

## June 10, 2011 Update

Following the last update, Jason Halek contacted the Chapter 11 Trustee and indicated a desire to provide assistance. Efforts were therefore made to schedule a follow-up meeting, which occurred on June 9, 2011. At the meeting, Mr. Halek expressed a willingness to consult on a number of matters, including operational matters. The Chapter 11 Trustee therefore discussed the material operational improvements below. Mr. Halek concurred with these changes. Additionally, the Chapter 11 Trustee reviewed the issues noted below with regard to the next distribution of revenue, and Mr. Halek agreed that the distribution of revenue normally occurs on a sixty-day delay, and that the April revenue would therefore be due to be distributed at the end of this month. Finally, Mr. Halek agreed to have follow-up conversations as needed.

The Chapter 11 Trustee has continued to ensure that operations are properly handled. In addition to continuing to use Texcel Exploration to manage operations and address various issues identified for improvement. These include, for example, converting the Knox 10 to gas lift, seeking an exit from the operation of the Palo Pinto wells based upon the fact that they are not economical at prevailing gas prices, and using the Johnson 1 well as a salt water disposal well.

Based upon discussions with employees, a review of company records, and as confirmed by Mr. Halek, the Chapter 11 Trustee has determined the following with regard to distribution of production revenue. The first post-petition receipt of production revenue was distributed in early May, prior to the appointment of the Chapter 11 Trustee. As of the close of business on May 19, 2011, the day before the United States Trustee filed its notice of the appointment of the Chapter 11 Trustee, Halek Energy had approximately \$100,000 in its bank accounts. Halek Energy subsequently received two payments in succession with regard to oil and gas production and sales in April, 2011. It has been Halek Energy's practice for some time to distribute revenues sixty days after the close of the production month. In other words, this revenue would normally be distributed between June 20 and July 1. Operating expenses are normally deducted according to the date of the invoice, such that in this instance April invoices would be deducted from the April revenue. However, expenses and revenue were not always matched in this manner. It appears that there are substantial operating expenses that have been paid in the past but which Halek Energy has not yet netted against production proceeds. Further, there are certain outstanding and unpaid pre-petition operating expenses that will need to be resolved as the bankruptcy case goes forward. Finally, there are allegations that certain working interest transactions may be subject to being avoided for a number of reasons, such as lack of fair consideration and/or failure to properly record such interests.

The Chapter 11 Trustee will endeavor to follow the historical timetable for distributing production proceeds, with post-petition operating expenses deducted, and, as necessary, operating reserves established. In other words, April production payments will go out during the week of June 20. Other expense issues will be reviewed and addressed in due course. The Chapter 11 Trustee will review the assertions with regard to working interest ownership on a case-by-case basis and may suspend certain disputed revenue pending resolution. In the event that any revenues are suspended, the Chapter 11 Trustee will so notify the affected parties in lieu of sending a payment, and efforts will commence to attempt to resolve any issues promptly.