

July 8, 2011 Update

A number of investors have noted that April production and expense numbers suggest that there are reasons for concern as to the operations. It should be noted that the Ch. 11 Trustee was not appointed until May 20, and so the April numbers report on operations that took place prior to the Trustee's appointment. That said, there are some improvements that the Ch. 11 Trustee has identified. Generally, the Ch. 11 Trustee believes that the operations on the Johnson and Knox leases should be altered such that salt water is not trucked off the site but rather is re-injected in the same formation using the Johnson 1CB/H into a salt water disposal well. This will eliminate trucking expenses and will assist in retaining pressure in the formation. Additionally, as funds permit, the lift systems on the wells will be upgraded to allow for a greater flow of fluid from the wells. Over time, this should improve long-term production, and should also cause production to equalize somewhat across the formation.

A number of investors have also been provided reports suggesting that production has continued to fall through May and into June. Again, the Ch. 11 Trustee was appointed in late May, and initially had to assess the appropriate steps to be taken with regard to operations. The Ch. 11 Trustee's assessment is that it is the issues identified above, together with natural declines, have in fact caused production to fall off. After these changes are made, production should stabilize into a more standard decline curve and the life span of the wells should be enhanced. While these changes are being made, some wells will be offline for short periods and so daily production readings will not be indicative of overall well performance.

The Ch. 11 Trustee has continued since the last update to request comment on the overall operations from Jason Halek. In late June, Jason Halek was not being responsive, and he circulated a note to many investors suggesting that he should be placed back in charge of operations. Earlier this week, the Ch. 11 Trustee met with Jason and urged that cooperate as promised with Texcel Exploration and he encouraged Jason to make any suggestions to Texcel that he might wish to. Some conversations have since occurred, and some suggestions have been implemented. However, it appears that overall the declines in production are due not to a lack of involvement by Jason, but instead are the result of the need to implement the strategic changes outlined above. Further, the Ch. 11 Trustee and Jason Halek agree with the strategic changes identified above. Accordingly, at this point, the Ch. 11 Trustee does not believe that Jason Halek should be placed in overall management of the wells, but he does hope that Jason will continue to communicate with Texcel, so that the operations may benefit from his knowledge of the operations to date.

Some investors have asked for assistance in filing claims. For example, some investors have requested guidance as to the claim amount to be indicated for the apparent erosion of the "float" that should have existed. The Ch. 11 Trustee does not expect that investors will be able to quantify that loss at this time and will accept claims indicating the nature of the loss as opposed to the amount. Similarly, if an investor was promised that a well would be "turnkey" and that investor is now receiving invoices or being netted from production, the Ch. 11 Trustee will not expect a claim to indicate more than that the investor was promised a "turnkey" investment and that Halek Energy is in breach of such a contract.

Some questions have arisen with regard to promises apparently made by Halek Energy that investments in wells would be handled on a turnkey basis. To the extent that such a promise was made, this would be viewed in bankruptcy as an executory contract. If Halek Energy is unable to perform such an agreement, then it will be forced to breach the contract, in which case the investor would have a claim in the case. Generally speaking, a working interest

owner has a real property right that entitles the holder to the production proceeds but also burdens the holder with all expenses including plugging liability. This is an obligation that the State of Texas could enforce if Halek Energy is unable to bear the expense and/or make some other arrangement.

Some investors do not understand why their proceeds from one well would be burdened with expenses from another well in which they invested. Historically, Halek Energy failed to net these amounts. It is standard practice, however, for an operator to net the amounts. Again, to the extent that a working interest holder also had a right to turnkey contract, Halek Energy will likely be unable to perform that obligation.

Some investors have asked if, historically, the better wells subsidized the expenses of non-commercial wells. It appears that this was in fact the case. Additionally, this may be necessary for some period of time in order to properly address current operational conditions because of the current lack of funds and the fact that a number of the wells are a part of a single geologic formation and should therefore be operated as a whole rather than as independent parts. At this point, the Ch. 11 Trustee is merely attempting to address emergent conditions, and the Ch. 11 Trustee is evaluating how best to address this situation going forward.

Some investors have noted that a charge for an operating reserve was netted against April production. This is to allow Halek Energy to address the complete depletion of the operating reserve. It should be a one time charge that will create sufficient capital to front operating expenses. Over time, the Ch. 11 Trustee intends to negotiate vendor contracts in such a way that most operating expenses will not need to be paid before production proceeds are available.

Some investors have indicated issues with checks. These will be addressed on a case-by-case basis.