

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

IN RE:	§	
	§	
INLAND ENVIRONMENTAL	§	CASE NO. 16-34624
AND REMEDIATION, INC.	§	Chapter 11
Debtor	§	Judge Jeff Bohm

**DISCLOSURE STATEMENT UNDER 11 U.S.C. § 1125 IN
SUPPORT OF CHAPTER 11 PLAN OF LIQUIDATION**

THIS DISCLOSURE STATEMENT IS SUBMITTED TO ALL CREDITORS AND INTEREST HOLDERS OF THE DEBTOR ENTITLED TO VOTE ON THE CHAPTER 11 PLAN OF LIQUIDATION SUBMITTED BY INLAND ENVIRONMENTAL AND REMEDIATION, INC. HEREIN DESCRIBED AND CONTAINS INFORMATION THAT MAY AFFECT YOUR DECISION TO VOTE TO ACCEPT OR REJECT THE PLAN. THIS DISCLOSURE STATEMENT IS INTENDED TO PROVIDE ADEQUATE INFORMATION AS REQUIRED BY THE BANKRUPTCY CODE CONCERNING THE PLAN. ALL CREDITORS AND INTEREST HOLDERS ARE URGED TO READ THE ENTIRE DISCLOSURE STATEMENT AND PLAN WITH CARE.

ON _____, THE BANKRUPTCY COURT APPROVED THIS DISCLOSURE STATEMENT AS CONTAINING ADEQUATE INFORMATION UNDER SECTION 1125(b) OF THE BANKRUPTCY CODE. SOLICITATION OF ACCEPTANCES OR REJECTIONS OF THE PLAN HEREIN DESCRIBED IS BEING SOUGHT FROM CREDITORS AND INTEREST HOLDERS WHOSE CLAIMS AGAINST, AND INTERESTS IN, THE DEBTOR ARE IMPAIRED UNDER THE PLAN. CREDITORS AND INTEREST HOLDERS ENTITLED TO VOTE ON THE PLAN ARE URGED TO VOTE IN FAVOR OF THE PLAN AND TO RETURN THE COMPLETED BALLOT INCLUDED WITH THIS DISCLOSURE STATEMENT IN THE ACCOMPANYING ENVELOPE ADDRESSED TO FUQUA & ASSOCIATES, PC, ATTENTION: RICHARD L. FUQUA, 5005 RIVERWAY DRIVE, SUITE 250, HOUSTON, TEXAS 77056, NOT LATER THAN _____ at 5:00 P.M. (Houston time).

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ARTICLE 1
INTRODUCTION

1.1 General Information Concerning Disclosure Statement and Plan.

Inland Environmental and Remediation, Inc. (the “Debtor”) submits this Disclosure Statement, as may be amended from time to time, under §1125 of the Bankruptcy Code and Rule 3016 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) to all of the Debtor’s known Creditors and Interest Holders entitled to vote on the Debtor’s Chapter 11 Plan of Liquidation (the “Plan”). The purpose of this Disclosure Statement is to provide adequate information to enable Creditors and Interest Holders who are entitled to vote on the Plan to arrive at a reasonably informed decision in exercising their respective right to vote on the Plan. A copy of the Plan is included with this Disclosure Statement. Capitalized terms used but not defined in this Disclosure Statement shall have the meanings assigned to them in the Plan or in the Bankruptcy Code and Bankruptcy Rules. All section references in this Disclosure Statement are to the Bankruptcy Code unless otherwise indicated.

The Debtor has proposed the Plan consistent with the provisions of the Bankruptcy Code. The purpose of the Plan is to facilitate the closure of the Debtor's facility in accordance with the closure plan attached to the Debtor's Plan as **Exhibit "A"** and to liquidate post-closure all or substantially all of the Debtor’s operating assets to the highest bidders and then distribute those proceeds to the Secured Creditors in accordance with the Bankruptcy Code. Additionally, the Plan as a part of the liquidation of the Debtor by the court appointed Plan Agent will market the bi-products created pursuant to the closure operations and distribute the proceeds of such liquidation of the bi-products to creditors pursuant to the Plan. Once the Plan is completed, the Debtor will be dissolved. The Debtor believes that the Plan provides for the maximum recovery available for all Classes of Claims and Equity Interests.

This Disclosure Statement is not intended to replace a careful review and analysis of the Plan, including the specific treatment of Claims and Equity Interests under the Plan. It is submitted as an aid and supplement to your review of the Plan and to explain the terms of the Plan. Every effort has been made to fairly summarize the Plan and to inform Creditors and Interest Holders how various aspects of the Plan affect their respective positions. If any questions arise, the Debtor urges you to contact the Debtor’s counsel. This attorney will attempt to resolve your questions. You are also encouraged to consult with your own counsel. The counsel for Debtor is likewise available to answer any questions that your counsel may have regarding the Plan and this Disclosure Statement.

1.2 Disclaimers.

NO SOLICITATION OF VOTES HAS BEEN OR MAY BE MADE EXCEPT PURSUANT TO THIS DISCLOSURE STATEMENT AND § 1125 OF THE BANKRUPTCY CODE. NO PERSON HAS BEEN AUTHORIZED TO USE ANY INFORMATION CONCERNING THE DEBTOR TO SOLICIT ACCEPTANCES OR REJECTIONS OF THE PLAN OTHER THAN THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT. CREDITORS AND INTEREST HOLDERS SHOULD NOT RELY ON ANY INFORMATION RELATING TO THE DEBTOR OTHER THAN THAT CONTAINED IN THIS DISCLOSURE STATEMENT, ANY ATTACHMENTS THERETO AND THE PLAN.

EXCEPT AS SET FORTH IN THIS DISCLOSURE STATEMENT, NO REPRESENTATION CONCERNING THE DEBTOR, ITS ASSETS, ITS LIABILITIES, PAST OR FUTURE OPERATIONS, OR CONCERNING 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 YOUR ACCEPTANCE OR REJECTION OF THE PLAN OTHER THAN AS CONTAINED IN THIS DISCLOSURE STATEMENT SHOULD BE IMMEDIATELY REPORTED TO COUNSEL FOR THE DEBTOR.

UNLESS ANOTHER TIME IS SPECIFIED, THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE OF THIS DISCLOSURE STATEMENT. NEITHER DELIVERY OF THIS DISCLOSURE STATEMENT NOR ANY EXCHANGE OF RIGHTS MADE CONCERNING THE DISCLOSURE STATEMENT AND THE PLAN SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE FACTS SET FORTH HEREIN SINCE THE DATE OF THE DISCLOSURE STATEMENT AND THE MATERIALS RELIED UPON IN PREPARATION OF THE DISCLOSURE STATEMENT WERE COMPILED.

THE INFORMATION PROVIDED HEREIN WAS OBTAINED FROM A VARIETY OF SOURCES AND IS BELIEVED TO BE RELIABLE.

THE DEBTOR HAS NOT BEEN ABLE TO INDEPENDENTLY VERIFY EACH AND EVERY STATEMENT CONTAINED HEREIN. ACCORDINGLY, THE DEBTOR AND ITS PROFESSIONALS CANNOT MAKE ANY REPRESENTATIONS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN.

THE DEBTOR'S BUSINESS AFFAIRS ARE COMPLEX. IT IS POSSIBLE THAT THE TRANSACTIONS CONTEMPLATED UNDER THE PLAN COULD HAVE NEGATIVE TAX AND OTHER ECONOMIC CONSEQUENCES. THE DEBTOR MAKES NO REPRESENTATIONS REGARDING THE TAX IMPLICATIONS OF ANY TRANSACTION CONTEMPLATED UNDER THE PLAN. IT IS NOT UNCOMMON FOR PARTIES TO RETAIN THEIR OWN TAX ADVISORS TO ANALYZE THE PLAN. THE DEBTOR ENCOURAGES ALL PERSONS THAT MIGHT BE AFFECTED TO SEEK INDEPENDENT ADVICE REGARDING THE TAX EFFECTS OF THE PLAN.

DISTRIBUTION OF THIS DISCLOSURE STATEMENT SHOULD NOT BE CONSTRUED AS ANY REPRESENTATION OR WARRANTY AT ALL, EITHER EXPRESS OR IMPLIED, BY THE DEBTOR OR ITS PROFESSIONALS THAT THE PLAN IS FREE FROM RISK, THAT THE ACCEPTANCE OF THE PLAN WILL RESULT IN A RISK-FREE LIQUIDATION OF THE DEBTOR'S ASSETS OR THAT ALL POTENTIAL ADVERSE EVENTS HAVE BEEN ANTICIPATED.

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

THIS DISCLOSURE STATEMENT AND THE PLAN SHOULD BE READ IN THEIR ENTIRETY BEFORE VOTING ON THE PLAN. FOR THE CONVENIENCE OF HOLDERS OF CLAIMS AND EQUITY INTERESTS, THE TERMS OF THE PLAN ARE SUMMARIZED IN THIS DISCLOSURE STATEMENT, BUT ALL SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY BY THE PLAN, WHICH CONTROLS IN CASE OF ANY INCONSISTENCY.

1.3 Answers to Commonly Asked Questions.

As part of the Debtor's efforts to inform Creditors and Interest Holders regarding the Plan and the Plan confirmation process, the following summary provides answers to questions which parties who receive a disclosure statement often ask.

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE PLAN, WHICH CONTROLS IN CASE OF ANY INCONSISTENCY.

1.3.1 Who is the Debtor?

The Debtor is Inland Environmental and Remediation, Inc., a Texas corporation. The Debtor's business was founded in 1998 and established in Clemville, Texas. The Debtor's operations have incurred debt with respect to the Debtor's current business model, inclusive of general corporate business, oil & gas recycling business, current and past litigation, and its previous operation of an oil recycling operation in Altair, Texas.

Inland Environmental was formed in 1998 as a Limited Partnership which David Polston owned 89%. Alpha DC was the General Partner with 1%, and Larry Mercer had 10%. In 1999, David Polston bought out Larry Mercer of his 10% ownership.

Inland Environmental & Remediation was formed for the purpose of recycling and remediation of oil and gas waste.

1.3.2 What is a Chapter 11 bankruptcy?

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code that allows financially distressed businesses to reorganize their debts or to liquidate their assets in a controlled fashion. The Debtor is proposing to liquidate all of its assets. The commencement of a chapter 11 case creates an “estate” containing all of the legal and equitable interests of the debtor in property as of the date the bankruptcy case is filed. During a Chapter 11 bankruptcy case, the debtor remains in possession of its assets unless the Court orders the appointment of a trustee.

1.3.3 If the Plan governs how my Claim or Interest is treated, what is the purpose of this Disclosure Statement?

The Bankruptcy Code requires that in order to solicit votes on a bankruptcy plan, the proponent of the plan must first prepare a disclosure statement that provides sufficient information to allow creditors and interest holders to make an informed decision about the Plan. The disclosure statement and plan are distributed to creditors and interest holders only after the Bankruptcy Court has approved the disclosure statement and determined that the disclosure statement contains information adequate to allow creditors and interest holders to make an informed judgment about the plan. At that time, creditors and interest holders whose claims and interests are impaired under the Plan also receive a voting ballot and other materials.

1.3.4 Has this Disclosure Statement been approved by the Bankruptcy Court?

Yes. On _____, the Bankruptcy Court approved this Disclosure Statement as containing adequate information. “Adequate information” means information of a kind, and in sufficient detail, as far as is practicable considering the nature and history of the Debtor and the condition of the Debtor’s books and records, to enable a hypothetical investor typical of holders of claims or interests of the relevant classes to make an informed judgment whether to vote to accept or reject the Plan. The Bankruptcy Court’s approval of this Disclosure Statement does not constitute an endorsement of any of the representations contained in either the Disclosure Statement or the Plan.

1.3.5 How do I determine how my Claim or Interest is classified?

To determine the classification of your Claim or Interest, you must determine the nature of your Claim or Interest. Under the Plan, Claims and Interests are classified into a series of classes. The pertinent articles and sections of the Disclosure Statement and Plan disclose, among other things, the treatment that each class of Claims or Interests will receive if the Plan is confirmed.

1.3.6 Why is confirmation of the Plan important?

The Bankruptcy Court’s confirmation of the Plan is a condition to the Debtor carrying out the treatment of Creditors and Interest Holders under the Plan. Unless the Plan is confirmed, and any other conditions to confirmation or to the effectiveness of the Plan are satisfied, the Debtor is legally prohibited from satisfying Claims or Interests as provided in the Plan. Put more simply,

confirmation of a plan in Chapter 11 is required before the Debtor can begin making payments to pre-petition Creditors.

1.3.7 What is necessary to confirm the Plan?

Under applicable provisions of the Bankruptcy Code, confirmation of the Plan requires that, among other things, at least one class of impaired Claims or Interests vote to accept the Plan. Acceptance by a class of claims or interests means that at least two-thirds in the total dollar amount and more than one-half in number of the allowed Claims or Interests actually voting in the class vote in favor of the Plan. Because only those claims or interests who vote on a plan will be counted for purposes of determining acceptance or rejection of a plan by an impaired class, a plan can be approved with the affirmative vote of members of an impaired class who own less than two-thirds in amount and one-half in number of the claims/interests. Besides acceptance of the Plan by a class of impaired creditors or interests, a bankruptcy court also must find that the Plan meets a number of statutory tests before it may confirm the Plan. These requirements and statutory tests generally are designed to protect the interests of holders of impaired claims or interests who do not vote to accept the Plan but who will nonetheless be bound by the Plan's provisions if the bankruptcy court confirms the Plan.

If one or more classes vote to reject the Plan, the Debtor may still request that the Bankruptcy Court confirm the Plan under § 1129(b) of the Bankruptcy Code. To confirm a plan not accepted by all classes, the plan proponent must demonstrate that the plan does not discriminate unfairly, and is fair and equitable with respect to each class of claims or interests that is impaired under, and that has not accepted, the plan. This method of confirming a plan is commonly called a "cramdown." In addition to the statutory requirements imposed by the Bankruptcy Code, the plan itself also provides for certain conditions that must be satisfied as conditions to confirmation.

1.3.8 Is there a Committee in this case?

Yes. The Office of the United States Trustee has appointed an official committee of unsecured creditors in this case. The Official Committee of Unsecured Creditors represents the interests of all unsecured creditors in this Chapter 11 Case. The attorney who represents the unsecured creditors in this case is: Bennett G. Fisher, Fisher and Associates, PC, 55 Waugh Drive, Suite 603, Houston, Texas 77007; E-mail: bgf@fisherlaw.net

1.3.9 When is the deadline for returning my ballot?

The Bankruptcy Court has directed that, to be counted for voting purposes, your ballot must be received by the Debtor's counsel by _____ **(Houston Time)**.

IT IS IMPORTANT THAT ALL IMPAIRED CREDITORS AND INTEREST HOLDERS VOTE ON THE PLAN. THE DEBTOR BELIEVES THAT THE PLAN PROVIDES THE BEST POSSIBLE RECOVERY TO CREDITORS AND INTEREST HOLDERS. THE DEBTOR THEREFORE BELIEVES THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTEREST OF CREDITORS AND INTEREST HOLDERS AND RECOMMENDS THAT ALL IMPAIRED CREDITORS AND INTEREST HOLDERS VOTE TO ACCEPT THE PLAN.

ARTICLE 2

OVERVIEW OF PLAN

An overview of the Plan is set forth below. This overview is qualified in its entirety by reference to the Plan. If the Bankruptcy Court confirms the Plan and, in the absence of any applicable stay, all other conditions set forth in the Plan are satisfied, the Plan will take effect on the Effective Date.

Under the Plan, the Debtor will commence closure of its Altair, Texas facility. The closure will be under the supervision of the Bankruptcy Court, the Texas Railroad Commission, the Surety and the Plan Agent and their respective professionals. The Surety will advance incrementally a maximum of Five Million Five Hundred Seventy Five Thousand and 00/100 Dollars (\$5,575,000.00) to fund the confirmation of the Debtor's Plan and the closure of the Altair, Texas facility including payment to professionals assisting the Debtor with the closure of the facility.

During the closure operations, the Debtor will blend in excess of 100,000 tons of material on hand into a product that the Plan Agent can market and sell. The Plan Agent will liquidate the Debtor's stored material until closure is concluded. Attached as **Exhibit "B"** is the Debtor's analysis of post-confirmation profitability and return to creditors. Post-Closure, the Plan Agent will sell all remaining equipment on hand and distribute the proceeds from such sales and liquidation pursuant to the Plan.

Under the Plan, the Plan Agent will use the proceeds generated from liquidation of the Debtor's assets to satisfy Allowed Claims and Interests in accordance with the Bankruptcy Code. The treatment of specific classes of claims is set forth below. You are encouraged to pay special attention to the treatment provided to the class containing your claim. In addition, the Plan Agent will be vested with authority to (i) take such actions necessary to liquidate the Liquidating Debtor's assets; (ii) file claim objections; (iii) make distributions and take such other actions as provided for under the Plan; and (iv) prosecute causes of action owned by the Debtor's estate, including all claims and causes of action arising under the Bankruptcy Code. Once all distributions have been made, the Plan Agent will file a final tax return and dissolve the Liquidating Debtor.

ARTICLE 3

THE DEBTOR

3.1 The Debtor's Business and Capital Structure.

3.1.1 The Debtor's Pre-Petition Business.

The first operations began in Clemville, Texas, where fluid and solids were received at a salt water disposal, and the solids were recycled into a road base material. When this operation started, Inland was regulated by the Texas Commission of Environment Quality. By 2001, the Texas Railroad Commission took jurisdiction of oil & gas waste recycling, and issued the first permit of its kind to recycle oil and gas waste into a state recognized product.

When the new RRC permit STF-010 was issued, operations of recycling moved from Clemville, Texas to Altair, Texas. The site is situated on a 3,000 acre ranch that had previously been a sand and gravel operation owned by Parker Brothers. Ken Owens bought the ranch from Parker Brothers. On December 18, 2013, MVC Capital, loaned Inland \$15 million dollars for the purpose of growing the company. In December 2014 oil prices began to drop significantly and continued to drop through the year. On December 24th, 2015, Inland released the Smiley Texas SWD & recycling facility, the Milano SWD and recycling facility, the Coahoma freshwater sales property with SWD permits, the Crosby Mississippi property, along with all the patents that were developed in recycling oil & gas waste into a road base material, in exchange for the release of the MVC capital debt.

The release of the MVC debt helped little in the day-to-day operations. The business of Inland is receiving and recycling oil & gas waste.

3.1.2 Events Leading to Bankruptcy.

When oil prices fell, the rigs stopped drilling and, thus, the greatly reduced income to the Debtor was not sufficient to service the debt that the company had incurred in the financing of equipment for the purpose of operating the facility. In addition, because oil prices declined so rapidly and stayed depressed throughout 2016, there was not enough income to service the bank loans and day-to-day operational accounts payable. Partial payments were made on accounts in order to stay operational, however, the reduction of income in relationship to debt owed was too much to overcome.

Threats of equipment confiscation became a reality due to Inland's regulatory responsibility with the Altair facility. With the loss of Inland's equipment, there would be no ability to process the oil and gas waste bi-products on site. Therefore, on September 14, 2016, Inland Environmental and Remediation filed a chapter 11 bankruptcy proceeding.

3.1.3 The Debtor's Assets.

On October 11, 2016, the Debtor filed with the Bankruptcy Court its Schedules of Assets and Liabilities and Statements of Financial Affairs (collectively, the "Schedules"). The Schedules contain a detailed listing of the Debtor's assets and the amounts owed to its Creditors based on the Debtor's books and records. In connection with this Disclosure Statement, Creditors and Interest Holders are referred to the Schedules. A copy of the Schedules is available from the Clerk's office or from the Debtor upon request.

3.1.4 Debtor's Real and Personal Property Leases and Executory Contracts.

On the Petition Date, the Debtor was a party to a real property lease (the "Altair, Texas location").

3.1.5 Liabilities and Claims against the Debtor.

The Schedules contain a detailed listing of Creditors, together with the estimated amount of Claims. Creditors and Interest Holders are referred to the Debtor's Schedules. The Debtor's respective Schedules generally organize Creditors into three general groupings: (i) Schedule D-Secured Claims, (ii) Schedule E-Unsecured Priority Claims, (iii) Schedule F-Unsecured Nonpriority Claims; and (iv) Subordinated Claim. The last day to file a proof of claim was January 23, 2017.

3.1.6 Secured Claims.

The Debtor scheduled secured claims totaling \$3,024,236.02. A substantial portion of the secured claims will be disputed as to amount, whether a valid, unavoidable lien exists, or both. A number of creditors also filed secured proofs of claim.

3.1.7 Priority Claims.

The potential priority secured and unsecured claims in the Debtor's case are the taxing authorities.

No determination has yet been made by the Debtor regarding the validity and/or amount of any of the foregoing claims.

3.1.8 General Unsecured Claims.

Based on the Claims Register, unsecured claims of approximately \$1,721,823.58 have been filed against the Debtor. This number may not include all tort claims, unliquidated claims or claims for rejection damages. In addition, this number does not include any potential unsecured claims held by creditors filing secured claims that might be subject to avoidance and/or subordination. The Debtor expects to file objections to a significant number of unsecured proofs of claims. Should additional or amended proofs of claim be filed, the Debtor will review such claims and may file additional objections. The Plan also provides a mechanism for the Plan Agent to object to claims under certain circumstances. The Debtor is unable to predict the outcome of any anticipated claim objections that may be filed.

3.1.9 Subordinated Claims.

The principal of the Debtor namely, David Polston, will subordinate his claims until such point where all creditors through the General Unsecured Creditors are fully and completely paid.

THE RIGHT OF ALL PARTIES, INCLUDING THE DEBTOR, AND/OR THE PLAN AGENT (WHETHER EXISTING OR FORMED UNDER THE PLAN) TO OBJECT TO ANY CLAIM FILED IN THIS CASE IS EXPRESSLY RESERVED. THE INCLUSION OF A CLAIM OR CLAIMS WITHIN THIS DISCLOSURE STATEMENT

IS NOT AN ADMISSION REGARDING THE VALIDITY OR ALLOWANCE OF ANY CLAIM. YOU SHOULD NOT ASSUME THAT A VOTE FOR OR AGAINST THE PLAN WILL HAVE ANY AFFECT ON THE STATUS OF YOUR CLAIM. IF ANYONE SUGGESTS THAT THE STATUS OF YOUR CLAIM MAY BE AFFECTED BY YOUR VOTE, YOU SHOULD REPORT SUCH INCIDENT TO COUNSEL FOR THE DEBTOR OR COUNSEL FOR THE COMMITTEE IMMEDIATELY AS ANY SUCH SUGGESTION MAY VIOLATE TITLE 18.

3.1.10 Retention and Termination of Professionals.

On October 12, 2016, the Court approved the Debtor's motion to employ Richard L. Fuqua, II, Fuqua & Associates, PC ("Fuqua") as its bankruptcy counsel. Fuqua was initially paid \$25,000.00 [Doc. #26].

On November 8, 2016, the Official Committee of Unsecured Creditors retained Bennett G. Fisher, Fisher and Associates, PC to represent its interests with an initial retainer of \$5,000.00 paid from the Debtor's Estate [Doc. #47].

On February 17, 2017, the Debtor retained Jay Stewart, Hance Scarborough, LLP, as Special Counsel for environmental issues with a retainer of \$20,000.00 [Doc. #94].

On February 17, 2017, the Debtor retained Jeff Glaser, Cook-Joyce, Inc., as Special Environmental Engineering Consultant with a retainer of \$20,000.00 [Doc. #95].

3.1.11 Lease/Contract Rejection

The Debtor's lease with Boundary Ventures ("Landlord") is delinquent. The Altair property leased by the Debtor is the site of the closure plan which is the cornerstone of the Debtor's Plan. The Debtor has continued to occupy the premises.

ARTICLE 4

CLASSIFICATION OF CLAIMS AND INTERESTS UNDER THE PLAN

The Claims against and Interests in the Debtor are classified as set forth in this Article.

4.1 Administrative Claims and Priority Tax Claims.

In accordance with § 1123(a)(1) of the Bankruptcy Code, certain Administrative Claims and Priority Tax Claims have not been classified and thus are excluded from the Classes of Claims and Interests set forth in Article III of the Plan. These unclassified Claims are treated as follows.

4.1.1 Administrative Claims. Allowed Administrative Claims arising under 11 U.S.C. § 503(b), including Cure Costs against the Debtor, will be paid in Cash and in full by the Plan Agent from By-Product Sales Proceeds, contribution from the Surety or cash on hand on the later of (i) the Administrative Claim Distribution Date, (ii) the date on which such Administrative Claim becomes an Allowed Claim; or (iii) such other date as

the Plan Agent and the holder of the Allowed Administrative Claim shall agree. Allowed Administrative Claims that are not secured by a valid, perfected, post-petition Lien are not entitled to post-petition interest or legal fees and expenses.

4.1.1(a) Subordinated Administrative Claim. Allowed Subordinated Administrative Claim shall be all funds incrementally advanced by Westchester Fire Insurance Company, the Surety, to fund the closure of the Property leased and operated by the Debtor in Altair, Texas, pursuant to the Closure Plan attached hereto as **Exhibit "A"**. It is estimated that Westchester Fire Insurance Company, as the Surety, may fund a maximum of Five Million Five Hundred Thousand and 00/100 Dollars (\$5,575,000.00) for the closure of the site operated by the Debtor in Altair, Texas.

4.1.2 Priority Tax Claims. Priority Tax Claims against the Debtor will be paid in Cash by the Plan Agent from cash on hand, from the sale of the equipment of the Debtor after payment in full of the valid purchase money secured lien claims and from 30% of the Sales Proceeds from the sale or liquidation of the road base material manufactured by the Debtor post-confirmation in quarterly payments commencing on the later of (i) 120 days after the Effective Date, (ii) on the next occurring quarterly payment date after which such Priority Tax Claim becomes an Allowed Claim; or (iii) such other date as the Plan Agent and the holder of the Allowed Priority Tax Claim shall agree. Allowed Priority Tax Claims that are fully Secured Claims shall be entitled to interest at the Plan Rate.

4.2 Classified Claims Against and Interests in the Debtor.

The Claims against and Interests in the Debtor are classified as follows:

4.2.1 Class 1 – Priority Non-Tax Claims. Class 1 comprises all Allowed Priority Non-Tax Claims against the Debtor.

4.2.2 Class 2 – Secured Claims. Class 2 comprises all Allowed Secured Claims.

4.2.3 Class 3 – General Unsecured Claims. Class 3 comprises all Allowed General Unsecured Claims.

4.2.4 Class 4 – Secured Priority Tax Claims. Class 4 comprises all Allowed Secured Priority Tax Claims.

4.2.5 Class 5 – Claims of the Railroad Commission of Texas. Class 5 comprises the Allowed Claims of the Railroad Commission of Texas.

4.2.6 Class 6 - Claims of the Surety. Class 6 comprises the Allowed Claims of the Surety.

4.2.7 Class 7 - Equity Interests. Class 7 comprises all Allowed Equity Interests in the Debtor

ARTICLE 5
IMPAIRMENT OF CLASSES AND RESOLUTION OF CLAIM CONTROVERSIES

5.1 Impaired Classes.

Only holders of Claims that are in impaired Classes may vote on the Plan. The following Classes of Claims and Interests are impaired under the Plan:

5.1.1 Classes 2-6 are impaired Classes

5.2 Controversy Concerning Classification, Impairment or Voting Rights.

In the event a controversy or dispute should arise involving issues related to the classification, impairment or voting rights of any Creditor or Interest Holder under the Plan, prior to the Confirmation Date, the Bankruptcy Court may, after notice and a hearing, determine such controversy. Without limiting the foregoing, the Bankruptcy Court may estimate for voting purposes the amount of any contingent or unliquidated Claim, the fixing or liquidation of which, as the case may be, would unduly delay the administration of the Chapter 11 Case. In addition, the Bankruptcy Court may in accordance with § 506(b) of the Bankruptcy Code conduct valuation hearings to determine the Allowed Amount of any Secured Claim.

ARTICLE 6
TREATMENT OF CLAIMS AND EXECUTORY CONTRACTS

6.1 Treatment of Impaired Classes.

There are Six (6) classes of impaired claims.

6.2 Treatment of Classes.

The Impaired Classes are Classes 2-6. The Classes will be treated as follows:

6.2.1 Class 1. Allowed Priority Non-Tax Claims of professionals will be paid in Cash and in full by the Plan Agent from the funds provided by Westchester Fire Insurance Company, Surety on the later of (i) the Initial Distribution Date, (ii) the date on which such Claim becomes an Allowed Claim; or (iii) such other date as the Plan Agent and the holder of the Allowed Claim in Class 1 shall agree. Allowed Class 1 Claims are not entitled to post-petition interest or post-petition legal fees and expenses.

6.2.2 Class 2. The Allowed Secured Claims shall be paid monthly by the Plan Agent in accordance with the terms contained in the original debt documents executed by and between the secured creditor and the Debtor on the later of (i) the Effective Date; (ii) the date on which such Claim becomes an Allowed Claim; or (iii) such other date as the Plan

Agent and the holder of the Allowed Claim shall agree. The Plan Agent reserves the right to abandon to each respective secured creditor the collateral securing such claim.

6.2.3 Class 3. The Allowed General Unsecured Claims shall be paid a quarterly pro-rata distribution by the Plan Agent from 30% of the proceeds from the sale or liquidation of the road base material manufactured by the Debtor until the conclusion of the Plan by Order of the Bankruptcy Court, payments commencing on one hundred twenty (120) days after the Effective Date.

6.2.4 Class 4. The Allowed Secured Priority Tax Claims against the Debtor will be paid a quarterly pro-rata distribution by the Plan Agent of 30% of the sales proceeds from sales of the road base material manufactured by the Debtor and post-closure from the sales proceeds created from the sale or liquidation of the machinery and equipment of the Debtor after payment in full of the valid secured lien claims. Payments will commence one hundred twenty (120) days after the Effective Date. Allowed Priority Tax Claims that are fully Secured Claims shall be entitled to interest at the Plan Rate.

6.2.5 Class 5. The Allowed Claim of the Railroad Commission of Texas shall be satisfied in full by the payment of the Surety of no more than \$5,575,000 in incremental payments to the Bankruptcy Estate, which funds shall be utilized for the closure of the Debtor's Altair, Texas facility in accordance with the Plan.

6.2.6 Class 6. The Subordinated Allowed Administrative Claim of Westchester Fire Insurance Company shall be treated in accordance with Paragraph 3.1.1(a) *infra*.

6.2.7 Class 7. Equity Security Holders. No distribution will be made to the Equity Security Holders.

ARTICLE 7

MEANS OF IMPLEMENTATION

7.1 Transfer.

The Confirmation Order shall authorize a transfer of all of the Debtor's assets under sections 365, 1123(a)(5), 1123(b)(4), 1129(b)(2)(A), 1141, 1145 and 1146(a) of the Bankruptcy Code subject to validly perfected Secured Claims, including without limitation any Claim or Interest that may be asserted by any Governmental Unit to the Liquidating Debtor. The Plan Agent shall then seek to either sell the by-product and then liquidate post-closure the Debtor's equipment to cash, in such manner as is deemed appropriate by the Plan Agent.

Upon the completion of closure and after the liquidation of the bi-product on hand at the Altair, Texas location and the liquidation and sale of all machinery and equipment of the Debtor, all creditors, and Equity Interest Holders of the Debtor, including without limitation all Governmental Units, shall be permanently and forever barred, restrained and enjoined from

asserting any Claims or enforcing remedies against the Surety, the successful purchaser under any theory of successor liability, *de facto* merger or substantial continuity. The Plan Agent shall seek an Order of the Bankruptcy Court dismissing this case. All assets shall have been transferred "as is, where is" with no representation or warranty of any kind.

7.2 Vesting of Property of the Estate in the Liquidating Debtor.

On the Effective Date, all property of the Debtor and of the Estate including all rights to object to Claims, all avoidance actions, causes of action, claims, the right to pursue such claims and all other remaining property of the estate as defined in § 541 of the Bankruptcy Code, shall vest in the Liquidating Debtor, free and clear of liens, claims and encumbrances, except as otherwise provided in the Plan. The Plan Agent shall be the sole officer, director and shareholder of the Liquidating Debtor. On the Effective Date, the Liquidating Debtor is deemed to have satisfied all liabilities for purposes of dissolution under applicable state law. The Plan Agent is authorized to execute and file all documents necessary to effectuate the dissolution of the Liquidating Debtor once the Plan Agent determines that all Estate property has been administered in accordance with the Plan, including the closure of the Altair, Texas property.

7.3 Continuation of Operations.

From and after the Effective Date of the Plan, the Liquidating Debtor is authorized to (i) take such action as is necessary to complete an orderly wind-down of its operations; (ii) file claim objections; (iii) make distributions; (iv) prosecute causes of action owned by the Estate, including all claims and causes of action arising under the Bankruptcy Code; (v) pursue, liquidate and administer Estate property; (vi) file tax returns and respond to any audits; (vii) conduct the closure of the Debtor's facility in Altair, Texas; and (viii) take such other action as provided for under the Plan. Attached hereto as **Exhibit "C"** is the Debtor's estimate of the economics that generate the post-confirmation proceeds from which creditors will be paid. The Debtor believes that the existing market will produce \$4.00 a ton from which non-subordinated creditors will be paid.

7.4 Continued Corporate Existence.

From and after the Effective Date, the Liquidating Debtor shall continue to exist in accordance with the applicable laws of its state of incorporation/organization.

7.5 General Powers of the Plan Agent.

Subject to any express limitations, the Plan Agent, on behalf of the Liquidating Debtor, shall have all of the rights, powers and privileges set forth in the Plan and the Confirmation Order. The Plan Agent is authorized and shall have the obligation to take all such actions as in his/her judgment are necessary and appropriate to effectuate the purposes of the Plan, including but not limited to the following:

7.5.1 Make all Distributions contemplated under the Plan;

7.5.2 Consistent with maintaining the value and liquidating the residual assets of the Liquidating Debtor, invest in time or demand deposits, including certificates of deposit

issued by any bank approved as a depository institution by the United States Trustee's office, United States Treasury bonds and other securities guaranteed by the full faith and credit of the United States of America or any agency thereof;

7.5.3 Supervise and administer the resolution, settlement and payment of Claims and Interests and the distributions to the holders of Allowed Claims and Allowed Interests in accordance with the Plan;

7.5.4 Enter into any agreement on behalf of the Liquidating Debtor required by or consistent with the Plan and perform all of the obligations required of the Plan Agent under the Plan;

7.5.5 Abandon any of the assets of the Liquidating Debtor if the Plan Agent concludes that such assets are of no benefit to the Creditors or Interest Holders;

7.5.6 Participate in or initiate any proceeding before the Bankruptcy Court or any other court of appropriate jurisdiction and participate as a party or otherwise in any administrative, arbitative, or other non-judicial proceeding and litigate claims on behalf of the Liquidating Debtor, including without limitation all state and federal causes of action or any other litigation which constitute an asset of the Liquidating Debtor and pursue to settlement or judgment;

7.5.7 Participate as a party-in-interest in any proceeding before the United States Bankruptcy Court involving the Chapter 11 Case;

7.5.8 Act in the name of or in the place of the Liquidating Debtor in any action before the United States Bankruptcy Court or any other judicial or administrative body;

7.5.9 Take actions and exercise remedies against any entity that owes money to the Liquidating Debtor, including without limitation, the remedies available under any deed of trust, security agreement, promissory note, bond, guarantee or other instrument or document; make compromises regarding any deed of trust, security agreement, promissory note, bond, guarantee or other instrument or document; and, declare or waive defaults regarding any deed of trust, security agreement, promissory note, bond, guarantee or other instrument or document;

7.5.10 Subject to the limitations provided under Section 7.7, select and employ such professionals, agents or employees as the Plan Agent deems necessary to assist in the administration of the affairs of the Liquidating Debtor and compensate such persons. It is anticipated that Jay Stewart, Special Counsel to the Debtor on dealing with the Texas Railroad Commission will continue as an attorney representing the Plan Agent before the Railroad Commission of Texas. Further, it is also anticipated that Jeff Glaser of the firm of Cook-Joyce, Inc. will continue to consult with the Plan Agent, Surety, and Jay Stewart regarding the closure of the Altair, Texas facility.

7.5.11 Hold any unclaimed distribution or payment to the holder of an Allowed Claim in accordance with this Plan;

7.5.12 Propose any amendment, modification or supplement to this Plan or the Liquidating Debtor's governance documents;

7.5.13 File dissolution/termination documents with the appropriate governmental agencies to dissolve the Liquidating Debtor once all Distributions have been made pursuant to the Plan;

7.5.14 Receive, conserve and manage the assets of the Liquidating Debtor and sell or otherwise dispose of such assets for a price and upon such terms and conditions as the Plan Agent deems most beneficial to the Creditors and Interest Holders and execute such deeds, bills of sale, assignments and other instruments in connection therewith;

7.5.15 Open and maintain bank accounts on behalf of or in the name of the Liquidating Debtor;

7.5.16 Pay all taxes, make all tax withholdings and file tax returns and tax information returns and make tax elections by and on behalf of the Liquidating Debtor;

7.5.17 Pay all lawful expenses, debts, charges and liabilities of the Liquidating Debtor;

7.5.18 Enforce all provisions of this Plan;

7.5.19 Protect, perfect and defend the title to any of the assets of the Liquidating Debtor and enforce any bonds, mortgages or other obligations or liens owned by the Liquidating Debtor;

7.5.20 Carry insurance coverage, including insurance to protect the Liquidating Debtor, the Plan Agent against claims brought against the Liquidating Debtor, the Plan Agent acting within their capacities with the Liquidating Debtor, in such amounts, and to the extent necessary, as they deem advisable;

7.5.21 Establish such reserves for taxes, assessments and other expenses of administration of the Liquidating Debtor (including without limitation the Disputed Claims Reserve) as may be necessary and appropriate for the proper operation of matters incident to the affairs of the Liquidating Debtor; and

7.5.22 Exercise such other powers and duties as are necessary or appropriate in the Plan Agent's discretion to accomplish the purposes of the Plan.

7.6 Obligations of the Plan Agent.

Notwithstanding anything in the Plan to the contrary, the Plan Agent shall have the following duties:

7.6.1 Subject to the provisions of Section 8.1 and 8.2 of the Plan, the Plan Agent shall be responsible for all material issues affecting the Liquidating Debtor, including the (i) timing and amount of Distributions; (ii) resolution of Claims objections, (iii) the pursuit of Causes of Action, and (iv) the sale and other disposition of assets. Unless an objection is

filed, the Plan Agent may take such action without further notice to or approval from any party.

7.6.2 The Plan Agent shall subject to Bankruptcy Court approval be solely responsible regarding the retention of, and fee arrangements with professionals representing the Plan Agent and/or Liquidating Debtor.

7.6.3 The Plan Agent shall cause to be prepared a quarterly report illustrating (i) receipts and disbursements during the prior quarter, (ii) a schedule of all asset dispositions, (iii) a schedule of Distributions made, and (iv) a summary listing of the status of the resolution of objections to Claims and Causes of Action. Such quarterly report shall be distributed to any Claimant requesting notice within fifteen (15) business days after the end of the relevant report preparation period.

7.6.4 The Plan Agent shall maintain records relating to the Liquidating Debtor's assets, the management thereof and all transactions undertaken by the Plan Agent on behalf of the Liquidating Debtor. The Plan Agent shall also maintain records and books of account relating to all Distributions contemplated under the Plan.

7.7 Limitations on the Powers of the Plan Agent.

7.7.1 Notwithstanding anything in this Plan to the contrary, and only with a Bankruptcy Court Order entered after notice and opportunity for hearing may the Plan Agent modify or amend this Plan in accordance with § 1127 of the Bankruptcy Code.

7.8 Resignation/Removal of the Plan Agent.

The Plan Agent may resign at any time by filing a written notice of resignation with the Bankruptcy Court. Any such resignation shall become effective on the earlier to occur of (i) sixty (60) days after the filing date of such notice; or (ii) the appointment of a successor Plan Agent. All fees and expenses incurred by the Plan Agent in pursuit of the removal or continuation of the Plan Agent shall be the obligation of the Liquidating Debtor.

7.9 Appointment of Successor Plan Agent.

In the event of the death, resignation or removal of the Plan Agent, the Court shall designate a successor Plan Agent. Any successor Plan Agent appointed hereunder shall execute and file a statement accepting such appointment and agreeing to be bound by the terms of the Plan and upon such filing, the successor Plan Agent shall immediately become vested with all the rights, powers, trusts and duties of the Plan Agent.

7.10 Compensation Procedures.

The Plan Agent, the Liquidating Debtor, and all professionals employed by them shall be entitled to payment of their fees and reimbursement of all reasonable expenses on a monthly basis, provided, however, that the Plan Agent shall be provided with written notice of any requested fees and expenses and, if the Plan Agent objects to such fees and expenses, the Plan

Agent must file with the Bankruptcy Court a notice of such objection within 10 days of the Plan Agent's receipt of the written notice of fees and expenses. If an objection is filed as set forth above, the Bankruptcy Court shall determine whether the disputed fees and/or expenses will be paid by the Plan Agent.

7.11 Oversight Committee.

The Unsecured Creditors Committee shall select three (3) representatives to consult with the Plan Agent regarding the liquidation of the Debtor's Estate according to the Confirmed Plan. The Oversight Committee shall have standing to proceed before the Bankruptcy Court regarding the Plan Agent's actions.

ARTICLE 8

CLAIM/INTEREST OBJECTION PROCEDURES, TREATMENT OF DISPUTED CLAIMS/INTERESTS AND PROCEDURES FOR ASSERTING CLAIMS

8.1 Objection Process.

Subject to the limitations provided under Article 7, the Debtor and/or Plan Agent shall have the right to object to the allowance of any Claims or Interests provided for under the Plan. The Plan Agent may object to all claims, whether scheduled or not. The scheduling of a claim or interest as undisputed, non-contingent and/or liquidated by the Debtor shall have no preclusive effect on the Plan Agent. All objections shall be litigated to Final Order; provided, however, that the Plan Agent shall have the authority to compromise, settle or otherwise resolve all objections, for any Claim filed in the amount of \$25,000 or less without approval of the Bankruptcy Court. Unless otherwise ordered by the Bankruptcy Court, the Plan Agent shall file and serve all objections to Claims and Equity Interests no later than (i) 120 days after the later of (a) the Effective Date; or (b) the date on which a proof of claim, proof of interest or request for payment is filed with the Bankruptcy Court; or, (ii) such other date as may be approved by the Bankruptcy Court after notice and hearing.

8.2 Filing of Claims and Causes of Action.

Subject to the limitations provided under Article 7, the Plan Agent shall have the exclusive right to file and prosecute any Claims and Causes of Action on behalf of the Liquidating Debtor, including all derivative Causes of Action. The Plan Agent shall have the authority to compromise, settle or otherwise resolve all Claims and Causes of Action filed or asserted in the amount of \$25,000 or less without approval of the Bankruptcy Court.

8.3 Disputed Claims Reserve.

A Disputed Claims Reserve shall be established by the Plan Agent for the treatment of Disputed Claims. The Plan Agent shall deposit into a Disputed Claims Reserve an amount equal to the Pro Rata share of the Distribution allocable to such Disputed Claims, in accordance with the distribution scheme contemplated in the Plan, as if such Claims and/or Equity Interests were Allowed Claims or Equity Interests. Amounts deposited into the Disputed Claims Reserve shall be held in trust for the benefit of the holders of Disputed Claims pending a determination of their entitlement thereto under the terms of the Plan. Once such Disputed Claim is determined by

Final Order or settlement to be an Allowed Claim, Plan Agent is authorized to pay the Allowed Amount of such Claim without further approval from or notice to any person or entity.

8.4 Distributions to Holders of Disputed Claims and Disputed Interests.

Within 10 Business Days after such time as a Disputed Claim becomes an Allowed Claim, but in no event earlier than the Initial Distribution Date, any Distributions reserved for such Allowed Claim shall be released from the Disputed Claims Reserve and delivered to the holder of such Allowed Claim in an amount proportionate to the Allowed Amount of any such Claim. In the event that the Disputed Claim is disallowed in whole or in part, or otherwise settled in amount less than the Disputed Claim amount, the disallowed or reduced portion of such Claim shall be distributed from the Disputed Claim Reserve to holders of Allowed Claims as Available Cash on the next Interim Distribution Date in accordance with the Plan without further approval from or notice to any person or entity.

8.5 Disallowance of Late Filed Proofs of Claim.

Except as otherwise provided in the Plan, any proof of claim filed by the holder of such Claim after the Bar Date is hereby disallowed without further notice.

8.6 Provisions Governing Distributions.

8.6.1 Record Date for Claims and Equity Interests.

The record date for Distributions to Allowed Claims and Allowed Interests under the Plan shall be the date the Bankruptcy Court enters its order approving the Disclosure Statement. For purposes of Distributions to holders of Allowed Claims, the Plan Agent will rely on the claims docket maintained by the Clerk for proofs of claim filed in the Chapter 11 Case except to the extent a notice of transfer of Claim or Interest has been filed with the Court prior to the record date pursuant to Bankruptcy Rule 3001. For purposes of Distributions on account of Equity Interests, the Plan Agent will rely on the relevant stock transfer ledger(s).

8.6.2 Delivery of Distributions to Holders of Allowed Claims.

Subject to Bankruptcy Rule 9010, Distributions to holders of Allowed Claims will be made at the address of each such holder as set forth on the proofs of claim filed by such holders, or at the last known address of such holder if no proof of claim is filed, unless the holder of the Allowed Claim has otherwise notified the Plan Agent in writing of a change of address. If any holder's Distribution is returned as undeliverable, it will be treated in accordance with Article 8.6.4 herein. The Plan Agent may, but shall not be required to make any Distribution of less than \$25.00.

8.6.3 Delivery of Distributions to Holders of Allowed Equity Interests.

Distributions to holders of Allowed Equity Interests, to the extent they are entitled to distributions under the Plan, will be made at the address of the registered holder of each such Equity Interest as set forth in the relevant stock transfer ledger(s). If any holder's distribution is returned as undeliverable, it will be treated in accordance with Article 8.6.4 herein. The Plan Agent may, but shall not be required to make any Distribution of less than \$25.00.

8.6.4 Unclaimed Distributions.

The Plan Agent shall file a Notice of Distribution within 10 Business Days of the date on which Distributions are made under the Plan. All claims for undeliverable Distributions must be made no later than the 60th day following the date that the Notice of Distribution is filed. After such date, all unclaimed Distributions will revert to the Liquidating Debtor for distribution in accordance with this Plan and the remaining Claim or Equity Interest of any holder with respect to such Distribution will be discharged and forever barred.

8.6.5 Uncashed Checks.

Checks issued in respect of Allowed Claims and/or Equity Interests will be null and void if not negotiated within ninety (90) days after the date of issuance thereof. Distributions with respect to such un-negotiated checks will revert to the Liquidating Debtor for distribution in accordance with this Plan and the remaining Claim or Equity Interest of any holder with respect to such Distribution will be discharged and forever barred.

ARTICLE 9

EXECUTORY CONTRACTS AND UNEXPIRED LEASES

9.1 Rejection of Executory Contracts and Unexpired Leases.

All executory contracts and unexpired leases that are not assumed under this Plan are rejected, unless otherwise dealt with by the Plan or the Confirmation Order, or any other Order of the Court entered prior to the Effective Date, or which is the subject of a motion to assume pending on the Effective Date.

9.2 Assumed Executory Contracts and Unexpired Leases.

Each executory contract and unexpired lease that is assumed will include (a) all amendments, modifications, supplements, restatements, or other agreements made directly or indirectly by any agreement, instrument, or other document that in any manner affect such executory contract or unexpired lease; and (b) with respect to any executory contract or unexpired lease that relates to the use, ability to acquire, or occupancy of real property, all executory contracts or unexpired leases and other rights appurtenant to the property, including all easements, licenses, permits, rights, privileges, immunities, options, rights of first refusal, powers, uses, usufructs, reciprocal easement agreements, vaults, tunnel or bridge agreements or

franchises, and any other equity interests in real estate or rights *in rem* related to such premises, unless any of the foregoing agreements have been rejected pursuant to an order of the Bankruptcy Court or are the subject of a motion to reject filed on or before the Confirmation Date. Amendments, modifications, supplements, and restatements to prepetition executory contracts and unexpired leases that have been executed by the Debtor during its Chapter 11 Case shall not be deemed to alter the prepetition nature of the executory contract or unexpired lease, or the validity, priority, or amount of any Claims that may arise in connection therewith.

9.3 Claims Based on Rejection of Executory Contracts or Unexpired Leases.

Damages arising from the rejection of an executory contract or unexpired lease to which the Debtor is or was a party shall be a General Unsecured Claim against the Debtor unless subordinated under applicable law. Any Claim for damages arising from the rejection of an executory contract or unexpired lease must be asserted in a proof of claim filed with the Bankruptcy Court no later than 20 days following the earlier of: (a) the date of entry of an order of the Bankruptcy Court approving such rejection, or (b) the Effective Date of the Plan. Any Claims not filed within such times shall be forever barred from assertion against the Debtor, the Liquidating Debtor or the Plan Agent.

9.4 Reservation of Rights.

Nothing contained in the Plan shall constitute an admission by the Debtor that any such contract or lease is in fact an executory contract or unexpired lease or that any Debtor has any liability thereunder. If there is a dispute regarding whether a contract or lease is or was executory or unexpired at the time of assumption or rejection, the Plan Agent shall have thirty (30) days following entry of a Final Order resolving such dispute to alter their treatment of such contract or lease.

ARTICLE 10 **EFFECT OF CONFIRMATION**

10.1 Legally Binding Effect.

The provisions of the Plan shall bind all Creditors and Interest Holders, whether or not they accept the Plan. On and after the Effective Date, all holders of Claims shall be precluded and enjoined from (i) asserting any Claim against the Debtor, the Liquidating Debtor or their assets or properties based on any transaction or other activity of any kind that occurred prior to the Confirmation Date except as permitted under the Plan; (ii) asserting any derivative claims, including claims against third parties asserting alter ego claims, fraudulent transfer claims or any other type of successor liability; and (iii) otherwise interfering with the Plan Agent/Liquidating Debtor's administration of assets and claims under the Plan. The entry of the Confirmation Order will operate as a general resolution with prejudice, as of the Effective Date, of all Claims and Interests dealt with under the Plan and all pending legal proceedings, if any, against the Debtor and its assets and properties and any proceedings not yet instituted against the Debtor or its assets and properties, except as otherwise provided in the Plan, concerning Claims and Interests dealt with under the Plan. Unless otherwise provided in the Plan or by order of the Bankruptcy Court, all injunctions or automatic stays provided for in these cases pursuant to

§ 105, if any, or § 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date will remain in full force and effect until the Effective Date.

10.2 Limited Protection of Certain Parties in Interest.

Except as specifically limited herein, the Debtor and the Estate shall release under the Plan (a) the Plan Agent, the Liquidating Debtor and all of their employees, officers, directors, agents, representatives, affiliates, attorneys, financial advisors, and any other professional persons employed by the Plan Agent and the Liquidating Debtor, (b) each Professional for the Debtor and any of its employees, officers, directors, agents, representatives, affiliates, attorneys, financial advisors, and any other professional persons employed by any of them, (c) and any other professional persons employed by them (the persons identified in (a), (b), and (c) are collectively referred to as “Protected Persons,” and, notwithstanding anything to the contrary herein, any and all claims and causes of action against Protected Persons, or any of their employees, officers, directors, agents, representatives, affiliates, attorneys, financial advisors, or any other professional persons employed by any them, for gross negligence or willful misconduct shall be fully preserved.

10.3 Indemnification.

The Liquidating Debtor shall indemnify each Person identified as a Protected Person against any and all costs and expenses (including attorneys’ fees) incurred by any of them in defending against post-Confirmation Date claims released pursuant to Article 11.2 of the Plan; provided, however, that no Protected Person shall be entitled to indemnification under this Plan for the costs and expenses of defending a cause of action in which it is ultimately judicially determined that such Protected Person was grossly negligent or acted fraudulently or with willful misconduct in performing such Protected Person’s duties hereunder or under any Final Order of the Bankruptcy Court or applicable law, or *ultra vires* activity. Any Protected Person entitled to indemnification under this section shall have a priority distribution right that is senior to the holders of Allowed General Unsecured Claims against the Liquidating Debtor. The Plan Agent may, in his sole discretion, use the Liquidating Debtor’s assets (as an expense of consummating this Plan) to purchase indemnification insurance to satisfy any potential indemnification claims that may arise under this section.

10.4 Preservation of Claims and Rights.

Confirmation of this Plan effects no settlement, compromise, waiver or release of any Claim, Cause of Action, Right of Action or claim for relief unless this Plan or the Confirmation Order specifically and unambiguously so provides. The non-disclosure or non-discussion of any particular Claim, Cause of Action, Right of Action or claim for relief is not and shall not be construed as a settlement, compromise, waiver, or release of any such Claim, Cause of Action, Right of Action or claim for relief.

The Debtor, the Liquidating Debtor and the Plan Agent reserve any and all claims and rights against any and all third parties, whether such claims and rights arose before, on or after the Petition Date, the Confirmation Date, the Effective Date, the Record Date and/or any Distribution date, including, without limitation, any and all Causes of Action, Rights of Action and/or claims for relief that the Debtor, the Liquidating Debtor or the

Plan Agent has against (i) any insurer and/or insurance policies in which either the Debtor and/or their current or former personnel have an insurable or other interest in or right to make a claim against, any other of the Debtor's insurers; (ii) any recipient of a transfer identified in the Debtor's statements of financial affairs, including any amendments thereto, filed in this Chapter 11 Case; and (iii) for claims of breach of fiduciary duty, fraudulent transfer, preferential transfer, unauthorized post-petition transfer under 11 U.S.C. § 549, turnover under 11 U.S.C. §§ 542 and 543, subordination, re-characterization of debt to equity, malpractice, constructive trust, disgorgement, counter-claims, claims to determine the extent and validity of liens under 11 U.S.C. § 506 and any other claims that the Estate may have against such Non-Released Parties. The entry of the Confirmation Order shall not constitute *res judicata* or otherwise bar, estop or inhibit any actions by the Debtor, the Liquidating Debtor or the Plan Agent relating to any claims, Causes of Action or Rights of Action referred to in this Article 10.6, or otherwise. Except as specifically set forth herein, the Plan Agent shall constitute the representative of the Estate for purposes of retaining, asserting and/or enforcing Rights of Action under § 1123(b)(3)(B) of the Bankruptcy Code. On the Effective Date, the Plan Agent shall be substituted as a party of record in all pending litigation brought by or against the Debtor without need for further order of the Bankruptcy Court.

ARTICLE 11 CONFIRMATION OF THE PLAN

11.1 Confirmation Hearing.

Section 1128(a) requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of the Plan ("Confirmation Hearing"). The Confirmation Hearing has been scheduled before the Honorable Jeff Bohm, United States Bankruptcy Judge, on _____ (Houston time), in Courtroom No. 600, 6th Floor, United States Courthouse, 515 Rusk Avenue, Houston, Texas 77002. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except an announcement made at the Confirmation Hearing or any adjournment thereof.

Section 1128(b) provides that any party in interest may object to confirmation of the Plan. However, an impaired Creditor, who votes to accept the Plan, may not have standing to object to the Plan. Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014 and any applicable Local Rules of the Bankruptcy Court. **The deadline for filing objections to confirmation of the Plan is _____, (Houston time).** Objections to confirmation must be filed with the Clerk of Court.

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

11.2 Statutory Requirements for Confirmation of the Plan.

At the Confirmation Hearing, the Bankruptcy Court will determine whether the Bankruptcy Code's requirements for confirmation of the Plan have been satisfied, in which event the Bankruptcy Court will enter an order confirming the Plan. As set forth in § 1129 of the Bankruptcy Code, these requirements are as follows:

1. The Plan complies with the applicable provisions of the Bankruptcy Code.
2. The proponent of the Plan complies with the applicable provisions of the Bankruptcy Code.
3. The has been proposed in good faith and not by any means forbidden by law.
4. Any payment made or to be made by the Plan proponent, 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 cases, or in connection with the Plan and incident to the cases, has been approved by, or is subject to the approval of, the Court as reasonable.
5. The proponent of the Plan has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the Plan, as a director, officer, or voting trustee of the Debtor, an affiliate of the Debtor participating in a joint Plan with the Debtor, or a successor to the Debtor under the Plan; and the appointment to, or continuance in, such office of such individual, is consistent with the interests of Creditors and with public policy; and the proponent of the has disclosed the identity of any insider that will be employed or retained by the Debtor, and the nature of any compensation for such insider.
6. Any governmental regulatory commission with jurisdiction, after confirmation of the Plan, over the rates of the Debtor, has approved any rate change provided for in the Plan, or such rate change is expressly conditioned on such approval.
7. With respect to each class of impaired claims or equity interests:
 - (a) each holder of a claim or interest of such class:
 - (i) has accepted the Plan; or
 - (ii) will receive or retain under the Plan on account of such claim or interest property of a value, as of the effective date of the Plan, that is not less than the amount that such holder would so receive or retain if the Plan Proponent were liquidated under Chapter 7 of the Bankruptcy Code on such date; or
 - (b) if § 1111(b)(2) of the Bankruptcy Code applies to the claims of such class, the holder of a claim of such class will receive or retain under the Plan on account of such claim property of a value, as of the effective date of the Plan, that is not less than the value of such holder's interest in the estate's interest in the property that secured such claims.
8. With respect to each class of claims or interests:
 - (a) such class has accepted the Plan; or
 - (b) such class is not impaired under the Plan;
9. Except to the extent that the holder of a particular claim has agreed to a different treatment of such claim, the Plan provides that:

(a) with respect to a claim of a kind specified in § 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) with respect to a class of claims of a kind specified in §§ 507(a)(3), 507(a)(4), 507(a)(5) or 507(a)(6) of the Bankruptcy Code, each holder of a claim of such class will receive:

(i) if such class has accepted the Plan, deferred cash payments of a value, as of the effective date of the Plan, equal to the allowed amount of such claim; or

(ii) if such class has not accepted the Plan, cash on the effective date of the Plan equal to the allowed amount of such claim; and

(c) with respect to a claim of a kind specified in § 507(a)(8) of the Bankruptcy Code, the holder of a 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 is impaired under the Plan, at least one class of claims that is impaired has accepted the Plan, determined without including any acceptance of the Plan by any insider.

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

The Debtor believes that the Plan satisfies all the statutory requirements of Chapter 11 of the Bankruptcy Code, that the Debtor has complied or will have complied with all of the requirements of Chapter 11, and that the proposal of the Plan is made in good faith.

The Debtor further believes that the holders of all Claims impaired under the Plan will receive payments or distributions under the Plan having a present value as of the Effective Date in amounts not less than the amounts likely to be received by such holders if the Debtor were liquidated in a case under Chapter 7 of the Bankruptcy Code.

Finally, as the Plan contemplates a sale of the Debtor's operating assets, the Debtor does not believe that the confirmation of the Plan will likely be followed by the need for further financial reorganization of the Debtor.

11.3 Cramdown.

In the event that any impaired class of Claims does not accept the Plan, the Bankruptcy Court may still confirm the Plan if, as to each impaired class which has not accepted the Plan, the Plan does not discriminate unfairly and is "fair and equitable." A plan of reorganization does not discriminate unfairly within the meaning of the Bankruptcy Code if no class receives more than it is legally entitled to receive for its claims or equity interests.

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

1. With respect to a class of secured claims, the Plan provides:
 - (a) (i) that the holders of such claims retain the liens securing such claims, whether the property subject to such liens is retained by the Plan Proponent or transferred to another entity, to the extent of the allowed amount of such claims; and

(ii) that each holder of a claim of such class receive on account of such claim deferred cash payments totaling at least the allowed amount of such claim, of a value, as of the effective date of the Plan, of at least the value of such holder’s interest in the estate’s interest in such property;
 - (b) for the sale, subject to § 363(k) of the Bankruptcy Code, of any property that is subject to the Liens securing such claims, free and clear of such liens, with such liens to attach to the proceeds of such sale, and the treatment of such liens on proceeds under clause (a) and (b) of this subparagraph; or
 - (c) for the realization by such holders of the indubitable equivalent of such claims.
2. With respect to a class of unsecured claims, the Plan provides:
 - (a) that each holder of a claim of such class receive or retain on account of such claim property of a value, as of the effective date of the Plan, equal to the allowed amount of such claim; or
 - (b) the holder of any claim or interest that is junior to the claims of such class will not receive or retain under the Plan on account of such junior claim or interest any property.
3. With respect to a class of interests, the Plan provides:
 - (a) that each holder of an interest of such class receive or retain on account of such interest property of a value, as of the effective date of the Plan, equal to the greatest of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled, or the value of such interest; or
 - (b) the holder of any interest that is junior to the interests of such class will not receive or retain under the Plan on account of such junior interest any property.

The Bankruptcy Court will determine at the Confirmation Hearing whether the Plan is fair and equitable with respect to, and does not discriminate unfairly against, any rejecting

impaired class of Claims. The Debtor believes that the Bankruptcy Court will find these requirements satisfactory and will confirm the Plan.

11.4 Conditions Precedent to Effective Date.

11.4.1 The following are conditions precedent to the occurrence of the Effective Date: (i) the Confirmation Order, in a form and in substance reasonably satisfactory to the shall have been entered by the Bankruptcy Court; (ii) the form of all documents necessary or appropriate to give effect to the transactions contemplated under the Plan, if any, have been approved and executed; (iii) all required consents, approvals, and authorizations, if any, have been obtained; (iv) there shall be no stay of the Confirmation Order in effect; (v) the Plan Agent shall have determined the Liquidating Debtor is holding good and available funds for payment of Claims under the Plan and (vi) all other actions, documents and agreements necessary to implement the Plan shall have been effected or executed.

The Effective Date is defined in the Plan as the day selected by the Debtor that is no earlier than the first Business Day after (i) the date the Confirmation Order has been entered; and (ii) all conditions specified in Article 13 of the Plan have been satisfied or waived.

11.5 Annulment of Plan if Conditions Not Waived or Satisfied.

The Debtor reserves the right to waive any of the conditions precedent to the Effective Date. If any of the conditions precedent are not waived, and are not satisfied within six months of the Confirmation Date or can no longer occur, the Debtor shall convert the Chapter 11 Case to chapter 7 and any proceeds shall be administered by a chapter 7 trustee.

11.6 Retention of Jurisdiction by Bankruptcy Court.

The Court shall retain and have exclusive jurisdiction over this Chapter 11 Case to the maximum extent provided by law for the follow purposes following the Confirmation Date: (a) to determine any and all objections to the allowance and classification of Claims or Interests; (b) to determine the validity and priority of any Lien; (c) to determine the Allowed Amount of any Claim, whether secured or unsecured; (d) to allow any and all applications for allowances of compensation and reimbursement of expenses payable from the estate; (e) to determine any and all applications or motions pending before the Court on the Effective Date of the Plan, including without limitation any motions for the rejection, assumption or assumption and assignment of any executory contract or unexpired lease; (f) to consider and approve any modification of the Plan, remedy any defect or omission or reconcile any inconsistency in the Plan, or any order of the Court, including the Confirmation Order; (g) to hear and determine all controversies, suits and disputes that may arise in connection with the interpretation, enforcement or consummation of the Plan, the Confirmation Order, any transactions or payments contemplated hereby or any agreement, instrument or other document governing or related to any of the foregoing; (h) to consider and act on the compromise and settlement of any claim or cause of action by or against the Debtor; (i) to issue orders in aid of execution and implementation of the Plan and the Confirmation Order, to the extent authorized by 11 U.S.C. § 1142 or provided by the terms of the Plan; and (j) to hear and determine matters concerning federal, state or local taxes in accordance with §§ 346, 505 or 1146 of the Bankruptcy Code.

In no event shall the provisions of the Plan be deemed to confer in the Bankruptcy Court jurisdiction greater than that established by the provisions of 28 U.S.C. §§ 157 and 1334.

ARTICLE 12

COMPROMISES AND SETTLEMENTS

12.1 Effect of Confirmation Order.

Pursuant to Bankruptcy Rule 9019 and applicable provisions of the Bankruptcy Code, and in consideration for the classification, distribution and other benefits provided under the Plan, the provisions of the Plan shall constitute a good faith compromise and settlement of all Claims, Interests and controversies resolved pursuant to the Plan, including, without limitation, all Claims arising prior to the Effective Date, whether known or unknown, foreseen or unforeseen, asserted or unasserted, arising out of, relating to or in connection with the business or affairs of, or transactions with, the Debtor. The entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of each of the foregoing compromises or settlements, and all other compromises and settlements provided for in the Plan, and the Bankruptcy Court's findings shall constitute its determination that such compromises and settlements are in the best interests of the Debtor, the Estate, Creditors and other parties in interest, and are fair, equitable and within the range of reasonableness.

ARTICLE 13

MISCELLANEOUS PROVISIONS

13.1 Bar Date for Administrative Claims.

No Administrative Claim, other than Professional Fees, United States Trustee fees will be paid unless the holder of such Administrative Claim has filed an application for payment of such Administrative Claim on or before the Administrative Claim Bar Date. Upon the filing of any application for payment, the entity seeking payment of an Administrative Claim shall provide notice by United States Mail in accordance with the Bankruptcy Rules. Any Administrative Claim, other than Professional Fees and United States Trustee fees not filed in accordance with this section shall be barred and the Debtor, the Liquidating Debtor and the Plan Agent shall have no liability for payment of any such Administrative Claim.

13.2 Objections to Administrative Claims.

Objections to Applications for payment of Administrative Claims may be filed by any party in interest. In order to be considered, such objections must be filed on or before the 21st day following the date on which the application was filed. Any objections will be determined by the Bankruptcy Court.

13.3 Payment of Professional Claims.

Each holder of a Professional Fee Claim shall be paid in respect of such Professional Fee Claim in Cash, in full, on the Effective Date, or, if such Claim has not been approved by the Bankruptcy Court on or before the Effective Date, promptly after Bankruptcy Court approval of the Professional Fee Claim by a Final Order. Final fee applications for any Professional Fee Claim that has not been approved as of the Effective Date shall be filed within 45 days of the

Effective Date and such applications and objections thereto (if any) shall be filed in accordance with and comply in all respects with the Bankruptcy Code, the Bankruptcy Rules, applicable local rules. The failure to file an application by the foregoing deadline shall constitute a waiver of all such Professional Fee Claim.

13.4 Payment of United States Trustee Fees.

Within 30 days of the date that such payments are due, the Debtor or the Plan Agent shall pay all amounts owing to the United States Trustee as fees and costs imposed in connection with this Chapter 11 Case.

13.5 Directive to State Agencies.

At such time as any of the Liquidating Debtor files articles of dissolution, all governmental agencies are directed to accept such articles and recognize the dissolution of the Liquidating Debtor regardless of whether all Claims, including taxes have been paid in full.

13.6 Satisfaction of Liabilities.

The rights afforded in the Plan and the treatment of all Claims and Interests herein shall be in exchange for and in complete satisfaction and release of all Claims and Interests of any nature whatsoever against the Debtor and/or the Estate, as well as assets, properties, and interests in property of the Debtor and/or the Estate. The Liquidating Debtor shall not be responsible for any pre-Effective Date obligations of the Debtor except those expressly assumed by the Liquidating Debtor.

13.7 Warranty of Transfers from Liquidating Debtor.

All property, whether real or personal, to be transferred by the Plan Agent on behalf of the Liquidating Debtor to any person or entity under this Plan, is transferred "as is, where is," with no representation or warranty of any kind except that all transfers shall be transferred free and clear of all liens, claims and encumbrances pursuant to the applicable provisions of the Bankruptcy Code, including 11 U.S.C. § 1123(a)(5).

13.8 Compliance with Tax Requirements.

In connection with each distribution with respect to which the filing of an information return (such as an Internal Revenue Service Form 1099 or 1042) or withholding is required, the Plan Agent shall file such information return with the Internal Revenue Service and provide any required statements in connection therewith to the recipients of such distribution or effect any such withholding and deposit all moneys so withheld as required by law. With respect to any Person from whom a tax identification number, certified tax identification number or other tax information required by law to avoid withholding has not been received by the Plan Agent within thirty (30) days from the date of such request, the Plan Agent may, at his option, withhold the amount required and distribute the balance to such Person or decline to make such distribution until the information is received.

13.9 Amendment of the Plan.

This Plan may be amended or modified by the Debtor before, or by the Plan Agent after the Effective Date, as provided in § 1127 of the Bankruptcy Code.

13.10 Timing of Distributions.

Unless otherwise specified herein, all payments and Distributions shall be made on an Interim Distribution Date determined by the Plan Agent. When a provision of this Plan requires that a payment shall be made on a certain date, such payment may be made (i) at any time prior to the date on which such payment is due; (ii) in more frequent intervals than set forth in such provision of the Plan; or (iii) not more than 14 days after the date any such payment is due. Notwithstanding the foregoing, no payment shall be considered late or otherwise result in a default unless the Plan Agent has failed to make the payment after the passage of 30 days following the receipt by the Plan Agent of a written notice advising that a payment has not been received in accordance with the times set forth in this paragraph.

13.11 Enforcement of Subordination Agreements/Settlement Agreements.

Any written (i) subordination agreement between holders of Allowed Claims; and (ii) settlements approved by the Bankruptcy Court during this Chapter 11 Case will be honored according to their terms for the purposes of distribution under this Plan.

13.12 Filing of Documents in Public Records.

Pursuant to § 1146 of the Bankruptcy Code, the issuance, transfer or exchange of a security or the making of an instrument of transfer under this Plan (including without limitation the filing of any mortgage, deed of trust, security agreement, uniform commercial code financing statement or other similar document) shall not be taxed under any law imposing a stamp tax or similar tax. All state or local governmental officials or agents are hereby directed to forego the collection of any such tax or governmental assessment and to accept for Filing and recordation any of the foregoing instruments or other documents without the payment of any such tax or governmental assessment.

13.13 Right to Seek Further Orders.

The Plan Agent, if and to the extent necessary, will seek such orders, judgments, injunctions, regulatory approvals, and rulings that may be required to carry out and further the intentions and purposes, and give full effect to the provisions, of the Plan.

13.14 Regulatory Approvals.

As the Plan is not intended to modify or supplant any regulatory authority over the Debtor or the Liquidating Debtor, all regulatory approvals required in connection with the Plan will be sought and obtained.

13.15 Withdrawal of Plan.

The Debtor reserves the right to withdraw this Plan at any time prior to the Confirmation Date.

13.16 Due Authorization by Creditors.

Each and every Creditor who elects to participate in the Distributions provided for herein (i) warrants that it is authorized to accept in consideration of its Claim against the Debtor the Distributions provided for in this Plan; (ii) states that there are no outstanding commitments, agreements, or understandings, express or implied, that may or can in any way defeat or modify the rights conveyed or obligations undertaken by it under this Plan; and (iii) indemnifies and holds harmless the Liquidating Debtor, the Plan Agent and their professionals and representatives with respect to such Distributions.

13.17 Filing of Additional Documentation.

On or before the Effective Date, the Debtor may file with the Bankruptcy Court such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of this Plan.

13.18 Implementation.

The Debtor, the Liquidating Debtor and the Plan Agent shall be authorized to perform all reasonable, necessary and authorized acts to consummate the terms and conditions of the Plan.

13.19 Substantial Consummation.

On the Effective Date, the Plan shall be deemed to be substantially consummated under Bankruptcy Code §§ 1101 and 1127(b).

13.20 Further Effect of Confirmation.

Confirmation of this Plan effects no settlement, compromise, waiver or release of any Claim or cause of action unless this Plan or the Confirmation Order specifically so provides. The non-disclosure or non-discussion of any particular Claim or cause of action is not and shall not be construed as a settlement, compromise, waiver, or release of any such Claim or cause of action.

13.21 Dates.

The provisions of Bankruptcy Rule 9006 shall govern the calculation of any dates or deadlines referenced in the Plan.

13.22 Governing Law.

Except to the extent that the Bankruptcy Code or Bankruptcy Rules are applicable, the rights and obligations arising under the Plan shall be governed by, and construed and enforced in

accordance with, the laws of the State of Texas, without giving effect to any conflicts of law principles.

13.23 Conflict.

Except as otherwise provided in the Plan, to the extent the Confirmation Order and/or this Plan are inconsistent with the Disclosure Statement, any other agreement entered into between the Debtor and any third party, the Plan controls the Disclosure Statement and any such agreements and the Confirmation Order (and any other orders of the Bankruptcy Court) controls the Plan.

13.24 Severability.

The Plan Agent may, but shall not be required to, set off against any Claims and the payments or Distributions to be made pursuant to the Plan in respect of such Claims, any and all debts, liabilities and claims of every type and nature whatsoever that the Estate or the Liquidating Debtor may have against the Holder of any Claim, but neither the failure to do so nor the Allowance of any such Claims, whether pursuant to the Plan or otherwise, shall constitute a waiver or release by the Plan Agent or the Liquidating Debtor of any such claims they may have against such Holder of any Claim, and all such claims shall be reserved for and retained by the Plan Agent.

13.25 Setoffs.

The Plan Agent may, but shall not be required to, set off against any Claims and the payments or Distributions to be made pursuant to the Plan in respect of such Claims, any and all debts, liabilities and claims of every type and nature whatsoever that the Estate or the Liquidating Debtor may have against the Holder of any Claim, but neither the failure to do so nor the Allowance of any such Claims, whether pursuant to the Plan or otherwise, shall constitute a waiver or release by the Plan Agent or the Liquidating Debtor of any such claims they may have against such Holder of any Claim, and all such claims shall be reserved for and retained by the Plan Agent.

13.26 Other Considerations.

The Plan affords holders of Claims the potential for the greatest realization on the Debtor's assets and, therefore, is in the best interests of such holders. If the Plan is not confirmed, however, the theoretical alternatives include: (a) continuation of the Chapter 11 Case; (b) alternative plans of reorganization/liquidation; (c) liquidation of the Debtor under Chapter 7 of the Bankruptcy Code; and (d) dismissal of the Chapter 11 Case.

13.27 Feasibility of the Plan.

Pursuant to the Plan, the Debtor proposes to sell all of its assets the proceeds of the sale and all of the Debtor's remaining property will be vested in the Liquidating Debtor and administered by the Plan Agent for the benefit of holders of Allowed Claims and Interests pursuant to the terms of the Plan. Inasmuch as the Plan is based on the sale/liquidation of assets, the Plan is feasible.

13.28 Continuation of the Case.

The Debtor will cease operations and the sales proceeds and all remaining assets will be administered by the Plan Agent pursuant to the Terms of the Plan. There is no strategic or economic advantage to continuing the case for any significant period of time. To the contrary, the Debtor believes that in view of the current situation, Creditors will best be served by the rapid resolution of this bankruptcy case.

13.29 Alternative Plans of Liquidation.

If the Plan is not confirmed, the Debtor or another party in interest in the case could attempt to formulate and propose a different plan or plans. Such plans might, theoretically, involve some other form of reorganization or liquidation of the Debtor's operations and assets. Any alternative plans, however, would likely result in additional administrative expenses to the estate and would provide little or no benefit. The Plan proposed by the Debtor is straightforward, meets the requirements of § 1129 and provides the best outcome for Creditors.

13.30 Liquidation under Chapter 7.

The Debtor does not believe that the case should be converted to Chapter 7. Conversion to Chapter 7 would result in the loss of the ability of the Debtor/Plan Agent to successfully market the by-product with the assistance of the Surety and the permission of the Railroad Commission as well as the additional administrative expenses attributable to statutory trustee fees and professional fees for the trustee's professionals. To the contrary, under the Plan, cash will likely be available for the payment of administrative and in part, priority, secured priority, secured and other unsecured claims.

13.31 Risk Factors.

Both failure to achieve confirmation of the and consummation of the Plan, are subject to certain risks. First, the effectiveness of the Plan is contingent on closing the Debtor's Altair, Texas facility. While the Debtor believes that closure of its facility in Altair, Texas is likely, there is always some risk involved in the type of transaction that is contemplated. In addition, there are certain risks inherent in the liquidation and administration process under the Bankruptcy Code. If certain standards set forth in the Bankruptcy Code are not met, the Bankruptcy Court will not confirm the Plan even if Creditors and Interest holders accept the Plan. Although the Debtor believes that the Plan meets such standards, there can be no assurance that the Bankruptcy Court will reach the same conclusion. If the Bankruptcy Court were to determine that such requirements were not met, it could require the Debtor to re-solicit acceptances, which could delay and/or jeopardize confirmation of the Plan. The Debtor believes that the solicitation of votes on the Plan will comply with § 1126(b) and that the Bankruptcy Court will confirm the Plan. The Debtor cannot, however, provide assurance that modifications of the Plan will not be required to obtain confirmation of the Plan, or that such modifications will not require a re-solicitation of acceptances.

13.32 Taxation.

13.32.1 Introduction.

The following discussion summarizes certain federal income tax consequences of the transactions described herein and in the Plan. This discussion is for informational purposes only and does not constitute tax advice. This summary is based upon the Internal Revenue Code and the Treasury Regulations promulgated thereunder, including judicial authority and current administrative rulings and practice as of the date of this Disclosure Statement and will not be updated for subsequent tax or factual developments. Neither the impact on foreign holders of claims and equity interests nor the tax consequences of these transactions under state and local law is discussed. Also, special tax considerations not discussed herein may be applicable to certain classes of taxpayers, such as financial institutions, broker-dealers, insurance companies, mutual funds, regulated investment companies, real estate investment trusts, trusts, S corporations, dealers and traders in securities and currencies, partnerships and other entities classified as partnerships for federal tax purposes and tax-exempt organizations. Furthermore, due to the complexity of the transactions contemplated in the Plan, and the unsettled status of many of the tax issues involved, the tax consequences described below are subject to significant uncertainties including subsequent legislative and other tax changes. No opinion of counsel has been obtained and no ruling has been requested from the Internal Revenue Service ("IRS") on these or any other tax issues. There can be no assurance that the IRS will not challenge any or all of the tax consequences of the Plan, or that such a challenge, if asserted, would not be sustained. **HOLDERS OF CLAIMS AGAINST AND EQUITY INTERESTS IN THE DEBTOR ARE THEREFORE URGED TO CONSULT WITH THEIR TAX ADVISORS REGARDING THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE TRANSACTIONS DESCRIBED HEREIN AND IN THE PLAN**

13.32.2 Tax Consequences to the Debtor and Equity Interest Holders.

The Debtor may realize cancellation of indebtedness ("COI") income in respect of each Claim generally in an amount equal to the excess, if any, of (i) the portion of the Claim (including accrued and previously deducted but unpaid interest) from which the Debtor is (or is deemed to be) discharged; and (ii) the sum of any cash or the "issue price," under the Internal Revenue Code of 1986 (the "Internal Revenue Code") §§ 1273(b) and 1274, of any debt obligations distributed under the Plan in discharge of such Claims. The exact amount of COI income realized upon consummation of the Plan has not been finally determined. Under the Internal Revenue Code, a taxpayer is generally required to include COI income in gross income. COI income is not includable in gross income, however, if it occurs in a case under the Bankruptcy Code, provided the taxpayer is under the jurisdiction of a Court in such case and the cancellation of indebtedness is granted by the Court or is pursuant to a plan approved by the Court. The Debtor's COI income, if any, resulting from the Plan should satisfy these requirements, and, therefore, should not result in recognition of gross income to the Debtor. COI income that is excluded from gross income will reduce certain tax attributes of the taxpayer, including net operating loss suspended under Internal Revenue Code Section 1361(d) (hereinafter "NOLs") carryovers, capital loss carryovers and the tax basis of assets, in a specified order of priority beginning with the NOLs and NOL carryovers, unless the taxpayer elects to have the reduction applied first to the tax basis of depreciable assets. The reduction of tax basis is limited to the excess of (i) the aggregate of the tax bases of the taxpayer's property (determined immediately after the discharge); and (ii) the aggregate liabilities of the taxpayer

(determined immediately after the discharge). The exclusion for COI is deemed to occur immediately following the end of the Debtor's tax year, and not during the tax year.

The Debtor may recognize gain or loss on the sale of assets to third parties equal to the sales price of such assets less the Debtor's adjusted tax basis in such properties. The sales price includes all indebtedness assumed by a buyer as well as all other consideration received by the Debtor. The amount and tax character of such gain and loss will depend on the applicable facts and circumstances.

To the extent any proceeds from the sale of assets of the Debtor remain after satisfaction of all Allowed Claims and Interests in accordance with the Bankruptcy Code, the Plan Agent will distribute any remaining amounts to the Equity Interest Holders of Debtor. It is anticipated that any such distributions will be treated as redemptions for U.S. federal income tax purposes, with gain or loss resulting to each such Equity Interest Holder on the difference between the amount so distributed to such Equity Interest Holder and such Equity Interest Holder's U.S. federal income tax basis in their Debtor shares redeemed or deemed redeemed in connection with such distribution. Such gain or loss will as a general matter likely constitute a capital gain or loss, and individual Equity Interest Holders of Debtor who have held their shares in Debtor to which such distributions relate for in excess of one (1) year may be entitled to reduced long-term capital gain rates.

13.32.3 Tax Consequences to Creditors.

In General. The federal income tax consequences of the implementation of the Plan to a holder of a Claim will depend, among other things, on: (a) whether its Claim constitutes a debt or security for federal income tax purposes, (b) whether the Claimant receives consideration in more than one tax year, (c) whether the Claimant is a resident of the United States, (d) whether all the consideration by the Claimant is deemed to be received by that Claimant as part of an integrated transaction, (e) whether the Claimant utilizes the accrual or cash method of accounting for tax purposes, and (f) whether the holder has previously taken a bad debt deduction or worthless security deduction with respect to the Claim.

Gain or Loss on Exchange. Generally, a holder of an Allowed Claim will realize a gain or loss on the exchange under the Plan of his Allowed Claim for cash and other property in an amount equal to the difference between (i) the sum of the amount of any cash and the fair market value on the date of the exchange of any other property received by the holder (other than any consideration attributable to accrued but unpaid interest on the Allowed Claim), and (ii) the adjusted basis of the Allowed Claim exchanged therefore (other than basis attributable to accrued but unpaid interest previously included in the holder's taxable income). Any gain recognized generally will be a capital gain (except to the extent the gain is attributable to accrued but unpaid interest or accrued market discount, as described below) if the Claim was a capital asset in the hand of an exchanging holder, and such gain would be a long-term capital gain if the holder's holding period for the Claim surrendered exceeded one (1) year at the time of the exchange.

The tax treatment of an Allowed Claim for accrued unpaid interest will depend on the Claimant's tax basis in such Claim, which primarily depends on whether the Claimant has previously recognized income for the accrual of such interest and/or recognized a loss with respect to same. Any such holders should consult with their tax advisors regarding the tax treatment of any such accrued unpaid interest.

Any loss recognized by a holder of an Allowed Claim will be a capital loss if the Claim constitutes a “security” for federal income tax purposes or is otherwise held as a capital asset. For this purpose, a “security” is a debt instrument with interest coupons or in registered form.

13.32.4 Information Reporting and Backup Withholding

Under the backup withholding rules of the Internal Revenue Code, holders of Claims and Equity Interest Holders may be subject to backup withholding with respect to payments made pursuant to the Plan unless such holder (i) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact, or (ii) provides a correct taxpayer identification number and certifies under penalties of perjury that the taxpayer identification number is correct and that the holder is not subject to backup withholding because of a failure to report all dividends and interest income. Any amount withheld under these rules will be credited against the holder’s federal income tax liability. Holders of Claims and Equity Interests may be required to establish exemption from backup withholding or to make arrangements with respect to the payment of backup withholding.

13.32.5 Importance of Obtaining Professional Assistance.

THE FOREGOING IS INTENDED TO BE A SUMMARY ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE FEDERAL, STATE, AND FOREIGN TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND, IN MANY AREAS, UNCERTAIN. TO COMPLY WITH TREASURY DEPARTMENT CIRCULAR 230, YOU ARE HEREBY NOTIFIED THAT (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS DISCLOSURE STATEMENT, THE PLAN OR ANY RELATED MATERIALS, IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY YOU, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON YOU UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED; AND (B) ANY SUCH DISCUSSIONS ARE BEING USED ONLY IN CONNECTION WITH SATISFYING THE REQUIREMENTS IMPOSED UNDER THE BANKRUPTCY CODE FOR DISCLOSURE STATEMENTS, AND (C) YOU SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR WITH RESPECT TO YOUR FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES BASED ON YOUR PARTICULAR CIRCUMSTANCES.

ARTICLE 14 **CAUSES OF ACTION**

14.1 Preferences.

Under the Bankruptcy Code, the Debtor may recover certain preferential transfers of property, including cash, made while insolvent during the 90 days immediately prior to the filing of their bankruptcy petition with respect to pre-existing debts, to the extent the transferee received more than it would have in respect of the pre-existing debt had the Debtor been liquidated under Chapter 7 of the Bankruptcy Code. In the case of “insiders,” the Bankruptcy Code provides for a one-year preference period. There are certain defenses to such recoveries. Transfers made in the ordinary course of the Debtor’s and transferee’s business according to the

ordinary business terms in respect of debts less than 90 days before the filing of a bankruptcy are not recoverable. Additionally, if the transferee extended credit subsequent to the transfer (and prior to the commencement of the bankruptcy case), such extension of credit may constitute a defense to recovery, to the extent of any new value, against an otherwise recoverable transfer of property. If a transfer is recovered by the Debtor, the transferee has a General Unsecured Claim to the extent of the recovery. The Plan Agent reserves the right to bring preferential transfer claims against any party receiving transfers within 90 days of the Petition Date.

14.2 Fraudulent Transfers.

Under the Bankruptcy Code and various state laws, the Debtor may recover certain transfers of property, including the grant of a security interest in property, made while insolvent or which rendered the Debtor insolvent. The Plan Agent reserves the right to bring fraudulent conveyance claims.

The Debtor has conducted a limited analysis of potential recoveries under Chapter 5 of the Bankruptcy Code and concluded that potential claims may exist. A list of the known payments are set forth in the Debtor's statements of financial affairs, which are incorporated herein. In addition, all secured creditors scheduled as "disputed" in the Debtor's Schedule D are subject to claims for fraudulent transfer and/or preference on account of their asserted security interests. Creditors and Interest Holders are advised that if they received a voidable transfer, they may be sued whether or not they vote to accept the Plan. All avoidance actions and rights pursuant to §§ 506(c), 510, 542, 543, 544, 545, 547, 548, 549, 550, 551, 552(b), 553 and 724 of the Bankruptcy Code and all causes of action under state, federal or other applicable law shall be retained and may be prosecuted or settled by the Plan Agent in her sole discretion. To the extent that material amounts are recovered, it will enhance the returns to the holders of Unsecured Claims.

14.3 Other Causes of Action.

As set forth herein, the Debtor is unaware of any claims that may exist against certain of the Debtor's former officers, directors and professionals. These claims will be evaluated, pursued and resolved by the Plan Agent in its sole discretion.

ARTICLE 15 VOTING PROCEDURES AND REQUIREMENTS

15.1 Ballots and Voting Deadline.

A ballot to be used to vote to accept or reject the Plan is enclosed with this Disclosure Statement. A Creditor who is voting must (1) carefully review the ballot and instructions thereon, (2) complete and execute the ballot indicating the Creditor's vote to either accept or reject the Plan, and (3) return the executed ballot to the address indicated thereon by the deadline specified by the Bankruptcy Court.

The Bankruptcy Court has directed that, to be counted for voting purposes, ballots for the acceptance or rejection of the Plan must be received by Debtor's counsel no later than _____ (Houston Time).

If you hold an impaired Claim against the Debtor, return your ballot to:

FUQUA & ASSOCIATES, PC
RICHARD L. FUQUA

5005 RIVERWAY, SUITE 250
HOUSTON, TEXAS 77056
(713) 960-0277
(713) 960-1064 (facsimile)
Email: rifuqua@fuqualegal.com

**TO BE COUNTED, YOUR BALLOT MUST BE RECEIVED
NO LATER THAN _____ . (HOUSTON TIME) ON _____ (Houston Time).**

15.2 Creditors Entitled to Vote.

All impaired creditors are entitled to vote.

Any Creditor whose Claim is impaired under the Plan is entitled to vote, if either (i) the Debtor has scheduled its Claim on its Statement of Liabilities and such Claim is not scheduled as disputed, contingent or unliquidated, or (ii) such Creditor has filed a Proof of Claim on or before the last date set by the Bankruptcy Court for filing Proofs of Claim and no objection has been filed to such Claim.

Holders of Disputed Claims are not entitled to vote on the Plan. Any Claim to which an objection has been filed and remains pending, is not entitled to vote unless the Bankruptcy Court, upon motion by the Creditor who holds a Disputed Claim, temporarily allows the Claim in an amount that it deems proper for accepting or rejecting the Plan. Any such motion must be heard and determined by the Bankruptcy Court before the date established by the Bankruptcy Court as the final date to vote on the Plan. In addition, a vote may be disregarded if the Bankruptcy Court determines that the acceptance or rejection of the Plan by the Creditor was not solicited or obtained in good faith or according to the provisions of the Bankruptcy Code.

Classes of Claims that are not impaired are deemed to have accepted a plan of reorganization pursuant to § 1126(f) and, therefore, are not entitled to vote on a plan. Pursuant to § 1126, only classes of claims or interests that are “impaired” are entitled to vote on a plan of reorganization. Generally, a claim is impaired if the plan of reorganization alters the legal, equitable, or contractual rights to which the holder of such claim is otherwise entitled.

15.3 Voting Procedures.

Unless otherwise directed by the Bankruptcy Court, all questions as to the validity, form, eligibility (including time of receipt), acceptance, revocation, or withdrawal of Ballots will be determined by the Debtor, in its sole discretion, and the Debtor’s determination will be final and binding. The Debtor also reserves the right to reject any Ballot not in proper form, the acceptance of which would, in the opinion of the Debtor or its counsel, be unlawful. The Debtor further reserves the right to waive any defects or irregularities or conditions or delivery as to any particular Ballot. The interpretation by the Debtor of the provisions of this Disclosure Statement

and the Ballots will be final and binding on all parties in interest unless otherwise directed by the Bankruptcy Court. Unless waived, any defects or irregularities concerning deliveries of Ballots must be cured within such time as the Debtor (or the Bankruptcy Court) determine. Neither the Debtor nor any other Person will be under any duty to provide notification of defects or irregularities with respect to deliveries of Ballots nor will any of them incur any liability for failure to provide such notification. Unless otherwise directed by the Bankruptcy Court, delivery of Ballots will not be deemed to have been made and will be invalidated unless or until all defects and irregularities have been timely cured or waived.

15.4 Vote Required for Class Acceptance.

The Bankruptcy Code defines acceptance of a chapter 11 plan by a class of Claims as the acceptance by holders of at least two-thirds (2/3) in dollar amount and more than one-half in number of the allowed Claims of the class actually voting to accept or reject the proposed plan.

The Bankruptcy Code defines acceptance of a chapter 11 plan by a class of Interests as the acceptance by holders of at least two-thirds (2/3) in amount of the allowed Interests in the class actually voting to accept or reject the proposed plan.

15.5 Cramdown and Withdrawal of the Plan.

If the Plan is not accepted by all classes of impaired Creditors, the Debtor reserves the right to withdraw the Plan. If the Plan is accepted by one or more Classes of impaired Creditors of the Debtor, the Debtor reserves the right to request the Bankruptcy Court to approve the Plan under 11 U.S.C. § 1129(b).

THE DEBTOR STRONGLY URGES ALL IMPAIRED CREDITORS TO VOTE TO ACCEPT THE PLAN.

Date: April 5, 2017.

Inland Environmental and Remediation, Inc.

By: 

Name: David Polston

Title: President and Sole Director