE AUTHORIZED, NOR ARE ANY SUCH REPRESENTATIONS TO BE RELIED UPON IN ARRIVING AT A DECISION WITH RESPECT TO THE PLAN. ANY REPRESENTATIONS MADE TO SECURE ACCEPTANCE OR REJECTION OF THE PLAN, OTHER THAN AS CONTAINED IN THIS DISCLOSURE STATEMENT AND ITS EXHIBITS, ARE UNAUTHORIZED AND SHOULD BE REPORTED TO THE DEBTOR.

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

NOTHING CONTAINED IN THIS DISCLOSURE STATEMENT, EXPRESS OR IMPLIED, IS INTENDED TO GIVE RISE TO ANY COMMITMENT OR OBLIGATION OF THE DEBTOR OR ANY OTHER PARTY, NOR SHALL IT BE CONSTRUED AS CONFERRING UPON ANY PERSON ANY RIGHTS, BENEFITS OR REMEDIES OF ANY NATURE WHATSOEVER. THE DISCLOSURE STATEMENT IS INFORMATIONAL ONLY. ADDITIONALLY, CREDITORS SHOULD NOT CONSTRUE THE CONTENTS OF THIS DISCLOSURE STATEMENT AS PROVIDING ANY LEGAL, BUSINESS, FINANCIAL OR TAX ADVICE. EACH CREDITOR SHOULD CONSULT WITH ITS OWN LEGAL, BUSINESS, FINANCIAL AND TAX ADVISORS AS TO ANY MATTER CONCERNING THE PLAN, INCLUDING THE TREATMENT OF CLAIMS UNDER THE PLAN, THE RELEASES PROVIDED BY AND PROPOSED UNDER THE PLAN, THE TRANSACTIONS AND INJUNCTIONS PROVIDED UNDER THE PLAN, AND THE VOTING PROCEDURES AND ELECTIONS APPLICABLE TO THE PLAN.

THE PLAN MAY PERMANENTLY AFFECT AND LIMIT YOUR RIGHTS.

READ THIS DISCLOSURE STATEMENT AND PLAN CAREFULLY

DEFINITIONS

"Administrative Claim" means a Claim for any cost or expense of administration of the Bankruptcy Case under section 503(b) of the Bankruptcy Code, including, without limitation, any fees or charges assessed against the Estate pursuant to 28 U.S.C. § 1930, and further including a Professional Claim. For the avoidance of doubt, Administrative Claims do not include Secured Tax Claims.

"Administrative Claims Bar Date" means the day that is thirty (30) days after the Effective Date.

"Administrative Tax Claim" means any *ad valorem* tax claim assessed against, or payable by, the Debtor or the Estate or their property for or on account of a period after the Petition Date specifically excluding Secured Tax Claims.

"Allowed" as it relates to any type of Claim or Administrative Claim provided for under the Plan, but excluding a Professional Claim, means a Claim:

(i) which has been scheduled as undisputed, noncontingent and liquidated in the Schedules in an amount other than zero or unknown, and as to which:
   a. no proof of Claim has been timely filed; and
   b. no objection has been timely filed (as determined by applicable deadlines contained in the Plan, including the Claims Objection Deadline);

(ii) as to which a proof of Claim has been timely filed and either:
   a. no objection thereto has been timely filed (as determined by applicable deadlines contained in the Plan, including the Claims Objection Deadline); or
   b. such Claim has been allowed (but only to the extent allowed) by a Final Order of the Bankruptcy Court;

(iii) which has been expressly allowed under the provisions of the Plan; or

(iv) which has been expressly allowed by Final Order of the Bankruptcy Court.

"Allowed Administrative Claim" means: (i) an Administrative Claim that has been Allowed (but only to the extent Allowed), if approval from the Bankruptcy Court is required in order to Allow the same; and (ii) an Administrative Claim which: (a) is incurred by the Debtor after the Petition Date in the ordinary course of business operations or pursuant to an order entered by the Bankruptcy Court granting automatic Administrative Claim status; (b) is not disputed by the Debtor; and (c) does not require approval from the Bankruptcy Court to become Allowed.

"Allowed Priority Claim" means a Priority Claim that has been Allowed (but only to the extent Allowed).

"Allowed Secured Claim" means a Secured Claim that has been Allowed (but only to the extent Allowed).

"Allowed Unsecured Claim" means an Unsecured Claim that has been Allowed (but only to the extent Allowed).

"Avoidance Actions" means any and all rights, claims or actions which the Debtor may assert on behalf of the Estate under Chapter 5 of the Bankruptcy Code, including actions under one or more provisions of sections 328, 542, 544, 545, 546, 547, 548, 549, 550, 551 and/or 553 of the Bankruptcy Code.

"Bankruptcy Case" means Bankruptcy Case No. 16-31590-bjh-11 in the Bankruptcy Court.

"Bankruptcy Code" means 11 U.S.C. §§ 101, *et. seq.*, in effect as of the Petition Date and as may have been or may be amended or supplemented since, to the extent that any such amendment or supplement is automatically applicable to the Bankruptcy Case by operation of law and not by operation of any election or choice.

"Bankruptcy Court" means the United States Bankruptcy Court for the Northern District of Texas, Dallas Division or, if such court ceases to exercise jurisdiction, the court or adjunct thereof that exercises jurisdiction over the Bankruptcy Case.

"Bankruptcy Rules" means the Federal Rules of Bankruptcy Procedure, together with the local bankruptcy rules for the Bankruptcy Court as now in effect or as the same may from time to time hereafter be amended.

"Bar Date" means August 22, 2016 for claims of persons other than Governmental Units, and 180 days after the Petition Date for claims of Governmental Units pursuant to Bankruptcy Rule 3002(c)(1).

"Business Day" means any day which is not a Saturday, a Sunday, or a "legal holiday" within the meaning of Bankruptcy Rule 9006(a).

"Cash Collateral Order" means any order entered in the Bankruptcy Case granting the Debtor the right to use any "cash collateral" as defined in the Bankruptcy Code, including such orders entered at Bankruptcy Case Docket Nos. 30, 53, 72, 97, 158, 176, 208, 222, 237, and 275.

"Claim" means a claim against the Debtor, the Estate, and/or property of the Debtor or the Estate, as such term is otherwise defined in section 101(5) of the Bankruptcy Code, and arising at any time prior to the Effective Date, including first arising after the Petition Date, regardless of whether the same would otherwise be a claim under section 101(5) of the Bankruptcy Code.

"Claims Objection Deadline" means the date by which parties authorized by the Plan may file any objection to a Claim, which date shall be sixty (60) days after the Effective Date, except with respect to Administrative Claims as otherwise provided for herein and with respect to Disputed Claims.

"Class" means one of the categories of Claims established under Article II of the Plan.

"Clearwater" means the Debtor's and the Estate's interests in Clearwater SWD, LLC.

"Confirmation Date" means the date on which the clerk of the Bankruptcy Court enters the Confirmation Order on its docket.

"Confirmation Hearing" means the hearing(s) before the Bankruptcy Court pursuant to section 1128 of the Bankruptcy Code to consider confirmation of the Plan, as such hearing(s) may be continued, rescheduled or delayed.

"Confirmation Order" means the order of the Bankruptcy Court confirming the Plan pursuant to section 1129 of the Bankruptcy Code, as such order may be amended, modified, or supplemented.

"Creditor" means the holder of any Claim entitled to distributions under the Plan with respect to such Claim.

"Debtor"or "Liquidating Debtor" means Paladin Energy Corp., a Texas corporation.

"Disallowed Claim" means, as it relates to any type of Claim provided for under the Plan, a Claim or portion thereof that:

(i) has been disallowed by a Final Order of the Bankruptcy Court;

(ii) is identified in the Schedules in an amount of zero dollars, unknown dollars, or as contingent, unliquidated, and/or disputed, and as to which a proof of Claim was not filed by the Bar Date; or

(iii) is not identified in the Schedules and as to which no proof of Claim has been filed or deemed filed by the Bar Date, if the filing of such proof of Claim is otherwise required.

"Disclosure Statement" means the Disclosure Statement with respect to the Plan, approved by the Bankruptcy Court as containing adequate information for the purpose of dissemination and solicitation of votes on confirmation of the Plan, either in its present form or as it may be altered, amended or modified from time to time.

"Effective Date" means the first Business Day fourteen (14) days after the Confirmation Date if the Confirmation Order is not stayed or, if the Confirmation Order is stayed, the first Business Day following the lifting, dissolution, or removal of such stay which is at least fourteen (14) days after the Confirmation Date, and upon which the conditions to the effectiveness of the Plan set forth in Article IX hereof are satisfied.

"Equity Interests" means any ownership of any equity in the Debtor, including, as may be applicable, any share, stock, or stock certificate.

"Estate" means the estate created for the Debtor pursuant to section 541 of the Bankruptcy Code and any other applicable provision thereof.

"Executory Contract" means, collectively, "executory contracts" and "unexpired leases" of the Debtor as of the Petition Date as such terms are used within section 365 of the Bankruptcy Code.

"Final Decree" means the final decree entered by the Bankruptcy Court on or after the Effective Date pursuant to Bankruptcy Rule 3022.

"Final Order" means a judgment, order, ruling, or other decree issued and entered by the Bankruptcy Court or by any state or other federal court or other tribunal having jurisdiction over the subject matter thereof which judgment, order, ruling, or other decree has not been reversed, stayed, modified, or amended and as to which:

(i) the time to appeal or petition for review, rehearing or certiorari has expired and as to which no appeal or petition for review, rehearing or certiorari is pending; or

(ii) any appeal or petition for review, rehearing or certiorari has been finally decided and no further appeal or petition for review, rehearing or certiorari can be taken or granted.

"Governmental Unit" means a governmental unit as such term is defined in section 101(27) of the Bankruptcy Code.

"MUFG Settlement Agreement" means the Settlement Agreement that was approved by the MUFG Settlement Order, as amended or modified pursuant to its terms.

"MUFG Settlement Order" means the *Order Granting Debtor's Expedited Motion under Bankruptcy Rule 9019 for Authority to Enter into Settlement Agreement with MUFG Union Bank, N.A.* located at docket number 235 in the Bankruptcy Case.

"O&G Sale Order" means the *Order Granting Motion for Order: (A) Approving the Sale of Substantially All of the Debtor's Assets Free and Clear of All Liens, Claims, Encumbrances and Other Interests; and (B) Approving the Debtor's Assumption and Assignment of Contracts and Lease in Connection Therewith* located at docket number 266 in the Bankruptcy Case.

"**Person**" means and includes natural persons, corporations, limited partnerships, general partnerships, joint ventures, trusts, land trusts, business trusts, unincorporated organizations, or other legal entities, irrespective of whether they are governments, agencies or political subdivisions thereof.

"Petition Date" means April 21, 2016.

"Plan" means the *Amended Plan of Liquidation for Paladin Energy Corp.*, either in its present form or as it may be altered, amended or modified from time to time.

"Priority Claim" means any Claim entitled to priority in payment under section 507(a) of the Bankruptcy Code, excluding any Claim that is an Administrative Claim or that is a Secured Tax Claim.

"Professional" means any Person employed or to be compensated pursuant to sections 327, 328, 330, 331, 503(b), or 1103 of the Bankruptcy Code.

"Professional Claim" means a Claim by a Professional for compensation and/or reimbursement of expenses pursuant to sections 327, 328, 330, 331, 503(b) or 1103 of the Bankruptcy Code in connection with an application made to the Bankruptcy Court.

"Schedules" means the Schedules of Assets and Liabilities and the Statements of Financial Affairs filed by the Debtor with the clerk of the Bankruptcy Court pursuant to Bankruptcy Rule 1007, as they have been or may be amended or supplemented from time to time in accordance with Bankruptcy Rule 1009.

"Secured Claim" means a Claim that is alleged to be secured, in whole or in part, (i) by a lien against an asset of the Debtor or the Estate; or (ii) as a result of rights of setoff under section 553 of the Bankruptcy Code.

"Secured Tax Claim" means a Claim of a Governmental Unit for the payment of *ad valorem* real property and business personal property taxes that is secured by property of the Debtor or the Estate.

"Senior Lender" means MUFG Union Bank, N.A. (formerly known as Union Bank, N.A., and formerly before that Union Bank of California, N.A.), individually and as administrative agent and as LC Issuer.

"Senior Lender Secured Claim" means the claims, liens, and security interests against Clearwater, specifically excluding any claim, lien, or security interest, including on account of its diminution and superpriority claims, that the Senior Lender may have against any other property.

"Substantial Consummation" means the date on which any of the following first happens: (i) the Bankruptcy Court enters an order on the fee application of the Debtor's general counsel or (ii) the Bankruptcy Court otherwise finds that substantial consummation within the meaning and operation of the Bankruptcy Code has occurred.

"Unsecured Claim" means any alleged Claim against the Debtor that is not secured by (or to the extent not secured by) a valid, enforceable, and unavoidable lien against any asset of the Debtor or the Estate, including any deficiency claim, which does not enjoy any administrative or priority status under the Bankruptcy Code.

"Voting Deadline" means the period established by the Bankruptcy Court within which Ballots may be cast on the Plan.

"Wind-Down Funding" means $169,000 specifically enumerated and earmarked (i) to pay allowed administrative expenses associated with confirmation of the Plan; (ii) to pay allowed administrative costs and expenses incurred during the courts of the Bankruptcy Case that were not authorized to be paid under the cash collateral budgets or Cash Collateral Orders, and (iii) to be used to fund a Chapter 11 plan, all pursuant to the

MUFG Settlement Order, including any amendment to the settlement agreement approved thereby.

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DISCLOSURE STATEMENT IN SUPPORT OF AMENDED PLAN OF LIQUIDATION FOR PALADIN ENERGY CORP.

Paladin Energy Corp. (the "Debtor"), hereby submits this Disclosure Statement (the "Disclosure Statement") in support of the *Amended Plan of Liquidation for Paladin Energy Corp.*, a copy of which is attached hereto as **Exhibit "A"**.

ARTICLE I.
INTRODUCTION

On April 21, 2016, the Debtor filed its petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division, thereby initiating its bankruptcy case.

In August, 2017, the Debtor, with the approval of the Bankruptcy Court, sold all of its oil and gas assets and used most of the proceeds to pay the Senior Lender, in part. Since then, the Debtor has no significant ongoing business operations and has no revenue. All that remains is an amount of funds carved out by the Senior Lender, defined as the Wind-Down Funding.

On December 12, 2017, the Debtor filed the Plan with the Bankruptcy Court. The Plan proposes the means to liquidate the Debtor, including the means to distribute to various creditors the Wind-Down Funding. The Debtor does not receive a discharge. After confirmation, the corporate existence of the Debtor will be terminated in accordance with Texas law. Creditors approve or disapprove of the Plan by voting their Ballots on the Plan, if they are in a Class entitled to vote, and, if appropriate, by objecting to the confirmation of the Plan. However, the Plan can be confirmed by the Bankruptcy Court even if less than all Creditors or Classes accept the Plan and, in such an instance, the Plan will still be binding on those Creditors or Classes that rejected the Plan. Approval and consummation of the Plan will enable the Bankruptcy Case to be finally concluded.

The Debtor hereby submits this Disclosure Statement in connection with the solicitation of votes on, and providing information regarding, the Plan. After notice and a hearing, the Bankruptcy Court approved the Disclosure Statement as containing information of a kind and in sufficient detail, to enable Creditors whose votes on the Plan are being solicited to make an informed judgment on whether to accept or reject the Plan. The Bankruptcy Court's approval of the Disclosure Statement does not constitute the Bankruptcy Court's approval or disapproval of the Plan.

This Disclosure Statement, which includes the Plan as Exhibit "A", is being mailed to each holder of a Claim (or potential Claim) against the Debtor that has not been disallowed, together with various other parties-in-interest who, even if not Creditors, may be affected by the Plan and may have the right to object to the Plan. However, the Debtor is only seeking votes on the Plan from Classes who are entitled to vote. Only those parties who have received a Ballot may vote to accept or reject the Plan. All Creditors and parties-in-interest may object to the confirmation of the Plan even if they do not necessarily vote on the Plan.

The Debtor has promulgated the Plan consistent with the provisions of the Bankruptcy Code. The Debtor believes that the Plan provides the best means for maximizing recovery to each of the Classes under the Plan, in light of the assets available for distribution to Creditors and the fact that the Debtor has no ongoing business operations or revenue (or any other assets that are not the collateral of the Senior Lender). The Debtor believes that the Plan enables affected Creditors to receive a distribution on account of their Claims that is substantially greater than what they would receive if the Bankruptcy Case was converted to a Chapter 7 liquidation.

This Disclosure Statement is not intended to replace careful review and analysis of the Plan. Rather, it is submitted as an aid and supplement in your review of the Plan, and attempts to explain the terms and implications of the Plan. Every effort has been made to fully explain the various aspects of the Plan. All Persons receiving this Disclosure Statement are urged to review all of the provisions of the Plan, which is attached to this Disclosure Statement as Exhibit "A," in addition to reviewing the text of this Disclosure Statement. If you have any questions, you may contact the Debtor's counsel and every effort will be made to assist you. However, the Debtor's counsel will not provide you with any legal advice, and you are encouraged to seek the advice of separate legal counsel regarding the Plan, and your rights thereunder.

Creditors should read this Disclosure Statement in its entirety prior to voting on the Plan. No solicitation of votes on the Plan may be made except pursuant to this Disclosure Statement and section 1125 of the Bankruptcy Code. No other party has been authorized to utilize any information concerning the Debtor, its operations, and its assets and liabilities, other than the information contained in this Disclosure Statement, to solicit votes on the Plan. However, you are entitled to rely on your own information, analyses, and opinions even if that information is not contained in this Disclosure Statement.

After carefully reviewing this Disclosure Statement and the Plan, please indicate your acceptance or rejection of the Plan by voting in favor of or against the Plan on the enclosed Ballot (if you have been provided with one) 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 Balloting Agent no later than 5:00 p.m., Central Time, on January 10, 2018:

Davor Rukavina
Munsch Hardt Kopf & Harr, P.C.
3800 Ross Tower
500 N. Akard St.
Dallas, TX 75201
Facsimile: (214) 978-5359

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. See **Article IV** of this Disclosure Statement for a discussion of voting procedures and requirements.

TO BE SURE YOUR BALLOT IS COUNTED, YOUR BALLOT MUST BE RECEIVED NO LATER THAN 5:00 P.M., CENTRAL TIME, ON JANUARY 10, 2018. For detailed voting instructions and the name and address of the person you may contact if you have questions, see **Article IV** of this Disclosure Statement.

Pursuant to section 1128 of the Bankruptcy Code, the Bankruptcy Court has scheduled a hearing to consider confirmation of the Plan on January 12, 2018, at 9:30 a.m., Central Time, in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be filed and served on or before January 10, 2018, at 5:00 p.m., in the manner described in **Article V.B** of this Disclosure Statement.

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

ARTICLE II.
OVERVIEW OF THE PLAN

Parties are cautioned to read the Plan carefully in order to fully understand its terms. This section offers a summary of the Plan only, given in lay and non-technical terms, and is not to be construed as conclusive.

The Plan contemplates the liquidation of the Debtor. Under the Plan, the Debtor, as reorganized, is referred to as the Liquidating Debtor. The Liquidating Debtor is responsible for making payments to Creditors under the Plan. Under the Plan, the Liquidating Debtor distributes the Wind-Down Funding ($169,000.00) to various Creditors, and otherwise winds down its business and existence, ultimately terminating its existence. Other than the Wind-Down Funding, the Debtor has no assets or funds remaining to pay any creditors other than the Senior Lender, and whatever minor assets the Debtor has represent the collateral of the Senior Lender. In effect, the Senior Lender has agreed to carve out of its collateral the Wind-Down Funding, as a result of the Global Settlement (discussed below), to be used to pay other Creditors under the Plan. Without that agreement and carveout, the Debtor has no assets to distribute to any Creditor other than the Senior Lender.

The Plan also includes the sale of Clearwater, free and clear of all liens, claims, interests, and encumbrances, to FPH Ventures, Inc. (the "Clearwater Buyer"), a Texas corporation owned by George G. Fenton, David J. Plaisance, and Michael T. Horn, all insiders of the Debtor (the "Clearwater Sale"), for and in exchange of $20,000.00 (the "Clearwater Proceeds") indefeasibly paid by the Clearwater Buyer to the Senior Lender. This price represents the fair market value of Clearwater, as has been agreed to by the Senior Lender. Because the Senior Lender has a lien against Clearwater, it would receive every dollar paid for the sale, and it has more than a $10

million deficiency claim remaining. Thus, even if the Clearwater Sale was for two, three, ten, or even 100 or 500 hundred times this amount, no other Creditor would be paid a dollar more.

ARTICLE III.
SUMMARY OF TREATMENT UNDER THE PLAN

A. CLASSES AND DISTRIBUTIONS

The Plan separates Claims and Equity Interests against the Debtor, the Estate, and their property into unclassified Claims and classified Claims. Creditors vote on the Plan by their respective Class.

Unclassified Claims are generally postpetition Claims which must be paid in full and which do not vote on the Plan, and consist of Administrative Claims, including Professional Claims and Cure Claims, and Administrative Tax Claims.

Classified Claims and Equity Interests are classified in the Plan under the provisions of section 1122 of the Bankruptcy Code into following separate Classes:

Class 1: Priority Claims
Class 2: Secured Tax Claims
Class 3: Senior Lender Secured Claim
Class 4: Unsecured Claims
Class 5: Equity Interests

The chart below graphically demonstrates the classification and treatment of classified and unclassified Claims under the Plan. **All parties are cautioned** that the chart is an estimate only and is basis on the number and amount of Claims that the Debtor believes will be Allowed. If the Debtor's estimates are wrong, the end result may be substantially different.

Category[1]	Class	Impaired	Estimated Amount	Estimated Recovery
Administrative Claims	Unclassified	no	$125,000[2]	100%
Priority Claims	1	no/yes	$25,000.00[3]	70% - 100%
Secured Tax Claims	2	no	$530.00	100%
Senior Lender Secured Claim	3	yes	$20,000.00	100%
Unsecured Claims	4	yes	$200,000.00[4]	10%
Equity Interests	5	yes	n/a	cancelled

1. Claims listed in this column refer to Allowed Claims.

2. The Debtor believes that all postpetition obligations are current, and that Administrative Claims will consist mostly of the Professional Claims of the Debtor's counsel. The Debtor's counsel has agreed to a sizable

reduction of its potentially Allowed fees in order to enable a distribution to other creditors. Administrative Claims also include the much reduced salaries of the Debtor's management to get through the confirmation of the Plan and the termination of the Debtor pursuant to the Wind-Down Budget discussed below. The amount listed in this column includes estimated present and future Professional Claims, less amounts already paid and less the above-mentioned retainers and amounts previously paid. This amount may increase substantially if the Plan is objected to.

3. The New Mexico Department of Taxation and Revenue has filed a priority claim in the amount of $62,728. The Debtor believes this claim to be greatly overstated, and that it will be Allowed at approximately $22,000. The Debtor is in the process of negotiating with this Creditor and, if necessary, the Debtor will object to this claim. If the Debtor is wrong about the size of this claim, however, then the effect will be that there will not be sufficient funds to pay all Allowed Priority Claims in full, and there will be no funds remaining to pay Unsecured Creditors.

4. The amount of these claims excludes the deficiency of the Senior Lender which, pursuant to agreement with the Senior Lender, is not being paid from the Wind-Down Funding under the Plan.

B. CLASS TREATMENT UNDER THE PLAN

Treatment of a Claim under the Plan depends on the Class under the Plan that the Claim is classified under, and whether the Claim is classified. What follows below is a summary of the treatments under the Plan of the various Classes created under the Plan. The following is a summary only, and the Plan controls in all events. Thus, close reference to the Plan is required to fully understand any Class's treatment under the Plan.

Unclassified Claims. Subject to complying with any deadlines contained in the Plan that may be applicable, and all deadlines or orders governing Administrative Claims, holders of Allowed Administrative Claims shall be paid in full and in cash under the Plan from the Wind-Down Funding no later than ten (10) days after the Effective Date or the allowance of the Administrative Claim, whichever is later. Holders of administrative claims incurred in the Debtor's ordinary course of business are not required to file an application for the allowance of an Administrative Claim. All other holders are required to timely file such an application and to obtain its approval.

Class 1: Allowed Priority Claims.

Priority Claims, to the extent Allowed, are paid in full and in cash under the Plan from the Wind-Down Funding remaining after payment of Allowed Administrative Claims, no later than ten (10) days after the Effective Date or the allowance of the Administrative Claim, whichever is later. This assumes that the Debtor is correct regarding the final amount of Priority Claims that have been asserted and that will be Allowed. If the Debtor is not correct, and the Allowed amount of Priority Claims exceeds approximately $45,000, then there will be insufficient amounts remaining from the Wind-Down Funding after payment of Allowed Administrative Claims to pay Allowed Priority Claims in full. In all events, Class 1 Allowed Priority Claims will be paid *pro rata*.

Class 2: Allowed Secured Tax Claims.

Each Secured Tax Claim, to the extent Allowed, shall be paid in full satisfaction, release and discharge of, and in exchange for, such Allowed Secured Tax Claim, from the Wind-Down

Funding remaining after payment of Allowed Administrative Claims, no later than ten (10) Business Days after becoming Allowed.

Class 3: Senior Lender Secured Claim. The Senior Lender Secured Claim is an Allowed Secured Claim. Except as set forth in the Plan, the Senior Lender Secured Claim, and any security or lien securing the same, shall be released, satisfied and discharged in exchange for the treatment provided under section 4.3 of the Plan. The Liquidating Debtor shall pay the Senior Lender the Clearwater Proceeds pursuant to section 5.3 of the Plan contemporaneously with the closing of the Clearwater Sale. The Senior Lender shall execute and deliver to the Liquidating Debtor such documents and instruments as are reasonable to evidence the release of its security interest or lien on Clearwater, conditioned on (i) payment of the Clearwater Sale Proceeds, (ii) satisfaction of the conditions precedent of this Plan, and (iii) performance by the Debtor under the terms of the MUFG Settlement Agreement (the "MUFG Release Conditions Precedent"). Provided that the MUFG Release Conditions Precedent are fully satisfied, the Clearwater Sale and the Wind-Down Funding shall be free and clear pursuant to section 363(f) of the Bankruptcy Code notwithstanding any failure by the Senior Lender to execute and deliver documents and instruments evidencing the release of its liens. Other than with respect to Clearwater and the Wind-Down Funding, the Senior Lender shall retain any and all claims, liens, interests and encumbrances that it may have, and the vesting of property of the Debtor and the Estate in and to the Liquidating Debtor shall remain subject to all such claims, liens, interests and encumbrances, including with respect to any Residual Funds. For the avoidance of doubt, claims and rights of the Senior Lender against non-debtor parties (including officers, directors, or employees of the Debtor) or property of non-debtor parties shall not be affected by the Plan in any respect. And, the Senior Lender's deficiency claims and liens shall be unaffected and retained in full for the purpose of prosecuting any claims against non-debtor parties or their property. Class 3 is impaired.

The Plan additionally provides the Senior Lender, including its attorneys, employees, officers and agents, with a release of claims that may be held by the Debtor and the Estate. Because the Debtor has previously provided these releases pursuant to various cash collateral orders and the Debtor's settlement with the Senior Lender, the Debtor does not believe that there is any prejudice to any creditor resulting from this release. Specifically, on the Effective Date, and without the need for further action, the Plan and Confirmation Order shall constitute a release and discharge of all actions, causes of action, claims, suits, debts, damages, judgments, liabilities, and demands whatsoever, whether matured or unmatured, whether at law or in equity, whether before a local, state, or federal court, state or federal administrative agency or commission, regardless of location and whether now known or unknown, liquidated or unliquidated, that the Debtor or the Estate may have or be able to assert against the Senior Lender, its attorneys, employees, officers and agents.

Class 4: Unsecured Claims.

Class 4 Unsecured Claims, to the extent Allowed, are paid *pro rata* from the Wind-Down Funding remaining, if any, after payment of Allowed Administrative Claims, Allowed Secured Tax Claims, and Allowed Priority Claims. This will be a one-time payment, made no later than ten (10) days after all Administrative Claims, Priority Claims, and Secured Tax Claims are paid and once Unsecured Claims are Allowed or disallowed, as the case may be.

Class 5: Equity Interests.

Equity Interests are cancelled, and holders of those Equity Interests receive nothing and are paid nothing under the Plan.

C. REJECTION OF EXECUTORY CONTRACTS

All Executory Contracts that have not been previously assumed and assigned in the Bankruptcy Case are rejected as of the Effective Date. The Plan sets a deadline of thirty (30) days after the Effective Date for the filing of any rejection damages claim under the Bankruptcy Code resulting from the rejection of any Executory Contract by the Plan.

D. NO DISCHARGE

The Debtor does not receive a discharge under the Plan.

E. WIND-DOWN AND TERMINATION OF THE DEBTOR

Pursuant to Texas law, the Debtor will be wound down through the Plan, which suffices to wind down the Debtor the same as though it had been wound down under Texas law outside of bankruptcy. The Plan and the Bankruptcy Case will represent all applicable Texas notice periods to submit claims against a winding down corporation, and to share in any available distribution. After the Plan, all that will remain is to terminate the Debtor's corporate existence (by filing the required documents with the Texas Secretary of State), and to file a final tax return, which the Liquidating Debtor will promptly due after the Effective Date. The Debtor's budget for this winding down, excluding attorney's fees, is $13,125.00 in personnel costs, consisting of hourly work by various accountants and management (ranging from $60 per hour to $150 per hour), and an additional $1,200.00 in other general and overhead expenses. The Debtor also is budgeting an additional $5,000.00 in United States Trustee fees. All of these budgeted amounts would be paid from the Wind Down Funding as administrative expenses.

F. RELEASES OF ESTATE CLAIMS

If the Plan is confirmed, potential causes of action owned by the Estate against the Senior Lender and the Debtor's insiders (including its present and former officers and directors) will be released. As noted above, the Debtor does not believe that any such causes of action exist against the Senior Lender. With respect to whether any such causes of action exist against the Debtor's insiders, there is a dispute. The Debtor does not believe that the Estate owns any material causes of action against the former or present insiders, including for preferences and fraudulent transfers, primarily because the Debtor was not insolvent at the time that it made various prepetition transfers to the insiders. The Senior Lender, on the other hand, has indicated that certain prepetition transfers to the insiders may be avoidable as fraudulent transfers. More detail regarding transfers to the Debtor's insiders is provided below. Notwithstanding this dispute, the Debtor does not believe that the releases of Insiders will affect the potential returns to creditors, because the Senior Lender has a superpriority administrative claim and replacement lien against the proceeds of any such causes of action. Moreover, the Plan's releases do not affect any cause of action that any individual creditor may have against the released parties,

including the insiders, that is a personal cause of action to such creditor as opposed to a cause of action owned by the Estate.

ARTICLE IV.
VOTING PROCEDURES AND REQUIREMENTS

A. VOTING DEADLINE

Each Creditor holding a Claim which entitles the Creditor to vote on the Plan has been provided a Ballot along with this Disclosure Statement. If a Creditor holds Claims in more than one Class entitled to vote under the Plan, such Creditor has been provided a separate Ballot for each such Class. The Ballot is to be used by the Creditor to accept or reject the Plan.

To ensure that a Ballot is deemed timely and considered by the Balloting Agent, which shall be the Debtor's attorneys, Munsch Hardt Kopf & Harr, P.C., c/o Davor Rukavina, a Creditor must: (a) carefully review the Ballot and the instructions set forth thereon; (b) provide all of the information requested on the Ballot; (c) sign the Ballot; and (d) return the completed and signed Ballot to the Balloting Agent by the Voting Deadline. By order of the Bankruptcy Court, the "Voting Deadline" is 5:00 p.m. (Central Time), on January 10, 2018. Therefore, in order for a Ballot to be counted for voting purposes and any applicable election, the completed and signed Ballot must be received at the address specified below by no later than the Voting Deadline:

DEADLINE: Must Be **Received** By 5:00 p.m., Central Time,
on January 10, 2018

Addressed To:
Munsch Hardt Kopf & Harr, P.C.
Attn: Davor Rukavina
3800 Ross Tower
500 N. Akard Street
Dallas, Texas 75201
Facsimile: (214) 978-5359

B. CREDITORS SOLICITED TO VOTE

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

C. DEFINITION OF IMPAIRMENT

Pursuant to Section 1124 of the Bankruptcy Code, a Class of Claims or Equity Interests is impaired under a plan unless, with respect to each Claim of such Class, the Plan does one of the following:

1. leaves unaltered the legal, equitable, and contractual rights to which such Claim entitles the holder of such Claim; or

2. notwithstanding any contractual provision or applicable law that entitles the holder of such Claim to demand or receive accelerated payment of such Claim after the occurrence of a default:

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

   (b) reinstates the maturity of such Claim as it existed before the default;

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

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

D. CLASSES IMPAIRED UNDER THE PLAN

Classes 1, 3, 4, and 5 are impaired under the Plan. Class 5 receives nothing under the Plan and is therefore deemed to have rejected the Plan without the need for a vote. Class 2 is not impaired under the Plan and is therefore deemed to have accepted the Plan. Ballots for the acceptance or rejection of the Plan shall be mailed to holders of such impaired Classes only and to holders of such Claims within such Classes only.

E. VOTE REQUIRED FOR CLASS ACCEPTANCE

Pursuant to the Bankruptcy Code, a Class of Claims under the Plan that is impaired shall be deemed to have accepted the Plan if the Plan is accepted by Creditors holding at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the Claims within such Class who are entitled to vote and who actually vote using a properly completed and signed Ballot which is returned to the Balloting Agent by no later than the Voting Deadline.

ARTICLE V.
CONFIRMATION OF THE PLAN

A. OVERVIEW OF CHAPTER 11

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Pursuant to Chapter 11, a debtor-in-possession attempts to reorganize its business for the benefit of the

debtor, its creditors, and other parties in interest. The present Bankruptcy Case commenced with the filing of voluntary Chapter 11 petition by the Debtor on the Petition Date, and with the Debtor seeking a reorganization. However, Chapter 11 also contemplates a liquidation as opposed to a reorganization. The current Plan is a plan of liquidation.

The commencement of a Chapter 11 case creates an estate comprising all the legal and equitable interests of the debtor in property as of the date the petition is filed. Thus, the Estate exist as the Bankruptcy Code estate of the Debtor and its property (and liabilities). 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 Bankruptcy Case, the Debtor has remained in possession of its property and has continued to operate its business as a debtor-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.

B. CONFIRMATION HEARING

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of the Plan. Section 1128(b) provides that any party in interest may object to confirmation of the Plan. The Confirmation Hearing has been scheduled for **January 12, 2018 at 9:30 a.m.** in the United States Bankruptcy Court, Courtroom of The Honorable Barbara J. Houser, U. S. Courthouse, Earle Cabell Federal Building, 1100 Commerce St., 14th Floor, Dallas, Texas 75242.

Any objection to confirmation of the Plan must made in writing, and such written objection must be filed with the Bankruptcy Court by no later than **5:00 p.m. Central Time on January 10, 2018**:

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

C. MODIFICATION OF THE PLAN

Section 1127 of the Bankruptcy Code generally permits the Debtor to modify the Plan before or after the Confirmation Hearing, assuming that certain requirements are satisfied. The Debtor reserves its right to submit modifications of the Plan, as may be deemed advisable by the Debtor, and under the provisions of section 1127 of the Bankruptcy Code.

D. REQUIREMENTS FOR CONFIRMATION OF THE PLAN

At the Confirmation Hearing, the Bankruptcy Court will determine whether the confirmation requirements of section 1129 of the Bankruptcy Code have been satisfied, and in the event that they have been and all other conditions to confirmation set forth in the Plan itself have been met, the Bankruptcy Court will enter an order confirming the Plan. The requirements of section 1129 generally are as follows:

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

2. The Debtor complies with the applicable provisions of the Bankruptcy Code.

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

4. Any payment made or to be made by the Debtor or by a person issuing securities or acquiring property under the Plan, for services or for costs and expenses in or in connection with the Bankruptcy Case, or in connection with the Plan and incident to the Bankruptcy Case, has been approved by, or is subject to the approval of, the Bankruptcy Court as reasonable.

5. The Debtor 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, or a successor to the Debtor under the Plan, and the appointment to, or continuance in, such office of such individual, is consistent with the interests of Creditors and with public policy, and the Debtor has disclosed the identity of any insider that will be employed or retained by the Debtor, and the nature of any compensation of 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. The Debtor does not believe this requirement is applicable to the Bankruptcy Case.

7. With respect to each impaired Class: (a) each holder in such Class has accepted the Plan or 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 amount that such holder would so receive or retain if the Debtor was liquidated under Chapter 7 of the Bankruptcy Code on such date; or (b) if section 1111(b)(2) of the Bankruptcy Code applies to the Claims of such Class, each holder in 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 interests in the property that secures such Claims. This means that, if a Creditor rejects the Plan, the Plan must provide the Creditor with at least what it would receive in a hypothetical Chapter 7 liquidation of the Debtor.

8. With respect to each Class: (a) such Class has accepted the Plan; or (b) such Class is not impaired under the Plan. If an impaired Class has rejected the Plan, then the Plan may still be confirmed on Cramdown with respect to that Class, as discussed below.

9. Except to the extent that the holder of a particular Claim has agreed to a different treatment of such Claim, the Plan provides: (a) that with respect to a Claim of a kind specified in section 507(a)(1) or 507(a)(2) 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) that with respect to a Class of Claims of a kind specified in section 507(a)(3), 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 payment 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 such Claim will receive on account of such Claim deferred cash payments, over a period not exceeding six years after the date of assessment of such Claim, of a value, as of the Effective Date of the Plan, equal to the Allowed amount of such Claim.

10. If a Class of Claims is impaired under the Plan, at least one Class of Claims that is impaired under the Plan has accepted the Plan, determined without including any acceptance of the Plan by any insider.

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

12. All fees payable under Section 1930 of Title 28 (United States Code), as determined by the Bankruptcy Court, have been paid or the Plan provides for the payment of all such fees on the Effective Date of the Plan.

13. The Plan provides for the continuation after its Effective Date of payment of all retiree benefits, as that term is defined in section 1114 of the Bankruptcy Code, at the level established pursuant to subsection (e)(1)(B) or (g) of section 1114, at any time prior to confirmation of the Plan, for the duration of the period the Debtor has obligated itself to provide such benefits. The Debtor does not believe this requirement is applicable to the Bankruptcy Case.

There are various other provisions governing the confirmation of the Plan which, on their face, the Debtor does not believe applicable (and are related instead to the confirmation of an individual person's Chapter 11 plan).

E. CRAMDOWN

The Bankruptcy Court may confirm the Plan at the request of Debtor if: (a) all of the requirements of section 1129(a) of the Bankruptcy Code are met, with the exception of section 1129(a)(8); (b) at least one Class of Claims that is impaired under the Plan has accepted the Plan (excluding the votes of Insiders), if a Class of Claims is impaired; and (c) as to each impaired Class that has not accepted the Plan, the Plan does not "discriminate unfairly" and is "fair and equitable." This is referred to as Cramdown.

A Chapter 11 plan does not "discriminate unfairly" within the meaning of the Bankruptcy Code if the classification of claims under a plan complies with the Bankruptcy Code and no particular class will receive more than it is legally entitled to receive for its claims. The Debtor believes that the classifications established under the Plan are proper and that no Class under the Plan is receiving more than it is legally entitled to receive. "Fair and equitable," on the other hand, has different meanings for Secured and Unsecured Claims.

With respect to a Class of Secured Claims which rejects the Plan, to be "fair and equitable" the Plan must, among other things, either: (a) provide that the holders of such Secured Claims retain their liens securing such Claims, whether the property subject to such liens is retained by the Debtor or transferred to another entity, to the extent of the Allowed amount of such Claims, and that each holder of a Secured Claim in 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 Estates' interest in such property; or (b) provide for the sale, subject to section 363(k) of the Bankruptcy Code, of any property that is subject to the liens securing such Secured Claims, free and clear of such liens, with such liens to attaching to the proceeds of such sale, and the treatment of such liens on such proceeds in accordance with the Bankruptcy Code; or (c) provide for the realization by the holders of such Secured Claims of the indubitable equivalent of such Claims. The Debtor believes that the Plan is fair and equitable to each Class of Secured Claims under the Plan and that, in fact, all such Classes are unimpaired.

With respect to a Class of Unsecured Claims which rejects the Plan, to be "fair and equitable" the Plan must, among other things, either: (a) provide that each holder of an Unsecured Claim in 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) not allow the holder of any Claim that is junior to the Unsecured Claims of such Class to receive or retain any property under the Plan on account of such junior Claim; *i.e.* not permit any holder of any equity interest in the Debtor to retain anything under the Plan on account of such interest. This is called the Absolute Priority Rule and protects Unsecured Creditors by ensuring that equity owners do not retain their equity interests without payment in full to Unsecured Creditors.

In the event that at least one Class of Claims is impaired under the Plan, and if at least one impaired Class of Claims under the Plan accepts the Plan and one or more Classes of impaired Claims rejects the Plan, the Debtor will seek confirmation of the Plan under the cramdown provisions of section 1129(b) of the Bankruptcy Code. In such event, the Bankruptcy Court will determine, at the Confirmation Hearing, whether the Plan is fair and equitable and whether it does or does not discriminate unfairly against any rejecting impaired Class of Claims.

F. EFFECTIVE DATE OF THE PLAN

The Plan will become effective upon the occurrence of the Effective Date, which is defined in the Plan as the first Business Day fourteen (14) days after the Confirmation Date if the Confirmation Order is not stayed or, if the Confirmation Order is stayed, the first Business Day following the lifting, dissolution, or removal of such stay which is at least fourteen (14) days after the Confirmation Date, and upon which the conditions to the effectiveness of the Plan set forth in the Plan are satisfied. Pursuant to the provisions of the Plan, the Debtor will transmit

notice of the effectiveness of the Plan if the Bankruptcy Court confirms the Plan and all conditions precedent to the Plan's effectiveness are satisfied. Said notice will additionally specify various other Plan deadlines that are triggered by the Effective Date of the Plan.

ARTICLE VI.
BACKGROUND INFORMATION

A. THE DEBTOR

The Debtor, in existence since 1997, is in the oil and gas industry. Specifically, the Debtor was predominantly an operator, owning or otherwise having interests in numerous wells in Texas and New Mexico from which the Debtor extracts oil and gas for sale to first purchasers. Like every producer and party in this industry, the Debtor has suffered from the recent unprecedented decline in the price of oil, which has left the Debtor in breach of non-monetary covenants with its Senior Secured Lender and unable to continue paying default interest and capital repayments.

B. EVENTS LEADING TO THE DEBTOR'S BANKRUPTCY FILING

The events leading to the Debtor's bankruptcy filing are simple. Since early 2015, the oil and gas industry has seen a precipitous decline in oil prices, with the Debtor receiving a low in February 2016 of approximately $26 dollars per barrel. The Debtor, expertly managed, cut costs to the absolute bare minimum, but could not continue to meet debt service obligations to the Senior Lender, especially once default interest began to accrue. It is only due to low oil prices that the Debtor made the decision to file for bankruptcy.

C. CASH COLLATERAL

As of the Petition Date, the Senior Lender held a valid, perfected, and unavoidable lien and security interest against all of the Debtor's cash, funds on account, account receivables, and other similar property. Under the Bankruptcy Code, this gave the Senior Lender liens on "cash collateral," as defined in the Bankruptcy Code. This meant that the Debtor could only use the Senior Lender's cash collateral with the approval of the Senior Lender or order of the Bankruptcy Code. Through multiple motions filed throughout the Bankruptcy Case, the Debtor sought and obtained approval to use cash collateral, usually with the consent of the Senior Lender but on at least one occasion, after a contested hearing. Under the Bankruptcy Code, the Senior Lender was entitled to certain protections as a result of the use of its cash collateral, as the Bankruptcy Court confirmed through the entry of multiple orders. These protections included a replacement lien against all property of the Debtor for any diminution in the value of the Senior Lender's collateral and a superpriority administrative claim for any such diminution (being a type of claim that must be paid in full first before any administrative claim or lower priority claim can be paid). The Senior Lender agreed to "carveouts" from its liens and from these protections to enable the Debtor to pay ongoing operating expenses and certain legal and reorganization expenses, in limited amounts.

During the course of the Bankruptcy Case, the Senior Lender asserted that its collateral had diminished significantly as a result of the Debtor's use of cash collateral. The Senior Lender

filed at least one motion seeking the allowance of a superpriority diminution claim, which motion the Debtor contested. Ultimately, as part of the Debtor's overall settlement with the Senior Lender discussed below, the Debtor agreed to, and the Bankruptcy Court ordered, a superpriority diminution claim in the amount of $457,300 for the period between the Petition Date and February 28, 2017, with an additional $95,300 per month thereafter, less all adequate protection payments the Debtor made to the Senior Lender. As part of that settlement, and notwithstanding this superpriority claim, the Senior Lender has agreed to the $169,000.00 Wind Down Funding as a carveout from its liens and claims, provided that all conditions in that settlement are otherwise met.

D. MOTION TO APPOINT TRUSTEE

On October 12, 2016, the Senior Lender filed a motion with the Bankruptcy Court seeking the appointment of a Chapter 11 trustee over the Debtor. At a hearing held on November 4, 2016, the Bankruptcy Court denied that motion, as confirmed by an order entered by the Bankruptcy Court denying that motion entered on November 10, 2016.

E. PRIOR WITHDRAWN PLAN OF REORGANIZATION

In September, 2016, the Debtor filed a proposed plan of reorganization, which would have provided for new capital to be invested in the Debtor and a restructure of the Debtor's obligations. The Senior Lender heavily contested this proposed plan. Ultimately, the Bankruptcy Court approved a disclosure statement in support of that plan and Creditors voted on the Plan, with the Senior Lender rejecting the plan. This set the stage for a contested confirmation hearing in late January, 2016. Once the Debtor reached the settlement with the Senior Lender discussed below, the Debtor formally withdrew its prior plan of reorganization, and a confirmation hearing never occurred.

F. SETTLEMENT WITH THE SENIOR LENDER

Since the filing of the Bankruptcy Case, the Debtor and the Senior Lender had a fundamental difference of opinion regarding where the Bankruptcy Case should go, with the Debtor preferring a reorganization and the Senior Lender preferring a sale, after a marketed auction, of the Debtor's oil and gas assets. In early January, 2016, with the contested confirmation hearing approaching, and with the Senior Lender alleging large postpetition diminution claims under the case collateral orders, the Debtor approached the Senior Lender about a settlement. As a result, the Debtor and the Senior Lender reached an agreement whereby the Debtor would withdrew its prior plan of reorganization, retain a broker to market its oil and gas assets at a Bankruptcy Court supervised auction, retain an independent manager for purposes of the sale, and to ultimately sell its oil and gas assets and pay the Senior Lender the net proceeds. In return, the Senior Lender agreed to set aside some of its cash collateral, in the form of the Wind Down Funding, to pay other Creditors, and the Senior Lender agreed to a process whereby Clearwater would be retained by the Debtor or sold by the Debtor free and clear of the Senior Lender's liens. The Bankruptcy Court approved this comprehensive settlement by its order entered on April 26, 2017.

G. SALE OF OIL AND GAS ASSETS

As a result of the Debtor's settlement with the Senior Lender, the Debtor retained Anderson King as its broker to market its oil and gas assets, and it retained Tom Ervin as an independent manager whose job it was to maximize the likely sale price for those assets. The Debtor proposed, and the Bankruptcy Court approved, various stalking horse and auction procedures and protections, which the Debtor followed. Ultimately, after receiving several bids for its oil and gas assets, the Debtor accepted the bid for those assets of Pogo Resources, LLC, for the gross purchase price of $9 million. The Bankruptcy Court approved this bid and the sale, and the sale closed on August 18, 2017, with most of the net proceeds used to pay the Senior Lender (and other net proceeds retained to pay Anderson King). Since the closing of that sale, the Debtor has no ongoing business operations and has not generated revenue.

H. THE JOA LAWSUIT

On August 12, 2016, Sheridan Holding Company II ("Sheridan"), LLC filed a complaint with the Court to determine whether the proceeds generated from the sale of hydrocarbons to third-party purchasers are property of the Estate and to determine the extent of the Debtor's and the Senior Lender's interest in those proceeds pursuant to various joint operating agreements in which Sheridan is a counterparty among other related causes of action. Said Complaint initiated adversary proceeding no. 16-3118-bjh pending before this Court. The Complaint also named MUFG Union Bank, and Redmon Oil Company, Inc. ("Redmon") as co-defendants. On August 23, 2016, Redmon Oil filed its *Answer, Counterclaims, Cross-claims, and Third-Party Complaint* asserting various causes of action including a determination of whether the proceeds generated from the sale of hydrocarbons to third-party purchasers are property of the Estate and to determine the extent the Debtor and the Senior Lender have an interest in the proceeds. Redmon's cross-complaint also named George Fenton, David Plaisance, and John Orsini, individually, as defendants.

On September 6, 2016, Redmon sought a preliminary injunction against the Debtor seeking the segregation of funds related to Redmon's non-operator working interests in wells operated by the Debtor. On September 22, 2016, after a hearing and considering related objections and briefing, an agreed stipulation was reached to net post-petition proceeds owed to Redmon minus any related joint interest billing on a monthly basis.

Ultimately, as a result of the sale of the Debtor's oil and gas assets and the Debtor's settlement with the Senior Lender, both discussed above, the Debtor reached a settlement with Sheridan and Redmon whereby the Debtor paid these entities all amounts that were owed and that were subject to the Adversary Proceeding.

I. AVOIDANCE ACTIONS

The Plan preserves and retains all Avoidance Actions and vests them in the Liquidating Debtor (except those that were released in the Bankruptcy Case, such as with respect to the Senior Lender in connection with the cash collateral orders). The Senior Lender has a diminution claim against any Avoidance Actions on account of its diminution claims. In the

event that the Liquidating Debtor prosecutes any Avoidance Actions after the Effective Date, any net proceeds would be payable to the Senior Lender.

With respect to prepetition transfers to insiders, the Debtor paid salary, expense reimbursement, and royalties to its insiders. Additionally, in December, 2012, the Debtor paid its insiders dividends in the following amounts: George G. Fenton, $1,649,991.01; David Plaisance, $128,211.71, Michael Horn, $192,433.07, and E. Holstein (not believed to be an insider), $29,364.09, for a total of $2 million. Separately, in December, 2014, the Debtor paid bonuses to Messrs. Fenton, Plaisance, and Horn in the combined amount of $1 million. All of these dividends and bonuses were expressly approved by the Senior Lender Moreover, these individuals made capital contributions to the Debtor in the combined amount of $800,000.00 between August, 2015 and February, 2016, to help the Debtor make payments to the Senior Lender.

J. SPILLS

Two spills of saltwater used in extracting oil and gas occurred in the State of New Mexico.

In February 2017 a release of oil and produced water occurred at the combined Posey A5/East Caprock SWD #5 batteries in Section 11, T12S, R32E in the East Caprock Field, Lea County, New Mexico. A leak in the heater-treater vessel caused a release of oil and produced water, which contaminated an area in and around the battery and flowed onto a portion of the gravel road leading to the location. Concurrently, the East Caprock SWD #5 transfer pump lost seal and also leaked produced water into the battery. Through an Environmental Consultant (Larson & Associates), a report was filed and a subsequent remediation plan was submitted for approval to the New Mexico State OCD. The Posey#5 Spill occurred before the Effective Date (May 1, 2017) of the sale of Paladin's oil and gas assets. Paladin has a 50% working interest in this lease, and it's share was fully insured with Travelers. Gross costs associated with the Posey#5 Spill as of August 29, 2017 total $262,477. Of these, $208,519 has been submitted to Travelers, in 3 batches, and Travelers has so far remitted in full Paladin's share of the first two batches (disallowing one or two minor invoices as not strictly applying to the spill). The Debtor expects the New Mexico OCD approve the final remediation plan shortly, which will allow the work to be completed and the project closed-out. The Traveler's insurance proceeds and payments payable to the Debtor are the collateral of the Senior Lender.

The Debtor and its management continue to assist in processing various insurance claims from this spill, and is in negotiations with Pogo (the buyer) and the Senior Lender to continue assisting with administering this process until the spill is cleaned and all insurance proceeds are paid. The Debtor will supplement this disclosure once these negotiations result in a definitive agreement, which the Debtor anticipates it will seek approval of from the Bankruptcy Court.

Separately, an accidental release of produced water occurred on June 11, 2017 on the East Caprock SWD #5 Well location in the East Caprock Field, Lea County, New Mexico. A connection on the in-flow manifold failed on the injection well site and caused produced water to be released. Before being discovered the following morning, the release was sufficient to overflow the berm and spill into the surrounding pasture land to a distance of approximately 950

feet. An estimated total of 1,700 bbls of produced water was released, but approximately 1,020 bbls was recovered. A plan of investigation and remediation was submitted to the New Mexico OCD by Larson & Associates. Work on remediation will begin once the plan is approved by the OCD. The E. Caprock SWD#5 Spill occurred after the effective date of the sale of Paladin's oil and gas assets. Hence the costs associated with this spill are to Pogo's account. Paladin had a 50% working interest in this lease, and was fully insured with Travelers. Pogo has retained EeTradeco to supervise the Caprock SWD#5 Spill. Paladin is cooperating by passing on to Pogo any invoices or insurance reimbursements to EeTradeco.

K. TRANSITION AGREEMENT WITH POGO

On or about October 18, 2017, in the ordinary course of its business, the Debtor entered into that certain *Transition Agreement* with Pogo Resources, LLC (the purchaser of the Debtor's oil and gas assets) and EeTradeco, LLC, the purpose of which is to enable all insurance proceeds relating to the aforementioned spill to be processed and paid and all responsible working interest owners appropriate charged for their share of expenses. Under that agreement, EeTradeco, LLC and Pogo Resources will take primary responsibility for the same, including completion of the cleanup work. Remaining insurance proceeds (and other rights related to the spill) are the collateral of the Senior Lender and will be paid over to the Senior Lender. The Senior Secured Lender acknowledges that the Debtor's entry into the Transition Agreement, so long as the parties to the Transition Agreement faithfully comply with all obligations contained therein, would not in and of itself be a default under the Settlement Agreement or under any cash collateral order entered in the Debtor's bankruptcy case. The Debtor acknowledges that the Transition Agreement does not relieve the Debtor of obligations that it owes the Senior Lender under the Settlement Agreement and is not a novation. It is further acknowledged that the purpose of the Transition Agreement is to facilitate continued performance under the Settlement Agreement. The Senior Lender reserves all rights to enforce the obligations owed by the Debtor under the Settlement Agreement. A failure by Pogo Resources, LLC and/or EeTradeco, LLC to perform under the Transition Agreement may result in a breach by the Debtor under the Settlement Agreement.

L. REMAINING ASSETS

With the Debtor having sold its oil and gas assets, very few assets remain. The Wind-Down Funding remains, as well as insurance proceeds and receivables (related to the spill discussed above), which are the collateral of the Senior Lender. Minor other assets, such as bonds and deposits remain, which are also the collateral of the Senior Lender. The Debtor will continue reasonably administering these assets and turning over appropriate proceeds to the Bank. None of these assets can be used for the benefit of any other Creditor.

ARTICLE VII.
PROJECTIONS, LIQUIDATION ANALYSIS, AND PLAN ALTERNATIVES

A. FUTURE PROJECTIONS

Because the Debtor has ceased business operations, it is not generating and will not generate any revenue. The Debtor has therefore not prepared any future projections, since there

are none to prepare. To the extent that any of the Residual Funds remain, or any other property remains (including causes of action and claims related to insurance claims), all such property is the collateral of the Senior Lender and cannot be used to pay any Creditor other than the Senior Lender.

B. LIQUIDATION ANALYSIS

As a condition to confirmation of a plan, section 1129(a)(7)(A)(ii) of the Bankruptcy Code requires that each impaired Class must receive or retain at least the amount of value it would receive if the Debtor was liquidated under Chapter 7 of the Bankruptcy Code on the Effective Date of the Plan. This is frequently referred to as the "best interests" test. The Debtor has liquidated, and is liquidating, so the only difference is what the liquidation would look like in a Chapter 7.

Most importantly, the Senior Lender has a valid, first priority, perfected, and not avoidance lien on all property of the Debtor and the Estate, securing a claim in excess of $12 million. It is not possible that the Senior Lender will be paid in full from these assets, meaning that there is no money or property to pay any Creditor other than the Senior Lender. For this reason, the Debtor negotiated, and the Senior Lender agreed to, the Wind-Down Funding of $169,000.00, which will pay Administrative Claims, Priority Claims, Secured Tax Claims, and which will likely result in a meaningful distribution to Unsecured Creditors. The Senior Lender has agreed to do so only as part of a confirmed Chapter 11 plan, and not in Chapter 7. Thus, in a Chapter 7 liquidation, the Wind-Down Funding would not be available and there would be no assets to monetize for the benefit of any Creditor other than the Senior Lender.

Therefore, in a Chapter 7 liquidation, holders of Administrative Claims, whether Chapter 7 or Chapter 11, would receive nothing. Holders of Priority Claims and Unsecured Claims would likewise receive nothing. Liquidating through the Plan results in a higher return to every Class of Creditors than does a Chapter 7 liquidation.

C. ALTERNATIVES TO CONFIRMATION OF THE PLAN

The only alternative to the Plan is liquidation through Chapter 7. The Debtor has sold its oil and gas assets and has no further business operations. The Bankruptcy Court has found by final and non-appealable orders that the Senior Lender has valid, first priority, perfected, and not-avoidable liens on all remaining property of the Debtor and the Estate. Any alternative to the Plan would mean that the Wind-Down Funding would not be available and that, whatever property of the Debtor and the Estate remains to liquidate, would merely be paid over to the Senior Lender.

ARTICLE VIII.
RISK FACTORS

There is risk that the Plan will not be confirmed. If that occurs, the only likely remaining course is to convert the Bankruptcy Case to Chapter 7. If the Plan is confirmed, then there is little risk in using the Wind-Down Funding to make payments under the Plan, because the funds are on hand and do not depend on future projections and operations, and because payments to

Creditors under the Plan likewise do not depend on future operations, revenue, projections, and income. There is a risk to Priority Creditors that they may not be paid in full, if Allowed Priority Claims (or Allowed Administrative Claims) come in higher than reasonably expected. There is also risk to Unsecured Creditors because, if the Wind-Down Funding is first used to pay Allowed Administrative Claims and Allowed Priority Claims in full, and those claims come in higher than reasonably expected, then less of the Wind-Down Funding will remain, if any, for distribution to Unsecured Creditors.

ARTICLE IX.
CERTAIN INCOME TAX CONSEQUENCES OF THE PLAN

THE PLAN AND ITS RELATED TAX CONSEQUENCES ARE COMPLEX. THERE ALSO MAY BE STATE, LOCAL OR OTHER TAX CONSIDERATIONS APPLICABLE TO EACH CREDITOR. CREDITORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE CONSEQUENCES OF THE PLAN TO THEM UNDER FEDERAL AND APPLICABLE STATE, LOCAL AND OTHER TAX LAWS. NOTHING IN THIS DISCLOSURE STATEMENT OR IN THE PLAN IS MEANT TO PROVIDE ANY TAX ADVICE TO ANY CREDITOR.

ARTICLE X.
CONCLUSION

The Debtor urges holders of Claims in impaired Classes to vote to **ACCEPT** the Plan and to evidence such acceptance by returning their ballots so that they will be received on or before 5:00 p.m., Central Standard Time, on January 10, 2018.

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MUNSCH HARDT KOPF & HARR, P.C.

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