

THIS PROPOSED DISCLOSURE STATEMENT HAS NOT BEEN APPROVED UNDER SECTION 1125(B) OF THE BANKRUPTCY CODE BY THE BANKRUPTCY COURT AS CONTAINING ADEQUATE INFORMATION FOR USE IN CONNECTION WITH THE SOLICITATION OF ACCEPTANCES OR REJECTIONS OF THE DEBTOR'S CHAPTER 11 PLAN OF REORGANIZATION DESCRIBED HEREIN. ACCORDINGLY, THE FILING AND DISSEMINATION OF THIS PROPOSED DISCLOSURE STATEMENT IS NOT INTENDED AND SHOULD NOT IN ANYWAY BE CONSTRUED AS A SOLICITATION OF VOTES FOR THE DEBTOR'S CHAPTER 11 PLAN OF REORGANIZATION, NOR SHOULD THE INFORMATION CONTAINED HEREIN BE RELIED UPON FOR ANY PURPOSE BEFORE A DETERMINATION BY THE BANKRUPTCY COURT THAT THE PROPOSED DISCLOSURE STATEMENT CONTAINS ADEQUATE INFORMATION.

**UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF TEXAS
SAN ANTONIO DIVISION**

IN RE:

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**GALVESTON BAY PROPERTIES LLC,

DEBTOR.**

**CASE NO. 17-51905-CAG
CHAPTER 11**

**DISCLOSURE STATEMENT IN SUPPORT OF DEBTOR'S
CHAPTER 11 PLAN OF REORGANIZATION,
DATED DECEMBER 4, 2017**

Date: December 4, 2017

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IMPORTANT NOTICE

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

THIS DISCLOSURE STATEMENT INCLUDES FORWARD-LOOKING STATEMENTS BASED LARGELY ON THE CURRENT EXPECTATIONS OF THE DEBTOR AND PROJECTIONS ABOUT FUTURE EVENTS AND FINANCIAL TRENDS AFFECTING THE FINANCIAL CONDITION OF THE DEBTOR OR THE REORGANIZED DEBTOR'S BUSINESS. THE WORDS "BELIEVE," "MAY," "WILL," "ESTIMATE," "CONTINUE," "ANTICIPATE," "INTEND," "EXPECT," AND SIMILAR EXPRESSIONS IDENTIFY THESE FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO A NUMBER OF RISKS, UNCERTAINTIES, AND ASSUMPTIONS, INCLUDING THOSE DESCRIBED BELOW UNDER THE CAPTION "RISK FACTORS." IN LIGHT OF THESE RISKS AND UNCERTAINTIES, THE FORWARD-LOOKING EVENTS AND CIRCUMSTANCES DISCUSSED IN THIS DISCLOSURE STATEMENT MAY NOT OCCUR, AND ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THE FORWARD-LOOKING STATEMENTS. NEITHER THE DEBTOR NOR THE REORGANIZED DEBTOR HAS UNDERTAKEN ANY OBLIGATIONS TO UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS, OR OTHERWISE.

NO REPRESENTATIONS OR OTHER STATEMENTS CONCERNING THE DEBTOR (PARTICULARLY AS TO ITS FUTURE BUSINESS OPERATIONS OR THE VALUE OF ITS ASSETS) ARE AUTHORIZED BY THE DEBTOR, OTHER THAN THOSE EXPRESSLY SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE, WHICH ARE OTHER THAN AS SET FORTH IN THIS STATEMENT, SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISIONS. ANY SUCH ADDITIONAL REPRESENTATIONS AND INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR WHO SHALL DELIVER SUCH INFORMATION TO THE BANKRUPTCY COURT, WHICH MAY TAKE SUCH ACTION AS IT DEEMS APPROPRIATE.

THE INFORMATION CONTAINED HEREIN HAS NOT BEEN INDEPENDENTLY AUDITED, EXCEPT AS SPECIFICALLY REFERENCED HEREIN. THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN SUBMITTED BY THE DEBTOR AND ITS INTERNAL ACCOUNTING STAFF, UNLESS SPECIFICALLY STATED TO BE FROM OTHER SOURCES. THE DEBTOR'S PLAN IS AN INTEGRAL PART OF THIS DISCLOSURE STATEMENT,

AND EACH CREDITOR IS URGED TO REVIEW THE PLAN IN ITS ENTIRETY PRIOR TO VOTING ON IT.

THE DEBTOR MAKES NO REPRESENTATIONS WITH RESPECT TO THE EFFECTS OF TAXATION (STATE OR FEDERAL) ON THE CREDITORS WITH RESPECT TO THE TREATMENT OF THEIR CLAIMS OR INTERESTS UNDER THE PLAN, AND NO SUCH REPRESENTATIONS ARE AUTHORIZED BY THE DEBTOR. CREDITORS ARE ENCOURAGED TO SEEK THE ADVICE OF THEIR OWN PROFESSIONAL ADVISORS IF THEY HAVE ANY SUCH QUESTIONS.

**I.
INTRODUCTION**

This Disclosure Statement is submitted by Galveston Bay Properties LLC (“GBP,” the “Company,” the “Debtor,” and/or the “Debtor-in-Possession”) in connection with the Debtor’s efforts to solicit votes necessary to confirm the Debtor’s Chapter 11 Plan of Reorganization (the “Plan”). A copy of the Plan is attached hereto as Exhibit “A.” Capitalized terms that are not defined in this Disclosure Statement are defined in the Plan or the list of definitions attached to the Plan as Schedule 1. If a capitalized term is not defined in this Disclosure Statement, the Plan or Schedule 1 to the Plan, then the term is to be given its ordinary, plain language meaning.

1.1 The Chapter 11 Case

This case was commenced on August 9, 2017, when the Debtor filed its voluntary petition under Chapter 7 of Title 11 of the United States Code, 11 U.S.C. §§ 101, *et seq.* (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Western District of Texas, San Antonio Division (“Bankruptcy Court”). The Debtor continues to manage its affairs as a debtor-in-possession pursuant to sections 1107 and 1108 of the Bankruptcy Code. This Disclosure Statement and the accompanying Plan are filed on behalf of the Debtor.

1.2 Purpose of Disclosure Statement

The purpose of this Disclosure Statement is to provide you, as the holder of a Claim against or interest in the Debtor, with information to enable you to make a reasonably informed decision on the Plan before exercising your right to vote to accept or reject the Plan.

On _____, after notice and a hearing, the Bankruptcy Court approved this Disclosure Statement as containing information, of a kind and in sufficient detail, adequate to enable the holders of Claims against the Debtor to make an informed judgment to accept or reject the Plan. **THE BANKRUPTCY COURT’S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE A GUARANTY OF THE ACCURACY OR COMPLETENESS OF THIS INFORMATION OR THE BANKRUPTCY COURT’S ENDORSEMENT OF THE PLAN.**

YOU SHOULD READ ALL OF THIS DISCLOSURE STATEMENT BEFORE VOTING ON THE PLAN. HOWEVER, THE DISCLOSURE STATEMENT IS NOT INTENDED TO REPLACE A CAREFUL, DETAILED REVIEW AND ANALYSIS OF THE PLAN ITSELF BY EACH HOLDER OF A CLAIM OR INTEREST. THIS DISCLOSURE STATEMENT IS INTENDED TO AID AND SUPPLEMENT THAT REVIEW AND ANALYSIS. THE DESCRIPTION OF THE PLAN IS A SUMMARY ONLY. HOLDERS OF CLAIMS AND INTERESTS AND OTHER PARTIES IN INTEREST ARE CAUTIONED TO REVIEW THE PLAN AND ANY RELATED ATTACHMENTS IN THEIR ENTIRETY FOR A FULL UNDERSTANDING OF THE PLAN'S PROVISIONS. THIS DISCLOSURE STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN.

You are urged to consult with your own financial and other advisors in deciding whether to vote to approve or reject the Plan. No solicitation of votes may be made except pursuant to this Disclosure Statement, and no person has been authorized to use any information concerning the Debtor or their businesses other than the information contained in this Disclosure Statement.

About this Disclosure Statement:

- The statements contained in this Disclosure Statement are made as of the date that the Bankruptcy Court enters an order approving this Disclosure Statement, unless another time is specified in this Disclosure Statement. Neither the delivery of this Disclosure Statement nor any action taken in connection with the Plan implies that the information contained in this Disclosure Statement is correct as of any time after that date.

- Unless the context requires otherwise: (i) the gender (or lack of gender) of all words used in this Disclosure Statement includes the masculine, feminine, and neuter; (ii) references to articles and sections (other than in connection with the Bankruptcy Code, the Bankruptcy Rules, another specified law or regulation or another specified document) refer to the articles and sections of this Disclosure Statement; and (iii) "including" means "including, without limitation."

- Many capitalized words used in this Disclosure Statement have been defined in the context of the provisions in which they first appear within this Disclosure Statement. Any other capitalized terms used in this Disclosure Statement are intended to have the meanings ascribed to them in the Plan or the list of definitions accompanying the Plan. Any capitalized term not defined in the context of a provision in this Disclosure Statement, the Plan, or the list of definitions accompanying the Plan shall have the meaning ascribed to that term in the Bankruptcy Code or Bankruptcy Rules, whichever is applicable.

- You may not rely on this Disclosure Statement for any purpose other than to determine how to vote on the Plan. Nothing contained in this Disclosure Statement constitutes or will be deemed to be advice on the tax or other legal effects of the Plan on holders of Claims or interests.

- Certain information contained in this Disclosure Statement is forward-looking. This Disclosure Statement contains estimates and assumptions that may prove not to have been accurate, and it contains financial projections that may be materially different from actual future occurrences.

- Acceptance or rejection of the Plan is subject to a number of risks. See “Risk Factors” in Article 8 herein.

1.3 Plan Balloting and Confirmation Procedures

1.3.1 Only Holders of Allowed Claims Entitled to Vote

Only holders of Allowed Claims that are (i) “impaired” by a plan of reorganization or liquidation; (ii) entitled to receive a distribution under such a plan; and/or (iii) are permitted by order of the Bankruptcy Court after notice and hearing are entitled to vote to accept or reject a plan under the Bankruptcy Code. Class 3 is unimpaired and, therefore, not entitled to vote. Claims or Interests in Classes 2 and 4 through 7 are impaired under the Plan, and therefore, shall be entitled to vote to accept or reject the Plan. If a controversy arises as to whether any Claim or interest or any Class of Claims or Interests is impaired under the Plan, the Court shall, upon notice and a hearing, determine such controversy.

1.3.2 Voting Procedures

If you are entitled to vote to accept or reject the Plan, a Ballot (the “Ballot”) for acceptance or rejection of the Plan and a pre-addressed envelope for return of the Ballot are enclosed. **BALLOTS FOR ACCEPTANCE OR REJECTION OF THE PLAN ARE BEING PROVIDED ONLY TO HOLDERS OF ALLOWED CLAIMS IN CLASSES TWO THROUGH SEVEN.** If you are the holder of an Allowed Claim in one of these Classes entitled to vote and did not receive a Ballot, received a damaged or illegible Ballot, or lost your Ballot, or if you are a party-in-interest and have any questions concerning the Disclosure Statement, the Plan, or the voting procedures, please contact:

Kell C. Mercer
State Bar No. 24007668
Kell C. Mercer, PC
1602 E. Cesar Chavez Street
Austin, TX 78702
(512) 627-3512
kell.mercer@mercerc-law-pc.com

After carefully reviewing this Disclosure Statement, please indicate your acceptance or rejection of the Plan by voting in favor of or against the Plan. Return the Ballot to the Debtor’s counsel at the address set forth on the Ballot by 5:00 p.m. (prevailing Central Standard Time) on

_____. You may also return your Ballot by courier or facsimile by following the instructions on the Ballot. Any Ballot not indicating an acceptance or rejection will be deemed an acceptance of the Plan. ANY BALLOTS RECEIVED BY THE DEBTOR'S COUNSEL AFTER 5:00 P.M. (PREVAILING CENTRAL STANDARD TIME), ON_, WILL NOT BE COUNTED UNLESS THIS DATE IS EXTENDED BY THE BANKRUPTCY COURT.

1.3.3 Voting Requirements for Class Acceptance of the Plan

In order for the Plan to be "accepted" by Creditors, at least sixty-six and two-thirds percent (66.66%) in amount of Allowed Claims and more than fifty percent (50%) in number of Allowed Claims voting in each Class must accept the Plan.

1.3.4 Confirmation Hearing

The Bankruptcy Court has entered an order fixing at ____ (Prevailing Central Standard Time), Bankruptcy Courtroom for the Honorable Craig A. Gargotta, United States Bankruptcy Judge for the United States Bankruptcy Court for the Western District of Texas, Hipolito F. Garcia Federal Building and United States Courthouse, 615 East Houston Street, San Antonio, Texas 78205, as the date, time and place for the initial commencement of a hearing on the confirmation of the Plan, and _____, which all objections to Confirmation of the Plan must be filed with the Bankruptcy Court and served on counsel for the Debtor. The confirmation hearing may be adjourned from time to time without further notice except for the announcement of the adjourned time and date at the confirmation hearing or any adjournment thereof.

Section 1128(b) of the Bankruptcy Code provides that any creditor or party-in-interest may object to confirmation of a plan. Any objection to confirmation of the Plan must: (i) be in writing; (ii) conform to the Federal Rules of Bankruptcy Procedure and Local Rules of the Bankruptcy Court; (iii) set forth the name of the objecting party; (iv) the nature and amount of the Claim or Interest held or asserted by the objecting party against the Debtor's Bankruptcy Estate; and (v) the basis for the objection. The objection, together with proof of service, must then be filed with the Bankruptcy Court, with copies served upon parties required to receive service under Local Rule 9013-1(d), and to the Debtor's counsel at:

Kell C. Mercer
State Bar No. 24007668
Kell C. Mercer, PC
1602 E. Cesar Chavez Street
Austin, TX 78702
(512) 627-3512
kell.mercer@mercerc-law-pc.com

UNLESS AN OBJECTION IS TIMELY AND PROPERLY SERVED AND FILED BY __, AT 5:00 P.M. (PREVAILING CENTRAL STANDARD TIME), THE

OBJECTION MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT.

II.
DEBTOR'S BACKGROUND

2.01 General and Causes of Bankruptcy Filing

The Debtor was formed on September 22, 2016. Since inception, the Debtor has been managed by Dan Polk. The Debtor maintains its corporate office at 13616 Sun Dapple Ct., Manor, TX 78653. The Debtor's principal assets include oil and gas leases in Chambers and Galveston Counties, Texas. A complete list of the oil and gas leases owned by the Debtor is attached hereto as Exhibit "B." A map of the oil and gas assets is attached hereto as Exhibit "C." The leases are located in fields or units commonly known as Trinity Bay Field, Fishers Reef Field, Redfish Reef Field, and North Point Bolivar Field, and consist of approximately 19,336 acres in Galveston Bay (as identified on Exhibit "B" and depicted on Exhibit "C," the "Galveston Bay Assets"). The Lessor on each of the Galveston Bay Assets is the Texas General Land Office (the "GLO").

The Debtor's operating affiliate, Galveston Bay Operating Company LLC ("GBOC"), was also formed on September 22, 2016. GBOC maintains an office at 25351 Borough Park Drive, Spring, TX 77380, and operates the wells located upon the Galveston Bay Assets.

The Debtor was formed to acquire the oil and gas leases and related assets from another bankruptcy case styled and numbered *In re Hydrocarb Energy Corporation, et al.*, Case No. 16-31922-DRJ, in the United States Bankruptcy Court for the Southern District of Texas, Houston Division (the "Hydrocarb Bankruptcy Case"). The Hydrocarb Bankruptcy Case was a jointly administered bankruptcy case which also included Galveston Bay Energy, LLC as a Debtor. The Hydrocarb Bankruptcy commenced on April 12, 2016. Prior to its bankruptcy case, Hydrocarb had borrowed approximately \$4,545,454 (the "August Credit Extension") pursuant to a Credit Agreement dated August 15, 2014 by and between HEC as borrower, Shadow Tree Capital Management LLC, a Delaware Limited Liability Company ("Shadow Tree"), as "Agent," and Shadow Tree and Quintium Private Opportunity Fund, LP, a Delaware limited partnership ("Quintium") as lenders. In May of 2015, pursuant to the Credit Agreement, the Hydrocarb Debtors borrowed an additional \$356,724 from Shadow Tree and \$118,908 from Quintium. To secure its obligations under the Credit Agreement, Hydrocarb granted to the Shadow Tree and Quintium liens in substantially all of the Hydrocarb Debtors' assets. The Hydrocarb Bankruptcy Case began as a chapter 11 proceeding, but in May of 2016 it was converted to a chapter 7 proceeding and Rodney Tow was appointed the chapter 7 trustee.

On September 30, 2016, The Hydrocarb Bankruptcy Court approved the sale of the Galveston Bay Assets and related assets to Progas Energy Services, Inc. ("PES"). A true and correct copy of the "Hydrocarb Sale Order" is attached hereto as Exhibit "D." Thereafter, PES assigned its rights as buyer of the Galveston Bay Assets and related assets, including the TRRC Bond (including the Six Million, Six Hundred Fifty-Two Thousand Dollars (\$6,652,000) in cash on deposit with the RRC), to GBP. The sale of the of the Galveston Bay Assets from Hydrocarb to GBP closed on October 4,

2016. In connection with the purchase of the Galveston Bay Assets GBP paid or became bound to pay, *inter alia*: (1) \$2,120,000 in cash to the Hydrocarb Bankruptcy Estate; (2) \$3,000,000.00 in aggregate secured promissory notes to Shadow Tree (\$2,250,000) and Quintium (\$750,000); (3) a 1/8th capped Net Profit Interest in the Galveston Bay Assets until the aggregate sum of \$500,000 has been paid to Shadow Tree and Quintium; and (4) all plugging and abandonment liability with respect to the Galveston Bay Assets. Additionally, (1) Progas was required to fund up to \$500,000 for the preservation, operation and improvement of the Galveston Bay Assets prior to purchase; and (2) GBP was required to expend at least \$1,800,000 in development of the Galveston Bay Assets after the purchase.

Thereafter, there were issues in GBOC obtaining its required P-4 and/or P-5 certificates from the Texas Railroad Commission (the "TRRC") to allow GBOC to serve as the operator for GBP and the Galveston Bay Assets. On April 12, 2017, the GBP, GBOC, Dan Polk, and Progas Properties, Inc. entered into a Settlement Agreement that cleared the way for GBOC to obtain its required P-5 certification. A true and correct copy of the Settlement Agreement is attached hereto as Exhibit "E." As a condition to obtaining P-5 certification, GBOC was required to hold a TRRC approved bond in the amount of \$60,000 per inactive well on a list of wells to be plugged according to the Settlement Agreement. GBP acquired the \$6,661,000 TRRC cash/bond, but the list of inactive wells was increased by the TRRC, requiring an additional \$240,000 cash or bond.

In addition to the delays in obtaining P-5 certification for GBOC, GBP was materially hampered when a lightning strike occurred on May 12, 2017, at Point Barrow, the onshore shipping facility for oil and gas produced in the Trinity Bay and Fishers Reef Fields that shut down production operations for these two fields.

The delay in obtaining P-5 certification caused Shadow Tree and Quintium to become concerned that the Galveston Bay Assets would be lost due to lack of operations and production. Additionally, Rodney Tow, as chapter 7 trustee for the Hydrocarb Bankruptcy Case was concerned because his debtor, Galveston Bay Energy, LLC, remained the operator of record and, potentially, could be liable for, *inter alia*, pollution events. A series of status conference were held in the Hydrocarb Bankruptcy Case regarding the matter. On August 7, 2017, a hearing was held in the Hydrocarb Bankruptcy Case on Rodney Tow's motion (and Shadow Tree's joinder) to remove GBOC as operator and replace it with another entity, Houston Gulf Energy Corporation, to serve as operator. The request was denied by the Hydrocarb Bankruptcy Court, determining that it did not have jurisdiction to remove GBP's operator.

Houston Gulf Energy Corporation is affiliated with John Ehrman, an individual residing in the Woodlands, Texas. Ehrman is currently under federal indictment that proceeding styled and numbered *United States of America v. Ehrman*, Case No. 14-634, In the United States District Court for the Southern District of Texas, Houston Division. Ehrman is charged with 36 separate counts, including Wire Fraud and Engaging in Monetary Transactions in Property Derived from Specified Unlawful Activity. The indictments against Ehrman center around allegations that he developed and executed upon a plan to falsely represent to investors that he owed and would develop oil and gas wells on the McFadden Ranch in Victoria County, Texas and, by means of materially false and false

pretenses, representations and promises, sold participation units in such wells defrauding the investors (the “Ehrman Criminal Proceeding”). Trial is set to commence in the Ehrman Criminal Proceeding on May 7, 2018. According to the indictment in the Ehrman Criminal Proceeding, Ehrman has previously been convicted of a felony criminal offense and had been sentenced to six months in prison. A copy of the indictment in the Ehrman Criminal Proceeding is attached hereto as Exhibit “F.”

GBP has reason to believe and does believe that Ehrman has intentionally and actionably caused Shadow Tree and Quintium to become unnecessarily and unreasonably concerned with the state of operations of the Galveston Bay Assets. GBP has reason to believe and does believe that Ehrman has tortiously interfered with the business relationship between GBP and: (1) Shadow Tree & Quintium; (2) other contractors and vendors, including the GLO. GBP has reason to believe and does believe that Ehrman has defamed and slandered GBP, causing damages.

After the Hydrocarb Bankruptcy Court denied the request to replace GBOC as operator, Shadow Tree and Quintium filed a similar request in a lawsuit commenced in Montgomery County, Texas, styled and numbered *Shadow Tree Capital Management, LLC et al v. Galveston Bay Properties LLC et al*; Case No. 17-08-09550; In the 248th Judicial District Court of Montgomery County, Texas (the “Montgomery County Litigation”). Once again, Shadow Tree and Quintium sought to remove GBOC as operator, seeking to put Ehrman and Houston Gulf Energy Corporation in place.

This Bankruptcy Case was filed to allow the Debtor breathing room to reorganize and restructure its debt and arrange for funding of all or part of the capital required to pay its debts off and continue operation and development of the Galveston Bay Assets.

The Montgomery County Litigation has been stayed by the filing of the Bankruptcy Case.

III.

SIGNIFICANT PROCEEDINGS IN THE DEBTOR’S BANKRUPTCY CASE

3.01 The Shadow Tree Adversary Proceeding

After the Bankruptcy Case was filed, Shadow Tree and Quintium commenced an adversary proceeding against the Debtor and others, asserting the same claims and requesting the same emergency relief as in the Montgomery County Litigation. That adversary proceeding is styled and numbered *Shadow Tree Capital Management, LLC et al v. Galveston Bay Properties LLC et al*; Case No. 17-05061-CAG; In the United States Bankruptcy Case for the Western District of Texas, San Antonio Division (the “Shadow Tree Adversary Proceeding”). On August 10, 2017, the GLO filed its Notice of Temporary Forbearance of Lease Defaults or Remedies, notifying the Court and the parties to the Shadow Tree Adversary Proceeding that the GLO would forbear from asserting any defaults or enforcing any rights through Monday, August 28, 2017. A true and correct copy of the First Forbearance Notice is attached hereto as Exhibit “G.” Thereafter, the GLO extended the forbearance period through September 11, 2017. Thereafter, the GLO extended the forbearance period through November 10, 2017. See the attached Exhibit “H,” a true and correct copy of the

Notice of the General Land Office's Further Temporary Forbearance of Lease Defaults or Remedies filed in the Shadow Tree Adversary Proceeding on September 6, 2017. On November 10, 2017, conditioned upon appointment of a chief restructuring officer [See section 3.10 below], the GLO agreed to an additional 45-day forbearance period through December 26, 2017. See the attached Exhibit "I."

3.02 Interim and Final Orders on Original Debtor in Possession Financing

Because of the lightning strike and the delays in obtaining P-5 certification for GBOC, the Debtor was effectively out of cash when it filed the Bankruptcy Case. The Debtor required immediate operating funds and an additional \$240,000 to obtain P-5 certification for GBOC from the TRRC. After pursuing various alternatives, the Debtor located two entities willing to provide \$2.5MM in DIP financing to the Debtor. On August 18, 2017, those entities, Grace and PI, LLC (collectively, the "DIP Lenders") were approved by the Bankruptcy Court to provide Interim Financing to the Debtor in the amount of \$1,278,942 of the total available \$2,500,00.00 [Dkt # 20]. The Interim Financing funded on August 25, 2017 [Dkt # 26]. On September 15, 2017, the full \$2,500,000 DIP Loan was approved on a final basis [Dkt # 41]. The balance of the DIP financing was funded by the DIP Lenders on September 22, 2017 [Dkt # 44].

3.03 Critical Vendor Order

On August 18, 2017, the Bankruptcy Court approved payments to certain "Critical Vendors" necessary to the Debtor's continued operations [Dkt # 19]. Those Critical Vendors consisted of the following:

- (a) Archrock Partners Operating LLC in the amount of \$400,792.07;
- (b) Worldwide Power Products in the amount of \$32,066.81;
- (c) Sabine Environmental Services, LLC in the amount of \$2,195;
- (d) Trinity Environmental Services in the amount of \$6,341.50;
- (e) Universal Bacteria Specialists in the amount of \$2,125; and
- (f) Peninsula Marine, Inc. in the amount of \$33,140.62.

3.04 Approval of Employment of Kell C. Mercer and Kell C. Mercer, PC as Debtor's Bankruptcy Counsel

Kell C. Mercer and Kell C. Mercer, PC ("Mercer") are engaged to serve as the Debtor's bankruptcy counsel. An application to retain Mercer was filed on September 10, 2017 [Dkt #38]. An Order approving Mercer's engagement was entered on October 5, 2017 [Dkt #51].

3.05 Filing of Bankruptcy Schedules and SOFA

On September 5 and 6, 2017, the Debtor filed its Bankruptcy Schedules and Statement of Financial Affairs [Dkt #31 & 34]. On October 11, 2017, the Debtor filed its Amended Statement of Financial Affairs [Dkt # 55].

3.06 The 341 Meeting of Creditors

On September 11, 2017, the Debtor attended the 341 meeting of creditors. The US Trustee concluded the meeting on the same date [Dkt #46].

3.07 Removal of the Montgomery County Lawsuit to Bankruptcy Court

The Debtor intends to timely remove the Montgomery County Lawsuit to Bankruptcy Court within the deadlines established under Bankruptcy Rule 9027(a)(2).

3.08 State of Operations and Production/Status Conference on October 24, 2017

Immediately as the first tranche of DIP funding was being provided, Hurricane Harvey made landfall late in the evening on Friday, August 25, 2017. As has been well publicized, rainfall in the Houston metropolitan area was severe, submerging an estimated 25-30 percent of Harris County, Texas. Aransas County and the Corpus Christi metropolitan area were also significantly impacted by Harvey. Several key professionals involved in this Bankruptcy Case are based in Houston or Corpus Christi, including counsel for the DIP Lenders, counsel for Shadow Tree, and counsel for Archrock. Key staff of the Debtor and its operator, GBOC are also based in Harris County, and were impacted by the hurricane.

In the days and weeks following the hurricane and initial and final funding of the DIP Loan, the Debtor worked to resume production on the Galveston Bay Assets. The first round of financing as was used to fund the \$240,000 required by the TRRC to provide GBOC with P-5 certification and to pay the Critical Vendors and GBP and GBOC staff. The second round of funding allowed the Debtor to commence full scale work on operations and reestablishing production. Shadow Tree became alarmed when, in its view, the Debtor and GBOC were not making adequate progress to restore production within all leased areas before the GLO's enforcement extension of November 10, 2017. The Debtor disagreed, contending that the leases were secured by operations underway to restore production. Moreover, the Debtor had begun production within Fisher's Reef on October 11, 2017, had all wells within Fisher's Reef producing on October 16, 2017, and was expected to have production on North Point Bolivar established by October 25, 2017. A status conference was held on October 24, 2017. At the status conference, the Debtor announced that it expected to fully restore production by Friday, October 27, 2017. Ultimately, weather conditions and extensive unanticipated leaking (necessitating repairs) delayed full restoration of production until after November 4, 2017.

3.09 Status of Galveston Bay Assets

On Friday, October 27, 2017, at the request of the Debtor and Shadow Tree, the GLO provided a report of its analysis of the status of the Galveston Bay Assets through the period ending in July 2017. A copy of that analysis is attached hereto as Exhibit "J." The Debtor is reviewing the GLO analysis. Further, the Debtor will be submitting required production and operational data to the

GLO for the period of August 2017 and beyond. At this time, the Debtor believes that each of the Galveston Bay Assets are fully preserved by production. Moreover, the Debtor believes and contends that the Galveston Bay Assets are have been preserved by operations.

3.10 Appointment of Gregory S. Milligan as Chief Restructuring Officer

On November 14, 2017, because of concerns regarding management, operations, and the status of production, the DIP Lenders moved for appointment of a Chapter 11 Trustee or, alternatively, a chief restructuring officer. [Dkt # 90]. Shadow Tree filed a joinder in the request. [Dkt #92]. An expedited hearing on the DIP Lender's motion was held on Monday, November 20, 2017. At the hearing on November 20, 2017, the Bankruptcy Court authorized the Debtor to retain a Chief Restructuring Officer, and on November 22, 2017, an Agreed Order was entered appointing Gregory S. Milligan ("Milligan") as the Chief Restructuring Officer. [Dkt #96]. An engagement agreement with Harney Management Partners LLC was executed by the Debtor to be effective November 20, 2017. Milligan was designated the CRO of the Debtor on the same date.

3.11 Interim and Final Orders on Additional Debtor in Possession Financing

Hurricane Harvey and other operational and business-related events delayed the Debtor's progress in effecting its reorganization. The \$2.5 million originally advanced by the DIP Lenders had been mostly consumed by the end of November 2017. While production has been restored to all of the fields, the Debtor had an immediate need for an influx of operating capital to fund continued operations while its plan of reorganization is considered by the Bankruptcy Court. On November 30, 2017, the Debtor filed its Motion to Approve Additional DIP Financing [Dkt # 99]. The Additional DIP Financing is to be provided by the DIP Lenders in the total additional amount of \$1.06 million. An expedited interim hearing is scheduled to be held on Wednesday, December 6, 2017 to consider the Additional DIP Financing.

IV.

SUMMARY OF THE DEBTOR'S CHAPTER 11 PLAN OF REORGANIZATION

4.01 Explanation of Chapter 11 of the Bankruptcy Code

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Under Chapter 11, a plan proponent, typically the debtor, attempts to restructure a debtor's financial affairs or effectively liquidate the debtor's assets for the benefit of the debtor's creditors, equity interest holders, and other parties-in-interest. The Chapter 11 plan of reorganization is a debtor's agreement with its creditors. The Chapter 11 plan of reorganization contains the terms and conditions for the operation and/or liquidation of a debtor's assets, and the treatment of Claims and interests of creditors and parties-in-interest.

Under § 1125 of the Bankruptcy Code, acceptances of a Chapter 11 plan of reorganization may be solicited by the debtor only after a written disclosure statement approved by a bankruptcy court as containing adequate information for each creditor or equity interest holder.

4.02 Terms of the Plan Control

The following represents the Debtor's best effort to describe the treatment afforded the Claims of the Creditors in various Classes. Creditors should be aware that the terms of the Plan control the treatment of all Claims. In the event of any inconsistencies between the Plan and this Disclosure Statement, the terms of the Plan shall be, in all events, determinative. The Debtor urges all Creditors to read the Plan for a complete understanding of the treatment of their Claims.

4.03 Treatment of Administrative Claims, Including Professional Fees and US Trustee Fees

Administrative Claims. Each holder of an Allowed Administrative Claim shall receive from the Debtor either: (i) the amount of such Allowed Administrative Claim in one Cash payment on the Effective Date or (ii) such other treatment as may be agreed upon in writing by the Debtor and the holder of the Allowed Administrative Claim. An Allowed Administrative Claim representing a liability incurred in the ordinary course of business of the Debtor shall be paid by the Debtor upon presentment or otherwise in accordance with the terms of the particular transaction and any agreements relating hereto.

Administrative Claim Bar Date. The Plan constitutes a motion to fix and establish a deadline to file Administrative Claims, such deadline being thirty (30) days following the Confirmation Date (the "Administrative Claim Bar Date"). Upon entry of the Confirmation Order, the Debtor shall provide notice of such Administrative Claim Bar Date to every Person that may assert an Administrative Claim against the Debtor. Applications for compensation and reimbursement filed by professionals employed under Section 327 of the Bankruptcy Code shall also be filed no later than thirty (30) days after the Confirmation Date, or by a date set by the Bankruptcy Court.

Administrative Claim Reserve. On the Effective Date, the Reorganized Debtor will fund the Administrative Claim Reserve in an amount sufficient to pay all Allowed Administrative Claims in full (other than those Administrative Claims to be paid in the ordinary course of business of the Reorganized Debtor or as otherwise agreed). The funds in the Administrative Claim Reserve shall be released and paid over to those holders of Allowed Administrative Claims. Any funds remaining in the Administrative Claim Reserve following payment of all Allowed Administrative Claims shall be released to the Reorganized Debtor for further use in accordance with the Plan.

Claims of Professionals. Any Claims of Professionals approved by the Court, and not previously paid pursuant to any orders approving such payments, shall be paid in Cash in such amounts as are Allowed by Final Order of the Court: (i) within five (5) days following the date such Claim of a Professional becomes an Allowed Administrative Claim or (ii) upon such other terms as may be mutually agreed upon between the holder of a Claim for Professional Fees and the Reorganized Debtor.

Claims of Professionals Bar Date. The Plan constitutes a motion to fix and establish a bar date of thirty (30) days after the Confirmation Date for the filing of final applications for allowances of

compensation for services rendered and reimbursement of expenses incurred through the Confirmation Date. All Professionals seeking compensation for unpaid services rendered or reimbursement of expenses incurred through and including the Confirmation Date shall file their respective applications no later than such date as set forth in this Section. Upon entry of the Confirmation Order, the Debtor shall provide notice of such Professionals Bar Date to every Person that may assert a Claim for Professional fees against the Debtor.

Claims of Professionals Objection Deadline. The Plan constitutes a motion to fix and establish a deadline to object to timely filed Claims of Professionals, such deadline being thirty (30) days following the Professionals Bar Date.

Professionals Account. On the Effective Date, the Reorganized Debtor will fund the Professionals Account in an amount sufficient to pay all Allowed Claims of Professionals in full.

United States Trustee Requirements. All fees owing to the United States Trustee pursuant to 28 U.S.C. § 1930 shall be paid by the Reorganized Debtor in Cash as such fees become due. The Reorganized Debtor shall timely file quarterly post-confirmation reports until this case is closed, converted, or dismissed.

4.04 Classification and Treatment of Claims and Interests

The following are the classes and proposed treatment of Claims and Interests under the Plan.

Class	Impairment	Treatment
Class 1 – Allowed Priority Claims of Governmental Entities	N/A	Each holder of an Allowed Priority Claim of a Governmental Entity, if any, shall be paid its Priority Claim in such amount as is Allowed, in full, in Cash, through equal Monthly Plan Payments, or as otherwise agreed, together with interest at the rate required by Bankruptcy Code section 511, or if applicable, the rate authorized by Texas Tax Code § 33.01, over a period through the fifth anniversary of the Petition Date. Each Governmental Entity shall retain its Liens, if any, until paid in full. There are not anticipated to be any Allowed Class 1 Claims.
Class 2 – Allowed Priority Claims of Non-Governmental Entities	Impaired	Each holder of an Allowed Priority Claim of a Non-Governmental Entity, if any, shall be paid its Priority Claim in such amount as is Allowed, in full, in Cash, on the Effective Date.

Class 3 – Allowed Secured Claims of Governmental Entities	Unimpaired	Each holder of an Allowed Secured Claim of a Governmental Entity, if any, shall be paid its Secured Claim as and when due in the ordinary course of the Reorganized Debtor’s business. Each Governmental Entity shall retain its Liens until paid in full.
Class 4 – Allowed Secured Claims of Quintium Private Opportunities Fund, LP, Shadow Tree Funding Vehicle A-Hydrocarb LLC, Shadow Tree Capital Management LLC	Impaired	The holders of the Allowed Secured Claims of Quintium Private Opportunities Fund, LP, Shadow Tree Funding Vehicle A-Hydrocarb LLC, Shadow Tree Capital Management LLC shall receive payment in full of their Claims, together with interest at the Plan Interest Rate, through sixty (60) equal monthly payments commencing on the Effective Date and continuing monthly thereafter. The holders of the Allowed Secured Claims of Quintium Private Opportunities Fund, LP, Shadow Tree Funding Vehicle A-Hydrocarb LLC, Shadow Tree Capital Management LLC shall retain their Liens until paid in full. Each monthly payment under the plan shall be timely made by the Reorganized Debtor so that it is actually received by Shadow Tree Capital Management LLC on or before the 5 th business day of each month. The failure to timely make any such payment shall be a Class 4 Event of Default. A Class 4 Event of Default that remains uncured for 10 days following notice of default to the Reorganized Debtor shall be a Material Default under the Plan.
Class 5 – Allowed Oil and Gas Vendor Claims	Impaired	Each holder of an Allowed Oil and Gas Vendor Claim shall be paid its Claim, in full, in Cash, together with interest at the Plan Interest Rate, in twelve (12) equal monthly installment payments commencing on the Effective Date and monthly thereafter, so long as there has been no Material Default by the Reorganized Debtor in treatment of Class 4.

<p>Class 6 – Clow Partners Pre-Petition Equity Interests</p>	<p>Impaired</p>	<p>On the Effective Date, in order to effectuate the 18.5% Conversion, the 13.81% Conversation, and the 25.61% Right, Clow Partners shall return 56.44% of its Pre-Petition Membership Interests to the Reorganized Debtor. In exchange, Clow Partners shall be due from the Reorganized Debtor the sum of \$2,925,000 (the “Clow Partners Sum”), which sum shall be paid, in full, in Cash, commencing upon satisfaction of the Allowed Class 1, 2, 3, and 5 Claims, from 75% of the production revenues of the Reorganized Debtor, after payment of royalties and current operating expenses. The Clow Partners Sum shall accrue interest at the rate of 5.5% per annum, compounded annually, from the Effective Date, until paid in full (the foregoing constitutes the “Clow Partners Treatment Package”).” The balance of the Clow Partners remaining 18.56% Pre-Petition Membership Interest shall be placed into escrow pending payment of all Class 1, 2, 3, and 5 Claims by the Reorganized Debtor pursuant to the terms of the Plan. While the Clow Partners 18.56% Pre-Petition membership Interest is in escrow, it shall have no voting, management, or distribution rights in the Reorganized Debtor. Upon completion of the Reorganized Debtor’s duties and obligations to pay Allowed Class 1, 2, 3, and 5 Claims pursuant to the Plan, the Pre-Petition Membership Interests of Clow Partners shall revert with all attendant rights. No payment shall be made on account of the Clow Partners Sum in the event of any Material Default by the Reorganized Debtor in treatment of Class 4 under the Plan. No dividend or distributions shall be made to Clow Partners while there exists a Material Default under the Plan.</p>
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<p>Class 7 – All Other Pre-Petition Membership Interests</p>	<p>Impaired</p>	<p>On the Effective Date, in order to effectuate the 18.5% Conversion, the 13.81% Conversation, and the 25.61% Right: (1) Polk Petroleum shall return .9472% of its Pre-Petition Membership Interests to the Reorganized Debtor; (2) Westwood shall return .1776% of its Pre-Petition Membership Interests to the Reorganized Debtor; (3) Rubicon shall return .1776% of its Pre-Petition Membership Interests to the Reorganized Debtor; and (4) Prospect shall return .1776% of its Pre-Petition Membership Interests to the Reorganized Debtor. The remaining Pre-Petition Membership Interests of Prospect, Westwood, Rubicon, and Polk Petroleum shall be placed in escrow pending payment of all Allowed Class 1, 2, 3, and 5 Claims by the Reorganized Debtor pursuant to the terms of the Plan. While the Pre-Petition Membership Interests of Prospect, Westwood, Rubicon, and Polk Petroleum remain in escrow, they shall have no voting, management, or distribution rights in the Reorganized Debtor. Upon completion of the Reorganized Debtor’s duties and obligations to pay all Allowed Class 1, 2, 3, and 5 Claims pursuant to the Plan, the Pre-Petition Membership Interests of Prospect, Westwood, Rubicon, and Polk Petroleum shall revert with all attendant rights. For avoidance of doubt, the reversion of the Pre-Petition Membership Interests of Prospect, Westwood, Rubicon, and Polk Petroleum, is not conditioned upon performance by the Reorganized Debtor of the Clow Partners Treatment Package. No dividend or distributions shall be made to Prospect, Westwood, Rubicon, and Polk Petroleum while there exists a Material Default under the Plan.</p>
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4.05 Discharge of Claims

Except as otherwise expressly provided in the Plan, after the Effective Date, all Persons who have been, are, or may be holders of Claims against the Debtor arising on or before the Effective Date shall be enjoined from taking any of the following actions against or affecting the Debtor, their estates, and the estate property regarding such Claims (other than actions brought to enforce any rights or obligations under the Plan) to the fullest extent provided under Bankruptcy Code sections 1141 and 524:

- (i) commencing, conducting, or continuing in any manner, directly or indirectly, any suit, action, or other proceeding of any kind against the Reorganized Debtor, its estate, or the estate

property, including without limitation, the revested estate property, including, all suits, actions, and proceedings that are pending against the Debtor and/or the Reorganized Debtor on the Effective Date, which shall be deemed withdrawn and dismissed with prejudice;

(ii) enforcing, levying, attaching, collecting, or otherwise recovering by any manner or means, directly or indirectly, any judgment, award, decree, or order against the Debtor and/or Reorganized Debtor, its estate, or the estate property, including without limitation, the revested estate property;

(iii) creating, perfecting, or otherwise enforcing in any manner, directly or indirectly, any Lien against the Debtor and/or the Reorganized Debtor, its estate, or the estate property, including the revested estate property;

(iv) asserting any right of subrogation, setoff, or recoupment of any kind, directly or indirectly, against any obligation due the Debtor and/or the Reorganized Debtor, the estate, or the estate property, including without limitation, the revested estate property; and

(v) proceeding in any manner and in any place whatsoever that does not conform to or comply with the provisions of the Plan.

V.

IMPLEMENTATION OF THE DEBTOR'S PLAN

5.01 Summary of the Implementation of the Plan

A. Revesting of Property of the Estate. Except as otherwise provided in the Plan, on the Effective Date, the Property of the Estate of the Debtor shall revert in the Reorganized Debtor. Subject to the terms and conditions of the Plan, the Reorganized Debtor may operate its business and use, acquire, and disburse Property, including all revenues generated by its operations, without supervision by the Court and free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules. As of the Effective Date, all Property of the Reorganized Debtor shall be free and clear of all Claims, Liens, encumbrances and other interests of Creditors, except as otherwise provided in the Plan.

B. Return of Certain Pre-Petition Membership Interests. On the Effective Date, in order to effectuate the 18.5% Conversion, the 13.81% Conversation, and the 25.61% Right: (1) Clow Partners shall return 56.44% of its Pre-Petition Membership Interests to the Reorganized Debtor in exchange for the Clow Partners Sum to be paid pursuant to the Clow Partners Treatment Package; (2) Polk Petroleum LP shall return .9472% of its Pre-Petition Membership Interests to the Reorganized Debtor; (3) Westwood shall return .1776% of its Pre-Petition Membership Interests to the Reorganized Debtor; (4) Rubicon shall return .1776% of its Pre-Petition Membership Interests to the Reorganized Debtor; and (5) Prospect shall return .1776% of its Pre-Petition Membership Interests to the Reorganized Debtor.

C. Escrow of Remaining Pre-Petition Membership Interests. The remaining Pre-Petition

Membership Interests of Prospect, Westwood, Rubicon, Polk Petroleum, and Clow Partners shall be placed in escrow pending full performance by the Reorganized Debtor of its obligations under the Plan with respect to Classes 1 through 3, and 5. The Escrow Agreement is attached to the Plan as Exhibit 7.3. The Escrow Agent shall be selected and disclosed prior to the Confirmation Hearing. So long as their Pre-Petition Membership Interests remain in escrow, Polk Petroleum, Westwood, Rubicon, and Prospect may not assign their respective interests to any third-party; provided, however, that Clow Partners may sell its Membership Interests in escrow to any third-party willing to purchase such interests, in which case such Clow Partners membership interests shall exit escrow and revest in such purchaser with all attendant rights.

D. Exercise of the 18.5% Conversion. On the Effective Date, Grace, and PI, LLC shall exercise the 18.5% Conversion in full and final satisfaction of the Original DIP Loan. In exchange, Grace shall receive ___ membership units in the Reorganized Debtor, Galveston Bay Operating Company, LLC, and other affiliated entities, including a management company, if one is formed, and PI, LLC shall receive ___ membership units in the Reorganized Debtor, Galveston Bay Operating Company, LLC, and other affiliated entities, including a management company, if one is formed.

E. Exercise of the 13.81% Conversion. On the Effective Date, Grace, and PI, LLC shall exercise the 13.81% Conversion in full and final satisfaction of the Additional DIP Loan. In exchange, Grace shall receive ___ membership units in the Reorganized Debtor, Galveston Bay Operating Company, LLC, and other affiliated entities, including a management company, if one is formed, and PI, LLC shall receive ___ membership units in the Reorganized Debtor, Galveston Bay Operating Company, LLC, and other affiliated entities, including a management company, if one is formed.

F. Exercise of the 25.61% Right. On the Effective Date, in exchange for payment to the Reorganized Debtor of the total aggregate sum of \$3,440,000 in Cash, Grace shall receive ___ membership units in the Reorganized Debtor, Galveston Bay Operating Company, LLC, and other affiliated entities, including a management company, if one is formed, and PI, LLC shall receive ___ membership units in the Reorganized Debtor.

G. Reorganized Debtor Membership Agreement. On the Effective Date, simultaneously with the exercise of the 18.5% Conversion, the 13.81% Conversion, the 25.61% Right, the placing of the Pre-Petition Membership Units into escrow, the Members of the Reorganized Debtor shall execute the Amended Membership Agreement as attached to the Plan as Exhibit 7.6.

H. Appointment of Manager of Reorganized Debtor. On the Effective Date, _____, shall be appointed the Manager of the Reorganized Debtor and shall serve subject to the terms of Reorganized Debtor Membership Agreement. The Manager may subsequently be replaced pursuant to the terms of the Reorganized Debtor Membership Agreement. A copy of the the CV for _____ is attached hereto as Exhibit "K."

I. Revesting of Escrowed Membership Interests. Upon the Reorganized Debtor's payment of all Allowed Class 1, 2, 3, and 5 Claims pursuant to the terms of the Plan, so long as there is then no Class 4 Material Default under the Plan, the remaining Pre-Petition Membership Interests of Prospect, Westwood, Rubicon, Polk Petroleum, and Clow Partners shall revest in such members and shall have all attendant rights under the Reorganized Debtor Membership Agreement.

J. Effective Date of Plan. The Effective Date of this Plan is the first business day following the date that is fourteen days after the entry of the order of confirmation. If, however, a stay of the confirmation order is in effect on that date, the effective date will be the first business day after the date on which the stay of the confirmation order expires or is otherwise terminated.

K. Conditions to Occurrence of Effective Date. The effectiveness of this Plan is subject, in addition to the requirements provided in § 1129 of the Bankruptcy Code, to satisfaction of the following conditions precedent (any of which may be waived by the Debtor):

- a. All actions, documents and agreements necessary to implement the Plan shall have been effected or executed;
- b. Payment of all amounts due on the Effective Date;
- c. The Appointment of the Manger of the Reorganized Debtor;
- d. The Return of the Clow Interests;
- e. The Exercise of the 18.5% Conversion;
- f. The Exercise of the 13.81% Conversion;
- g. The Exercise of the 25.61% Right;
- h. The Funding of the Equity Purchase Price by Grace and PI, LLC;
- i. The placing of the remaining Pre-Petition Equity Interests into escrow subject to revesting pursuant to the Plan;
- j. The Debtor shall have received all authorizations, consents, regulatory approvals, rulings, letters, no-action letters, opinions or documents that are determined by the Debtor to be necessary to implement the Plan; and
- k. Entry of a Confirmation Order that is a Final Order in form and substance suitable to Debtor.

L. Retention of Jurisdiction. On and after the Effective Date, the Court shall retain and have

exclusive jurisdiction over this Bankruptcy Case for the purposes stated in items (1) through (14) below. If the Court abstains from exercising, or declines to exercise jurisdiction or is otherwise without jurisdiction over any matter arising out of or relating to this Bankruptcy Case, this section shall not prohibit or limit the exercise of jurisdiction by any other court having competent jurisdiction with respect to such matter.

a. To determine any and all objections and proceedings involving the allowance, estimation, classification and subordination of Claims, including any counterclaim;

b. To determine any and all explanations for allowance of compensation and reimbursement of expenses and any other fees and expenses authorized to be paid or reimbursed under the Bankruptcy Code or this Plan;

c. To determine any applications pending on the Effective Date for the rejection or assumption of executory contracts or unexpired leases, or for the assumption and assignment, as the case may be, of executory contracts or unexpired leases to which the Debtor is a party or with respect to which the Debtor may be liable, and to hear and determine, and if need be to liquidate, any and all Claims arising therefrom;

d. To determine any and all applications, adversary proceedings, and contested or litigated matters that may be pending on the Effective Date;

e. To consider any modifications of this Plan, remedy any defect or omission, or reconcile any inconsistency in any order of the Court, including the Confirmation Order, to the extent authorized by the Bankruptcy Code;

f. To determine all controversies, suits, disputes and proceedings that may arise in connection with the interpretation, enforcement, Consummation, or performance of the Plan or any Person's obligations hereunder;

g. To determine all controversies, suits, disputes and proceedings that may arise in connection with this Plan;

h. To hear and determine any Claim belonging to the Debtor, and to consider and act on the compromise and settlement of any other Claim against, or cause of action asserted by, the Debtor;

i. To recover all assets of the Debtor and Property of the Debtor's Estate, wherever located;

j. To hear and determine matters concerning state, local, and federal taxes in accordance with §§ 346, 505, and 1146 of the Bankruptcy Code (including any requests for expedited determinations under § 505(b) of the Bankruptcy Code filed, or to be filed, with respect to tax returns for any and all taxable periods ending after the Petition Date through, and

including, the date that any final distribution is made);

- k. To enforce the Plan Injunction pending discharge set forth in Article 12 herein;
- l. To enter a Final Decree closing the Bankruptcy Case;
- m. To issue orders in aid of execution of this Plan to the extent authorized by § 1142 of the Bankruptcy Code; and
- n. To determine such other matters as may be set forth in the Confirmation Order or which may arise in connection with this Plan or the Confirmation Order.

M. Modification of Plan. Modifications of this Plan may be proposed in writing by the Debtor at any time before Confirmation, provided that the Plan, as modified, meets the requirements of §§ 1122 and 1123 of the Bankruptcy Code, and the Debtor has complied with § 1125 of the Bankruptcy Code. The Plan may be modified at any time after Confirmation and before its substantial Consummation, provided that the Plan, as modified, meets the requirements of §§ 1122 and 1123 of the Bankruptcy Code, and the Court after notice and hearing, confirms the Plan, as modified, under § 1129 of the Bankruptcy Code, and the circumstances warrant such modification. At any time after the Confirmation Date, the Reorganized Debtor, without the approval of the Court, may modify the Plan to remedy any defect or omission, or reconcile any such inconsistencies in the Plan or in the Confirmation Order, as such matters may be necessary to carry out the purposes, intent, and effect of this Plan, provided that such modification does not materially or adversely affect the interest of Creditors.

N. Deemed Acceptance to Modifications. A holder of a Claim that has accepted or rejected the Plan shall be deemed to have accepted or rejected, as the case may be, such Plan as modified, unless, within the time fixed by the Bankruptcy Court, such holder changes its previous acceptance or rejection.

O. Revocation of Plan. The Debtor reserves the right to revoke and withdraw this Plan before the entry of the Confirmation Order. If the Debtor revokes or withdraws this Plan, or if confirmation of the Plan does not occur, then this Plan shall be deemed null and void and nothing contained herein shall be deemed to constitute a waiver or release of any Claims by or against the Debtor or any other Person, or to prejudice in any manner the rights of the Debtor or any Person in any further proceedings involving the Debtor.

P. Material Default Provisions. A failure to timely make a payment to a holder of an Allowed Claim, except a Class 4 Claim, pursuant to the terms of the Plan shall be an “Event of Default.” Following an Event of Default, each holder of an Allowed Claim shall have the right to enforce their rights under the Plan by sending a written “Notice of Default” to the Reorganized Debtor at the following address:

Galveston Bay Properties LLC

c/o _____

with a copy to:

Kell C. Mercer
Kell C. Mercer, PC
1602 E. Cesar Chavez Street
Austin, Texas 78702

If the Event of Default is not cured within ninety (90) days after service of a written Notice of Default then a “Material Default” shall have occurred and the holder of an Allowed Claim having provided such Notice of Default may enforce their rights as provided by the Plan.

Each monthly payment under the plan due to holders of the Allowed Class 4 Claims shall be timely made by the Reorganized Debtor so that it is actually received by Shadow Tree Capital Management LLC on or before the 5th business day of each month. The failure to timely make any such payment shall be a Class 4 Event of Default. A Class 4 Event of Default that remains uncured for 10 days following notice of default shall be a Material Default under the Plan.

5.02 The Reorganized Debtor’s Obligations Under the Plan

Following the Effective Date, the Reorganized Debtor may pay its post-Effective Date operating expenses in the ordinary course of its business without notice or orders of this Court. The Reorganized Debtor shall continue to perform the statutory duties of the Debtor, as applicable, and those conferred by and contemplated under the Plan until this Bankruptcy Case is closed.

5.03 Exemption from Transfer Taxes

Pursuant to § 1146(c) of the Bankruptcy Code, the issuance, transfer, or exchange of notes or equity securities under the Plan or the making or delivery of any deed or other instrument or transfer under, in furtherance of, or in connection with the Plan, including without express or implied limitation, any transfers to or by the Reorganized Debtor shall not be subject to any transfer, sales, stamp, or other similar tax.

5.04 Claims Objections

Except as otherwise provided in the Plan in connection with Administrative Claims and Claims of Professionals, objections to Claims must be filed with the Court and served in accordance with the Bankruptcy Rules by the later of (i) sixty (60) days following the Effective Date or (ii) thirty (30) days following the date such proof of Claim was timely filed; otherwise, such Claims shall

be deemed Allowed in accordance with § 502 of the Bankruptcy Code, unless an extension of such time period is sought by the Reorganized Debtor.

Prior to the expiration of twenty-one (21) days from receipt of an objection, the claimant whose Claim has been objected to must file with the Court and serve upon the objecting party a response to such Claim objection. Failure to file such a response within the twenty-one (21) day time period shall cause the Court to enter a default judgment against the non-responding claimant and thereby grant the relief requested in the claim objection.

5.05 Contingent Claims

Until a Contingent Claim becomes an Allowed Claim or is Disallowed, the Claim will be treated as a Disputed Claim for all purposes under the Plan. The holder of a Contingent Claim will be entitled to a distribution under the Plan only when the Contingent Claim becomes an Allowed Claim. Any Contingent Claim for reimbursement or contribution held by a Person that may be liable with the Debtor on a claim of a Creditor is Disallowed as of the Effective Date if: (a) that Creditor's Claim is Disallowed; (b) the Claim for reimbursement or contribution is contingent as of the Effective Date; or (c) that Person asserts a right of subrogation to the rights of the Creditor under § 509 of the Bankruptcy Code.

5.06 Distributions on Allowance or Disallowance of Disputed Claims

No distributions will be made to any holder of a Claim unless and until the Claim becomes an Allowed Claim. If a Claim is not an Allowed Claim as of the Effective Date, distributions on account of that Claim will commence only when the Claim becomes an Allowed Claim. If a Disputed Claim becomes an Allowed Claim, the Reorganized Debtor will make a distribution in accordance with the terms of the Plan applicable to Claims of the Class in which that Claim is placed.

5.07 Undeliverable or Returned Distributions

Any distribution to be made to a Creditor will be sent to that Creditor at the address set forth on the proof of claim filed for such Creditor, or if no proof of claim is filed, at the address set forth on the Debtor's Schedules. In the event that a distribution under the Plan is returned as undeliverable, or a distribution is returned on account of there being no payment due to the affected Creditor, the Reorganized Debtor shall hold such distribution for the affected Creditor for a period of sixty (60) days following the Date of that distribution for the benefit of the Creditor. If the affected Creditor does not make a demand, in writing, for such unclaimed distribution within the sixty-day period, the Creditor shall forfeit all entitlement to the distribution, and the distribution shall revert to the Reorganized Debtor.

All uncashed distributions shall be handled in accordance with this Article, unless provided otherwise by applicable law. Checks issued by the Debtor with respect to any Allowed Claim shall be null and void if not negotiated within ninety (90) days after the date of issuance thereof. The holder of the Allowed Claim to whom such check originally was issued shall make a request

for re-issuance of any check to the Reorganized Debtor. Any Claim with respect to a voided check shall be made on or before thirty (30) days after the expiration of the ninety (90) day period following the date of issuance of such check; provided however checks issued for the final distribution that become null and void in accordance with provisions contained herein shall not be re-issued and the holders of such Claims shall waive any right to the reissuance of such checks. After such date, all funds held on account of such voided check shall be remitted to the Reorganized Debtor; the holder of any such Claim shall not be entitled to any other or further distribution under the Plan on account of such Claim and such Claim shall be deemed Disallowed for purposes of any such distribution.

5.08 Establishment of a Disputed Claims Reserve

On the occasion of each payment required under the Plan, the Reorganized Debtor shall deposit Cash in a segregated, interest bearing account in such amount necessary to pay all Disputed Claims in accordance with the terms of the Plan if such Claims were to become Allowed Claims. This account shall be called Disputed Claim Reserve. The Reorganized Debtor shall hold the Disputed Claim Reserve in trust for the benefit of the holders of Allowed Claims whose distributions are unclaimed and the holders of Disputed Claims pending determination of their entitlement thereto under the terms of the Plan. When a Disputed Claim becomes an Allowed Claim, the Reorganized Debtor shall release and deliver the distributions reserved for such Allowed Claims (net of distribution costs) from the Disputed Claim Reserve. To the extent that any funds exist in the Disputed Claim Reserve after resolution of all Disputed Claims and distribution to all Allowed Claims, such funds shall be released to the Reorganized Debtor.

5.09 Additional Charges

Except as may be expressly provided in the Plan or allowed by the Bankruptcy Court, no interest, penalty, attorney's fee or late charge shall be allowed or paid with respect to any Claim.

5.10 Treatment of Executory Contracts and Unexpired Leases

a. Assumption or Rejection of Executory Contracts and Unexpired Leases. The Debtor assumes the executory contracts and/or unexpired leases identified on *Schedule 6.1* of the Plan upon the Effective Date of the Plan as provided in Article VII. On the Effective Date, each of the Insurance Policies shall, as applicable, be deemed assumed to the extent such Insurance Policies are Executory Contracts of the Debtor under section 365 of the Bankruptcy Code. Regardless of whether any Insurance Policy is or is not an Executory Contract, on and after the Effective Date, the Insurance Policies will remain valid and enforceable in accordance with their terms, shall not be impaired by the Plan or Confirmation Order, and the Debtor and the Insurers will perform their respective obligations to one another, if any, under the Insurance Policies. Upon the Effective Date of the Plan, the Debtor will be conclusively deemed to have rejected all executory contracts and/or unexpired leases not expressly assumed under section 6.1 of the Plan, or before the date of the order confirming the Plan.

b. Objections to Assumption and Assignments of Executory Contracts and Unexpired Leases

To the extent that any party to an Executory Contract or unexpired lease identified for assumption: (i) asserts arrearages or damages pursuant to § 365(b)(1) of the Bankruptcy Code in an amount different from the amount, if any, set forth in the Debtor's Schedules; (ii) has any objection to the proposed adequate assurance of future performance, if required; or (iii) has any other objection to the proposed assumption or cure of a particular Executory Contract or unexpired lease on the terms and conditions provided for herein, all such asserted arrearages or damages, and any other objections shall be filed and served within the same deadline and in the same manner established for filing objections to Confirmation.

Failure to assert arrearages or damages different from the amount set forth in the Schedules, or failure to file an objection within the time period set forth above, shall constitute consent to the assumption on the terms provided for herein, including acknowledgement that: (i) the Debtor has provided adequate assurance of future performance, if required; (ii) the amount identified for "cure," if any, is the amount necessary to compensate for any and all outstanding defaults or actual pecuniary loss under the Executory Contract or unexpired lease to be assumed; and (iii) no other defaults exist under such Executory Contract or unexpired lease. If an objection to assumption and assignment is filed based upon lack of adequate assurance of future performance or otherwise, and the Court determines that the Debtor cannot assume the Executory Contract or unexpired lease either as proposed or as may be proposed pursuant to a modified proposal submitted by the Debtor, then the Executory Contract or unexpired lease shall be deemed to have been rejected.

c. Payments Related to Assumption of Executory Contracts and Unexpired Leases

Any monetary defaults, including claims for actual pecuniary loss, under each Executory Contract and unexpired lease to be assumed under the Plan shall be satisfied, pursuant to § 365(b)(1) of the Bankruptcy Code, by payment of the cure amount, if any, or as otherwise agreed by the parties, or as ordered by the Bankruptcy Court in cash within ninety (90) days following the Effective Date, or on such other terms as may be agreed to by the parties to such Executory Contract or unexpired lease. In the event of a dispute regarding: (i) the amount of any cure or pecuniary loss payment; (ii) the ability of Reorganized Debtor to provide adequate assurance of future performance under the contract or lease to be assumed, if required; (iii) any other matter pertaining to assumption, the cure, or pecuniary loss payments required by § 365(b)(1) of the Bankruptcy Code shall be made within a reasonable time following entry of a Final Order resolving the dispute and approving assumption.

d. Bar Date for Rejection Damages

If the rejection of an Executory Contract or unexpired lease pursuant to Article 6 of the Plan gives rise to a Rejection Claim by the non-Debtor party or parties to such contract or lease, such Rejection Claim, to the extent that it is timely Filed and is an Allowed Claim,

shall be classified in Class 5. Any Claim arising from rejection shall be forever barred and shall not be enforceable against the Debtor, the Reorganized Debtor, its successors or properties, unless a proof of Claim is Filed and served on the Debtor or Reorganized Debtor, as applicable, within thirty (30) days after the Bankruptcy Court's entry of the Confirmation Order.

5.11 Pending Claims and Causes of Action

After the Effective Date, the Reorganized Debtor, in its sole discretion, shall evaluate the potential Causes of Action, including Avoidance Actions, and determine whether to pursue any such Causes of Action, including Avoidance Actions.

THE PLAN DOES NOT AND IS NOT INTENDED TO RELEASE CAUSES OF ACTION, INCLUDING AVOIDANCE ACTIONS, AND ALL SUCH CAUSES OF ACTION, INCLUDING AVOIDANCE ACTIONS, ARE SPECIFICALLY RESERVED IN FAVOR OF THE REORGANIZED DEBTOR ON BEHALF OF THE REORGANIZED DEBTOR.

After the Effective Date, the Reorganized Debtor shall prosecute, compromise or otherwise resolve any and all Causes of Action, including Avoidance Actions, that the Reorganized Debtor determines should be pursued. The Reorganized Debtor shall retain counsel on an appropriate basis to prosecute any Causes of Action including the Avoidance Actions. The Bankruptcy Court shall retain jurisdiction to adjudicate any and all Causes of Action including Avoidance Actions and claims against John Ehrman, and may approve any settlement thereof. The net proceeds of the Causes of Action, including Avoidance Action and claims against John Ehrman, shall be distributed, first, in payment of the litigation fees and expenses of the Reorganized Debtor, second, for distribution to holders of Allowed Claims, and third, for the benefit of the Reorganized Debtor and its members.

The Debtor's Statement of Financial Affairs identifies the parties who received payments and transfers from the Debtor, which payments and transfers may be avoidable under the Bankruptcy Code. In particular, Part 3 of the Debtor's Statement of Financial Affairs identifies those parties that received transfers from the Debtor during the ninety (90) days preceding the Filing Date, which transfers may be avoidable under Chapter 5 of the Bankruptcy Code.

The Debtor may have Causes of Action, including Avoidance Actions, against the above-listed creditors. The Reorganized Debtor may prosecute, compromise, or otherwise resolve any and all Causes of Action, including Avoidance Actions, against the above-listed creditors.

ADDITIONALLY, YOU MAY BE SUED IF:

1. You were or are a creditor and you received a payment on a prior debt within ninety (90) days before the Petition Date;
2. You were an insider of the Debtor and you received a payment on a prior debt

within one (1) year before the Petition Date;

3. You received any payments or property from the Debtor for goods or services you did not deliver or provide before the Petition Date;
4. You received any payment or transfer of property from the Debtor, whether pre- or post-petition, without providing reasonably equivalent value;
5. You received pre-payments, advances, or deposits from the Debtor which you did not earn;
6. You received any payment or transfer from the Debtor that required authorization by the Bankruptcy Court after the Petition Date and such authorization was not obtained;
7. You were involved in pending litigation with the Debtor at the time of the Petition Date or have been sued thereafter;
8. You owe the Debtor any money under a contract or as a result of your breach of contract with the Debtor;
9. Potential claims against you or any of your affiliates are described or referred to in this Disclosure Statement; and/or
10. The Debtor has any claims against you under state or federal law, whether in contract or in tort, whether known or unknown.

VI.

CONFIRMATION OF THE PLAN

6.01 Feasibility

As a condition to confirmation of a plan, § 1129 of the Bankruptcy Code requires, among other things, that the Bankruptcy Court determine that confirmation is not likely to be followed by the liquidation or the need for further financial reorganization of the debtor. The Debtor has prepared financial statements that reflect the projected income and expenses of the Reorganized Debtor during the Plan Period (the "Projections"). The Projections are attached to this Disclosure Statement as Exhibit "L."

6.02 Best Interests Test

In order to confirm the Plan, the Court must find that each holder of an impaired Claim or Equity Interest either (i) accepted the Plan or (ii) received or retained under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive if the

debtor was liquidated under Chapter 7 of the Bankruptcy Code. In a typical Chapter 7 case the debtor ceases operations and a Chapter 7 trustee is appointed to conduct an orderly liquidation of the Debtor's assets. The liquidation proceeds, net of trustee's fees and other costs and expenses incurred in conducting the liquidation, are distributed to Creditors in accordance with their rights and statutorily prescribed priorities of payment under the Bankruptcy Code.

If this Case were converted to a Chapter 7 liquidation, the Court may lift the automatic stay to permit Shadow Tree & Quintium and/or the DIP Lenders to foreclose upon their collateral. A foreclosure by would likely eliminate any possible distribution to other creditors.

Alternatively, a Chapter 7 Trustee may try to market and sell the Debtor's assets. The Debtor believes that a sale of the Debtor's assets by a chapter 7 Trustee would likely not provide any recovery to holders of Allowed General Unsecured Claims. Once the assets are sold, and subject to prior orders of the Court, Claims would be paid in the following order:

1. Allowed Claims of Secured Creditors (Governmental Entities, Shadow Tree & Quintium, and the DIP Lenders);
2. The Chapter 7 Trustee's expenses, including the fees and expenses of Professionals retained by the Chapter 7 Trustee to assist in the marketing and sale of the Property;
3. Expenses incurred during the Chapter 11 case and allowed by the Court, including Allowed Administrative Claims from the Chapter 11 period of the case; and
4. A Pro Rata distribution of any remaining funds to the Allowed Claims of General Unsecured Creditors.

Given the foregoing, the Debtor believes that holders of Claims will receive under a distribution under the Plan that is equal to, if not substantially greater than, what they would receive in a Chapter 7 liquidation.

VII. **ALTERNATIVES TO THE PLAN**

7.01 General

The Debtor believes that the Plan affords the 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) an alternative plan of reorganization; (b) liquidation of the Debtor under Chapter 7 of the Bankruptcy Code; or (c) dismissal of the Chapter 11 Case.

7.02 Alternative Plans

If the Plan is not confirmed, the Debtor or any other party in interest in the case could attempt to formulate and propose a different plan. The Debtor is not aware of any potential alternative

plans at this time.

7.03 Liquidation Under Chapter 7 or Dismissal

See section 6.02 above. Given the foregoing, the Debtor believes that holders of Allowed General Unsecured Claims would receive under a distribution under the Plan that is equal to, if not substantially greater than, what they would receive in a Chapter 7 liquidation.

VIII. RISK FACTORS

The Projections are based on numerous assumptions that are an integral part of the Projections. The assumptions and estimates underlying the Projections are inherently uncertain, and are subject to business risk, economic risk, competitive risk, and other uncertainties that could materially affect the accuracy of the Projections. Consequently, the Projections contained in this Disclosure Statement are not intended to be, nor should they be received as, representations that the Projections will be achieved.

IX. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The transactions contemplated by the confirmation of the Plan may have an impact on the tax treatment received with respect to distributions under the Plan. That impact may be adverse to a creditor or interest holder. The Debtor has attempted to structure the Plan to preserve any valuable tax attributes.

An analysis of federal income tax consequences of the Plan to Creditors, interest holders, and the Debtor requires a review of the Internal Revenue Code, the Treasury regulations promulgated thereunder, judicial authority, and current administrative rulings and practice. The Plan and its related tax consequences are complex. Neither the Debtor nor the Debtor's counsel have requested a ruling from the Internal Revenue Service with respect to these matters. Accordingly, no assurance can be given as to the Internal Revenue Service's interpretation of the Plan.

THE TRANSACTION CONTEMPLATED BY THE CONFIRMATION OF THE PLAN MAY HAVE AN IMPACT ON THE TAX TREATMENT OF ANY CREDITOR OR INTEREST HOLDER. THAT IMPACT MAY BE ADVERSE TO THE CREDITOR OR INTEREST HOLDER. NOTHING HEREIN INTENDED TO BE ADVICE OR OPINION AS TO THE TAX IMPACT OF THE PLAN ON ANY INDIVIDUAL CREDITOR OR INTEREST HOLDER. EACH CREDITOR OR INTEREST HOLDER IS CAUTIONED TO OBTAIN INDEPENDENT AND COMPETENT TAX ADVICE PRIOR TO VOTING ON THE PLAN.

X.

JURISDICTION OF THE COURT

The Bankruptcy Court shall retain and have exclusive jurisdiction over this Case for the purposes stated in items one through thirteen below. If the Bankruptcy Court abstains from exercising, or declines to exercise jurisdiction, or is otherwise without jurisdiction over any matter arising out of or relating to this Case, this section shall not prohibit or limit the exercise of jurisdiction by any other court having competent jurisdiction with respect to such matter.

1. To determine any and all objections and proceedings involving the allowance, estimation, classification and subordination of Claim, including any counterclaim;
2. To determine any and all applications for allowance of compensation and reimbursement of expenses and any other fees and expenses authorized to be paid or reimbursed under the Bankruptcy Code or the Plan;
3. To determine any applications pending on the Effective Date for the rejection or assumption of executory contracts or unexpired leases or for the assumption and assignment, as the case may be, of executory contracts or unexpired leases to which the Debtor is a party or with respect to which the Debtor may be liable, and to hear and determine, and if need be to liquidate, any and all Claims arising therefrom;
4. To determine any and all applications, adversary proceedings, and contested or litigated matters that may be pending on the Effective Date;
5. To consider any modifications of the Plan, remedy any defect or omission or reconcile any inconsistency in any order of the Court, including the Confirmation Order, to the extent authorized by the Bankruptcy Code;
6. To determine all controversies, suits, disputes and proceedings that may arise in connection with the interpretation, enforcement, consummation or performance of the Plan or any Person's obligations hereunder;
7. To determine all controversies, suits, disputes and proceedings that may arise in connection with the Plan;
8. To hear and determine any Claim belonging to the Debtor, and to consider and act on the compromise and settlement of any other Claim against, or cause of action asserted by, the Debtor;
9. To recover all assets of the Debtor and property of the Debtor's Estate, wherever located;
10. To hear and determine matters concerning state, local, and federal taxes in

accordance with §§ 346, 505, and 1146 of the Bankruptcy Code (including any requests for expedited determinations under § 505(b) of the Bankruptcy Code filed, or to be filed, with respect to tax returns for any and all taxable periods ending after the Petition Date through, and including, the date that any final distribution is made);

11. To enter a Final Decree closing the Case;
12. To issue orders in aid of execution of the Plan to the extent authorized by § 1142 of the Bankruptcy Code; and
13. To determine such other matters as may be set forth in the Confirmation Order or which may arise in connection with the Plan or the Confirmation Order.

XI. **MISCELLANEOUS**

11.01 Amendment or Modification of the Plan

The Debtor's Plan may be amended or modified by the Debtor prior to the Confirmation Hearing pursuant to § 1127(a) of the Bankruptcy Code, and, to the extent applicable, Bankruptcy Rule 3019. Post-confirmation amendments or modifications of the Plan may be allowed by the Court under § 1127(b) of the Bankruptcy Code if the proposed amendment or modification is offered before the Plan has been substantially consummated. The sole right to amend or modify the Plan at any time shall be reserved to the Debtor and the Reorganized Debtor.

XII. **CONCLUSION & RECOMMENDATION**

THE DEBTOR BELIEVES THAT CONFIRMATION OF THE PLAN IS PREFERABLE TO ANY OF THE ALTERNATIVES DESCRIBED ABOVE AND THAT THE PLAN IS DESIGNED TO PROVIDE GREATER RECOVERIES THAN THOSE AVAILABLE IN ANY OTHER FORM OF LIQUIDATION. ANY OTHER ALTERNATIVE WOULD CAUSE SIGNIFICANT DELAY AND UNCERTAINTY, AS WELL AS ADDITIONAL ADMINISTRATIVE COSTS. THUS, THE DEBTOR RECOMMENDS CONFIRMATION OF THE PLAN.

Exhibit "A"
(Plan of Reorganization)

Exhibit "B"
(Schedule of Oil & Gas Leases and Owned Real Property)

Exhibit "C"
(Map of Oil and Gas Leases)

Exhibit "D"
(Hydrocarb Sale Order)

Exhibit "E"
(RRC and GLO Settlement Agreement)

Exhibit "F"
(Ehrman Indictment)

Exhibit "G"
(GLO: First Forbearance)

Exhibit "H"
(GLO: Forbearance Through 11/10/2017)

Exhibit "I"
(GLO: Forbearance Through 12/26/2017)

Exhibit "J"
(GLO Lease Analysis)

Exhibit "K"
(C.V. of Proposed Manager)

Exhibit "L"
(Plan Projections)