**IN THE UNITED STATES BANKRUPTCY COURT**
**FOR THE SOUTHERN DISTRICT OF TEXAS**
**HOUSTON DIVISION**

| | | |
|---|---|---|
| **IN RE:** | § | |
| | § | **CASE NO. 15-60003-H2-11** |
| **ROYALTY PARTNERS, LLC.** | § | **(Chapter 11)** |
| **Debtor** | § | **JUDGE JONES** |

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# Trustee's First Amended Disclosure Statement

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Comes now Rodney Tow, Trustee for Royalty Partners, LLC, (the "Trustee"), and files this First Amended Disclosure Statement pursuant to the provisions of Section 1125 of Title 11 of the United States Code. A Mediated Settlement Agreement was approved by the Court on July 10, 2016. The Mediated Settlement Agreement is attached hereto as Exhibit "A" and fully incorporated herein by reference. If there is a conflict between the terms of this First Amended Disclosure Statement and the Mediated Settlement Agreement, the terms of the Mediated Settlement Agreement control.

## Table of Contents


| | Topic | Page |
|---|---|---|
| I. | Introduction | 3 |
| II. | Nature of Chapter 11 Reorganization Proceedings | 5 |
| III. | Consideration in Voting on Chapter 11 Plan | 7 |
| IV. | History of the Debtor | 10 |
| | A. Background | 10 |
| | B. Events Leading to Chapter 11 Filing | 13 |
| | C. Operation and Present Condition of the Debtor While in Chapter 11 | 14 |
| V. | Anticipated Future of the Debtor | 16 |
| VI. | Source of information for this Disclosure Statement | 16 |

VII. Disclaimer .....17

VIII. Professional Fees .....18

IX. Description of Assets .....18

X. Summary of Plan .....18

A. Other Provisions .....21

B. Bar Dates for Filing Proof of Claims .....21

XI. Pending Litigation .....22

XII. Alternatives to the Plan Proposed .....22

A. Conversion .....22

B. Dismissal .....24

C. Default .....24

XIII. Federal Income Tax Consequences to Creditors .....25

XIV. Means for Implementation and Execution of the Plan .....26

XV. Modification of Disclosure .....26

XVI. Disclosure Required by the Bankruptcy Code .....27

XVII. Fraudulent and Preferential Transfers .....27

XVIII. Other Bankruptcies .....28

XIX. Conclusion .....28

## NOTICE TO CREDITORS AND PARTIES IN INTEREST

**THE TRUSTEE RECOMMENDS THAT ANY REPRESENTATION OR INDUCEMENT MADE TO SECURE YOUR ACCEPTANCE OF THE PLAN WHICH IS NOT CONTAINED IN THIS DISCLOSURE STATEMENT, NOT BE RELIED UPON BY YOU IN REACHING YOUR DECISION ON HOW TO VOTE ON THE PLAN. ANY REPRESENTATIONS OR INDUCEMENT MADE TO YOU NOT CONTAINED HEREIN SHOULD BE REPORTED TO THE ATTORNEYS FOR THE TRUSTEE WHO SHALL DELIVER SUCH INFORMATION TO THE DISTRICT COURT FOR SUCH ACTION AS MAY BE APPROPRIATE.**

## I.
## Introduction

On January 27, 2015, the Debtor filed a Voluntary Petition under Chapter 11 of Title 11 of the United States Code. On March 10, 2015, Creditor J.W. "Bill" Rhea, IV filed an Emergency Motion to Appoint a Chapter 11 Trustee (the "Emergency Motion"). Creditor Julian Batchelor joined in the Emergency Motion. After notice and a hearing, the Court entered an Order granting the Emergency Motion on March 24, 2015 at Docket No. 33. On March 30, 2015, Rodney Tow was appointed the Chapter 11 Trustee, qualified, and continues to act in that capacity.

Until approximately September 17, 2015, the Debtor had remained in possession of its property pursuant to the provisions of 11 U.S.C. §§1107 with oversight by the Trustee. On or about September 17, 2015, Bill Rhea assumed control over the Debtor with oversight by the Trustee. The Trustee has retained the law firm of Cooper & Scully, PC, Julie M. Koenig as Lead Counsel for the Trustee. The Trustee's legal and Trustee fees are subject to approval by the Bankruptcy Court after notice and hearing.

The first meeting of creditors pursuant to §341 of the Code was held and concluded on March 10, 2015, at the United States Trustee's office in Houston, Texas, prior to the Chapter 11 Trustee's appointment.

This Disclosure Statement ("Disclosure Statement") is provided pursuant to 11 U.S.C. §1125 to all of the Debtor's known creditors and other parties-in-interest in connection with the solicitation of acceptance of the Debtor's Plan of Reorganization (the "Plan") filed by Rodney Tow, Trustee. This Disclosure Statement contains important information about the Plan. The purpose of this Disclosure Statement is to provide such information as would enable a hypothetical, reasonable creditor typical of the holders of claims in this reorganization case to make an informed judgment in exercising its vote to either accept or reject the Plan. The Trustee has prepared this Disclosure Statement in order to disclose that information which, in his opinion, is material, important, and necessary to an evaluation of the Plan.

**THE PLAN IS NOT A PART OF THIS DISCLOSURE STATEMENT AND MUST BE REVIEWED INDEPENDENTLY.**

This Disclosure Statement must be approved by the Bankruptcy Court and/or District Court, after notice and hearing, prior to the solicitation of creditors with respect to their acceptance of the Plan.

Your vote on the Plan is important. In order for the Plan to be deemed "accepted" by creditors, Sixty-Six and Two-Thirds Percent (66-2/3%) in amount of claims and more than Fifty Percent (50%) in number of claims voting in each class must accept the Plan. In the event the Plan is not accepted by any class, the Trustee will request confirmation of the Plan in accordance with the provisions of 11 U.S.C. §1129(b). Whether or not you expect to be present at the

Confirmation Hearing, you are urged to fill in, date, sign and properly mail the Ballot to the United States Bankruptcy Court, 515 Rusk Avenue, Room 1123, Houston, Texas 77002, with a copy to Julie M. Koenig, 815 Walker, Suite 1040, Houston, Texas 77002, Attorney for the Trustee.

## II.
## Nature of Chapter 11 Reorganization/Liquidation Proceedings

Chapter 11 of the Bankruptcy Code is a remedial statute designed to effect the rehabilitation and reorganization/liquidation of financially distressed individuals and entities or the orderly liquidation of the Debtor's property to maximize the return to the Debtor's unsecured creditors. The statutory aims of reorganization/liquidation proceedings include the following:

(a) preservation of the Debtor's property as a "going concern" and the preservation of any going concern value of the Debtor's business and property;

(b) avoidance of the forced and destructive liquidation of the Debtor's assets;

(c) the protection of the interest of the creditors, both secured and unsecured;

(d) the restructuring of the debts of the Debtor and its finances to enable it to retain those assets necessary to rehabilitate its finances and produce the greatest recovery for its creditors.

While the formulation and confirmation of a Plan of Reorganization/Liquidation is the principal function of a Chapter 11 case, Congress recognized in 11 U.S.C. Section 1123(a)(5)(d), that the sale of all or any part of the property of the estate and the distribution of all or part of the property of the estate among those having an interest in the property is also a legitimate function of a Chapter 11 proceeding. Therefore, a Plan may affect the interest of all parties and creditors, reject executory contracts and provide for prosecution and/or settlement of the Debtor's claims

against third parties. For a Plan to be confirmed by the Court, the Code requires that the Court finds that the Plan has received the favorable votes of certain requisite classes and that the Plan be "fair, equitable and feasible," as to any dissenting classes of creditors. A more detailed description of the voting requirements of a Plan is set forth on pages 7 - 9 of this Disclosure Statement.

To be determined "fair and equitable", a Plan must comply with the so-called "absolute priority rule". The absolute priority rule requires that beginning with the most senior rank of claims of creditors against the Debtor, each class in descending rank or priority must receive full and complete compensation before an inferior or junior classes may participate in the distribution. The Plan must be accepted by the affirmative vote of a majority of creditors holding two-thirds in amount of claims filed and allowed by each class, unless adequate provisions are made for the classes of descending creditors. The foregoing is a brief summary of the requirements for a Plan and should not be relied upon for voting purposes. Creditors are urged to consult their own counsel before making any decisions on a Plan filed herein.

In addition to the above, 11 U.S.C. §1125 requires that a Debtor, or in this case the Trustee, compile a Disclosure Statement which provides "adequate information" to creditors before anyone may solicit acceptance of a Chapter 11 Plan. This Disclosure Statement is prepared in accordance with Section 1125 to provide "adequate information" to the creditors in this proceeding. Creditors are urged to consult with their own individual counsel or each other and to review all of the pleadings filed in this bankruptcy proceeding in order to fully understand the disclosures made herein, the Plan of Reorganization filed herein, and any other pertinent matters in this proceeding.

This Chapter 11 proceeding is conducted under the supervision of the Bankruptcy Judge for the United States Bankruptcy Court for the Southern District of Texas, Victoria Division, with hearings being held in Houston. Pursuant to the Code, the Court may:

(a) Authorize the Trustee or someone he may appoint, to operate the Debtor's business and manage its property;

(b) Permit acceptance and/or rejection of executory contracts;

(c) Authorize the Trustee to issue certificates of indebtedness;

(d) Authorize the Trustee to lease or sell the property of the Debtor;

(e) Grant or deny relief from the stay or any suit against the Debtor and of any acts or proceedings to enforce a lien against the Debtor's property; and

(f) Approve and confirm any Plans of Reorganization or Liquidation.

## III.
## Considerations in Voting on The Chapter 11 Plan

**Operation of Chapter 11**. Chapter 11 of the Bankruptcy Code permits the adjustment of secured debts, unsecured debts, and equity interests. A Chapter 11 Plan may provide less than full satisfaction of senior indebtedness and payment of junior indebtedness or may provide for return of the stock in a Debtor corporation to its equity owners absent full satisfaction of indebtedness provided that an impaired class does not vote against the Plan.

If an impaired class votes against the Plan, implementation of the Plan is not necessarily impossible. Provided that the Plan is fair and equitable and that each class is afforded treatment as allowed by and defined in the Bankruptcy Code, treatment of a particular class may be very broadly defined as providing to a creditor the full value of its claim. The value of that creditor's claim is determined by the Court and balanced against the treatment afforded the dissenting class

of creditors. If the latter is equal to or greater than the former, the Plan may be confirmed over the dissent of that class, depending on junior claims and interests.

In the event a class is unimpaired, it is automatically deemed to accept the Plan. A class is unimpaired if:

1. Its rights after confirmation are the same as existed (or would have existed absent any default) before the commencement of the Chapter 11 case, that any existing defaults are cured or provided for under the plan, and the class is reimbursed actual damages; or

2. The allowed claims of the class are paid in full in cash as they are matured.

If there is no dissenting class, the test for approval by the Court of a Chapter 11 Plan is whether the Plan is in the best interest of the creditors and interest holders, and is feasible.

**IN SIMPLE TERMS, A PLAN IS CONSIDERED BY THE COURT TO BE IN THE BEST INTEREST OF CREDITORS AND INTEREST HOLDERS IF THE PLAN WILL PROVIDE A BETTER RECOVERY TO THE CREDITORS AND INTEREST HOLDERS THAN THEY WOULD OBTAIN IF THE DEBTOR WERE LIQUIDATED AND THE PROCEEDS OF THE LIQUIDATION WERE DISTRIBUTED IN ACCORDANCE WITH THE BANKRUPTCY LIQUIDATION PRIORITIES. IN OTHER WORDS, IF THE PLAN PROVIDES CREDITORS AND INTEREST HOLDERS WITH MONEY OR OTHER PROPERTY OF VALUE EXCEEDING THE PROBABLE DIVIDEND IN LIQUIDATION BANKRUPTCY THEN THE PLAN IS IN THE BEST INTEREST OF CREDITORS AND INTEREST HOLDERS (THE COURT, IN CONSIDERING THIS FACTOR, IS NOT REQUIRED TO CONSIDER ANY OTHER ALTERNATIVE TO THE PLAN OTHER THAN LIQUIDATION BANKRUPTCY).**

In considering feasibility, the Court is only required to determine whether the Plan can be accomplished by the Trustee. This entails determining:

A. The availability of cash for payments required at confirmation;

B. The ability of the Trustee to make payments called for under the Plan; and

C. The absence of any other factor which might make it impossible for the Trustee to accomplish that which it promises to accomplish in the Plan as contemplated in the Plan.

In addition, in order to confirm a Plan the Court must find, among other things, that the Plan was proposed in good faith and that the Plan and its proponents are in compliance with the applicable provisions of Chapter 11.

These determinations by the Court occur at the hearing on confirmation of a Plan. The Court's judgment on these matters does not constitute an expression of the Court's opinion as to whether the Plan is a good one or an opinion by the Court regarding any debt instrument or equity interest or security interest issued to creditors under the Plan. Rather, the Court's judgment is merely that the Plan complies with the applicable Code provisions and has garnered sufficient votes by its creditors for confirmation.

**UPON SATISFACTION OF §1129(a) GENERAL CONFIRMATION STANDARDS, BUT EXCLUDING PARAGRAPH (8), THE TRUSTEE MAY REQUEST THAT THE COURT CONFIRM THE PLAN OVER THE DISSENT OF A CLASS. THE COURT IS REQUIRED TO CONFIRM IF THE PLAN MEETS WITH THE CRAM DOWN STANDARDS SET FORTH IN §1129(b). THIS PROCEDURE IS THE PROCESS BY WHICH A DISSENTING CLASS OF CREDITORS OR INTERESTS IS BOUND BY THE TERMS OF A CHAPTER 11 PLAN WITHOUT ITS CONSENT. THIS PLAN MAY BE CONFIRMED WITH REFERENCE TO A NON-ACCEPTING IMPAIRED CLASS IF TWO STANDARDS ARE MET: (1) THE PLAN DOES NOT DISCRIMINATE UNFAIRLY AGAINST THE CLASS, AND (2) THE PLAN IS FAIR AND EQUITABLE WITH REFERENCE TO THE CLASS. UPON SUCH DETERMINATION, THE COURT WILL BIND THE DISSENTING CREDITOR(S) TO THE PLAN WITHOUT ITS CONSENT.**

## IV.
## History of The Debtor

### A. Background

The Debtor, Royalty Partners, LLC is a "Member Managed" Delaware limited liability company. The Debtor (the "Debtor") was formed in January 2011, by its respective members, J.W. "Bill" Rhea IV ("Rhea"), Thomas Bowman ("Bowman"), Randy Parsley ("Parsley"), W. Scott Thompson, Jr. ("Thompson, Jr."), W. Scott Thompson, Sr. ("Thompson Sr.") and David Strawn ("Strawn"), (collectively the "RP Members and Management Team"). The membership percentage of each member initially was as follows:

| | | |
|---|---|---|
| 1. | Rhea | 26.08% |
| 2. | Bowman | 11.29%[1] |
| 3. | Thompson, Sr. | 26.08% |
| 4. | Thompson, Jr. | 10.22% |
| 5. | Strawn | 15.05% |
| 6. | Parsley | 11.29% |

The Debtor's purpose was to serve as a general partner in a limited partnership formed as a capital pool to invest in selected royalty interests located in the Eagle Ford Shale formation in Texas. As General Partner of Royalty Partners Investment Fund I, L.P, the Debtor was responsible for all management decisions that affected Royalty Partners Investment Fund I, L.P. Under the Royalty Partners Investment Fund I, L.P.'s agreement, the General Partner was entitled to an undivided interest in 25% of the Total Acquired Interests acquired utilizing Net Offering Proceeds of the Offering and an acquisition fee for the total royalty acres acquired.

[1] Bowman later purchased a 1% interest from Bill Rhea.

Additionally, the General Partner is entitled to an ongoing Administration Fee which is the lesser of 10% of the monthly gross revenue received by Royalty Partners Investment Fund I, L.P. or $19,979.

As the sponsor of an investment Capital Pool, investing in oil & gas interests, Royalty Partners was engaged in: (i) raising capital in a Capital Pool funded through investors in such Capital Pool and (ii) identifying key buy areas within the expansive 22,000 square mile Eagle Ford Shale Play ("Key Buy Areas"), and (iii) investing invested capital in its sponsored Capital Pool in strategically selected investments in mineral interests, royalty interests and overriding royalty interests within identified key buy areas. The investment decisions were based upon geological, financial and petrochemical analysis performed by members of Debtor's Management Team.

The Debtor's ability to attract investors in its Capital Pool was based nearly entirely on the Management Team's ability to gather, assimilate, interpret, analyze and evaluate data both public and private respecting both suitable key buy areas within the expansive Eagle Ford Shale Play, and locating, evaluating, analyzing, evaluating and ultimately acquiring investment opportunities within selected Key Buy Areas.

The Debtor's business plan was based on the ability of its Management Team to gather, assimilate, interpret, analyze and evaluate data, both public and private, respecting both suitable buy areas and, once identified, to utilize such data, along with relationships possessed by the Management Team, to locate, evaluate, select Key Buy Areas and Investment Opportunities within such Key Buy Areas and acquire investment opportunities within such Key Buy Areas. Accordingly, the Debtor, to raise funding in its Capital Pool, was required to demonstrate to

potential investors in its Capital Pool both the requisite expertise and the ability of the Management Team to generate, and interpret highly reliable information accompanied by the Debtor's ability to protect such information, including information concerning selected Key Buy Areas, and individual investment opportunities within such buy areas.

The Debtor was initially funded through the sale of a series of Limited Recourse Revenue Participation Notes ("LRRPN"), Series A-D at $25,000 each; and Series E at $100,000 each using a Limited Recourse Revenue Participation Note Purchase Agreement. To the Trustee's knowledge the following LRRPN's were sold:

1. Series A – Castle Partners, LLC, issued on October 1, 2011, in the amount of $50,000;
2. Series A – Silvey Children's Trust, issued in 2011, in the amount of $50,000;
3. Series A – Julian Batchelor, issued September 1, 2011, in the amount of $25,000;
4. Series B - Julian Batchelor, issued September 21, 2011, in the amount of $25,000;
5. Series B – Castle Partners, LLC, issued November 1, 2011, in the amount of $50,000;
6. Series B – Josie Marie Silvey, issued in 2011, in the amount of $25,000;
7. Series E - The Hebden Settlement, issued April 28, 2011, in the amount of $100,000; and,
8. Series E – G&S Bennett, Ltd, issued March 3, 2011, in the amount of $100,000;[2]

The holders of the LRRPN's were to be repaid out of 80% of the Debtor's Operating Cash Flow Distributions available under paragraph 5.02(a) of the Debtor's Limited Liability Company Operating Agreement. Such Notes (1) had no pledge of collateral, and were general obligation notes payable exclusively from "Available Operating Cash Flow, determined by

2 The Trustee believes there may be additional LRRPN's that he has not received.

Debtor's directors, after reserves for operating capital; and, (2) had no pledge of any other assets of Debtor including property interests earned by Debtor and distributable to Members under paragraph 5.02(b) of the Limited Liability Company Agreement.

**B. Events Leading To The Chapter 11 Filing.**

In August 2012, a state court lawsuit styled *Julian Batchelor and the Hebden Settlement v. Royalty Partners, LLC* was filed under cause number 2012-49195 in the 190th District Court of Harris County, Texas (the "State Court Litigation"). The State Court Litigation originated as a breach of contract action brought by investors Julian Batchelor and the Hebden Settlement against the Debtor related to the LRRPN's. A judgment on the breach of contract claim was entered in the State Court Litigation on June 23, 2014.

During the pendency of the State Court Litigation, an internal dispute arose between Rhea and the other Members of Royalty Partners, LLC in early 2013. The other Members alleged that Rhea breached his fiduciary duty by entering an agreement with a third party that could have been a business opportunity for Royalty Partners, LLC. Rhea did not believe that he breached his fiduciary duty to the Debtor, rather he believed that his Consulting Agreement with the Debtor allowed him to enter into other business opportunities. In response to this the other Members attempted to pursue a Member Buy Sell Agreement and purchase Rhea's interest in the Debtor.

In March 2013, the Debtor filed a counterclaim against Batchelor and Hebden, a third-party claim against Rhea for breach of fiduciary duty, and claims against other third party defendants. Rhea and other third party defendants then filed claims against Thompson, Sr., Thompson, Jr., Bowman, Parsley, Strawn and other defendants. The Debtor moved to compel

arbitration as to the claims between the Debtor and Rhea, which the Court granted.

On December 2, 2014, the 190th Judicial District Court of Harris County, Texas entered a Judgment Confirming Arbitration Award in favor of Rhea and against the Debtor. The Judgment Confirming Arbitration Award was the precipitating factor in the Debtor filing for Chapter 11 relief.

**C. Operation and Present Condition.**

On June 18, 2015, Judge Marvin Isgur conducted a Court Ordered mediation between the Trustee, Rhea, Batchelor and the Hebden Settlement through their Counsel, Bowman through his Counsel, Thompson, Sr., Thompson, Jr. and Larry Vick (the "Parties"). After extensive negotiations a Mediated Settlement Agreement was reached between the Parties. Parsley and Strawn subsequently joined in the Mediated Settlement Agreement. The Mediated Settlement Agreement allowed any Party other than the Trustee to withdraw from the agreement until 11:59 p.m. on July 2, 2015. No Party withdrew and the Mediated Settlement Agreement was approved by the Court on September 3, 2015. A true and correct copy of the Mediated Settlement Agreement is attached hereto as Exhibit "A" and fully incorporated herein by reference. **Notwithstanding anything stated to the contrary, this Disclosure Statement and the Plan are expressly bound by the terms of the Mediated Settlement Agreement and those terms are controlling.**

On December 23, 2015, the Ad Hoc Group of Limited Partners of Royalty Partners Investment Fund I, LP (the "Fund") filed a motion for relief from the automatic stay thereby seeking to remove the Debtor as the general partner of the Fund and to elect a new general partner. On February 16, 2016, the Court entered an Agreed Order Modifying the Automatic

Stay whereby the Trustee agreed that: (1) the Debtor would withdraw as General Partner effective January 31, 2016; (2) the Trustee would dismiss the adversary proceeding regarding a certain promissory note to the Fund in the amount of $1,578,842.00 (the "Promissory Note") would be dismissed while the Ad Hoc Group would withdraw its proof of claim regarding that Promissory Note; (3) the Fund would remain obligated to the Debtor on the Acquisitions Funding Advances Repayment Promissory Note (the Acquisitions Note") payable in an amount equal to 10% of the Fund's monthly gross revenues until paid in full; (4) the Fund would remain obligated to the Debtor for accrued and unpaid Administrative Fees incurred prior to January 27, 2015 payable in an amount equal to 5% of the Fund's monthly gross revenues until paid in full; and (5) the balance of the Acquisitions Note and the balance of the Pre-Petition Administrative fees will be negotiated in good faith and approved by the Court in a separate Rule 9019 filing. This determination has not yet occurred but will be concluded prior to confirmation of the Debtor's Plan. However, the Trustee believes the balance on the Administrative Fees is approximately $492,212.13 and the balance on the Acquisitions Note is approximately $130,682.76.

**D. <u>Indebtedness as of the Filing Date:</u>**

As of the date of filing[3], the Debtor's indebtedness was as follows:

| | | |
|---|---|---|
| 1. | Secured Debt: | $0.00 |
| 2. | Priority Debt: | $0.00 |
| 4. | Unsecured Debt: | $1,591,758.91 |
| 5. | Less reduction from Mediated Settlement Agreement | ($279,471.40)[4] |

[3] Post-petition the Debtor has incurred secured, priority, and Chapter 11 indebtedness which are shown on the Liquidation Analysis attached hereto as Exhibit "B".

**Total:** **$1,312,287.51**

All of the figures comprising this total include adjustments made from the Mediated Settlement Agreement approved by the Court.

## V.
## Anticipated Future of the Debtor

The Debtor shall operate according to the Mediated Settlement Agreement attached hereto as Exhibit "A".

### A. Liquidation Analysis:

The Trustee has prepared a liquidation analysis to assist the creditors and parties in interest in determining whether they shall receive more under the plan or more through an orderly liquidation of the Debtor's assets in a Chapter 7 Liquidation. A true and correct copy of the "Liquidation Analysis" is attached hereto as Exhibit "B" and incorporated herein by reference. The Trustee believes that, based upon the Liquidation Analysis, the creditors will receive more under the plan than through a Chapter 7 liquidation.

## VI.
## Source of Information for this Disclosure Statement

The information contained herein has not been subject to a certified audit. Much of the information, descriptions, values and facts contained herein are derived from the Debtor's books and records, documents filed with the Court, and conversations with the members, investors and input from their Counsel. Accordingly, the Trustee does not warrant or represent that the information contained herein is correct, although great effort has been made to be accurate. This

2.

[4] I deleted the claims of Randy Parsley, Thomas Bowman, Scotty Thompson and David Strawn from the Debtor's Schedule F.

Disclosure Statement contains, in summary, the Plan itself which is controlling in the event of any inconsistencies. Each creditor is urged to review the Plan prior to voting.

The statements contained in this Disclosure Statement are made as of the date hereof unless another time is specified herein and the delivery of this Disclosure Statement shall not under any circumstances create an implication that there has not been any change in the facts as set forth herein since the date hereof. All the terms herein have the same meanings as in the Plan unless the context requires otherwise.

## VII.
## Disclaimer

**EXCEPT AS SET FORTH IN THIS DISCLOSURE STATEMENT AND THE EXHIBITS, NO REPRESENTATIONS CONCERNING THE DEBTOR, ITS ASSETS, PAST OR FUTURE BUSINESS OPERATIONS, OR 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 SHOULD BE REPORTED TO COUNSEL FOR THE TRUSTEE. THERE HAS BEEN NO INDEPENDENT AUDIT OF THE FINANCIAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT. THE TRUSTEE IS NOT ABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT INACCURACY. THE FACTUAL INFORMATION REGARDING THE DEBTOR, THE DEBTOR'S ESTATE, ITS ASSETS AND LIABILITIES HAS BEEN DERIVED FROM THE DEBTOR'S RECORDS, THE DEBTOR'S SCHEDULES, CONVERSATIONS, PUBLIC RECORDS AND RELATED DOCUMENTS SPECIFICALLY IDENTIFIED HEREIN.**

**NEITHER THE TRUSTEE NOR HIS COUNSEL CAN WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS WITHOUT ANY INACCURACY, ALTHOUGH THEY DO NOT HAVE ACTUAL KNOWLEDGE OF ANY INACCURACIES.**

**APPROVAL OF THIS DISCLOSURE STATEMENT IS NOT A FINDING BY THE COURT THAT THE INFORMATION CONTAINED HEREIN IS ACCURATE AND COMPLETE. FURTHER, APPROVAL OF THE DISCLOSURE STATEMENT IS NOT AN INDICATION BY THE COURT OF THE CONFIRMABILITY OF THE PLAN.**

**THE ABILITY OF THE TRUSTEE TO ACHIEVE HIS PROJECTIONS IS SUBJECT TO SUBSTANTIAL RISKS FROM SUCH FACTORS AS, BUT NOT LIMITED TO, THE ABILITY OF THE DEBTOR TO CONTINUE ITS OPERATIONS. THEREFORE, ANY PROJECTIONS PREPARED BY THE TRUSTEE DO NOT CONSTITUTE GUARANTIES OF RESULTS.**

## VIII.
## Professional Fees

The Trustee engaged the Law Firm of Cooper & Scully, Julie M. Koenig as Lead Counsel, to represent the Trustee in this Chapter 11 proceeding. Trustee's Counsel has not filed any interim applications, as of this date, for compensation. The Debtor anticipates its legal fees will be in the range of $100,000.00 to $250,000.00.

## IX.
## Description of Assets and Value

A general listing of the Debtor's assets is contained in the liquidation analysis attached hereto as Exhibit "B" and fully incorporated herein by reference. A more complete listing of assets may be found in the Debtor’s Schedules on file with the Court.

## X.
## Summary of the Plan

The following is a brief summary of certain provisions of the proposed Plan of Reorganization to assure that the creditors affected understand its provisions. This summary should not be considered as solicitation for acceptance of that Plan. Additionally, creditors should not rely on this summary to decide whether or not to vote in favor of or against the Plan, but are expressly referred to the Plan itself since it contains many provisions which will not be summarized herein.

### A. Classes

**Class A – Unclassified Claims**

A-1 Administrative Expense Claims:

Pursuant to the Mediated Settlement Agreement, Allowed Administrative Expenses shall be included in the recourse promissory note issued by the Debtor to the Trustee of the Creditor Trust. Each holder of an Allowed Administrative Expense Claim shall receive from the Creditor Trust, at the option of the Trustee: (i) the amount of such holder's Allowed Claim in one Cash payment on the later of the Effective Date or the next Business Day after such Claim becomes an Allowed Claim; (ii) the amount of such holder's Allowed Claim in accordance with the ordinary business terms of such expense or cost; or (iii) such other treatment to which the holder of such Administrative Expense and the Trustee may agree in writing; provided, however, that as to any Allowed Administrative Expense Claim for which funds are not available at the time of the Effective Date, such Holder agrees that Paragraph 9 (b) - (d) of the Mediated Settlement Agreement governs the frequency, priority, and amount to be paid by the Trustee.

The Trustee shall be entitled to collect his Trustee Fees in accordance with 11 U.S.C. §326 without further order of the Court.

**Class B – Secured Claims**

B-1 Allowed Secured Tax Claims:

(a) **Determination of Allowed Secured Tax Claims**. On or before the Confirmation Date, the Proponents of the Plan shall obtain either by agreement or by a Final Order the amount of the Allowed Secured Tax Claim. An Allowed Proof of Claim shall constitute a Final Order for purposes of this section.

(a) **Treatment of Allowed Secured Tax Claims.** The allowed secured tax claims shall be paid on a pro-rata basis beginning on the 15th day of the first full month of the first full quarter following the effective date of the Plan, with interest at the rate of 12% over 60 months. However, the Trustee has the option of paying these claims earlier if funds permit. Further, in the event that funds are not available, Paragraphs 9 (b) - (d) of the Mediated Settlement Agreement governs the frequency, priority, and amount paid by the Trustee.

**Class B-**1 is impaired under the Plan **.**

**Class C- Unsecured Claims**

C-1 Allowed General Unsecured Claims:

a. **Determination of Allowed General Unsecured Claims.** Class C-1 includes any Claim other than an Administrative Expense, a Secured Claim, a Priority Claim, a Subordinated Claim, an Insider Claim and the Rhea Equity Interests. The Proponents of the Plan shall either by agreement or by a Final Order fix the amount of the Allowed General Unsecured Claims prior to the Confirmation Date. An Allowed Proof of Claim or undisputed Schedule F Claim shall constitute a Final Order for purposes of this Section.

b. **Treatment of Allowed General Unsecured Claims.** In accordance with Paragraph 9 of the Mediated Settlement Agreement, the reorganized Debtor shall make payments to the Creditor Trust to be distributed pro-rata to the holders of allowed general unsecured claims until all Allowed General Unsecured Claims are paid in full, in accordance with the terms of the Mediated Settlement Agreement.

c. Peter Marshall has filed a Proof of Claim in this proceeding as an unsecured creditor. Attached to that claim is an addendum claiming from $287,029 to $847,904 based on various factors. Bill Rhea and Peter Marshall have agreed that Mr. Marshall shall amend his proof of claim to $75,000 and it will be an allowed, unsecured claim in Class C of the Plan. This claim represents the amount of attorney's fees he has expended in underlying state court litigation with the Debtor.

**Class C-1** is impaired under the Plan.

**Class D – Equity Interests in the Debtor**

D-1 Equity Interest - J.W. "Bill" Rhea, IV.

(a) J.W. "Bill" Rhea is the only remaining member of the Debtor, subject to the terms of this Plan of Reorganization and the Mediated Settlement Agreement. Pursuant to the Mediated Settlement Agreement, all membership interests in the Debtor held by W. Scott Thompson, Sr., W. Scott Thompson, Jr., David Strawn, Thomas Bowman, and Randy Parsley are hereby cancelled, to the extent not already cancelled, without the need for any additional action to effectuate cancellation. The cancellation of these membership interests

does not constitute a transfer of the cancelled membership interests or a change in control of the Debtor.

**B. Other Provisions:**

Notwithstanding confirmation of the Plan, the Court will retain jurisdiction (i) to determine the allowance of claims upon objection by a party-in-interest; (ii) to determine requests for payment of administrative claims and expenses, including compensation, entitled to priority under §507(a)(i) of the Code; (iii) to resolve disputes regarding interpretation of the Plan; (iv) to modify the Plan; (v) to implement provisions of the Plan; (vi) to adjudicate any cause of action brought by the Debtor or Trustee as representatives of the estate; (vii) to enter a final decree; and (viii) for other purposes.

**C. Bar dates for filing proofs of claim:**

Any creditor desiring to receive a distribution under the provisions of this Plan, and whose claim is not evidenced by a court order or set forth on the Debtor's schedules, must have filed a proof of claim or request for compensation with the Bankruptcy Court **not later than July 17, 2015**. This bar date was set by the Bankruptcy Court and noticed to all creditors pursuant to the Notice of Creditor's Meeting.

The Debtor has filed as a part of its schedules a list of all creditors, setting forth the identity of each creditor and an indication of the amount due each creditor. Unless a claim was listed as disputed, contingent or unliquidated, each creditor's claim will be allowed in the amount and status stated on the Debtor's schedules. Any creditor must have filed a proof of claim in a different amount or status not later than July 17, 2015. Failure to file a timely proof of claim will force a creditor to accept the amount of his/her claim as listed on the Debtor's schedules.

Claims listed as **disputed, contingent, or unliquidated** will not be allowed unless a proof of claim with all supporting documents was filed prior to July 17, 2015. In the event a creditor has filed a proof of claim in these proceedings with which the Trustee disagrees, the Trustee has the option to file an objection to that claim and request the Court to determine the true value of the claim. The Trustee shall attempt to resolve all objections to claims prior to confirmation. However, the Trustee shall have 90 days from the effective date of the plan to file objections to claims.

Any proof of claim for a debt listed on the Debtor's Schedules or in the Debtor's Plan and/or Disclosure Statement as **disputed, contingent, or unliquidated** which is not timely filed shall be of **no force and effect**. No distribution will be made to any creditor that has not timely complied with this provision.

## XI.
## Pending Litigation

None.

## XII.
## Alternatives to the Plan Proposed

The Trustee expects that the Plan will enable it to realize the maximum benefits for all of its creditors. However, if the Plan is not confirmed, the Trustee will continue to seek other avenues for Reorganization.

### A. Conversion

In the event no suitable alternative can be found, the Trustee would be compelled, as well as obligated, to recommend the conversion of the Chapter 11 case to a case under Chapter 7, and a subsequent liquidation by a duly appointed or elected Chapter 7 Trustee. Most likely Mr. Tow will also serve as the Chapter 7 Trustee. The property of the estate will vest in the reorganized

Debtor thirty days after entry of the final confirmation order. Creditors shall retain their ability to utilize rights under 11 U.S.C. Section 1112(b)(8). Upon a conversion of this case to Chapter 7, all property re-vested in the Debtor under the Plan, or subsequently acquired, shall constitute property of the bankruptcy estate in the converted case. Although the Trustee is of the opinion that a straight liquidation of the assets would not be in the best interest of the creditors generally, the following is likely to occur:

(i) The newly appointed Chapter 7 trustee would have to become familiar with the Debtor's operations in order to evaluate all the Debtor's assets and liabilities;

(ii) In addition to the duplication of efforts that would transpire as a result of the Chapter 7 Trustee having to review documents and interview persons in order to become sufficiently acquainted with the Debtor's business, the Chapter 7 Trustee would likely retain professionals to aid in administering the estate;

(iii) An additional tier of administrative expenses entitled to priority over general unsecured claims would be incurred. Such administrative expenses would include Chapter 7 Trustee's commissions and fees for the professionals likely to be retained; and

(iv) There would likely be no distribution at all to the creditors until the case is ready to be closed.

The Trustee will allow the creditors and parties-in-interest to draw their own conclusions with respect to the delay associated with a Chapter 7 liquidation. It is certain that the above factors would result in an additional dilution to the projected dividend. The Trustee believes that such a speculative projection should be made by the creditors themselves.

The Trustee believes if the assets of the Debtor were liquidated through a court trustee there would be **a very low** dividend to the unsecured creditors. A true and correct copy of a Liquidation Analysis is attached hereto as Exhibit "B" and incorporated herein for all purposes.

**B. Dismissal**

Dismissal of the proceeding would, in the Trustee's opinion, lead to an unsatisfactory result. Dismissal would result in the Trustee's inability to continue its operations. These actions would cause the Trustee to incur more expenses in the form of attorney's fees, etc., thereby leaving nothing for distribution to its creditors.

The Trustee has attempted to set forth possible alternatives to the proposed Plan. Accordingly, one should recognize that a vote against the Plan and the ultimate rejection of the Plan would not alter the present status of the Debtor. The vote on the Plan does not include a vote on alternatives to the Plan. There is no assurance what turn the proceedings will take if the Plan is rejected. If you believe one of the alternatives referred to above is preferable to the Plan and you wish to urge it upon the Court, you should consult your Counsel.

The price of oil is the only risk posed to creditors that would result in an amendment or change in the Plan.

**C. Default**

Upon confirmation of a Chapter 11 Plan, the Plan operates as a contract between the Trustee and its creditors. A default occurs if the Trustee fails to make any required payments contained in the Plan. Each creditor, regardless of class, has the right upon a default under the plan to notify the Trustee and his Counsel of the default and allow 10 days for the Trustee to cure such default. Notice of default must be made in writing to the Trustee and his Counsel and mailed by certified mail, return receipt requested. The 10 day period shall begin on the date the Trustee executes the return receipt. Notice of default shall be given to the following:

Rodney Tow, Trustee
2211 Rayford Rd, Suite 111-238

Spring, Texas 77386

and

Julie M. Koenig
815 Walker, Suite 1040
Houston, Texas 77002

If the Trustee fails to cure the default within the 10 day period, the Creditor sending notice of default has the right to bring a lawsuit in the State District Court in Harris County, Texas against the Estate or to apply to the Federal Bankruptcy Court for relief through dismissal.

## XIII.
## Federal Income Tax Consequences to Creditors and the Debtor

### A. Federal Income Tax Consequences to Creditors:

The Trustee believes that the following discussion generally sets forth the Federal income tax consequences to Creditors upon confirmation and consummation of the Plan. No ruling has been sought or obtained by the Trustee from the Internal Revenue Service ("IRS") with respect to any of these matters. The following discussion of Federal income tax consequences is not binding on the IRS and is general in nature. No statement can be made herein with respect to the particular Federal income tax consequences to any Creditor.

**AS A RESULT OF THE COMPLEXITY OF THE APPLICABLE PROVISIONS OF THE INTERNAL REVENUE CODE, EACH CREDITOR IS URGED TO CONSULT ITS OWN TAX ADVISOR IN ORDER TO ASCERTAIN THE ACTUAL TAX CONSEQUENCES TO IT, UNDER FEDERAL AND APPLICABLE STATE AND LOCAL LAWS, OF CONFIRMATION AND CONSUMMATION OF THE PLAN.**

Creditors may be taxed on distributions they receive from the Estate. The amount of the income or gain, and its character as ordinary income or capital gain or loss, as the case may be, will depend upon the nature of the Claim of each particular Creditor. The method of accounting

utilized by a Creditor for Federal income tax purposes may also affect the tax consequences of a distribution. In general, the amount of gain (or loss) recognized by any such Creditor distributee will be the difference between (i) the Creditor's basis for Federal income tax purposes, if any, in the Claim and (ii) the amount of the distribution received. Whether the distribution will generate ordinary income or capital gain will depend upon whether the distribution is in payment of a Claim or an item which would otherwise generate ordinary income on the one hand or in payment of a Claim which would constitute a return of capital.

**B. Federal Income Tax Consequences to the Estate:**

The Debtor does not owe any 941 or 1120 Federal Taxes to the Internal Revenue Service. In addition, as the Debtor is considered insolvent within the 90 days prior to filing its Chapter 11 Proceeding, there will not be any tax consequences for “forgiveness of debt”. Therefore, there are no tax consequences to the Debtor as a result of its filing for Chapter 11 Reorganization nor will there be any tax consequences as a result of completing its Plan of Reorganization.

## XIV.
## Means for Implementation and Execution of the Plan

Implementation of the Plan requires entry of an order by the Bankruptcy Court confirming the Plan. The Plan is to be implemented, if accepted and approved by the Bankruptcy Court, in its entire form as filed on October 24, 2016.

## XV.
## Modification of Disclosure

The Trustee may propose amendments to or modification of this Disclosure Statement at any time prior to the confirmation, with leave of the Court. After confirmation, the proponent may, with the approval of the Court, so long as it does not materially or adversely affect the

interests of the creditors or other parties-in-interest as set forth herein, remedy any defect or omission, reconcile any inconsistencies in this Disclosure Statement, or in the Order Confirming Disclosure Statement, in such a manner as may be necessary to carry out the purposes and intent of this Disclosure Statement.

## XVI.
## Disclosure Required by the Bankruptcy Code

The Bankruptcy Code requires the disclosure to the Bankruptcy Court of payments made or promised of the kind as set forth in Section 1129(a)(5) of the Bankruptcy Code. The Debtor retained Larry A. Vick, as bankruptcy counsel with a retainer of $8,283.00. The Trustee has retained Julie M. Koenig of Cooper & Scully, P.C. as Trustee's Counsel with no retainer. The Bankruptcy Code requires that the Court approve all professional's fee applications prior to payment by the Trustee.

## XVII.
## Fraudulent and Preferential Transfers

Between October, 2013 and January 2014,, the Debtor conveyed all of the Debtor's right, title and interest in certain oil, gas and mineral interests it had acquired from the Fund to Thompson, Sr., Thompson, Jr., Parsley, Bowman and Strawn or to entities on their behalf; however, Rhea's interest was held in trust with the Debtor. In consideration for the conveyances, all of the members (with the exception of Rhea) agreed to assume their pro rata share of the RP Fund Note (based upon their membership interests in the Debtor).

The Trustee claimed that the conveyances were fraudulent transfers of the Debtor's oil, gas and mineral interests, which was disputed by the members. As part of the Mediated

Settlement Agreement, the oil, gas and mineral interests were returned to the Debtor's Estate by the members in exchange for a release and additional consideration provided under the agreement.

Finally, Thompson, Sr. used the Debtor's debit card to pay for meals, gas, and other personal expenses in an amount of approximately $61,900.07. These were preferential transfers under 11 U.S.C. §547 of the Bankruptcy Code. However, pursuant to the Mediated Settlement Agreement, Thompson, Sr. shall be released from this claim or cause of action.

The Trustee does not verify the accuracy of the Debtor's Schedules and will independently investigate fraudulent and preferential transfers. If the Trustee discovers any additional preferential or fraudulent transfers, this Disclosure Statement shall be supplemented to disclose the transfers.

## XVIII.
## Other Bankruptcies

None.

## XIX.
## Conclusion

The Trustee believes that approval of its Plan will provide an opportunity for its creditors to receive more money in the foreseeable future on their claims than would be received in a straight liquidation by a Trustee in a Chapter 7 case. If the Plan is not approved, the Trustee will continue to seek other reorganization alternatives, but liquidation might ensue, with the consequences as discussed above in relation to the liquidation alternative.

This Disclosure Statement is subject to the approval by the Bankruptcy Court after notice and hearing.

**THE APPROVAL BY THE UNITED STATES BANKRUPTCY COURT OF THIS DISCLOSURE STATEMENT WILL NOT CONSTITUTE AN ENDORSEMENT BY THE COURT OF THE DEBTOR'S PLAN OR A GUARANTEE OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN.**

The Plan of Reorganization contains additional provisions and each creditor should review the provisions of the Plan with particularity.

Respectfully submitted this 24th day of October, 2016.

RODNEY TOW, TRUSTEE
ROYALTY PARTNERS, LLC

*/s/ Rodney Tow, Trustee*
Rodney Tow, Trustee
Royalty Partners, LLC

OF COUNSEL:

**Cooper & Scully, P.C.**

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