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IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

In re:	§	Chapter 11
	§	
SCANROCK OIL & GAS, INC., <i>et al.</i> ,	§	Case No. 25-90001-mxm11
	§	
Debtors. ¹	§	Jointly Administered

**COMMITTEE’S STATEMENT IN SUPPORT OF THE DEBTORS’ AMENDED
JOINT CONSOLIDATED PLAN OF REORGANIZATION**

[Relates to Docket Nos. 431, 477, 482, 483, and 490]

TO THE HONORABLE MARK X. MULLIN, U.S. BANKRUPTCY JUDGE:

The Official Committee of Unsecured Creditors (the “Committee”) hereby files this
Statement in Support of the Debtors’ Amended Joint Consolidated Plan of Reorganization (the
“Statement”), and respectfully states as follows:

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, if any, are: Scanrock Oil & Gas, Inc. (0380); O’Ryan Family Limited Partnership (1913); O’Ryan Production & Exploration, Ltd. (9950); Ryan C. Hoerauf, Inc. (0493); Smackover Oil Treaters, Ltd. (9529); O’Ryan Ponderosa, LLC (1476); EON Production, LLC (0136); O’Ryan Oregon Ranches, LLC (NA); O’Ryan Ranches, LLC (6467); and O’Ryan Ranches, Ltd. (7184) (collectively, the “Debtors”). The location of the Debtors’ service address is 8180 Lakeview Center, Ste. 300, Odessa, TX 79765.

PRELIMINARY STATEMENT

1. Confirmation of the Plan² is the best outcome possible in these chapter 11 cases. Through months of hard work, the Committee negotiated significant improvements from the *Debtors' Joint Consolidated Plan of Reorganization* [Docket No. 280] (the "Original Plan"), including:

- Holders of Unsecured Claims are to receive, after paying the costs of the bankruptcy cases:
 - Payment of their claims in full, with interest accruing at the federal judgment rate;
 - \$1 million from the total combined net excess sale proceeds from the sale of the Oregon Ranch and the Llano Ranch Parcel 1;
 - an additional \$500,000 from the sale of Tract V of the Oregon Ranch;
 - quarterly payments from the Oil and Gas Debtors in the amount of (i) \$50,000 beginning in the first quarter of 2026, that will be secured by the Extex Annual Payments; (ii) an additional \$50,000 after the Class 5 Halliburton Secured Claim is paid in full after approximately 2.5 years; and (iii) \$100,000 upon the sale of the Oregon Ranch;
- The Debtors will grant a junior lien on the Llano Ranch Parcel 2 in favor of unsecured creditors that the Plan Agent can foreclose on upon a default, including if the Unsecured Claims are not paid in full within five years;
- The preservation of claims and causes of action against the Debtors' principal, Ryan C. Hoerauf, and his family members and related entities in case there is a default under the Plan or Unsecured Claims and Royalty Claims are not paid in full;
- The Plan Agent, who is tasked with overseeing the administration of the Plan, will be Eric Taube, a disinterested third party; and
- Substantive consolidation of the Debtors' estates in recognition of how the Debtors operated perpetually and the fact that the Oil and Gas Debtors funded the ranches.

2. These improvements, among others, are the result of the Committee's efforts to get to an acceptable and confirmable plan for these cases. As a result of these improvements, and in

² Capitalized terms used but not defined herein shall have the meanings ascribed to them in the *Debtors' Amended Joint Consolidated Plan of Reorganization* [Docket No. 431] (the "Plan").

light of the hard-fought negotiations between the parties, the Committee believes that the Plan provides the best outcome for unsecured creditors under the circumstances. The Debtors' financial projections indicate that there is not much left to squeeze for the benefit of creditors. Further, conversion of the bankruptcy cases to a chapter 7 liquidation would result in a worse recovery for unsecured creditors, who would be left without the benefits of substantive consolidation, as most creditors have claims only against the Oil and Gas Debtors. Similarly, in a conversion to chapter 7, Royalty Claimants would lose their lien on the full Llano Ranch as currently proposed under the Plan, and would also likely see the income-producing wells shut in. Additionally, the lien on the Llano Ranch Parcel 2 and deferred and conditional releases for the principal and other related parties are material provisions backstopping the payment of creditors in full.

3. Certain parties have objected to confirmation of the Plan, several of which are outlined below. Many of the arguments are also readily curable, and where appropriate, the Debtors (in consultation with the Committee) are proposing targeted modifications to address particular concerns. Others either misunderstand or overstate the issues, and the objections should be overruled in light of the substantial benefits and protections the Plan provides. Certain of these overstated issues are raised by parties with speculative claims or conflicted motivations: For example, the only Class 7 votes rejecting the Plan were filed by the Gill Parties and the Removed Claimants (each as defined below). The Gill Parties are controlled by Mr. Hoerauf's daughter, whose claims, which are based on a 2011 promissory note on which no payments have ever been made, are of questionable validity, while the Removed Claimants' claims are based on an agreed judgment *with a non-debtor affiliate*. The remainder of Class 7 votes—twenty-seven claims comprising \$2,512,074.44 in total claim amount—voted in favor of the Plan.

4. The core complaints of the Objecting Parties (as defined below) are rebutted by the Plan's provisions and the evidentiary record that will be presented at the hearing. The Plan provides multiple sources for distributions and grants express liens for holders of Royalty Claims and Unsecured Claims, who would not otherwise be entitled to such liens. The Plan also includes fail-safes that satisfy the Bankruptcy Code's feasibility requirement by providing, in the event of a default or the less-than-full payment of claims, for foreclosure on those liens and the prosecution of retained causes of action.

5. Further, Class 6 is not disadvantaged or discriminated against unfairly: both Class 6 (Royalty Claims) and Class 7 (General Unsecured Claims) share in the Creditor Escrow, accrue interest at the Plan rate, and have recoveries tied to production and ranch proceeds; Class 6 also holds a lien on the full Llano Ranch, while Class 7 has a lien on only the presently off-market Llano Ranch Parcel 2, and both are projected to receive 100% recoveries.

6. As shown by the Committee's prior motion, substantive consolidation is supported by the existing evidentiary record showing commingling, disregard of formalities, unity of ownership, and the impracticability of tracing transfers. Contrary to certain of the Objections, the Plan's proposed consolidation makes assets accessible for allowed claims without insulating insiders. Finally, the concerns about the scope of the injunction appear misplaced because direct claims against non-Debtors, if any, are unaffected and creditors are not entitled to pursue estate causes of action, which in any event are preserved for the benefit of creditors if they are not paid in full.

7. The Plan is a remarkable improvement from the Original Plan, and provides the best outcome for claimants under the circumstances. Accordingly, the Committee respectfully requests that the Court overrule all objections and confirm the Plan.

REPLY

8. The arguments in the various Objections³ can be largely summarized as follows: (i) the Plan is not feasible as required under section 1129(a)(11) of the Bankruptcy Code; (ii) the Plan unfairly discriminates against royalty holders as a class and provides for differential treatment within that class; (iii) the proposed substantive consolidation of the Debtors' estates is improper or unsupported by evidence; and (iv) the injunction provisions are overbroad.

i. *Feasibility.*

9. With respect to feasibility, the Objecting Parties raise several arguments that fail to appreciate key terms the Committee negotiated since the Original Plan. Specifically, the Plan provides for multiple sources of funding, preserves causes of action, grants certain liens for unsecured creditors and royalty owners, and provides for the foreclosure of such liens and the sale of the underlying assets upon a default or if the claims are not paid in full. *See* Plan, §§ 5.2 (listing sources of Plan funding); 5.3.2 and 5.4.2 (waterfall of proceeds from the Oregon Ranch and Llano Ranch); 5.8 (retention of claims and tolling of limitations); and 5.10 (liens for Allowed Class 6 and Class 7 Claims).

10. These terms offer crucial protections necessary to satisfy the Bankruptcy Code's feasibility requirement: In the event of a default (including if unsecured creditors are not paid in full), the Plan Agent can foreclose and sell the Llano Ranch Parcel 2 and can pursue the causes of action against insiders for the benefit of creditors. Accordingly, the Plan provides the fail-safes needed to ensure that distributions can be made even if there is a default, and thus the Plan is still

³ "Objections" as used in this Statement refers to the (i) *Joint Objection of Ad Hoc Royalty Interest Owners Group and Roosth Creditors to Confirmation of Debtors' Amended Joint Consolidated Plan of Reorganization* [Docket No. 483] (the "Ad Hoc-Roosth Objection"); (ii) *Well Castle Limited's and Arnold Oil Company Fuels, LLC's Objection to the Debtors' Amended Joint Consolidated Plan of Reorganization* [Docket No. 482] (the "Removed Claimants' Objection"); (iii) *Gill Parties' Objection to Debtors' Amended Joint Consolidated Plan of Reorganization* [Docket No. 490] (the "Gill Objection"); and (iv) *AgWest Farm Credit, FLCA's Objection to Confirmation* [Docket No. 477] (the "AgWest Objection").

feasible even if the Removed Claimants⁴ have an allowed claim. *See* 11 U.S.C. § 1129(a)(11) (“Confirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor or any successor to the debtor under the plan, unless such liquidation or reorganization is proposed in the plan.”).

ii. *Unfair Discrimination.*

11. Section 1129(b) of the Bankruptcy Code does not require exactly the same treatment for classes of similar priorities. *In re Johnston*, 21 F.3d 323, 328, n. 7 (9th Cir. 1994), *as amended* (May 6, 1994) (finding no unfair discrimination in plan that provided for a lower protection for a creditor “while other unsecured creditors are paid on an ongoing basis or with an 80% protective cushion”); *see also Matter of Greystone III Joint Venture*, 995 F.2d 1274, 1279 (5th Cir. 1991), *on reh'g* (Feb. 27, 1992) (indicating that classification of substantially similar claims in different classes would be permissible if such classification is “undertaken for reasons independent of the debtor’s motivation to secure the vote of an impaired, assenting class of claims”). The structures for those full recoveries are different because the natures of the claims are different. Class 6 is getting paid excess royalties going forward, while Class 7 is not. Regardless, the Objecting Royalty Owners are wrong to assert that Class 7 Claims are receiving preferential treatment compared to Class 6 Claims. Both classes share in the Creditor Escrow funded by any net proceeds from the sales of the Oregon Ranch and the Llano Ranch Parcel 1, and Class 6 has priority over Class 7 to such proceeds from the Llano Ranch Parcel 1. Both classes are entitled to interest at the Plan Rate until paid in full. Both classes are projected to receive 100% recoveries. *See In re American Homepatient, Inc.*, 298 B.R. 152, 168 (Bankr. M.D. Tenn. 2003) (concluding that the plan did not unfairly discriminate by paying trade claims more quickly

⁴ The “Removed Claimants” means Well Castle Limited and Arnold Oil Company Fuels, LLC, collectively.

than unsecured deficiency claims, and explaining that “the court cannot find that slower payment of the 100% plan amounts to unfair discrimination”); *In re Dow Corning Corp.*, 244 B.R. 705, 710-11 (Bankr. E.D. Mich. 1999) (different procedural treatment of claims justified in part on basis that claimant will be paid in full), *aff’d in relevant part*, 255 B.R. 445 (E.D. Mich. 2000), *aff’d in part and remanded*, *Class Five Nev. Claimants v. Dow Corning Corp. (In re Dow Corning Corp.)*, 280 F.3d 648 (6th Cir.), *cert. denied*, 537 U.S. 816 (2002). Other than the amounts secured by the Extex Annual Payments, Class 7 quarterly payments are, like Class 6 quarterly payments, dependent on oil and gas production. In fact, Class 6 receives a lien on the entire Llano Ranch and its proceeds, whereas Class 7 has a lien only on Llano Ranch Parcel 2. Because Class 6’s lien attaches to the proceeds of the Llano Ranch, it is not an “illusory lien” as the Objecting Royalty Owners claim—an issue that was raised and addressed at the July 16, 2025 hearing on approval of the Disclosure Statement. Accordingly, Class 6 actually has a preferential position as to the proceeds of the Llano Ranch Parcel 1, which is being actively marketed and may result in an earlier, more significant distribution to Class 6 than the distribution Class 7 can expect.

12. The Objecting Royalty Owners also seem to argue against their own interests by arguing that they, as holders of royalties on wells that are currently producing, are getting paid more quickly than royalty claimants whose royalties are tied to wells that are no longer producing. Even though the Objecting Royalty Owners have no standing to argue on behalf of non-producing Royalty Owners, who are projected to receive 100% recoveries, this concern is easily resolved through a minor change to the Creditor Escrow, having funds disbursed from the Creditor Escrow immediately instead of holding funds for future payments so that there are payments earlier than five years after the Effective Date. The Committee would support such a revision.

iii. Substantive Consolidation.

13. The Gill Parties and Removed Claimants suggest that the Plan’s substantive consolidation is improper because it is not appropriately analyzed or supported by evidence, or because it somehow protects Mr. Hoerauf’s interest in the Llano Ranch or otherwise impacts potential recoveries from non-Debtors. However, as previously shown in *The Official Committee of Unsecured Creditors’ Emergency Motion for Substantive Consolidation of Debtors’ Estates* [Docket No. 312] and the Committee’s *Omnibus Reply in Support of the Committee’s Emergency Motion for Substantive Consolidation* [Docket No. 390], substantive consolidation is appropriate for these Debtors under either the “more traditional” multi-factor test or the balancing-of-harm test. *See In re ADPT DFW Holdings, LLC*, 574 B.R. 87, 93–94 (Bankr. N.D. Tex. 2017).

14. As evidenced by the Debtors’ schedules and statements of financial affairs and by testimony given before this Court and at Mr. Hoerauf’s deposition, key factors under the multi-factor test also support substantive consolidation under the various versions of the harms-balancing test. Specifically, with respect to prepetition acts: (1) commingled assets and business functions (e.g., funds shifted across entities for miscellaneous purposes); (2) disregard for corporate formalities (e.g., personal use of company funds); (3) unity of interests and ownership (Mr. Hoerauf’s historical control over all entities); and (4) the near-impossibility of segregating liabilities (evidenced by Lain Faulkner’s inability to trace transfers). This last factor also evidences one of the harms to be avoided or benefits to be gained through substantive consolidation—that is, the avoidance of substantial cost and delays associated with disentangling the Debtors’ commingled funds and financial records. *See, e.g., ADPT*, 574 B.R. at 95–96 (noting that substantive consolidation is appropriate when the “affairs of the debtors are so entangled that consolidation would benefit all creditors”).

15. Further, the Plan, with its provisions for substantive consolidation, enables creditors to access assets, such as the Llano Ranch, that may have been otherwise inaccessible to them absent expensive and time-consuming litigation. As such, substantive consolidation does not protect Mr. Hoerauf from claims or protect his interest in certain properties. In fact, the parties that would most benefit from a denial of substantive consolidation are insiders such as the Gill Parties, who are, because of the Plan, cut off from any distribution from excess ranch proceeds until unsecured creditors are paid in full.

iv. *Plan Injunction.*

16. Certain of the Objecting Parties' arguments with respect to the Plan's injunction are either misunderstood or can be remedied in a confirmation order for the existing Plan. The Objecting Royalty Holders worry that the injunction threatens to strip them of state-law lease termination and lien rights. The Committee, however, would support a provision in the confirmation order that revises the injunction to explicitly retain state-law termination rights. The Removed Claimants want to prevent a release of the causes of action in their adversary. But nothing in the Plan prevents the Removed Claimants from pursuing direct claims against non-Debtor defendants. Further, because the Removed Claimants have only an agreed judgment with respect to a non-debtor and have not pierced the veil to access Debtor assets, the Removed Claimants do not have claims against the Debtors currently. Even if they did, the Plan Agent has authority to bring estate causes of action against non-Debtors in the event of a plan default or if unsecured creditors—which the Removed Claimants would be if they successfully pierced the veil—are not paid in full. Finally, the Committee disagrees with the Gill Parties' assertion that the Plan precludes any direct claims by creditors against non-debtors such as Mr. Hoerauf. And as

explained, any estate causes of action against third parties are preserved in the event unsecured creditors—which the Gill Parties claim to be—are not paid in full.

CONCLUSION

WHEREFORE, for the reasons set forth herein, the Committee respectfully requests that this Court enter an order confirming the Plan.

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Respectfully submitted this 17th day of August, 2025.

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CERTIFICATE OF SERVICE

I hereby certify that, on August 17, 2025, I caused a true and correct copy of the foregoing document to be served by the Electronic Case Filing System for the United States Bankruptcy Court for the Northern District of Texas.

/s/ Eric M. English

Eric M. English