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

In re:	§	Chapter 11
CJ HOLDING CO., *et al.*,[1]	§	Case No. 16-33590 (DRJ)
Debtors.	§	Jointly Administered

NOTICE OF FILING OF THE DISCLOSURE STATEMENT RELATING TO THE SECOND AMENDED JOINT PLAN OF REORGANIZATION OF CJ HOLDING COMPANY, *ET AL.*, PURSUANT TO CHAPTER 11 OF THE BANKRUPTCY CODE

PLEASE TAKE NOTICE THAT on November 3, 2016, the debtors and debtors in possession in the above-captioned cases (collectively, the "Debtors") hereby file the *Disclosure Statement Relating to the Second Amended Joint Plan of Reorganization of CJ Holding Company*, et al., *Pursuant to Chapter 11 of the Bankruptcy Code* (the "Disclosure Statement"), attached hereto as **Exhibit 1**, with the United States Bankruptcy Court for the Southern District of Texas (the "Court").

PLEASE TAKE FURTHER NOTICE THAT copies of all documents filed in these chapter 11 cases are available free of charge by visiting https://donlinrecano.com/cjenergy or by calling (866) 296-8019 (toll-free in North America) or (212) 771-1128 (outside North America). You may also obtain copies of any pleadings by visiting the Court's website at https://ecf.txsb.uscourts.gov in accordance with the procedures and fees set forth therein.

[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: CJ Holding Co. (4586); Blue Ribbon Technology Inc. (6338); C&J Corporate Services (Bermuda) Ltd.; C&J Energy Production Services-Canada Ltd.; C&J Energy Services, Inc. (3219); C&J Energy Services Ltd.; C&J Spec-Rent Services, Inc. (0712); C&J VLC, LLC (9989); C&J Well Services Inc. (5684); ESP Completion Technologies LLC (4615); KVS Transportation, Inc. (2415); Mobile Data Technologies Ltd.; Tellus Oilfield Inc. (2657); Tiger Cased Hole Services Inc. (7783); and Total E&S, Inc. (5351). The location of the Debtors' service address is 3990 Rogerdale, Houston, Texas 77042.

Dated: November 3, 2016

/s/ *Chad J. Husnick*

Stephen Thomas Schwarzbach Jr. (Texas Bar No. 24079288)
KIRKLAND & ELLIS LLP
KIRKLAND & ELLIS INTERNATIONAL LLP
600 Travis Street
Suite 3300
Houston, Texas 77002
Telephone: (713) 835-3600
Facsimile: (713) 835-3601
Email: steve.schwarzbach@kirkland.com

\- and -

James H.M. Sprayregen, P.C.
Marc Kieselstein, P.C. (admitted *pro hac vice*)
Chad J. Husnick (admitted *pro hac vice*)
Emily E. Geier (admitted *pro hac vice*)
KIRKLAND & ELLIS LLP
KIRKLAND & ELLIS INTERNATIONAL LLP
300 North LaSalle
Chicago, Illinois 60654
Telephone: (312) 862-2000
Facsimile: (312) 862-2200
Email: james.sprayregen@kirkland.com
marc.kieselstein@kirkland.com
chad.husnick@kirkland.com
emily.geier@kirkland.com

\- and -

Bernard Given II (Texas Bar No. 07990180)
Lance Jurich (admitted *pro hac vice*)
LOEB & LOEB LLP
10100 Santa Monica Boulevard
Suite 2200
Los Angeles, California 90067
Telephone: (310) 282-2000
Facsimile: (310) 282-2200
Email: bgiven@loeb.com
ljurich@loeb.com

Co-Counsel to the Debtors and Debtors in Possession

Exhibit 1

The Disclosure Statement

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

In re:	§	Chapter 11
	§	
CJ HOLDING CO., *et al.*,[1]	§	Case No. 16-33590 (DRJ)
	§	
Debtors.	§	(Jointly Administered)
	§	

DISCLOSURE STATEMENT RELATING TO THE SECOND AMENDED JOINT PLAN OF REORGANIZATION OF CJ HOLDING CO., *ET AL.*, PURSUANT TO CHAPTER 11 OF THE BANKRUPTCY CODE

Stephen Thomas Schwarzbach Jr. (Texas Bar No. 24079288)
KIRKLAND & ELLIS LLP
600 Travis Street, Suite 3300
Houston, Texas 77002
Telephone: (713) 835-3600
Facsimile: (713) 835-3601

- and -

James H.M. Sprayregen, P.C.
Marc Kieselstein, P.C. (admitted *pro hac vice*)
Chad J. Husnick (admitted *pro hac vice*)
Emily E. Geier (admitted *pro hac vice*)
KIRKLAND & ELLIS LLP
300 North LaSalle
Chicago, Illinois 60654
Telephone: (312) 862-2000
Facsimile: (312) 862-2200

Bernard Given II (Texas Bar No. 07990180)
Lance Jurich (admitted *pro hac vice*)
LOEB & LOEB LLP
10100 Santa Monica Boulevard, Suite 2200
Los Angeles, California 90067
Telephone: (310) 282-2000
Facsimile: (310) 282-2200

Co-Counsel to the Debtors and Debtors in Possession

Dated: November 3, 2016

[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: CJ Holding Co. (4586); Blue Ribbon Technology Inc. (6338); C&J Corporate Services (Bermuda) Ltd.; C&J Energy Production Services-Canada Ltd.; C&J Energy Services, Inc. (3219); C&J Energy Services Ltd.; C&J Spec-Rent Services, Inc. (0712); C&J VLC, LLC (9989); C&J Well Services Inc. (5684); ESP Completion Technologies LLC (4615); KVS Transportation, Inc. (2415); Mobile Data Technologies Ltd.; Tellus Oilfield Inc. (2657); Tiger Cased Hole Services Inc. (7783); and Total E&S, Inc. (5351). The location of the Debtors' service address is 3990 Rogerdale, Houston, Texas 77042.

IMPORTANT INFORMATION ABOUT THIS DISCLOSURE STATEMENT[2]

THE DEBTORS ARE PROVIDING THE INFORMATION IN THIS DISCLOSURE STATEMENT TO HOLDERS OF CLAIMS OR INTERESTS FOR PURPOSES OF SOLICITING VOTES TO ACCEPT OR REJECT THE SECOND AMENDED JOINT PLAN OF REORGANIZATION OF CJ HOLDING CO. AND ITS DEBTOR AFFILIATES PURSUANT TO CHAPTER 11 OF THE BANKRUPTCY CODE. NOTHING IN THIS DISCLOSURE STATEMENT MAY BE RELIED UPON OR USED BY ANY ENTITY FOR ANY OTHER PURPOSE. BEFORE DECIDING WHETHER TO VOTE FOR OR AGAINST THE PLAN, EACH HOLDER ENTITLED TO VOTE SHOULD CAREFULLY CONSIDER ALL OF THE INFORMATION IN THIS DISCLOSURE STATEMENT, INCLUDING THE RISK FACTORS DESCRIBED IN ARTICLE VIII HEREIN.

THE PLAN IS SUPPORTED BY THE DEBTORS AND CERTAIN HOLDERS OF CLAIMS AND INTERESTS, INCLUDING HOLDERS OF APPROXIMATELY 90 PERCENT OF THE LENDER CLAIMS. THE DEBTORS URGE HOLDERS OF CLAIMS OR INTERESTS WHOSE VOTES ARE BEING SOLICITED TO VOTE TO ACCEPT THE PLAN. IN ADDITION, THE COMMITTEE, WHICH IS AN APPOINTED FIDUCIARY FOR HOLDERS OF UNSECURED CLAIMS AS A WHOLE, RECOMMENDS THAT HOLDERS OF UNSECURED CLAIMS VOTE TO ACCEPT THE PLAN. HOLDERS OF UNSECURED CLAIMS SHOULD ALSO REVIEW THE LETTER FROM THE COMMITTEE ENCLOSED WITH THIS DISCLOSURE STATEMENT, WHICH DISCUSSES THE COMMITTEE'S SUPPORT FOR THE PLAN (THE "COMMITTEE LETTER"). THE COMMITTEE URGES HOLDERS OF UNSECURED CLAIMS TO CONSIDER THE COMMITTEE LETTER AND VOTE IN FAVOR OF THE PLAN.

THE DEBTORS URGE EACH HOLDER OF A CLAIM OR INTEREST TO CONSULT WITH ITS OWN ADVISORS WITH RESPECT TO ANY LEGAL, FINANCIAL, SECURITIES, TAX, OR BUSINESS ADVICE IN REVIEWING THIS DISCLOSURE STATEMENT, THE PLAN, AND THE PROPOSED TRANSACTIONS CONTEMPLATED THEREBY. FURTHERMORE, THE BANKRUPTCY COURT'S APPROVAL OF THE ADEQUACY OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE THE BANKRUPTCY COURT'S APPROVAL OF THE PLAN.

THIS DISCLOSURE STATEMENT CONTAINS, AMONG OTHER THINGS, SUMMARIES OF THE PLAN, CERTAIN STATUTORY PROVISIONS, AND CERTAIN ANTICIPATED EVENTS IN THE CHAPTER 11 CASES. ALTHOUGH THE DEBTORS BELIEVE THAT THESE SUMMARIES ARE FAIR AND ACCURATE, THESE SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS OR STATUTORY PROVISIONS OR EVERY DETAIL OF SUCH ANTICIPATED EVENTS. IN THE EVENT OF ANY INCONSISTENCY OR DISCREPANCY BETWEEN A DESCRIPTION IN THIS DISCLOSURE STATEMENT AND THE TERMS AND PROVISIONS OF THE PLAN OR ANY OTHER DOCUMENTS INCORPORATED HEREIN BY REFERENCE, THE PLAN OR SUCH OTHER DOCUMENTS WILL GOVERN FOR ALL PURPOSES. FACTUAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN PROVIDED BY THE DEBTORS' MANAGEMENT EXCEPT WHERE OTHERWISE SPECIFICALLY NOTED. THE DEBTORS DO NOT REPRESENT OR WARRANT THAT THE INFORMATION CONTAINED HEREIN OR ATTACHED HERETO IS WITHOUT ANY MATERIAL INACCURACY OR OMISSION.

IN PREPARING THIS DISCLOSURE STATEMENT, THE DEBTORS RELIED ON FINANCIAL DATA DERIVED FROM THE DEBTORS' BOOKS AND RECORDS AND ON VARIOUS ASSUMPTIONS REGARDING THE DEBTORS' BUSINESSES. WHILE THE DEBTORS BELIEVE THAT SUCH FINANCIAL INFORMATION FAIRLY REFLECTS THE FINANCIAL CONDITION OF THE DEBTORS AS OF THE DATE HEREOF AND THAT THE ASSUMPTIONS REGARDING FUTURE EVENTS REFLECT REASONABLE BUSINESS JUDGMENTS, NO REPRESENTATIONS OR WARRANTIES ARE MADE AS TO THE ACCURACY OF THE FINANCIAL INFORMATION CONTAINED HEREIN OR ASSUMPTIONS REGARDING THE DEBTORS' BUSINESSES AND THEIR FUTURE RESULTS AND OPERATIONS. THE DEBTORS EXPRESSLY CAUTION READERS NOT TO PLACE UNDUE RELIANCE ON ANY FORWARD-LOOKING STATEMENTS CONTAINED HEREIN.

THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE, AND MAY NOT BE CONSTRUED AS, AN ADMISSION OF FACT, LIABILITY, STIPULATION, OR WAIVER. THE DEBTORS OR ANY OTHER AUTHORIZED PARTY MAY SEEK TO INVESTIGATE, FILE, AND PROSECUTE CLAIMS AND MAY OBJECT

---

2 Capitalized terms used but not defined in this disclaimer shall have the meaning ascribed to them elsewhere in this Disclosure Statement.

TO CLAIMS AFTER THE CONFIRMATION OR EFFECTIVE DATE OF THE PLAN IRRESPECTIVE OF WHETHER THIS DISCLOSURE STATEMENT IDENTIFIES ANY SUCH CLAIMS OR OBJECTIONS TO CLAIMS.

THE DEBTORS ARE MAKING THE STATEMENTS AND PROVIDING THE FINANCIAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT AS OF THE DATE HEREOF, UNLESS OTHERWISE SPECIFICALLY NOTED. ALTHOUGH THE DEBTORS MAY SUBSEQUENTLY UPDATE THE INFORMATION IN THIS DISCLOSURE STATEMENT, THE DEBTORS HAVE NO AFFIRMATIVE DUTY TO DO SO, AND EXPRESSLY DISCLAIM ANY DUTY TO PUBLICLY UPDATE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS, OR OTHERWISE. HOLDERS OF CLAIMS REVIEWING THIS DISCLOSURE STATEMENT SHOULD NOT INFER THAT, AT THE TIME OF THEIR REVIEW, THE FACTS SET FORTH HEREIN HAVE NOT CHANGED SINCE THIS DISCLOSURE STATEMENT WAS FILED. INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION, MODIFICATION, OR AMENDMENT. THE DEBTORS RESERVE THE RIGHT TO FILE AN AMENDED OR MODIFIED PLAN AND RELATED DISCLOSURE STATEMENT FROM TIME TO TIME, SUBJECT TO THE TERMS OF THE PLAN AND THE RSA.

THE DEBTORS HAVE NOT AUTHORIZED ANY ENTITY TO GIVE ANY INFORMATION ABOUT OR CONCERNING THE PLAN OTHER THAN THAT WHICH IS CONTAINED IN THIS DISCLOSURE STATEMENT. THE DEBTORS HAVE NOT AUTHORIZED ANY REPRESENTATIONS CONCERNING THE DEBTORS OR THE VALUE OF THEIR PROPERTY OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT.

IF THE PLAN IS CONFIRMED BY THE BANKRUPTCY COURT AND THE EFFECTIVE DATE OCCURS, ALL HOLDERS OF CLAIMS OR INTERESTS (INCLUDING THOSE HOLDERS OF CLAIMS WHO DO NOT SUBMIT BALLOTS TO ACCEPT OR REJECT THE PLAN, WHO VOTE TO REJECT THE PLAN, OR WHO ARE NOT ENTITLED TO VOTE ON THE PLAN) WILL BE BOUND BY THE TERMS OF THE PLAN AND THE RESTRUCTURING TRANSACTION CONTEMPLATED THEREBY.

THE CONFIRMATION AND EFFECTIVENESS OF THE PLAN ARE SUBJECT TO CERTAIN MATERIAL CONDITIONS PRECEDENT DESCRIBED HEREIN AND SET FORTH IN ARTICLE IX OF THE PLAN. THERE IS NO ASSURANCE THAT THE PLAN WILL BE CONFIRMED, OR IF CONFIRMED, THAT THE CONDITIONS REQUIRED TO BE SATISFIED FOR THE PLAN TO GO EFFECTIVE WILL BE SATISFIED (OR WAIVED).

YOU ARE ENCOURAGED TO READ THE PLAN AND THIS DISCLOSURE STATEMENT IN ITS ENTIRETY, INCLUDING ARTICLE VIII, ENTITLED "RISK FACTORS," WHICH BEGINS ON PAGE 43, BEFORE SUBMITTING YOUR BALLOT TO VOTE ON THE PLAN.

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

SUMMARIES OF THE PLAN AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN. THE SUMMARIES OF THE FINANCIAL INFORMATION AND THE DOCUMENTS ANNEXED TO THIS DISCLOSURE STATEMENT OR OTHERWISE INCORPORATED HEREIN BY REFERENCE ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THOSE DOCUMENTS. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE OF THIS DISCLOSURE STATEMENT, AND THERE IS NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN WILL BE CORRECT AT ANY TIME AFTER SUCH DATE. EXCEPT AS OTHERWISE PROVIDED IN THE PLAN OR IN ACCORDANCE WITH APPLICABLE LAW, THE DEBTORS ARE UNDER NO DUTY TO UPDATE OR SUPPLEMENT THIS DISCLOSURE STATEMENT.

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS INCLUDED FOR PURPOSES OF SOLICITING VOTES FOR THE ACCEPTANCES AND CONFIRMATION OF THE PLAN AND MAY NOT BE RELIED ON FOR ANY OTHER PURPOSE. IN THE EVENT OF ANY INCONSISTENCY BETWEEN THE DISCLOSURE STATEMENT AND THE PLAN, THE RELEVANT PROVISIONS OF THE PLAN WILL GOVERN.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE AND BANKRUPTCY RULE 3016(B) AND IS NOT NECESSARILY PREPARED IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER SIMILAR LAWS. THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES

SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR ANY SIMILAR FEDERAL, STATE, LOCAL, OR FOREIGN REGULATORY AGENCY, NOR HAS THE SEC OR ANY OTHER AGENCY PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT.

THE DEBTORS HAVE SOUGHT TO ENSURE THE ACCURACY OF THE FINANCIAL INFORMATION PROVIDED IN THIS DISCLOSURE STATEMENT; HOWEVER, THE FINANCIAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT OR INCORPORATED HEREIN BY REFERENCE HAS NOT BEEN, AND WILL NOT BE, AUDITED OR REVIEWED BY THE DEBTORS' INDEPENDENT AUDITORS UNLESS EXPLICITLY PROVIDED OTHERWISE.

UPON CONFIRMATION OF THE PLAN, CERTAIN OF THE SECURITIES DESCRIBED IN THIS DISCLOSURE STATEMENT WILL BE ISSUED WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, 15 U.S.C. §§ 77A–77AA, TOGETHER WITH THE RULES AND REGULATIONS PROMULGATED THEREUNDER (THE "SECURITIES ACT"), OR SIMILAR FEDERAL, STATE, LOCAL, OR FOREIGN LAWS, IN RELIANCE ON THE EXEMPTION SET FORTH IN SECTION 1145 OF THE BANKRUPTCY CODE. OTHER SECURITIES MAY BE ISSUED PURSUANT TO OTHER APPLICABLE EXEMPTIONS UNDER THE FEDERAL SECURITIES LAWS. TO THE EXTENT EXEMPTIONS FROM REGISTRATION UNDER SECTION 1145 OF THE BANKRUPTCY CODE OR APPLICABLE FEDERAL SECURITIES LAW DO NOT APPLY, THE SECURITIES MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO A VALID EXEMPTION OR UPON REGISTRATION UNDER THE SECURITIES ACT.

THE DEBTORS MAKE STATEMENTS IN THIS DISCLOSURE STATEMENT THAT ARE CONSIDERED FORWARD-LOOKING STATEMENTS UNDER FEDERAL SECURITIES LAWS. THE DEBTORS CONSIDER ALL STATEMENTS REGARDING ANTICIPATED OR FUTURE MATTERS TO BE FORWARD-LOOKING STATEMENTS. FORWARD-LOOKING STATEMENTS MAY INCLUDE STATEMENTS ABOUT THE DEBTORS':

- **BUSINESS STRATEGY;**
- **TECHNOLOGY;**
- **FINANCIAL CONDITION, REVENUES, CASH FLOWS, AND EXPENSES;**
- **LEVELS OF INDEBTEDNESS, LIQUIDITY, AND COMPLIANCE WITH DEBT COVENANTS;**
- **FINANCIAL STRATEGY, BUDGET, PROJECTIONS, AND OPERATING RESULTS;**
- **OIL AND NATURAL GAS PRICES AND THE OVERALL HEALTH OF THE OIL AND NATURAL GAS INDUSTRY;**
- **FUTURE DEMAND FOR OILFIELD SERVICES;**
- **THE AMOUNT, NATURE, AND TIMING OF CAPITAL EXPENDITURES;**
- **AVAILABILITY AND TERMS OF CAPITAL;**
- **SUCCESSFUL RESULTS FROM THE DEBTORS' OPERATIONS;**
- **THE INTEGRATION AND BENEFITS OF ASSET AND PROPERTY ACQUISITIONS OR THE EFFECTS OF ASSET AND PROPERTY ACQUISITIONS OR DISPOSITIONS ON THE DEBTORS' CASH POSITION AND LEVELS OF INDEBTEDNESS;**
- **COSTS OF CONDUCTING THE DEBTORS' OTHER OPERATIONS;**
- **GENERAL ECONOMIC AND BUSINESS CONDITIONS;**
- **EFFECTIVENESS OF THE DEBTORS' RISK MANAGEMENT ACTIVITIES;**
- **ENVIRONMENTAL LIABILITIES;**
- **COUNTERPARTY CREDIT RISK;**

- **THE OUTCOME OF PENDING AND FUTURE LITIGATION;**
- **GOVERNMENTAL REGULATION AND TAXATION OF THE OIL AND NATURAL GAS INDUSTRY;**
- **DEVELOPMENTS IN OIL-PRODUCING AND NATURAL GAS-PRODUCING COUNTRIES;**
- **UNCERTAINTY REGARDING THE DEBTORS' FUTURE OPERATING RESULTS;**
- **PLANS, OBJECTIVES, AND EXPECTATIONS;**
- **THE ADEQUACY OF THE DEBTORS' CAPITAL RESOURCES AND LIQUIDITY;**
- **RISKS IN CONNECTION WITH ACQUISITIONS;**
- **THE POTENTIAL ADOPTION OF NEW GOVERNMENTAL REGULATIONS; AND**
- **THE DEBTORS' ABILITY TO SATISFY FUTURE CASH OBLIGATIONS AND ENVIRONMENTAL COSTS.**

STATEMENTS CONCERNING THESE AND OTHER MATTERS ARE NOT GUARANTEES OF THE REORGANIZED DEBTORS' FUTURE PERFORMANCE. THERE ARE RISKS, UNCERTAINTIES, AND OTHER IMPORTANT FACTORS THAT COULD CAUSE THE REORGANIZED DEBTORS' ACTUAL PERFORMANCE OR ACHIEVEMENTS TO BE DIFFERENT FROM THOSE THEY MAY PROJECT, AND THE DEBTORS UNDERTAKE NO OBLIGATION TO UPDATE THE PROJECTIONS MADE HEREIN. THESE RISKS, UNCERTAINTIES, AND FACTORS MAY INCLUDE THE FOLLOWING: THE DEBTORS' ABILITY TO CONFIRM AND CONSUMMATE THE PLAN; THE POTENTIAL THAT THE DEBTORS MAY NEED TO PURSUE AN ALTERNATIVE TRANSACTION IF THE PLAN IS NOT CONFIRMED; THE DEBTORS' ABILITY TO REDUCE THEIR OVERALL FINANCIAL LEVERAGE; THE POTENTIAL ADVERSE IMPACT OF THE CHAPTER 11 CASES ON THE DEBTORS' OPERATIONS, MANAGEMENT, AND EMPLOYEES; THE RISKS ASSOCIATED WITH OPERATING THE DEBTORS' BUSINESSES DURING THE CHAPTER 11 CASES; CUSTOMER RESPONSES TO THE CHAPTER 11 CASES; THE DEBTORS' INABILITY TO DISCHARGE OR SETTLE CLAIMS DURING THE CHAPTER 11 CASES; GENERAL ECONOMIC, BUSINESS, AND MARKET CONDITIONS; CURRENCY FLUCTUATIONS; INTEREST RATE FLUCTUATIONS; PRICE INCREASES; EXPOSURE TO LITIGATION; A DECLINE IN THE DEBTORS' MARKET SHARE DUE TO COMPETITION OR PRICE PRESSURE BY CUSTOMERS; THE DEBTORS' ABILITY TO IMPLEMENT COST REDUCTION INITIATIVES IN A TIMELY MANNER; THE DEBTORS' ABILITY TO DIVEST EXISTING BUSINESSES; FINANCIAL CONDITIONS OF THE DEBTORS' CUSTOMERS; ADVERSE TAX CHANGES; LIMITED ACCESS TO CAPITAL RESOURCES; CHANGES IN DOMESTIC AND FOREIGN LAWS AND REGULATIONS; TRADE BALANCE; NATURAL DISASTERS; GEOPOLITICAL INSTABILITY; AND THE EFFECTS OF GOVERNMENTAL REGULATION ON THE DEBTORS' BUSINESSES.

TABLE OF CONTENTS

EXHIBITS[3]

EXHIBIT A	Plan of Reorganization
EXHIBIT B	RSA (including that certain First Amendment to Restructuring Support and Lock-Up Agreement dated as of July 14, 2016)
EXHIBIT C	Corporate Organization Chart
EXHIBIT D	Disclosure Statement Order
EXHIBIT E	Rights Offering Procedures
EXHIBIT F	Liquidation Analysis
EXHIBIT G	Financial Projections
EXHIBIT H	Valuation Analysis

3 Each Exhibit is incorporated herein by reference.

I. INTRODUCTION

CJ Holding Co. and its debtor affiliates, as debtors and debtors in possession (collectively, the "Debtors"), submit this disclosure statement (this "Disclosure Statement"), pursuant to section 1125 of the Bankruptcy Code, to holders of Claims against and Interests in the Debtors in connection with the solicitation of votes for acceptance of the *Second Amended Joint Plan of Reorganization of CJ Holding Company, et al., Pursuant to Chapter 11 of the Bankruptcy Code* (the "Plan"), dated November 3, 2016.[1] A copy of the Plan is attached hereto as **Exhibit A** and incorporated herein by reference. The Plan constitutes a separate chapter 11 plan for each of the other Debtors.

THE DEBTORS, THE COMMITTEE, AND CERTAIN HOLDERS OF CLAIMS AND INTERESTS, INCLUDING HOLDERS OF APPROXIMATELY 90 PERCENT OF THE LENDER CLAIMS, SUPPORT THE PLAN AND THE DEBTORS BELIEVE THAT THE COMPROMISES CONTEMPLATED UNDER THE PLAN ARE FAIR AND EQUITABLE, MAXIMIZE THE VALUE OF THE DEBTORS' ESTATES, AND PROVIDE THE BEST RECOVERY TO STAKEHOLDERS. AT THIS TIME, THE DEBTORS BELIEVE THE PLAN REPRESENTS THE BEST AVAILABLE OPTION FOR COMPLETING THE CHAPTER 11 CASES. THE DEBTORS STRONGLY RECOMMEND THAT YOU VOTE TO ACCEPT THE PLAN.

II. PRELIMINARY STATEMENT

The Debtors and the non-Debtor subsidiaries of C&J Energy Services Ltd. (collectively, "C&J") form an oilfield services company that offers a range of completion and production related services necessary to, for example, prepare drilled oil and gas wells for extraction, stimulate well production, and maintain producing wells. Substantially all of C&J's customers are oil and natural gas exploration and production ("E&P") companies and, therefore, C&J's success is directly tied to the success of its E&P company customer base. The success of C&J's E&P company customer base is directly tied to commodities prices. Thus, demand for C&J's services tends to be as volatile and cyclical as the commodities markets themselves. In response to the recent low commodity pricing environment, E&P companies have significantly reduced capital expenditures—*i.e.*, E&P companies have stopped drilling and completing new oil and gas wells—greatly reducing demand for the types of services C&J provides.

Further, E&P sector capital expenditures, and thus the demand for C&J's services, are influenced as much by market ***expectations*** as actual market performance. In other words, E&P sector capital expenditure levels are unlikely to improve if E&P companies expect continued volatility in the commodities markets. Commodities markets have experienced and are continuing to experience a nearly unprecedented level of volatility, with no sure sign of calm on the horizon. To top it off, C&J operates in a highly-competitive industry, where its larger, more geographically diversified, and often better-capitalized competitors are in a position to exert significant, downward pressure on pricing for services. C&J operates in the continental United States, Western Canada, and the Middle East, with its U.S.-based operations accounting for nearly all enterprise-wide revenue—these markets have been hit hard by recent depressed commodities prices.

The foregoing circumstances have significantly strained C&J's enterprise-wide liquidity, especially in light of the fact that C&J incurred more than $1 billion in funded-debt obligations in connection with an early-2015 merger transaction that nearly tripled the size of its enterprise-wide

---

1 Capitalized terms used but not otherwise defined in this Disclosure Statement shall have the meaning ascribed to such terms in the Plan. **The summary of the Plan provided herein is qualified in its entirety by reference to the Plan. In the case of any inconsistency between this Disclosure Statement and the Plan, the Plan will govern**.

operations. Due to the severe and prolonged industry downturn that began in late 2014, C&J has yet to realize the full benefits expected from the merger transaction.

As of the Petition Date, the Debtors' capital structure consisted of approximately $1.4 billion in funded-debt obligations. Under prevailing market conditions, C&J's capital structure has simply become unsustainable. In an attempt to mitigate the liquidity strain brought on by significantly reduced activity in the E&P sector, over the course of 2015 through the first half of 2016, C&J implemented various operational "right-sizing" and other cost-cutting measures, including stacking equipment, closing unprofitable facilities, reducing headcount, and implementing stringent cost controls to lower operational cost structure, including reductions in compensation and benefits across the organization.

As market conditions hit rock bottom in early 2016, it became clear that C&J would not be able to maintain compliance with certain financial covenants under the Credit Agreement. Accordingly, early in the second quarter of 2016, C&J engaged its key stakeholders—including a steering committee of Lenders (the "Steering Committee")—regarding comprehensive restructuring alternatives that would strengthen C&J's balance sheet and provide near-term liquidity support. With the support of the Steering Committee, C&J was ultimately able to secure several months' worth of forbearance from the Lenders—time it used to engage both existing stakeholders and third parties regarding restructuring alternatives.

After extensive, hard-fought negotiations, the Debtors and the Steering Committee agreed to the terms of the RSA, a copy of which is attached hereto as **Exhibit B**. In the months immediately preceding the Petition Date, the Debtors explored various leverage points with the Steering Committee, including considering third-party proposals, and arrived at a resolution under which the Lenders agreed to significant concessions and financial support, including, among other things, a full restructuring of the obligations under the Credit Agreement and a $200 million new-money equity investment in the form of the Rights Offering. Significantly, a special restructuring committee considered and unanimously recommended entry into the RSA to C&J's full board of directors (the "Board") as the value-maximizing approach, and the Board subsequently authorized such action after intensive deliberations. In accordance with the RSA and following additional authorizations from the Board, the Debtors commenced the Chapter 11 Cases on the Petition Date.

The RSA contemplates a swift restructuring by which the Debtors will eliminate approximately $1.4 billion in prepetition debt obligations and minimize the time and expense associated with the Chapter 11 Cases. To capture the full benefit of the compromises embodied in the RSA, the Debtors must move swiftly through chapter 11. The RSA sets forth the following milestones (collectively, the "Milestones"), which may be extended with the consent of the requisite Lenders:

- entry of an order approving the Debtors' entry into the DIP Facility on an interim basis (the "Interim DIP Order") within 7 days after the Petition Date;[2]
- entry of an order approving the Debtors' entry into the DIP Facility on a final basis (the "Final DIP Order") within 40 days after entry of the Interim DIP Order;[3]
- filing of the Plan and this Disclosure Statement within 30 days after the Petition Date;

2 The Bankruptcy Court entered the Interim DIP Order on July 25, 2016 [Docket No. 67].

3 The Bankruptcy Court entered the Final DIP Order on September 25, 2016 [Docket No. 497]. The requisite Lenders previously agreed to extend the milestone related to the entry of the Final DIP Order to September 30, 2016.

- entry of an order approving the sufficiency of this Disclosure Statement within 90 days after the Petition Date;

- entry of the Confirmation Order within 130 days after the Petition Date; and

- occurrence of the Effective Date within 21 days following the date of entry of the Confirmation Order.

Further, under the RSA, certain of the Lenders (in their capacity as DIP Facility Backstop Lenders) have agreed to backstop the DIP Facility—a senior secured, superpriority delayed-draw term loan credit facility in the aggregate principal amount of $100 million—and numerous additional Lenders party to the RSA have agreed to participate as DIP Facility Lenders. On September 25, 2015, the Bankruptcy Court approved the DIP Facility on a final basis.

Additionally, on the Effective Date of the Plan, the Debtors will complete the $200 million Rights Offering backstopped by certain of the Lenders as Backstop Parties. The DIP Facility and the Rights Offering provide substantial benefits to the Debtors and drive recoveries (in both quantum and form of consideration) for stakeholders enterprise wide.

The core terms of the RSA will be implemented through a chapter 11 plan of reorganization—namely, the Plan (described more fully in Article IV.B of this Disclosure Statement, entitled "The Plan," which begins on page 23)—which contemplates, among other things:

- payment in full of all Administrative Claims and Priority Claims in cash at emergence;

- payment in full of all DIP Facility Claims in cash at emergence;

- payment in full of Mineral Contractor Claims, which Claims will be paid in cash, or otherwise provided such treatment as to render their claims unimpaired;

- distribution to each holder of a Secured Lender Claim its Pro Rata share of (a) the New Common Equity Pool—*i.e.*, 100 percent of the Debtors' post-emergence common equity (subject to dilution on account of the Management Incentive Plan, the Rights Offering, the Backstop Commitment Agreement, the Backstop Fee, and the New Warrants (as applicable)) and (b) Subscription Rights to participate in the Rights Offering;

- distribution to each holder of an Unsecured Convenience Class Claim its Pro Rata share of the Convenience Class Recovery Pool (*i.e.*, Cash in an amount not to exceed $2.5 million) up to 40% of such Allowed Unsecured Convenience Class Claim;

- distribution to each holder of a General Unsecured Claim its Pro Rata share the Unsecured Creditor Recovery Pool, which is comprised of (a) the Unsecured Creditor Cash Pool (*i.e.*, Cash in an amount not less than $30.5 million), (b) the Unsecured Creditor New Warrants (*i.e.*, new seven-year warrants exercisable on a net-share settled basis into up to four percent of the New Common Stock at a strike price of $1.55

billion), and (c) any proceeds realized from claims and Causes of Action asserted by the Reorganized Debtors against Nabors as set forth in the Plan;[4] and

- to the extent holders of C&J Common Stock vote as a Class to accept the Plan, distribution to each such holder of its Pro Rata share of the Interest Holder New Warrants (*i.e.*, new seven-year warrants exercisable on a net-share settled basis into up to two percent of the New Common Stock at a strike price of $1.55 billion).

Finally, the Plan constitutes a good faith compromise and settlement of all Claims and Interests and controversies resolved pursuant to the Plan, including (A) any challenge to the amount, validity, perfection, enforceability, priority or extent of the Secured Lender Claims and (B) any claim to avoid, subordinate, or disallow any Secured Lender Claim or Deficiency Lender Claim, whether under any provision of chapter 5 of the Bankruptcy Code, on any equitable theory (including equitable subordination, equitable disallowance, or unjust enrichment) or otherwise (collectively, the "Plan Settlement"). In consideration for the foregoing, among other things:

- the Supporting Creditors agreed to equitize approximately $1.4 billion of funded debt;
- the Supporting Creditors agreed to the payment in full of priority claims and certain unsecured trade claims against the Debtors, including all Claims that the Debtors were authorized to pay under any prior orders entered by the Bankruptcy Court in the Chapter 11 Cases;
- the Supporting Creditors agreed to the funding of the Unsecured Creditor Recovery Pool and Convenience Class Recovery Pool for the benefit of holders of Allowed Unsecured Claims;
- the Supporting Creditors agreed to forgo any Claim for the diminution in value of their Prepetition Collateral (as defined in the Final DIP Order);
- the holders of Deficiency Lender Claims agreed to forgo their right to receive their Pro Rata share of the Unsecured Creditor Recovery Pool; and
- the Backstop Parties agreed to backstop the Rights Offering to provide the Debtors with a flexible and sustainable capital structure.

Since the Committee's appointment, the Debtors and certain of the Supporting Creditors have worked diligently with the Committee to resolve certain issues the Committee raised with respect to the Plan. Ultimately the Debtors, the Committee, and certain of the Supporting Creditors were able to resolve such issues and the Plan now reflects a global compromise with the Committee. The compromises and settlements to be implemented pursuant to the Plan preserve value by enabling the Debtors and certain of the Supporting Creditors to avoid costly and time-consuming litigation with the Committee that could potentially delay the Debtors' emergence from chapter 11. For more information regarding the

[4] In accordance with the Plan Settlement (as defined below), the holders of Deficiency Lender Claims have agreed to forgo their right to receive their Pro Rata share of the Unsecured Creditor Recovery Pool; however, such holders shall be entitled to vote to accept or reject the Plan.

Committee settlement, see Article VII.N of this Disclosure Statement entitled "Settlement with the Committee," which begins on page 42.

The formulation of the Plan, with the overwhelming support of the Debtor's secured creditors—and now the support of the Committee—is a significant achievement for the Debtors in the face of the challenging circumstances facing C&J, including historic commodity price declines and a depressed operating environment. The Debtors strongly believe that the Plan is in the best interests of the Debtors' estates, represents the best available path to restructuring, and significantly deleverages the Debtors' consolidated balance sheet at a critical time when the commodity cycle downturn is negatively affecting highly-leveraged companies within the oil and gas industry as a whole. Given the Debtors' core strengths, including their attractive asset and customer base, an established reputation for the highest level of customer service and operational performance, and an operating footprint that encompasses nearly all of the continental United States' most significant and prolific resource plays, including the Eagle Ford shale in South Texas and the Permian Basin in West Texas, the Debtors are confident that they can implement this agreed restructuring to ensure the Debtors' long-term viability.

III. QUESTIONS AND ANSWERS REGARDING THIS DISCLOSURE STATEMENT AND PLAN

A. What is chapter 11?

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. In addition to permitting debtor rehabilitation, chapter 11 promotes equality of treatment for creditors and similarly situated equity interest holders, subject to the priority of distributions prescribed by the Bankruptcy Code.

The commencement of a chapter 11 case creates an estate that comprises all of the legal and equitable interests of the debtor as of the date the chapter 11 case is commenced. The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a "debtor in possession."

Consummating a chapter 11 plan is the principal objective of a chapter 11 case. A bankruptcy court's confirmation of a plan binds the debtor, any person acquiring property under the plan, any creditor or equity interest holder of the debtor, and any other entity as may be ordered by the bankruptcy court. Subject to certain limited exceptions, the order issued by a bankruptcy court confirming a plan provides for the treatment of the debtor's liabilities in accordance with the terms of the confirmed plan.

B. Why are the Debtors sending me this Disclosure Statement?

The Debtors are seeking to obtain Bankruptcy Court approval of the Plan. Before soliciting acceptances of the Plan, section 1125 of the Bankruptcy Code requires the Debtors to prepare a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment regarding acceptance of the Plan and to share such disclosure statement with all holders of claims or interests whose votes on the Plan are being solicited. This Disclosure Statement is being submitted in accordance with these requirements.

C. Am I entitled to vote on the Plan?

Your ability to vote on, and your distribution under, the Plan, if any, depends on what type of Claim or Interest you hold. Each category of holders of Claims or Interests, as set forth in Article III of the Plan pursuant to section 1122(a) of the Bankruptcy Code, is referred to as a "Class." Each Class's respective voting status is set forth below:

Class	Claims and Interests	Status	Voting Rights
Class 1	Other Secured Claims	Unimpaired	Not Entitled to Vote (Deemed to Accept)
Class 2	Other Priority Claims	Unimpaired	Not Entitled to Vote (Deemed to Accept)
Class 3	Mineral Contractor Claims	Unimpaired	Not Entitled to Vote (Deemed to Accept)
Class 4	Secured Lender Claims	Impaired	Entitled to Vote
Class 5	Unsecured Convenience Class Claims	Impaired	Entitled to Vote
Class 6	General Unsecured Claims	Impaired	Entitled to Vote
Class 7	Intercompany Claims	Unimpaired/ Impaired	Not Entitled to Vote (Deemed to Accept or Reject)
Class 8	Interests in Debtors other than C&J Energy	Unimpaired/ Impaired	Not Entitled to Vote (Deemed to Accept or Reject)
Class 9	Interests in C&J Energy	Impaired	Entitled to Vote
Class 10	Subordinated Securities Claims	Impaired	Entitled to Vote

D. What will I receive from the Debtors if the Plan is consummated?

The following chart provides a summary of the anticipated recovery to holders of Claims or Interests under the Plan. Any estimates of Claims or Interests in this Disclosure Statement may vary from the final amounts allowed by the Bankruptcy Court. Your ability to receive distributions under the Plan depends upon the ability of the Debtors to obtain Confirmation and meet the conditions necessary to consummate the Plan.

THE PROJECTED RECOVERIES SET FORTH IN THE TABLE BELOW ARE ESTIMATES ONLY AND THEREFORE ARE SUBJECT TO CHANGE. FOR A COMPLETE DESCRIPTION OF THE DEBTORS' CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS, REFERENCE SHOULD BE MADE TO THE ENTIRE PLAN.[5]

---

5 The recoveries set forth below may change based upon changes in the amount of Claims that are "Allowed" as well as other factors related to the Debtors' business operations and general economic conditions. "Allowed" means, with respect to any Claim, except as otherwise *provided* in the Plan: (a) a Claim that is evidenced by a Proof of Claim Filed by the Bar Date (or for which Claim under the Plan, the Bankruptcy Code, or pursuant to a Final Order a Proof of Claim is not or shall not be required to be Filed); (b) a Claim that is listed in the Schedules as not contingent, not unliquidated, and not disputed, and for which no Proof of Claim, as applicable, has been timely Filed; or (c) a Claim Allowed pursuant to the Plan or a Final Order of the Bankruptcy Court; *provided* that with respect to a Claim described in clauses (a) and (b) above, such Claim shall be considered Allowed only if and to the extent that, with respect to such Claim, no objection to the allowance thereof has been interposed by any party in interest within the applicable period of time fixed by the Plan, the Bankruptcy Code, the Bankruptcy Rules, or the Bankruptcy Court, or such an objection is so interposed and the Claim, as applicable, shall have been Allowed by a Final Order. Any Claim that has been or is hereafter listed in the Schedules as contingent, unliquidated, or disputed, and for which no Proof of Claim is or has been timely Filed, is not considered Allowed and shall be expunged without further action by the Debtors and without further notice to any party or action, approval, or order of the Bankruptcy Court. Notwithstanding anything to the contrary herein, no Claim of any Entity subject to section 502(d) of the Bankruptcy Code shall be deemed Allowed unless and until such Entity pays in full the amount that it owes such Debtor or Reorganized Debtor, as applicable. For the avoidance of doubt: (x) a Proof of Claim Filed after the Bar Date shall not be Allowed for any purposes whatsoever absent entry of a Final Order allowing such late-filed Claim; (y) notwithstanding anything to the contrary herein or in the Plan, the definition of "Allowed" herein and therein incorporates by reference the terms of paragraph 22 of the Interim DIP Order and any equivalent provision in any subsequent order approving the DIP Motion on a final basis, including that there shall be no requirement that the Credit Agreement Agent or any Lender File a Proof of Claim in respect of any Lender Claim in order for such Lender Claim to be allowed; *provided*, however, that the Credit Agreement Agent is authorized but not directed to File a Master Proof of Claim (as defined in the Interim DIP Order) against each of

SUMMARY OF EXPECTED RECOVERIES				
Class	**Claim/Equity Interest**	**Treatment of Claim/Equity Interest**	**Projected Amount of Claims**	**Projected Recovery Under the Plan**
1	Other Secured Claims	On the Effective Date, except to the extent that a holder of an Allowed Other Secured Claim agrees to a less favorable treatment, in full and final satisfaction, compromise, settlement, release, and discharge of and in exchange for each Other Secured Claim, each holder of an Allowed Other Secured Claim shall receive, at the option of the applicable Debtor, with the consent (such consent not to be unreasonably withheld) of the Required Supporting Creditors: (a) payment in full in Cash of its Allowed Other Secured Claim; (b) the collateral securing its Allowed Other Secured Claim; (c) Reinstatement of its Allowed Other Secured Claim; or (d) such other treatment rendering its Allowed Other Secured Claim Unimpaired in accordance with section 1124 of the Bankruptcy Code.	$0	N/A
2	Other Priority Claims	On the Effective Date, except to the extent that a holder of an Allowed Other Priority Claim agrees to a less favorable treatment, in full and final satisfaction, compromise, settlement, release, and discharge of and in exchange for each Other Priority Claim, each holder of an Allowed Other Priority Claim shall receive Cash in an amount equal to such Allowed Other Priority Claim on the later of: (a) the Effective Date; or (b) the date due in the ordinary course of business in accordance with the terms and conditions of the particular transaction giving rise to such Allowed Other Priority Claim.	$0	N/A
3	Mineral Contractor Claims	On the Effective Date, except to the extent that a holder of an Allowed Mineral Contractor Claim agrees to a less favorable treatment, in full and final satisfaction, compromise, settlement, release, and discharge of and in exchange for each Mineral Contractor Claim, to the extent not already satisfied pursuant to a prior order of the Bankruptcy Court, each holder of an Allowed Mineral Contractor Claim shall receive, in consultation with the Committee through the Effective Date, and the Unsecured Claims Representative thereafter, Cash in an amount equal to such Allowed Mineral Contractor Claim on the later of: (a) the Effective Date; or (b) the	$14.4 million – $16.7 million	100%

the Debtors; and (z) the Debtors may affirmatively determine to deem Unimpaired Claims Allowed to the same extent such Claims would be allowed under applicable non-bankruptcy law. “Allow” and “Allowing” shall have correlative meanings.

SUMMARY OF EXPECTED RECOVERIES				
Class	**Claim/Equity Interest**	**Treatment of Claim/Equity Interest**	**Projected Amount of Claims**	**Projected Recovery Under the Plan**
		date due in the ordinary course of business in accordance with the terms and conditions of the particular transaction giving rise to such Allowed Mineral Contractor Claim.		
4	Secured Lender Claims	On the Effective Date, except to the extent that a holder of an Allowed Secured Lender Claim agrees to a less favorable treatment, in full and final satisfaction, compromise, settlement, release, and discharge of and in exchange for each Secured Lender Claim, each holder of an Allowed Secured Lender Claim shall receive: (a) its Pro Rata share of the New Common Equity Pool; and (b) its Subscription Rights to purchase its Pro Rata share of the Rights Offerings Shares in accordance with the Rights Offering Procedures.	$1,388 million (plus any unpaid fees, expenses and other obligations under the Credit Agreement)	49.9%
5	Unsecured Convenience Class Claims	On the Effective Date, except to the extent that a holder of an Allowed Unsecured Convenience Class Claim agrees to less favorable treatment, in full and final satisfaction, compromise, settlement, release, and discharge of and in exchange for each Unsecured Convenience Class Claim, each holder of an Allowed Class 5 Claim shall receive its Pro Rata share of the Convenience Class Recovery Pool up to 40% of such Allowed Class 5 Claim. Any funds remaining in the Convenience Class Recovery Pool after payment of all Allowed Class 5 Claims shall revert to the Unsecured Creditor Recovery Pool.	$6.0 million – $6.5 million	38.5% – 40%[6]

6 Information regarding the basis for the difference in projected percentage recoveries between Class 5 Unsecured Convenience Class Claims and Class 6 General Unsecured Claims is set forth in Article III.F of this Disclosure Statement entitled "How do I know if I hold an Unsecured Convenience Class Claim or General Unsecured Claim and what does that mean for my Unsecured Claim if I do?," which begins on page 11.

SUMMARY OF EXPECTED RECOVERIES				
Class	**Claim/Equity Interest**	**Treatment of Claim/Equity Interest**	**Projected Amount of Claims**	**Projected Recovery Under the Plan**
6	General Unsecured Claims	Except to the extent that a holder of an Allowed General Unsecured Claim agrees to a less favorable treatment, in full and final satisfaction, compromise, settlement, release, and discharge of and in exchange for each General Unsecured Claim, each holder of an Allowed General Unsecured Claim shall receive its Pro Rata share of the Unsecured Creditor Recovery Pool, which distribution shall be made in accordance with Article VI.F of the Plan. In accordance with the Plan Settlement, the holders of Deficiency Lender Claims have agreed to forgo their right to receive their Pro Rata share of the Unsecured Creditor Recovery Pool; *provided*, *however*, that such holders shall be entitled to vote to accept or reject the Plan.	$68.2 million – $76.1 million	56.7% – 57.5%
7	Intercompany Claims	On the Effective Date, Intercompany Claims shall be, at the option of the Debtor, with the consent (such consent not to be unreasonably withheld) of the Required Supporting Creditors, either Reinstated or cancelled and released without any distribution.	N/A	100%/0%
8	Intercompany Interests	On the Effective Date, Intercompany Interests shall be, at the option of the applicable Debtor, with the consent (such consent not to be unreasonably withheld) of the Required Supporting Creditors, either Reinstated or cancelled and released without any distribution.	N/A	100%/0%
9	Interests in C&J Energy	On the Effective Date, except to the extent that a holder of Interests in C&J Energy agrees to a less favorable treatment, in full and final satisfaction, compromise, settlement, release, and discharge of and in exchange for each Interest in C&J Energy, each holder of an Allowed Interest in C&J Energy shall receive: (a) if Class 9 has timely accepted the Plan, its Pro Rata (calculated based on the aggregate amount of Allowed Class 9 Interests and Allowed Class 10 Claims) share of the Interest Holder New Warrants; or (b) if Class 9 has not timely accepted the Plan, no distribution.	N/A	N/A
10	Subordinated Securities Claims	On the Effective Date, except to the extent that a holder of an Allowed Subordinated Securities Claim agrees to a less favorable treatment in full and final satisfaction, compromise, settlement, release, and discharge of and in exchange for each Subordinated Securities Claim, each holder	$0	N/A

SUMMARY OF EXPECTED RECOVERIES				
Class	**Claim/Equity Interest**	**Treatment of Claim/Equity Interest**	**Projected Amount of Claims**	**Projected Recovery Under the Plan**
		of an Allowed Subordinated Securities Claim shall receive: (a) if Class 10 has timely accepted the Plan, its Pro Rata (calculated based on the aggregate amount of Allowed Class 9 Interests and Allowed Class 10 Claims) share of the Interest Holder New Warrants; or (b) if Class 10 has not timely accepted the Plan, no distribution.		

E. What will I receive from the Debtors if I hold an Allowed Administrative Claim, DIP Facility Claim, or a Priority Tax Claim?

In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Claims, DIP Facility Claims, and Priority Tax Claims have not been classified and, thus, are excluded from the Classes of Claims or Interests set forth in Article III of the Plan.

1. Administrative Claims

Administrative Claims will be satisfied as set forth in Article II.A of the Plan, as summarized herein. Unless otherwise agreed to by the holder of an Allowed Administrative Claim and the Debtors or the Reorganized Debtors, as applicable, each holder of an Allowed Administrative Claim (other than holders of Professional Fee Claims and Claims for fees and expenses pursuant to section 1930 of chapter 123 of title 28 of the United States Code) will receive in full and final satisfaction of its Administrative Claim an amount of Cash equal to the amount of such Allowed Administrative Claim in accordance with the following: (a) if an Administrative Claim is Allowed on or prior to the Effective Date, on the Effective Date or as soon as reasonably practicable thereafter (or, if not then due, when such Allowed Administrative Claim is due or as soon as reasonably practicable thereafter); (b) if such Administrative Claim is not Allowed as of the Effective Date, no later than 30 days after the date on which an order allowing such Administrative Claim becomes a Final Order, or as soon as reasonably practicable thereafter; (c) if such Allowed Administrative Claim is based on liabilities incurred by the Debtors in the ordinary course of their business after the Petition Date in accordance with the terms and conditions of the particular transaction giving rise to such Allowed Administrative Claim without any further action by the holders of such Allowed Administrative Claim; (d) at such time and upon such terms as may be agreed upon by such holder and the Debtors or the Reorganized Debtors, as applicable; or (e) at such time and upon such terms as set forth in an order of the Bankruptcy Court.

Except for Professional Fee Claims and DIP Facility Claims, and unless previously Filed, requests for payment of Administrative Claims must be Filed and served on the Reorganized Debtors no later than the Administrative Claim Bar Date pursuant to the procedures specified in the Confirmation Order and the notice of the occurrence of the Effective Date. Objections to such requests must be Filed and served on the Reorganized Debtors and the requesting party by the later of (a) 180 days after the Effective Date and (b) 180 days after the Filing of the applicable request for payment of the Administrative Claims, if applicable. After notice and a hearing in accordance with the procedures established by the Bankruptcy Code and prior Bankruptcy Court orders, the Allowed amounts, if any, of Administrative Claims shall be determined by, and satisfied in accordance with an order of, the Bankruptcy Court.

Holders of Administrative Claims that are required to File and serve a request for such payment of such Administrative Claims that do not file and serve such a request by the Administrative Claim Bar Date shall be forever barred, estopped, and enjoined from asserting such Administrative Claims against the Debtors, the Reorganized Debtors or their property, and such Administrative Claims shall be deemed discharged as of the Effective Date without the need for any objection from the Reorganized Debtors or any action by the Bankruptcy Court.

2. DIP Facility Claims

DIP Claims will be satisfied as set forth in Article II.B of the Plan, as summarized herein. Except to the extent that a holder of an Allowed DIP Facility Claim agrees to a less favorable treatment, in full and final satisfaction, settlement, release, and discharge of, and in exchange for, each Allowed DIP Facility Claim (subject to the last sentence of this paragraph), each such Allowed DIP Facility Claim shall be paid in full in Cash by the Debtors on the Effective Date equal to the Allowed amount of such Claim and all commitments under the DIP Facility Loan Agreement shall terminate. For the avoidance of doubt, the DIP Facility Claims shall be Allowed in an aggregate principal amount with respect to drawn amounts under the DIP Facility (plus any unpaid accrued interest and unpaid fees, expenses and other obligations under the DIP Facility Loan Agreement as of the Effective Date). Upon the indefeasible payment or satisfaction in full in Cash of the DIP Facility Claims (other than any DIP Facility Claims based on the Debtors' contingent obligations under the DIP Facility Loan Agreement for which no claim has been made) in accordance with the terms of this Plan, on the Effective Date all liens and security interests granted to secure such obligations shall be terminated and of no further force and effect. The Debtors' contingent or unliquidated obligations under the DIP Facility Loan Agreement, to the extent not indefeasibly paid in full in Cash on the Effective Date or otherwise satisfied by the Debtors in a manner acceptable to the DIP Facility Agent, any affected lender under the DIP Facility Loan Agreement, or any other holder of a DIP Facility Claim, as applicable, shall survive the Effective Date and shall not be released or discharged pursuant to the Plan or Confirmation Order, notwithstanding any provision of the Plan or the Confirmation Order to the contrary.

3. Priority Tax Claims

Priority Tax Claims will be satisfied as set forth in Article II.E of the Plan, as summarized herein. Except to the extent that a holder of an Allowed Priority Tax Claim agrees to a less favorable treatment, in full and final satisfaction, settlement, release, and discharge of and in exchange for each Allowed Priority Tax Claim, each holder of such Allowed Priority Tax Claim shall be treated in accordance with the terms set forth in section 1129(a)(9)(C) of the Bankruptcy Code.

F. How do I know if I hold an Unsecured Convenience Class Claim or General Unsecured Claim and what does that mean for my Unsecured Claim if I do?

Under the Plan, an Unsecured Convenience Class Claim is (a) any Unsecured Claim (including prepetition accrued interest) in the amount of $15,000 or less that the holder thereof does not elect on its ballot to be treated as a Class 6 General Unsecured Claim; or (b) any General Unsecured Claim (including prepetition accrued interest) in an amount in excess of $15,000 that the holder thereof, pursuant to such holder's ballot or such other election accepted by the Debtors, elects to have reduced to the amount of $15,000 and to be treated as a Class 5 Unsecured Convenience Class Claim. As set forth above, Holders of Allowed Unsecured Convenience Class Claims will each receive their Pro Rata Share of the Convenience Class Recovery Pool (*i.e.*, Cash in an amount not to exceed $2.5 million), up to 40% of such Allowed Unsecured Convenience Class Claim.

Each holder of an Allowed General Unsecured Claim that does not qualify as Unsecured Convenience Class Claim (as set forth above) and that does not elect to be treated as an Unsecured Convenience Class Claim, will receive its Pro Rata share of the Unsecured Creditor Recovery Pool, which is made up of (a) the Unsecured Creditor Cash Pool (*i.e.*, Cash in an amount not less than $30.5 million), (b) the Unsecured Creditor New Warrants (*i.e.*, new seven-year warrants exercisable on a net-share settled basis into up to four percent of the New Common Stock at a strike price of $1.55 billion), and (c) any proceeds realized from claims and Causes of Action asserted by the Reorganized Debtors against Nabors as set forth in the Plan.

The ballots for Class 5 and Class 6 contain instructions with respect to how holders of Unsecured Convenience Class Claims may elect treatment as a General Unsecured Claim and holders of General Unsecured Claims may elect treatment as an Unsecured Convenience Class Claim, respectively.

As set forth above, the projected recovery percentage for holders of Unsecured Convenience Class Claims is lower than the projected recovery percentage for holders of General Unsecured Claims. The recovery percentage for holders of Unsecured Convenience Class Claims is also capped at 40 percent under the Plan. Additionally, holders of General Unsecured Claims will each receive their Pro Rata share of the Unsecured Creditor New Warrants, which the Debtors value at approximately $9.7 million to $13.6 million in the aggregate. Holders of Unsecured Convenience Class Claims are not entitled to receive the Unsecured Creditor New Warrants under the Plan. But holders of Unsecured Convenience Class Claims will receive their distributions on a relatively more expedited basis than holders of General Unsecured claims as the Debtors will generally not object to allowance of Unsecured Convenience Class Claims and such Claims will be paid in accordance with the Plan on the Effective Date or as soon as reasonably practicable thereafter. Additionally, holders of Unsecured Convenience Class Claims face comparatively less risk of dilution in the event that the aggregate amount of Unsecured Claims is higher than projected above. However, if a higher than projected number of holders of General Unsecured Claims elect to be treated as holders of Unsecured Convenience Class Claims, percentage recoveries for holders of Unsecured Convenience Class Claims could be materially lower than set forth above. Holders of General Unsecured Claims must wait for the completion of a comparatively longer claims administration process to receive payment and the amount of such payment is ultimately less certain. The Debtors believe that the reduced risk and uncertainty with respect to the amount and timing of payment justifies the lower projected recovery percentages for holders of Unsecured Convenience Class Claims. In any event, holders of Unsecured Convenience Class Claims may elect pursuant to each such holders' ballot to instead be treated as a General Unsecured Claim.

G. Are any regulatory approvals required to consummate the Plan?

There are no known regulatory approvals that are required to consummate the Plan. However, to the extent such any such regulatory approvals or other authorizations, consents, rulings, or documents are necessary to implement and effectuate the Plan, it is a condition precedent to the Effective Date that they be obtained.

H. What happens to my recovery if the Plan is not confirmed or does not go effective?

In the event that the Plan is not confirmed or does not go effective, there is no assurance that the Debtors will be able to reorganize their businesses. It is possible that any alternative may provide holders of Claims with less than they would have received pursuant to the Plan. For a more detailed description of the consequences of an extended chapter 11 case, or of a liquidation scenario, *see* Article XI.B of this Disclosure Statement, entitled "Best Interests of Creditors/Liquidation Analysis," which begins on page 60, and the Liquidation Analysis attached hereto as **Exhibit F**.

I. If the Plan provides that I get a distribution, do I get it upon Confirmation or when the Plan goes effective, and what is meant by "Confirmation," "Effective Date," and "Consummation?"

"Confirmation" of the Plan refers to approval of the Plan by the Bankruptcy Court. Confirmation of the Plan does not guarantee that you will receive the distribution indicated under the Plan. After Confirmation of the Plan by the Bankruptcy Court, there are conditions that need to be satisfied or waived so that the Plan can go effective. Initial distributions to holders of Allowed Claims will only be made on the date the Plan becomes effective—the "Effective Date"—or as soon as reasonably practicable thereafter, as specified in the Plan. *See* Article XI of this Disclosure Statement, entitled "Confirmation of the Plan," which begins on page 58, for a discussion of the conditions precedent to consummation of the Plan.

J. What are the sources of Cash and other consideration required to fund the Plan?

The Plan will be funded by the following sources of consideration: (a) Cash on hand, including proceeds of the DIP Facility; (b) the New Common Stock; (c) the Subscription Rights; (d) the proceeds from the Rights Offering; (e) the New Warrants, as applicable; and (f) the proceeds from the Exit Facility, as applicable.

All distributions of the New Common Stock, Cash, and the New Warrants, as applicable, to holders of Allowed Interests or Allowed Claims under the Plan shall be made by the Disbursing Agent on behalf of the Reorganized Debtors. At the option of the Disbursing Agent, any Cash payment to be made under the Plan may be made by check or wire transfer or as otherwise required or provided in applicable agreements.

K. Are there risks to owning the New Common Stock upon emergence from chapter 11?

Yes. *See* Article VIII of this Disclosure Statement, entitled "Risk Factors," which begins on page 43. The Debtors and the Reorganized Debtors will use commercially reasonable efforts to cause the New Common Stock to become publicly traded and listed on a national securities exchange on or as soon as reasonably practicable after the Effective Date.

L. Is there potential litigation related to the Plan?

Parties in interest may object to the approval of this Disclosure Statement and may object to Confirmation of the Plan as well, which objections potentially could give rise to litigation. *See* Article VIII.C.10 of this Disclosure Statement, entitled "The Reorganized Debtors May Be Adversely Affected by Potential Litigation, Including Litigation Arising Out of the Chapter 11 Cases," which begins on page 55.

In the event that it becomes necessary to confirm the Plan over the rejection of certain Classes, the Debtors may seek confirmation of the Plan notwithstanding the dissent of such rejecting Classes. The Bankruptcy Court may confirm the Plan pursuant to the "cramdown" provisions of the Bankruptcy Code, which allow the Bankruptcy Court to confirm a plan that has been rejected by an impaired Class if it determines that the Plan satisfies section 1129(b) of the Bankruptcy Code. *See* Article VIII.A.4 of this Disclosure Statement, entitled "The Debtors May Not Be Able to Secure Confirmation of the Plan," which begins on page 44.

M. What is the Management Incentive Plan and how will it affect the distribution I receive under the Plan?

On or as soon as reasonably practicable after the Effective Date, the Debtors shall adopt the Management Incentive Plan. The Management Incentive Plan shall provide for ten percent of the New Common Stock contemplated thereby, on a fully diluted basis, to be issued to management of the Reorganized Debtors on or after the Effective Date, solely at the discretion of the New Board and on terms to be determined by the New Board (including, with respect to allocation, timing, and structure of such issuance and the Management Incentive Plan). The New Common Stock being provided in connection with the Management Incentive Plan will dilute all of the New Common Stock, including the Rights Offering Shares, equally.

As is typical for many of the Debtors' peer companies, to be a competitive employer and to maximize the value of the Debtors' estates, the Debtors have requested access to a pool of New Common Stock that the New Board can use to attract, incentivize, and retain talented key employees (including officers) after the Effective Date. Accordingly, the Plan provides that up to ten percent of the New Common Stock may be used for such purposes pursuant to the Management Incentive Plan. After the Effective Date, the New Board will determine the allocation, timing, and structure of the issuance of the New Common Stock under the Management Incentive Plan, if any. However, as the New Board has not been appointed, no determination has been made at this time regarding whether or to what extent any of the New Common Stock will actually be issued for this purpose (and on what terms). Thus, the only aspect of the Management Incentive Plan established under the Plan is an uncommitted ceiling of ten percent of the New Common Stock that may (or may not) be distributed in connection therewith after the Effective Date.

Pursuant to Article IV.N of the Plan, the terms of the Management Incentive Plan will be determined by the New Board—the Plan does not require that the New Board make any distributions pursuant to the Management Incentive Plan. But, the Plan ensures that the New Board will have the discretion to do so.

N. Will the final amount of Allowed Unsecured Claims affect the recovery of holders of Allowed Unsecured Claims under the Plan?

The Debtors' estimate of aggregate Allowed General Unsecured Claims and Allowed Unsecured Convenience Class Claims is approximately $74.2 million to $82.6 million. Each holder of an Allowed General Unsecured Claim shall receive its Pro Rata share of the Unsecured Creditor Recovery Pool. Each holder of an Allowed Unsecured Convenience Class Claim shall receive its Pro Rata share of the Convenience Class Recovery Pool up to 40% of such Allowed Unsecured Convenience Class Claim. Although the Debtors' estimate of Allowed General Unsecured Claims and Allowed Unsecured Convenience Class Claims is generally the result of the Debtors' and their advisors' careful analysis of available information, General Unsecured Claims and Unsecured Convenience Class Claims actually asserted against the Debtors may be higher or lower than the Debtors' estimate provided herein, which difference could be material.

The projected amount of General Unsecured Claims and Unsecured Convenience Class Claims set forth herein is subject to change and reflects the Debtors' current view on potential rejection damages. Any change in the number, identity, or timing of actual rejected Executory Contracts and Unexpired Leases could have a material impact on the amount of General Unsecured Claims and Unsecured Convenience Class Claims. To the extent that the actual amount of rejection damages Claims changes, the value of recoveries to holders of General Unsecured Claims and Unsecured Convenience Class Claims could change as well, and such changes could be material.

Further, as of the Petition Date, the Debtors were parties to certain litigation matters that arose in the ordinary course of operating their businesses and could become parties to additional litigation in the future as a result of conduct that occurred prior to the Petition Date. Although the Debtors have disputed, are disputing, or will dispute in the future the amounts asserted by such litigation counterparties, to the extent these parties are ultimately entitled to a higher amount than is reflected in the amounts estimated by the Debtors herein, the value of recoveries to holders of General Unsecured Claims and Unsecured Convenience Class Claims could change as well, and such changes could be material.

Finally, the Debtors, any official committees appointed in the Chapter 11 Cases, or the Unsecured Claims Representative may object to certain proofs of claim, and any such objections ultimately could cause the total amount of Allowed General Unsecured Claims and Allowed Unsecured Convenience Class Claims to change. These changes could affect recoveries to holders of General Unsecured Claims and Unsecured Convenience Class Claims, and such changes could be material.

O. How will the preservation of the Causes of Action impact my recovery under the Plan?

The Plan provides for the retention of all Causes of Action other than those that are expressly waived, relinquished, exculpated, released, compromised, or settled.

In accordance with section 1123(b) of the Bankruptcy Code, but subject to Article VIII of the Plan, the Reorganized Debtors, as applicable, shall retain and may enforce all rights to commence and pursue, as appropriate, any and all Causes of Action, whether arising before or after the Petition Date, including any actions specifically enumerated in the Schedule of Retained Causes of Action, and the Reorganized Debtors' rights to commence, prosecute, or settle such Causes of Action shall be preserved notwithstanding the occurrence of the Effective Date, other than the Causes of Action released by the Debtors pursuant to the releases and exculpations contained in the Plan, including in Article VIII thereof.

The Reorganized Debtors may pursue such Causes of Action, as appropriate, in accordance with the best interests of the Reorganized Debtors. **No Entity may rely on the absence of a specific reference in the Plan, the Plan Supplement, or the Disclosure Statement to any Cause of Action against it as any indication that the Debtors or the Reorganized Debtors, as applicable, will not pursue any and all available Causes of Action against it. The Debtors or the Reorganized Debtors, as applicable, expressly reserve all rights to prosecute any and all Causes of Action against any Entity, except as otherwise expressly provided in the Plan, including Article VIII of the Plan.** Unless any Causes of Action against an Entity are expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or a Bankruptcy Court order, the Reorganized Debtors expressly reserve all Causes of Action, for later adjudication, and, therefore, no preclusion doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable, or otherwise), or laches, shall apply to such Causes of Action upon, after, or as a consequence of the Confirmation or Consummation.

The Reorganized Debtors reserve and shall retain such Causes of Action notwithstanding the rejection or repudiation of any Executory Contract or Unexpired Lease during the Chapter 11 Cases or pursuant to the Plan. In accordance with section 1123(b)(3) of the Bankruptcy Code, any Causes of Action that a Debtor may hold against any Entity shall vest in the Reorganized Debtors, except as otherwise expressly provided in the Plan, including Article VIII of the Plan. The applicable Reorganized Debtors, through their authorized agents or representatives, shall retain and may exclusively enforce any and all such Causes of Action. The Reorganized Debtors shall have the exclusive right, authority, and discretion to determine and to initiate, file, prosecute, enforce, abandon, settle, compromise, release, withdraw, or litigate to judgment any such Causes of Action and to decline to do any of the foregoing without the consent or approval of any third party or further notice to or action, order, or approval of the Bankruptcy Court; *provided* that, prior to the Effective Date, the Debtors shall not settle, compromise, or discharge any Cause of Action that is not agreed to be released pursuant to the Plan without the consent of the Required Supporting Creditors and, with respect to any claims and Causes of Action against Nabors, the Committee.

Except for any Avoidance Actions against Excluded Parties, and notwithstanding anything herein to the contrary, Avoidance Actions shall be preserved solely for purposes of setoff or recoupment against a Claim that would otherwise be Allowed, and in no event shall Avoidance Actions be pursued for purposes of seeking affirmative recoveries. For the avoidance of doubt, the Reorganized Debtors shall not pursue any Avoidance Actions other than for purposes of setoff or recoupment against a Claim that would otherwise be Allowed.

P. Will there be releases and exculpation granted to parties in interest as part of the Plan?

Yes, the Plan proposes to release the Released Parties and to exculpate the Exculpated Parties. The Debtors' releases, third-party releases, and exculpation provisions included in the Plan are an integral part of the Debtors' overall restructuring efforts and were an essential element of the negotiations among the Debtors and the Supporting Creditors in obtaining their support for the Plan pursuant to the terms of the RSA.

The Released Parties and the Exculpated Parties have made substantial and valuable contributions to the Debtors' restructuring through efforts to negotiate and implement the Plan, which will maximize and preserve the going-concern value of the Debtors for the benefit of all parties in interest. Accordingly, each of the Released Parties and the Exculpated Parties warrants the benefit of the release and exculpation provisions.

IMPORTANTLY, ALL HOLDERS OF CLAIMS OR INTERESTS THAT DO NOT FILE AN OBJECTION WITH THE BANKRUPTCY COURT IN THE CHAPTER 11 CASES THAT EXPRESSLY OBJECTS TO THE INCLUSION OF SUCH HOLDER AS A RELEASING PARTY UNDER THE PROVISIONS CONTAINED IN ARTICLE VIII OF THE PLAN WILL BE DEEMED TO HAVE EXPRESSLY, UNCONDITIONALLY, GENERALLY, INDIVIDUALLY, AND COLLECTIVELY CONSENTED TO THE RELEASE AND DISCHARGE OF ALL CLAIMS AND CAUSES OF ACTION AGAINST THE DEBTORS AND THE RELEASED PARTIES. THE RELEASES ARE AN INTEGRAL ELEMENT OF THE PLAN.

Based on the foregoing, the Debtors believe that the releases and exculpations in the Plan are necessary and appropriate and meet the requisite legal standard promulgated by the United States Court of Appeals for the Fifth Circuit. Moreover, the Debtors will present evidence at the Confirmation Hearing to demonstrate the basis for and propriety of the release and exculpation provisions. The staff of the SEC questions the appropriateness and applicability of the release, exculpation, and injunction provisions contained in the Plan and will consider objecting to confirmation of the Plan. The release, exculpation, and injunction provisions that are contained in the Plan are copied in pertinent part below.

1. Release of Liens.

Except as otherwise provided in the Exit Facility Documents, the Plan, or in any contract, instrument, release, or other agreement or document created pursuant to the Plan, on the Effective Date and concurrently with the applicable distributions made pursuant to the Plan and, in the case of a Secured Claim, satisfaction in full of the portion of the Secured Claim that is Allowed as of the

Effective Date, except for Other Secured Claims that the Debtors elect to reinstate in accordance with Article III.B.1 of the Plan, all mortgages, deeds of trust, Liens, pledges, or other security interests against any property of the Estates shall be fully released and discharged, and all of the right, title, and interest of any holder of such mortgages, deeds of trust, Liens, pledges, or other security interests shall revert to the Reorganized Debtors and their successors and assigns. Any holder of such Secured Claim (and the applicable agents for such holder) shall be authorized and directed, at the sole cost and expense of the Reorganized Debtors, to release any collateral or other property of any Debtor (including any cash collateral and possessory collateral) held by such holder (and the applicable agents for such holder), and to take such actions as may be reasonably requested by the Reorganized Debtors to evidence the release of such Lien, including the execution, delivery, and filing or recording of such releases. The presentation or filing of the Confirmation Order to or with any federal, state, provincial, or local agency or department shall constitute good and sufficient evidence of, but shall not be required to effect, the termination of such Liens.

2. Releases by the Debtors.

Pursuant to section 1123(b) of the Bankruptcy Code, for good and valuable consideration, on and after the Effective Date, each Released Party is deemed released and discharged by the Debtors, the Reorganized Debtors, and their Estates, in each case on behalf of themselves and their respective successors, assigns, and representatives, and any and all other entities who may purport to assert any Cause of Action, directly or derivatively, by, through, for, or because of the foregoing entities, from any and all Causes of Action, including any derivative claims, asserted on behalf of the Debtors, that the Debtors, the Reorganized Debtors, or their Estates would have been legally entitled to assert in their own right (whether individually or collectively) or on behalf of the holder of any Claim against, or Interest in, a Debtor or other Entity, based on or relating to, or in any manner arising from, in whole or in part, the Debtors, the Debtors' in- or out-of-court restructuring efforts, intercompany transactions, the Merger, the Rights Offering, the Chapter 11 Cases, the formulation, preparation, dissemination, negotiation, or filing of the RSA, the Disclosure Statement, the DIP Facility, the Rights Offering, the Exit Facility, the Plan (including, for the avoidance of doubt, the Plan Supplement), or any Restructuring Transaction, contract, instrument, release, or other agreement or document created or entered into in connection with the RSA, the Disclosure Statement, the DIP Facility, the Plan, or the Plan Settlement, the filing of the Chapter 11 Cases, the pursuit of Confirmation, the pursuit of Consummation, the administration and implementation of the Plan, including the issuance or distribution of securities pursuant to the Plan, or the distribution of property under the Plan or any other related agreement, or upon any other act or omission, transaction, agreement, event, or other occurrence taking place on or before the Effective Date. Notwithstanding anything contained herein to the contrary, the foregoing release does not release any obligations of any party under the Plan or any document, instrument, or agreement executed to implement the Plan.

Entry of the Confirmation Order shall constitute the Bankruptcy Court's approval, pursuant to Bankruptcy Rule 9019, of the releases described in Article VIII.C of the Plan by the Debtors, which includes by reference each of the related provisions and definitions contained in the Plan, and further, shall constitute its finding that each release described in Article VIII.C of the Plan is: (a) in exchange for the good and valuable consideration provided by the Released Parties, a good faith settlement and compromise of such Claims; (b) in the best interests of the Debtors and all holders of Interests and Claims; (c) fair, equitable, and reasonable; (d) given and made after due notice and opportunity for hearing; and (e) a bar to any of the Debtors or Reorganized Debtors asserting any claim, Cause of Action, or liability related thereto, of any kind whatsoever, against any of the Released Parties or their property.

3. Releases by Holders of Claims and Interests.

As of the Effective Date, each Releasing Party is deemed to have released and discharged each Debtor, Reorganized Debtor, and Released Party from any and all Causes of Action, whether known or unknown, including any derivative claims, asserted on behalf of the Debtors, that such Entity would have been legally entitled to assert (whether individually or collectively), based on or relating to, or in any manner arising from, in whole or in part, the Debtors, the Debtors' in- or out-of-court restructuring efforts, intercompany transactions, the Merger, the Rights Offering, the Chapter 11 Cases, the formulation, preparation, dissemination, negotiation, or filing of the RSA, the Disclosure Statement, the DIP Facility, the Rights Offering, the Exit Facility, the Plan (including, for the avoidance of doubt, the Plan Supplement and the Plan Settlement), or any Restructuring Transaction, contract, instrument, release, or other agreement or document created or entered into in connection with the RSA, the Disclosure Statement, the DIP Facility, the Plan, or the Plan Settlement, the filing of the Chapter 11 Cases, the pursuit of Confirmation, the pursuit of Consummation, the administration and implementation of the Plan, including the issuance or distribution of securities pursuant to the Plan, or the distribution of property under the Plan or any other related agreement, or upon any other related act or omission, transaction, agreement, event, or other occurrence taking place on or before the Effective Date. Notwithstanding anything contained herein to the contrary, the foregoing release does not release any obligations of any party under the Plan or any document, instrument, or agreement executed to implement the Plan.

Entry of the Confirmation Order shall constitute the Bankruptcy Court's approval, pursuant to Bankruptcy Rule 9019, of the releases described in Article VIII.D of the Plan, which includes by reference each of the related provisions and definitions contained in the Plan, and further, shall constitute its finding that each release described in Article VIII.D of the Plan is: (a) in exchange for the good and valuable consideration provided by the Released Parties, a good faith settlement and compromise of such Claims; (b) in the best interests of the Debtors and all holders of Interests and Claims; (c) fair, equitable, and reasonable; (d) given and made after due notice and opportunity for hearing; and (e) a bar to any of the Debtors or Reorganized Debtors asserting any claim, Cause of Action, or liability related thereto, of any kind whatsoever, against any of the Released Parties or their property.

4. Exculpation

Except as otherwise specifically provided in the Plan, no Exculpated Party shall have or incur, and each Exculpated Party is released and exculpated from any Cause of Action for any claim related to any act or omission in connection with, relating to, or arising out of, the Chapter 11 Cases, the formulation, preparation, dissemination, negotiation, or filing of the RSA and related prepetition transactions, the Disclosure Statement, the Plan, the Plan Settlement, or any Restructuring Transaction, contract, instrument, release or other agreement or document created or entered into in connection with the Disclosure Statement or the Plan, the filing of the Chapter 11 Cases, the pursuit of Confirmation, the pursuit of Consummation, the administration and implementation of the Plan, including the issuance of securities pursuant to the Plan, or the distribution of property under the Plan or any other related agreement, except for claims related to any act or omission that is determined in a Final Order to have constituted actual fraud or gross negligence, but in all respects such Entities shall be entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities pursuant to the Plan. The Exculpated Parties have, and upon completion of the Plan shall be deemed to have, participated in good faith and in compliance with the applicable laws with regard to the solicitation of votes and distribution of consideration pursuant to the Plan and, therefore, are not, and on account of such distributions shall not be, liable at any time for the violation of any applicable law, rule, or regulation governing

the solicitation of acceptances or rejections of the Plan or such distributions made pursuant to the Plan.

5. Injunction

Except as otherwise expressly provided in the Plan or for obligations issued or required to be paid pursuant to the Plan or the Confirmation Order, all Entities who have held, hold, or may hold Claims or Interests that have been released, discharged, or are subject to exculpation are permanently enjoined, from and after the Effective Date, from taking any of the following actions against, as applicable, the Debtors, the Reorganized Debtors, the Exculpated Parties, or the Released Parties: (a) commencing or continuing in any manner any action or other proceeding of any kind on account of or in connection with or with respect to any such Claims or Interests; (b) enforcing, attaching, collecting, or recovering by any manner or means any judgment, award, decree, or order against such Entities on account of or in connection with or with respect to any such Claims or Interests; (c) creating, perfecting, or enforcing any encumbrance of any kind against such Entities or the property or the estates of such Entities on account of or in connection with or with respect to any such Claims or Interests; (d) asserting any right of setoff, subrogation, or recoupment of any kind against any obligation due from such Entities or against the property of such Entities on account of or in connection with or with respect to any such Claims or Interests unless such holder has Filed a motion requesting the right to perform such setoff on or before the Effective Date, and notwithstanding an indication of a Claim or Interest or otherwise that such holder asserts, has, or intends to preserve any right of setoff pursuant to applicable law or otherwise; and (e) commencing or continuing in any manner any action or other proceeding of any kind on account of or in connection with or with respect to any such Claims or Interests released or settled pursuant to the Plan.

Upon entry of the Confirmation Order, all holders of Claims and Interests and their respective current and former employees, agents, officers, directors, principals, and direct and indirect affiliates shall be enjoined from taking any actions to interfere with the implementation or Consummation of the Plan; *provided, however*, that the foregoing shall not enjoin any Supporting Creditor from exercising any of its rights or remedies under the RSA in accordance with the terms thereof. Each holder of an Allowed Claim or Allowed Interest, as applicable, by accepting, or being eligible to accept, distributions under or Reinstatement of such Claim or Interest, as applicable, pursuant to the Plan, shall be deemed to have consented to the injunction provisions set forth in Article VIII.F of the Plan.

6. SEC Rights Reserved

Notwithstanding any provision herein to the contrary or an abstention from voting on the Plan, no provision of the Plan, or any order confirming the Plan, (i) releases any person or entity (including any Released Party) from any Claim or cause of action of the SEC; or (ii) enjoins, limits, impairs or delays the SEC from commencing or continuing any Claims, causes of action, proceedings or investigations against any person or entity (including any Released Party) in any forum.

For more detail, see Article VIII of the Plan, entitled "Settlement, Release, Injunction, and Related Provisions," which is incorporated herein by reference.

Q. What is the deadline to vote on the Plan?

The Voting Deadline is December 9, 2016, at 4:00 p.m. (prevailing Central Time).

R. How do I vote for or against the Plan?

Detailed instructions regarding how to vote on the Plan are contained on the ballots distributed to holders of Claims or Interests that are entitled to vote on the Plan. For your vote to be counted, your ballot must be properly completed, executed, and delivered as directed, so that your ballot or a master ballot including your vote is **actually received** by the Debtors' solicitation agent, Donlin, Recano & Company, Inc. (the "Solicitation Agent") **on or before the Voting Deadline, *i.e.* December 9, 2016, at 4:00 p.m. prevailing Central Time**. *See* Article IX of this Disclosure Statement, entitled "Solicitation and Voting Procedures," which begins on page 56 for more information.

S. How does a holder of Allowed Secured Lender Claims exercise its Subscription Rights?

Detailed instructions regarding the exercise of Subscription Rights are contained in the Rights Offering Procedures, which are attached as **Exhibit E** to this Disclosure Statement and will be distributed to each holder (an "Eligible Holder") of an Allowed Secured Lender Claim (an "Eligible Claim") contemporaneously with distribution of ballots for voting on the Plan. Any Eligible Holder seeking to participate in the Rights Offering must return a duly executed Subscription Agreement along with a duly completed and executed Lender Claim Subscription Form (with accompanying IRS Form W-9 or appropriate IRS Form W-8, as applicable) to the Subscription Agent so that such documents are actually received by the Subscription Agent by no later than **[●] at 4:00 p.m., prevailing Central Time** (the "Subscription Expiration Deadline").[7] *See* Article X of this Disclosure Statement, entitled "Rights Offering Procedures," which begins on page 58 for more information

T. Why is the Bankruptcy Court holding a Confirmation Hearing?

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court to hold a hearing on confirmation of the Plan and recognizes that any party in interest may object to Confirmation of the Plan.

U. When is the Confirmation Hearing set to occur?

The Bankruptcy Court has scheduled the Confirmation Hearing for December 16, 2016, at 10:00 a.m. (prevailing Central Time). The Confirmation Hearing may be adjourned from time to time without further notice.

Objections to Confirmation must be filed and served on the Debtors, and certain other parties, by no later than December 9, 2016, at 4:00 p.m. (prevailing Central Time) in accordance with the notice of the Confirmation Hearing that accompanies this Disclosure Statement and the Disclosure Statement Order attached hereto as **Exhibit D** and incorporated herein by reference.

V. What is the purpose of the Confirmation Hearing?

The confirmation of a plan of reorganization by a bankruptcy court binds the debtor, any issuer of securities under a plan of reorganization, any person acquiring property under a plan of reorganization, any creditor or equity interest holder of a debtor, and any other person or entity as may be ordered by the bankruptcy court in accordance with the applicable provisions of the Bankruptcy Code. Subject to certain limited exceptions, the order issued by the bankruptcy court confirming a plan of reorganization discharges a debtor from any debt that arose before the confirmation of such plan of reorganization and

---

[7] As used herein, the terms "Lender Claim Subscription Form," "Subscription Agent," and "Subscription Agreement" shall each have the meanings ascribed to them in the Rights Offering Procedures.

provides for the treatment of such debt in accordance with the terms of the confirmed plan of reorganization.

W. What is the effect of the Plan on the Debtors' ongoing businesses?

The Debtors are reorganizing under chapter 11 of the Bankruptcy Code. As a result, the occurrence of the Effective Date means that the Debtors will not be liquidated or forced to go out of business. Following Confirmation, the Plan will be consummated on the Effective Date, which is a date that is the first Business Day after the Confirmation Date on which (1) no stay of the Confirmation Order is in effect, (2) all conditions to Consummation have been satisfied or waived (*see* Article IX of the Plan), and (3) the Debtors, with the consent of the Required Supporting Creditors, declare the Plan effective. On or after the Effective Date, and unless otherwise provided in the Plan, the Reorganized Debtors may operate their businesses and, except as otherwise provided by the Plan, may use, acquire, or dispose of property and compromise or settle any Claims, Interests, or Causes of Action without supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules. Additionally, upon the Effective Date, all actions contemplated by the Plan will be deemed authorized and approved.

X. Will any party have significant influence over the corporate governance and operations of the Reorganized Debtors?

As of the Effective Date, the terms of the then-sitting members of the boards of directors of the Debtors shall expire, and the initial boards of directors, including the New Board, as well as the officers of each of the Reorganized Debtors, shall be appointed in accordance with the New Organizational Documents. The initial New Board shall consist of those individuals that are selected in accordance with Article IV.J of the Plan.

The Ad Hoc Equity Group has requested that the Debtors provide additional detail regarding the identity of the members of the New Board and post-emergence management team. The Debtors do not have such information available at this time, but will make such information available at or before the Confirmation Hearing to the extent known.

Assuming that the Effective Date occurs, the Backstop Parties, pursuant to the Backstop Commitment Agreement, may receive a substantial percentage of the outstanding shares of New Common Stock. As a result, the Backstop Parties, as well as any other holders of Allowed Claims or Allowed Interests (as applicable) that receive distributions representing a substantial percentage of outstanding shares of the New Common Stock (including, as applicable, shares issued upon exercise of the New Warrants), may be in a position to influence matters requiring approval by the holders of shares of New Common Stock, including, among other things, the election of directors and the approval of a change of control of the Reorganized Debtors.

Y. Who do I contact if I have additional questions with respect to this Disclosure Statement or the Plan?

If you have any questions regarding this Disclosure Statement or the Plan, please contact the Debtors' Solicitation Agent, Donlin, Recano & Company, Inc., via one of the following methods:

By regular mail at:
Donlin, Recano & Company, Inc.
Re: CJ Holding Co., et al.
P.O. Box 192016
Blythebourne Station
Brooklyn, NY 11219

By hand delivery or overnight mail at:
Donlin, Recano & Company, Inc.
Re: CJ Holding Co., et al.
6201 15th Avenue
Brooklyn, NY 11219

By electronic mail at:
DRCVote@donlinrecano.com

By telephone (toll free) at:
(866) 296-8019

By facsimile at:
(212) 709-3348

Copies of the Plan, this Disclosure Statement, and any other publicly filed documents in the Chapter 11 Cases are available upon written request to the Solicitation Agent at the address above or by downloading the exhibits and documents from the website of the Solicitation Agent at https://www.donlinrecano.com/cjenergy (free of charge) or the Bankruptcy Court's website at http://www.txs.uscourts.gov/bankruptcy/ (for a fee).

Z. Do the Debtors recommend voting in favor of the Plan?

Yes. The Debtors believe that the Plan provides for a larger distribution to the Debtors' creditors and equity holders than would otherwise result from any other available alternative. The Debtors believe that the Plan, which contemplates a significant deleveraging of the Debtors' balance sheet and enables them to emerge from chapter 11 expeditiously, is in the best interest of all holders of Claims or Interests, and that any other alternatives (to the extent they exist) fail to realize or recognize the value inherent under the Plan.

AA. Who Supports the Plan?

The Plan is supported by the Debtors, the Committee, and certain holders of Claims and Interests, including holders of approximately 90 percent of the Lender Claims.

In light of the fact that the Plan incorporates a comprehensive settlement among the Debtors, the Committee, and certain of the Supporting Creditors, the Committee recommends that holders of Unsecured Claims vote in favor of the Plan. The Committee, an appointed fiduciary for holders of Unsecured Claims, conducted an independent review of the Plan and several other issues that relate to the Debtors and the Chapter 11 Cases. These issues include: (a) reviewing for encumbered and unencumbered assets to ensure the Plan is providing sufficient value to holders of Unsecured Claims; (b) reviewing potential Causes of Action that might be brought to increase recoveries for holders of Unsecured Claims; and (c) analyzing the expected recoveries to holders of Unsecured Claims to ensure the relative allocation of risks and benefits to Classes under the Plan is fair. Additionally, the Committee worked diligently with the Debtors and certain of the Supporting Creditors to resolve certain issues the

Committee raised with respect to the Plan. Ultimately the Debtors, the Committee, and those Supporting Creditors were able to resolve such issues and the Plan now reflects a global compromise with the Committee. In light of the foregoing review and global compromise achieved, the Committee supports the Plan and recommends all holders of Unsecured Claims to vote in favor of the Plan.

Holders of Unsecured Claims will receive with this Disclosure Statement a copy of the Committee Letter, which is a letter from the Committee discussing these matters in more depth. As set forth more fully in the Committee Letter, after conducting its review, the Committee supports the Plan and recommends all holders of Unsecured Claims to vote in favor of the Plan. The Committee recommends holders of Unsecured Claims to review the Committee Letter carefully in considering the Plan and this Disclosure Statement.

IV. THE DEBTORS' RESTRUCTURING SUPPORT AGREEMENT AND PLAN

A. Restructuring Support Agreement

On July 8, 2016, the Debtors, certain of the Lenders—eventually Lenders holding approximately 90 percent of the Lender Claims, among other Claims or Interests—entered into the RSA. Since executing the RSA, the Debtors have documented the terms of the prearranged restructuring contemplated thereby, including the Plan. The restructuring transactions contemplated by the Plan will significantly reduce the Debtors' funded-debt obligations and annual interest payments and result in a stronger balance sheet for the Debtors.

The Plan represents a significant step in the Debtors' months-long restructuring process. The RSA together with the DIP Facility, the Rights Offering and, to the extent consummated, the Exit Facility, contemplated thereby, will allow the Debtors to proceed expeditiously through chapter 11 to a successful emergence. The Plan will significantly deleverage the Debtors' balance sheet and provide the capital injection needed for the Debtors to conduct competitive operations going forward.

B. The Plan

As discussed in Article III herein, the Plan contemplates, among other things, a substantial deleveraging through the conversion of the Secured Lender Claims into New Common Stock. The Plan contemplates the following key terms, among others described herein and therein:

1. Issuance of New Common Stock

All existing Interests in C&J Energy will be cancelled as of the Effective Date and Reorganized C&J Energy will issue the New Common Stock to holders of Allowed Secured Lender Claims.

Reorganized C&J Energy shall be authorized without the need for any further corporate action, and without any further action by the holders of Claims or Interests or any other Person, to issue or reserve for issuance a sufficient number of shares of New Common Stock at least equal to the number of shares of New Common Stock contemplated by the Plan, including the New Common Equity Pool, the Rights Offering Shares (whether pursuant to the Rights Offering or Backstop Commitment Agreement) the Backstop Fee, any New Common Stock issued upon exercise of the New Warrants (as applicable), and options or other equity awards issued pursuant to the Management Incentive Plan (or shares of New Common Stock issued upon the exercise or vesting thereof). On the Effective Date, the New Organizational Documents shall provide for a certain number of authorized shares of New Common Stock at least equal to the number of such shares of New Common Stock contemplated by the Plan.

All of the shares of New Common Stock issued or reserved for issuance pursuant to the Plan shall be duly authorized and, when issued, validly issued, fully paid, and non-assessable. Each distribution and issuance referred to in Article VI of the Plan shall be governed by the terms and conditions set forth in the Plan applicable to such distribution or issuance and by the terms and conditions of the instruments evidencing or relating to such distribution or issuance, which terms and conditions shall bind each Entity receiving such distribution or issuance.

The Debtors and the Reorganized Debtors will use commercially reasonable efforts to cause the New Common Stock to become publicly traded and listed on a national securities exchange on or as soon as reasonably practicable after the Effective Date. Reorganized C&J Energy and certain holders of Allowed Secured Lender Claims will also enter into a Registration Rights Agreement pursuant to which such holders will have certain registration rights.

2. Rights Offering

Prior to the Effective Date, the Debtors and the Backstop Parties will enter into the Backstop Commitment Agreement to backstop the Rights Offering. The Debtors intend to include the Backstop Commitment Agreement in the Plan Supplement.

On the Effective Date, Reorganized C&J Energy will consummate the Rights Offering to raise the \$200 million New Money Investment. Through the Rights Offering, each holder (an "<u>Eligible Holder</u>") of an Allowed Secured Lender Claim (an "<u>Eligible Claim</u>") shall have the opportunity, subject to the terms and conditions set forth in the Plan and the Rights Offering Procedures, to purchase the Rights Offering Shares. The Backstop Parties, which are certain Lenders that are also parties to the RSA and that have agreed to backstop the Rights Offering, solely in their capacities as such, will backstop the New Money Investment in accordance with the terms and conditions of the Backstop Commitment Agreement. Subscription Rights under the Rights Offering are available to all holders of Allowed Secured Lender Claims on a Pro Rata basis pursuant to Article III.B of the Plan.

Eligible Holders may purchase Rights Offering Shares pursuant to their Subscription Rights at a per share purchase price that reflects a discount of 20 percent to total settled plan enterprise value (*provided*, that such value shall not be greater than \$750 million) in accordance with the Rights Offering Procedures. Under the terms of the Plan and the Backstop Commitment Agreement, the Backstop Parties have agreed to purchase all unsubscribed shares under the Rights Offering (the "<u>Backstop Commitment Shares</u>"). Under the terms of the Plan and the Backstop Commitment Agreement, as consideration for the Backstop Parties agreeing to purchase the Backstop Commitment Shares and the related costs (including the opportunity costs), the Backstop Parties will receive, on account of their backstop commitment, a premium of five percent of the \$200 million committed amount, payable in New Common Stock (to be issued at a price per share equivalent to the price of the Rights Offering Shares) on the Effective Date (the "<u>Backstop Fee</u>"). The Backstop Fee will be deemed earned upon the Bankruptcy Court's entry of the Confirmation Order.

The Rights Offering Procedures will be authorized pursuant to the Disclosure Statement Order, a form of which is attached as <u>**Exhibit D**</u> to this Disclosure Statement.

3. Issuance of New Warrants

On the Effective Date, (a) Reorganized C&J Energy shall issue the Unsecured Creditor New Warrants to the Unsecured Creditor Recovery Pool and (b) provided that Class 9 has timely accepted the Plan, the Debtors will issue the Interest Holder New Warrants to holders of Interests in C&J Energy. All of the New Warrants and the shares of New Common Stock issuable upon exercise of the New Warrants shall be duly authorized and, when issued, shall be validly issued, fully paid, and non-assessable. The

New Warrants will have a term of seven years and be exercisable on a net-share settled basis into up to an aggregate of six percent of the New Common Stock at a strike price of $1.55 billion.

4. Management Incentive Plan

The percentage of New Common Stock to be set aside for the Management Incentive Plan shall be ten percent of the New Common Stock contemplated by the Plan, on a fully diluted basis, to be issued to management of the Reorganized Debtors after the Effective Date at the discretion of the New Board and on terms to be determined by the New Board. The allocation, timing, and structure of such issuance, and the terms of the Management Incentive Plan, shall be determined by the New Board with input to be provided to the New Board designees by the Required Supporting Creditors prior to, on, or as soon as reasonably practicable after the Effective Date. The Confirmation Order shall authorize the New Board to adopt and enter into the Management Incentive Plan, on the terms set forth in Article IV.N of the Plan. The issuance of New Common Stock under the Management Incentive Plan would dilute all of the New Common Stock, including the Rights Offering Shares and the New Warrants (as applicable), equally.

5. Exit Facility

On the Effective Date, the Reorganized Debtors shall enter into the Exit Facility, which shall be a senior secured revolving asset-based lending credit facility to be arranged and provided by one or more commercial lending institutions in a minimum amount of $100 million, on the terms set forth in the Exit Facility Documents; *provided* that the Debtors or the Reorganized Debtors, the Backstop Parties and the Required Supporting Creditors agree that such a facility is in the best interests of the Reorganized Debtors.

To the extent applicable, Confirmation of the Plan shall be deemed (a) approval of the Exit Facility (including the transactions contemplated thereby, and all actions to be taken, undertakings to be made, and obligations to be incurred and fees paid by the Debtors or the Reorganized Debtors, as applicable, in connection therewith), to the extent not approved by the Court previously, and (b) authorization for the Debtors or the Reorganized Debtors, as applicable, to, without further notice to or order of the Bankruptcy Court, (i) execute and deliver those documents necessary or appropriate to obtain the Exit Facility and (ii) act or take action under applicable law, regulation, order, or rule or vote, consent, authorization, or approval of any Person, subject to such modifications as (A) the Debtors, with the consent of the Required Supporting Creditors or (B) the Reorganized Debtors (the foregoing (A) or (B) as applicable) may deem to be necessary to consummate the Exit Facility.

6. Use of Proceeds

Proceeds from the DIP Facility, Rights Offering (*i.e.*, the New Money Investment), and Exit Facility, as applicable, will be used, among other things, to fund certain distributions under the Plan, the Debtors' operations, and administration of the Chapter 11 Cases, as well as for general corporate purposes.

7. Governance

In accordance with Article IV.J of the Plan, the initial boards of directors (including the New Board) and the officers of each of the Reorganized Debtors shall be appointed by the Supporting Creditors in accordance with the respective New Organizational Documents; *provided, however*, that the chief executive officer of Reorganized C&J Energy shall be a member of the New Board. Forms of the New Organizational Documents will be included in the Plan Supplement.

8. Recoveries to Certain Holders of Claims and Interests

As described in greater detail in Article III of this Disclosure Statement, the DIP Facility Lenders will receive payment in full in Cash on the Effective Date from Cash on hand and proceeds of the Rights Offering and Exit Facility, as applicable. Each holder of an Allowed Secured Lender Claim will receive (a) its Pro Rata share of the New Common Equity Pool and (b) its Subscription Rights to purchase its Pro Rata Share of the Rights Offering Shares in accordance with the Rights Offering Procedures on account of such Allowed Secured Lender Claim. Additionally, each holder of an (a) Allowed Unsecured Convenience Class Claim will receive its Pro Rata share of the Convenience Class Recovery Pool up to 40% of such Allowed Unsecured Convenience Class Claim and (b) Allowed General Unsecured Claim will receive its Pro Rata share of the Unsecured Creditor Recovery Pool, each in accordance with Article VI.F of the Plan. Finally, to the extent Class 9 timely votes to accept the Plan, each holder of Interests in C&J will receive its Pro Rata share of the Interest Holder New Warrants (as applicable).

As illustrated by the Valuation Analysis attached hereto as **Exhibit H**, holders of Interests in C&J Energy are between $576.5 million and $887.6 million out of the money in the Chapter 11 Cases. Accordingly, holders of Interests are not entitled to a recovery in the Chapter 11 Cases under the Bankruptcy Code's priority scheme. Nevertheless, to ensure a smooth confirmation process, the Debtor provided for a recovery to holders of Interests in C&J Energy under the Plan in the form of the Interest Holder New Warrants, but only to the extent such holders, among other things, vote as a Class to accept the Plan. Distribution of the Interest Holder New Warrants to holders of Interests in C&J Energy is not a result of strict compliance with the Bankruptcy Codes' priority scheme. It is possible, however, to facilitate such a distribution to equity holders under multiple circumstances, including where the junior class of creditors consents or where the secured lenders are gifting a portion of their recovery to the equity holder recipients. Thus, the Debtors do not believe that distribution of the Interest Holder New Warrants to holders of Interest in C&J Energy violates the applicable provisions of the Bankruptcy Code.

9. General Settlement of Claims and Interests

Pursuant to section 1123 of the Bankruptcy Code and Bankruptcy Rule 9019, and in consideration for the classification, distributions, releases, and other benefits provided under the Plan, (including (1) the Supporting Creditors' agreement to (A) equitize approximately $1.4 billion of funded debt, (B) pay in full priority Claims and certain unsecured trade Claims, including all Claims that the Debtors were authorized to pay under any prior orders entered by the Bankruptcy Court in the Chapter 11 Cases, (C) fund the Unsecured Creditor Recovery Pool for the benefit of Allowed General Unsecured Claims, and (D) forgo any claim for the diminution in value of their Prepetition Collateral (as defined in the DIP Facility Order), (2) the holders of Deficiency Lender Claims' agreement to forgo their Pro Rata share of the Unsecured Creditor Recovery Pool, (3) the Backstop Parties' agreement to backstop the Rights Offering to provide the Debtors with a flexible and sustainable capital structure, and (4) the Committee's agreement to (A) support and take actions necessary to obtain Bankruptcy Court approval of the Plan and Disclosure Statement, (B) not object to the Debtors' senior executive incentive plan, as modified by the Debtors and the Required Supporting Creditors and (C) abate all discovery requests and suspend all discovery efforts with respect to the Debtors, the holders of Lender Claims, and their respective representatives. Upon the Effective Date, the provisions of the Plan shall constitute a good faith compromise and settlement of all Claims and Interests and controversies resolved pursuant to the Plan, including (1) any challenge to the amount, validity, perfection, enforceability, priority or extent of the Secured Lender Claims and (2) any claim to avoid, subordinate, or disallow any Secured Lender Claim or Deficiency Lender Claim, whether under any provision of chapter 5 of the Bankruptcy Code, on any equitable theory (including equitable subordination, equitable disallowance, or unjust enrichment) or otherwise. The Plan shall be deemed a motion to approve the Plan Settlement pursuant to Bankruptcy Rule 9019, and the entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of the Plan Settlement under section 1123 of the Bankruptcy Code and Bankruptcy Rule 9019, as well as a finding by the Bankruptcy Court the Plan Settlement is fair, equitable, reasonable and in the best interests of the Debtors and their Estates. Subject to Article VI of the Plan, all distributions made to holders of Allowed Claims and Allowed Interests (as applicable) in any Class are intended to be and shall be final. However, nothing herein shall prevent the Committee and Unsecured Claims Representative, as applicable, from requesting information regarding the Nabors Claim (such information not to be unreasonably withheld by the Debtors, Reorganized Debtors, or Supporting Creditors, as applicable).

Pursuant to Rule 408 of the Federal Rules of Evidence, the Plan, this Disclosure Statement, the RSA (and any exhibits or supplements relating to the foregoing) and all negotiations relating thereto will not be admissible into evidence in any proceeding unless and until the Plan is consummated, and then only in accordance with the Plan. In the event the Plan is not consummated, provisions of the Plan, this Disclosure Statement, the RSA (and any exhibits or supplements relating to the foregoing) and all negotiations relating thereto will not be binding or probative.

10. Releases

The Plan contains certain releases (as described more fully in Article III.P of this Disclosure Statement, entitled "Will there be releases and exculpation granted to parties in interest as part of the Plan?," which begins on page 16), including mutual releases among (a) the Debtors; (b) the Reorganized Debtors; (c) the Supporting Creditors; (d) the Backstop Parties; (e) the Lenders; (f) the DIP Facility Lenders; (g) the DIP Facility Agent; (h) the Credit Agreement Agent; (i) the Exit Facility Lenders; (j) the Exit Facility Agent; (k) the Committee and it members; and (l) certain entities affiliated with the foregoing parties. Additionally, all holders of Claims or Interests that do not file an objection with the Bankruptcy Court in the Chapter 11 Cases that expressly objects to the inclusion of such holder as Releasing Party under the provisions contained in Article VIII of the Plan will be deemed to have expressly, unconditionally, generally, individually, and collectively consented to the release and discharge of all Claims and Causes of Action against the Debtors and the Released Parties.

The Plan carves out from the releases any holder of Interests in C&J Energy or any Affiliate or subsidiary (other than C&J Energy and any direct or indirect subsidiary thereof), or current or former officer, director, principal, member, employee, agent, or advisory board member thereof, that (a) subsequent to the entry of the Disclosure Statement Order, (i) seeks any relief materially adverse to the Restructuring Transactions, the Debtors in the Chapter 11 Cases, the Supporting Creditors, the Lenders, the Credit Agreement Agent, the DIP Facility Lenders, the DIP Facility Agent, or the Backstop Parties, or (ii) objects to or opposes any material relief sought by (including any request for relief by any other party that is joined by any of the following) the Debtors, the Supporting Creditors, the Credit Agreement Agent, the DIP Facility Lenders, the DIP Facility Agent, or the Backstop Parties, (b) is entitled to vote on the Plan and does not vote to accept the Plan, (c) objects to the Plan or causes an objection to the Plan to be made, (d) opts out of any third-party releases sought in connection with the Plan, or (e) does not agree to waive any and all rights to a recovery on account of the Nabors Claim; *provided*, that no current or former director or officer of the Company (in such capacity) shall be an Excluded Party. For the avoidance of doubt, so long as Nabors and Nabors' current or former officers, directors, principals, members, employees, agents, advisory board members and, in each case, their respective Affiliates (in each case, other than any current or former officers or directors of the Company) (w) do not seek any relief materially adverse to the Restructuring Transactions, the Debtors in the Chapter 11 Cases, the Supporting Creditors, the Lenders, the Credit Agreement Agent, the DIP Facility Lenders, the DIP Facility Agent, or the Backstop Parties, (x) do not object to or oppose any material relief sought by (including any request for relief by any other party that is joined by any of the following) the Debtors, the Supporting Creditors, the Credit Agreement Agent, the DIP Facility Lenders, the DIP Facility Agent, or the Backstop Parties, including, among other things, confirmation of the Plan, (y) waive the Nabors Claim, and (z) vote in favor of the Plan, the foregoing shall be deemed to be "Released Parties" and not "Excluded Parties" and shall be entitled to releases to the extent set forth in Articles VIII.C and VIII.D of the Plan; *provided*, *however*, that, for the avoidance of doubt, if the conditions set forth in (w), (x), (y), and (z) above are not satisfied, (i) the Nabors Excluded Parties are and shall remain "Excluded Parties" pursuant to the Plan and shall not be entitled to releases under the Plan and (ii) all claims and Causes of Action against the Nabors Excluded Parties shall be retained by the Reorganized Debtors and not released or compromised prior to the Effective Date without the consent of the Committee (such consent not to be unreasonably withheld) or after the Effective Date without the consent of the Unsecured Claims Representative (such consent not to be unreasonably withheld); *provided*, *however*, that any claim settlement entered into between the Debtors and Nabors shall include a waiver of the Nabors Claim by Nabors; *provided*, *further*, *however*, that any proceeds from Causes of Action against Nabors shall be contributed to the Unsecured Creditor Recovery Pool until holders of General Unsecured Claims are paid in full.

V. THE DEBTORS' CORPORATE HISTORY, STRUCTURE, AND BUSINESS OVERVIEW

A. C&J's Corporate History

C&J Energy's predecessor in interest, C&J Energy Services, Inc. ("Legacy C&J"), was founded by Josh Comstock as a two-employee pressure pumping operation in Corpus Christi, Texas in 1997. Over the course of the past two decades, C&J has grown into one of the largest, integrated oilfield services companies in North America—fueled by both organic and acquisition-based growth. In 2011, Legacy C&J completed its initial public offering and began trading on the New York Stock Exchange (the "NYSE") under the ticker symbol "CJES." Mr. Comstock served as C&J's CEO and chairman of the board of directors from Legacy C&J's founding until his unexpected death in March 2016. Mr. Comstock was the engine behind C&J's growth over the course of the past twenty years and architect of the transformative merger transaction described below. C&J's untiring commitment to top-tier customer service and best-in-class efficiency in execution is a direct reflection of the ideals upon which Mr. Comstock built the company.

On March 24, 2015, Legacy C&J completed a merger transaction, through which Legacy C&J combined with the completion and production services business (the "C&P Business") of Nabors Industries Ltd. (*i.e.*, Nabors). Nabors is one of the world's largest oil and gas drilling contractors—the C&P Business represented only a small portion of Nabors' pre-merger operations, separate from its core drilling services operations (which were not affected by the merger). In brief, under the terms of the merger, Nabors separated the C&P Business from the rest of its operations and consolidated this business under a wholly-owned subsidiary named "Nabors Red Lion Limited" ("Red Lion"), a Bermuda exempted company. A U.S.-based, wholly-owned subsidiary of Red Lion then merged with and into Legacy C&J, with Legacy C&J continuing as the surviving entity. Upon completion of the merger, the common shares of Legacy C&J were converted into common shares of Red Lion on a 1-for-1 basis and Red Lion was renamed "C&J Energy Services Ltd." (*i.e.*, C&J Energy). C&J Energy's post-merger common shares continued to trade on the NYSE under Legacy C&J's pre-merger ticker symbol, CJES, until the NYSE suspended trading on July 20, 2016, in connection with the commencement of the Chapter 11 Cases. C&J Energy's common shares resumed trading on the OTC Markets Group Inc.'s OTC Pink under the symbol "CJESQ" on July 21, 2016.

In exchange for the C&P Business, Nabors received consideration in the form of cash and post-merger C&J Energy common shares. Upon closing of the merger, Nabors owned approximately 53 percent of C&J Energy's common shares on a pre-dilution basis, with Legacy C&J equityholders owning the balance of the shares. As of the Petition Date, Nabors owned approximately 52 percent of C&J Energy's outstanding common shares on a pre-dilution basis. As a result of the merger, Legacy C&J's

employee headcount increased from 3,397 to 9,168. C&J's post-merger management was primarily comprised of Legacy C&J's executive officers. Additionally, four of the seven post-merger initial board of directors seats were held by Legacy C&J board of directors members. As a result of the merger, Legacy C&J significantly expanded its North American footprint—including into new geographic locales in California and Western Canada.

Generally speaking, the Legacy C&J operations and the C&P Business's U.S.-based operations are organized under Debtor CJ Holding Co. ("U.S. HoldCo"). U.S. HoldCo and each of its wholly-owned, U.S.-based, operating subsidiaries are Debtors in the Chapter 11 Cases. U.S. HoldCo also holds interests in certain non-operating entities, joint ventures, and foreign entities that are not Debtors in the Chapter 11 Cases. The C&P Business's Canadian operations are organized under certain of U.S. HoldCo's Canada-based affiliates (*i.e.*, the Canadian Debtors). Each of the Canadian Debtors are wholly-owned subsidiaries of C&J Energy and are also Debtors in the Chapter 11 Cases. As described in Article VI.E below, the Canadian Debtors have commenced ancillary proceedings in Canada to facilitate C&J's enterprise-wide restructuring (*i.e.*, the Canadian Proceedings). Additionally, the Bermudian Debtors, including C&J Energy have likewise commenced ancillary proceedings in Bermuda (*i.e.*, the Bermudian Proceedings).

C&J Energy's non-Debtor subsidiaries are non-operating entities organized under the laws of Bermuda, Luxembourg, Ireland, and the Netherlands (the "Non-Op Entities") or entities with only limited operations organized under the laws of certain Middle East countries (the "Middle East Entities") and Central American countries. Neither the Non-Op Entities nor the Middle East Entities are currently the subject of any insolvency proceedings (U.S.-based or otherwise). C&J Energy is the ultimate parent company of each of the foregoing entities. A corporate organization chart is attached to this Disclosure Statement as **Exhibit C**. Below is a summary of the Debtors' key assets and operations.

The above-described merger transaction was consummated at a time when the oil and gas markets were declining from late 2014 highs. In connection with the merger transaction, Nabors received total consideration of approximately $1.4 billion in the form of $688.1 million in cash, $5.5 million in cash to reimburse Nabors for operating assets acquired prior to March 24, 2015, and approximately $714.8 million worth of Interests in C&J Energy. According to the Debtors' public filings, as of June 30, 2016, the Debtors' total assets had a book value of approximately $3.3 billion. As the oil and gas markets continued to deteriorate, the Debtors wrote down the book value of their total assets in their public filings. The most recent publicly disclosure book value of the Debtors' total assets was approximately $1.5 billion as of June 30, 2016. As set forth in Article XI.F of this Disclosure Statement entitled "Valuation of the Debtors," which begins on page 62, book value is generally computed in accordance with various accounting pronouncements and is not indicative of true enterprise value. Based on the Valuation Analysis attached hereto as **Exhibit H** and in light of the sustained, protracted downturn in the oil and gas markets, the mid-point of the Debtors' enterprise valuation is now approximately $750 million.

As set forth in Article VII.L of this Disclosure Statement entitled "The Ad Hoc Equity Group," which begins on page 41, the Ad Hoc Equity Group is likely to contest the Debtors' Valuation Analysis at the Confirmation Hearing. The Debtors believe that the Valuation Analysis accurately reflects the Debtors' enterprise value and supports confirmation of the Plan. As set forth in Article VII.M of this Disclosure Statement entitled "Investigation of Certain Avoidance Actions," which begins on page 42, the Debtors have conducted substantial analysis into any potential Causes of Action, including avoidance actions under chapter 5 of the Bankruptcy Code, arising out of the merger transaction and have determined that such claims are highly unlikely to succeed.

B. The Debtors' Key Assets and Operations

The oil and gas industry is typically divided into three major sectors: "upstream," "midstream," and "downstream." The upstream sector is comprised primarily of E&P companies that focus on locating and extracting crude oil and natural gas from the ground. The midstream sector includes companies engaged in the gathering, transporting, and storing of hydrocarbons. The downstream sector is comprised of the companies that carry out the distribution of the products derived from the extracted hydrocarbons to the ultimate end users. Many upstream E&P companies do not complete the labor-intensive tasks of drilling, operating, and maintaining oil and natural gas wells themselves—instead opting to contract with oilfield services companies, like C&J, for the provision of such services.

C&J provides a full range of well construction, well completion, well support, and other complementary oilfield services to oil and gas E&P companies, primarily in North America. C&J operates in all of the major oil and gas producing regions of the continental United States and Western Canada. In 2013, C&J expanded its operations into the Middle East but, as of the Petition Date, has established only minimal operations in the region. For the year ended December 31, 2015, approximately 97.6 percent of C&J's consolidated revenues derived from its U.S. operations, while approximately 2.3 percent derived from its Canada operations and approximately 0.1 percent derived from its Middle East operations.

Overall, C&J's operations are primarily concentrated in Texas in the Eagle Ford and Permian Basin, two of the largest and most prolific oil and gas plays in the United States. C&J's results are driven by a number of interrelated factors, primarily: (a) capital expenditures of its E&P company customer base (*i.e.*, the level of new drilling, completion, and production activity), which directly affects demand for C&J's services; (b) the price C&J is able to charge for its services, which is driven primarily by upstream demand and the equipment capacity in given geographic locale; (c) labor and supply costs and C&J's ability to pass such costs on to its customers; and (d) C&J's asset utilization rate. C&J manages its operations through three reportable segments—Completion Services, Well Support Services, and Other Services—each of which is described below.

Completion Services: "Well completion" is a generic term used to describe the activities necessary to stimulate safe and efficient production from an oil or gas well after initial drilling operations have been completed. C&J's Completion Services division grew significantly as a result of the early-2015 merger transaction and currently includes approximately 1.0 million marketable hydraulic horsepower, 130 marketable wireline trucks (plus associated pressure pumping horsepower for pump down services) and 47 marketable coiled tubing units. Well completion techniques and the type of equipment used in connection therewith varies from well-to-well and region-to-region depending on various factors. For example, a well completion technique commonly employed in low-permeability shale plays is hydraulic fracturing, or "fracking," which involves injecting high volumes of fluid into the well site at high pressure to create cracks in shale formations through which oil or natural gas can flow. The perfection of fracking technology was a driving force behind the boom in U.S. oil and gas production over the past two decades. Hydraulic fracturing services accounts for the majority of the revenues derived from C&J's Completion Services segment. Well completion services offered by C&J also include cased-hole wireline, coiled tubing, and other well stimulation services. For the year ended December 31, 2015, C&J's Completion Services segment accounted for approximately 70 percent of enterprise-wide revenues.

Well Support Services: C&J's Well Support Services segment was acquired as part of the early-2015 merger transaction and consists primarily of two service lines: rig services and fluid management services. C&J's rig services line consists of a fleet of approximately 500 workover rigs. Workover services are designed to enhance the production of existing wells and include deepening or extending wellbores into new formations, sealing off depleted production zones, accessing previously bypassed production zones, and conducting subsurface repairs. C&J also uses its rig services fleet to complete comparatively less complex maintenance services and services in connection with E&P companies' state-law imposed plugging and abandonment obligations. C&J's fluid management services line currently consists of approximately 1,435 fluid services trucks, 5,225 frac tanks, and 30 salt water disposal wells, which supply, store, remove, and dispose of specialized fluids utilized in well completion (*i.e.*, fracking) and workover operations. For the year ended December 31, 2015, C&J's Well Support Services segment accounted for approximately 26 percent of enterprise-wide revenues.

Other Services: C&J's Other Services segment is comprised of an amalgamation of C&J's smaller service lines and divisions. These service lines and divisions include cementing services, equipment manufacturing and repair, and C&J's Middle East operations. This segment also includes C&J's research and technology division, through which C&J, among other things, manages its directional drilling products and services, data acquisition and control instruments provider, and its artificial lift applications provider. For the year ended December 31, 2015, C&J's Other Services segment accounted for approximately four percent of enterprise-wide revenues.

C&J serves a diverse group of independent and major national oil and gas E&P companies that are active in C&J's core areas of operations across the continental U.S. and Western Canada. C&J generally offers the foregoing services to its customer base on a short-term, spot price (based on an agreed-upon hourly spot market rate for a specified number of hours of service), per job, or even per day basis. C&J generally does not have long-term contractual arrangements in place with its customers.

As of the date of this Disclosure Statement, the Debtors' senior management includes: (a) Don Gawick, Chief Executive Officer; (b) Mark Cashiola, Chief Financial Officer; (c) Mike Hobbs, Chief Operating Officer; (d) Pat Bixenman, Chief Administrative Officer and President, Research & Technology; (e) James H. Prestidge, Jr., Chief Strategy Officer; (f) Danielle Hunter, Executive Vice President, General Counsel, and Chief Risk & Compliance Officer; (g) Ed Keppler, President, Corporate Operational Development; (h) Nick Petronio, President, Well Services; and (i) Larry Heidt, President, Industry Relations.

C. The Debtor's Prepetition Capital Structure

As of the Petition Date, C&J Energy and certain of its subsidiaries, including the other Debtors, were liable for approximately $1.38 billion in principal amount of aggregate debt obligations. This figure includes liabilities of Debtor C&J Energy Services, Inc. in an aggregate amount of approximately $33 million outstanding under certain capital leases. C&J's prepetition capital structure is summarized as follows:[8]

Debt	Maturity	Principal Amount
Revolver	March 24, 2020	$300 million
Term Loan B-1	March 24, 2020	$569 million
Term Loan B-2	March 24, 2022	$480 million
Capital Leases	Variable	$33 million
	Total:	$1,382 million

8 The following does not include accrued but unpaid interest under the Credit Agreement as of the Petition Date.

1. The Credit Agreement

In connection with the closing of the early-2015 merger transaction, certain of the C&J entities executed the Credit Agreement, dated as of March 24, 2015, by and between C&J Energy, C&J Energy subsidiary CJ Lux Holdings S.à.r.l., U.S. HoldCo, the Lenders party thereto, and Cortland Capital Market Services LLC, as successor administrative agent (*i.e.*, the Credit Agreement Agent). The Credit Agreement originally provided for two senior secured credit facilities in an aggregate amount of $1.66 billion, consisting of: (a) a revolving credit facility with a maximum availability of $600 million (the "Revolver"); and (b) a term loan B credit facility in the aggregate principal amount of $1.06 billion (the "Term Loan"). The Credit Agreement contains certain financial covenants applicable to both the Revolver and Term Loan, including a Total Leverage Ratio, Interest Coverage Ratio, and Minimum Cumulative Consolidated EBITDA (each as defined in the Credit Agreement). Obligations under the Credit Agreement are guaranteed by each of the Debtors and certain of the Non-Op Entities. As is relevant here, obligations under the Credit Agreement are secured on a *pari passu*, first-lien basis by substantially all of the Debtors' assets, including cash held in controlled depository accounts.

The Debtors conducted substantial analysis both prior to and since the Petition Date regarding the extent of the Lenders' Secured Claims. In connection with this analysis, the Debtors determined that the approximate value of their unencumbered assets is approximately $280 million. As set forth in the Valuation analysis, the midpoint of the Debtors' enterprise value is $750 million. The Debtors subtracted the $280 million value of their unencumbered assets and $17 million in unencumbered Cash held at non-Debtor affiliate entities to arrive at a value of $453 million for the assets encumbered by the Lenders' liens. The Debtors then allocated the $453 million value of the encumbered assets across each Debtor entity on a Pro Rata basis according to the fixed assets and intellectual property owned by each Debtor entity as a percentage of the enterprise-wide total. The per-Debtor allocation of the $453 million value of the Debtors' unencumbered assets ranged from $0 to approximately $288 million. Since each Debtor entity guaranteed amounts outstanding under the Credit Agreement in full, the Lenders hold an approximately $1,388 million Claim at each Debtor entity. Subtracting the per-Debtor allocation of the $453 million encumbered asset value from the Lenders' $1,388 million claim at each Debtor entity results in a Deficiency Lender Claim of at least $1.1 billion at each Debtor entity. Based on this analysis, Deficiency Lender Claims form the substantial majority of General Unsecured Claims, by amount, at each Debtor entity. Confirmation of the Plan will constitute a settlement of the extent of the Lenders' Secured Claims.

Revolver: In connection with certain amendments to, and waivers under, the Credit Agreement (described below), as of the Petition Date, the aggregate commitments under the Revolver have been limited to $300 million. As of the Petition Date, approximately $300 million remains outstanding under the Revolver, which amount includes $15.14 million in outstanding letters of credit.

Term Loan: The Term Loan is comprised of two tranches: a tranche consisting of term loans maturing on March 24, 2020 ("Term Loan B-1") and a second tranche consisting of term loans on substantially identical terms but maturing on March 24, 2022 ("Term Loan B-2"). As of the Petition Date, approximately $569 million in principal remained outstanding under Term Loan B-1 and approximately $480 million in principal remained outstanding under Term Loan B-2, for an aggregate outstanding principal balance under the Term Loan of approximately $1.05 billion.

In addition to the principal amounts outstanding under the Revolver and the Term Loan, interest and fees (including letter of credit fees and unused commitment fees) have gone unpaid and been accruing since prior to May 31, 2016, when the Debtors, the Credit Agreement Agent, and certain of the Lenders entered into the Forbearance Agreement (as defined below).

2. Capital Leases

In 2013, C&J entered into certain "build-to-suit" lease agreements for the construction of a new, technology-focused research and development facility and a new corporate office. Each lease is accounted for as a capital lease (collectively, the "Capital Leases"). As of the Petition Date approximately $33 million remained outstanding under the Capital Leases. Debtor C&J Energy Services, Inc. is the obligor under the Capital Leases.

3. Common Stock

Until recently, C&J Energy's common stock was publicly traded on the NYSE under the symbol "CJES." On the Petition Date, the NYSE suspended trading of C&J Energy's common stock, and subsequently delisted it. C&J Energy's common shares resumed trading on the OTC Markets Group Inc.'s OTC Pink under the symbol "CJESQ" on July 21, 2016. C&J Energy has remained an issuer reporting with the SEC and believes that it is in compliance in all material respects with all applicable reporting provisions.

VI. EVENTS LEADING TO THE CHAPTER 11 FILINGS

A. Market Decline and Industry-Specific Challenges

As described above, the oil and gas industry is in the midst of a sharp, sustained downturn, brought on by sagging commodities prices, that has lasted for the better part of two years. Due to their direct exposure to commodity price swings, E&P companies have experienced the most severe distress to date. But the market malaise has not been limited to the E&P sector. Like E&P companies, C&J operates upstream and its success is inextricably linked to its E&P company customer base. Accordingly, C&J has felt the weight of the market decline just like upstream E&P companies. The trading price of C&J Energy's common shares has fallen from a post-merger high of approximately $18.45 to approximately $0.31 as of the close of business on July 19, 2016 (*i.e.*, the day before the Petition Date)—a decline of approximately 98 percent. Since the merger closed in the early stages of the market downturn, C&J has yet to be able to fully capitalize on many of the opportunities available due to the greater scale, enhanced offerings, and significant operating synergies attendant to the early-2015 merger transaction.

Further, in a down market, C&J is exposed to a mix of oilfield services industry-specific risks. C&J's performance is heavily influenced by the drilling, completion, and production activities of its E&P company customer base. In response to the recent market downturn, E&P companies have significantly pared back new drilling activity. Rig count, a common indicator of upstream drilling activity and one that is highly correlated with C&J's asset utilization levels (and thus C&J's operating results), is down nearly 80 percent from late-2014 highs—rig counts are down nearly 40 percent just this year. Further, because the type of services that C&J offers can be easily "started" and "stopped," oilfield services companies like C&J tend to experience a rapid decline for their services when commodities prices are low or volatile as E&P companies become less risk tolerant. Oilfield services companies may also experience a lagging recovery when commodities prices improve since demand for their services depends in large part on how E&P companies perceive the stability and sustainability of commodities markets.

Additionally, C&J operates in a highly competitive sector and faces significant risk of decreased asset utilization rates in the event of a downturn. Many of C&J's competitors are larger, national and multi-national companies, possessing substantially greater financial resources and more diversified revenue streams than C&J, which allow them to operate at a lower cost than C&J or even operate at a loss in certain of the regions in which C&J operates. Additionally, well completion and servicing equipment can be moved with relative ease from one region to another, which may result in an oversupply of equipment in a given geographic locale in the event that market conditions or activity levels improve. Such movement results in downward pressure on the prices C&J is able to charge for its services, potentially sapping any benefit of incremental commodity prices improvements.

Finally, certain states, including Texas—where a large portion of C&J's assets and operations are located—have statutory provisions in place that offer significant protections to entities that qualify as "mineral contractors" ("Mineral Contractors"). The term Mineral Contractors covers a wide range of entities that provide services in connection with oil and natural gas drilling activities, and includes a number of vendors that C&J frequently transacts with on behalf of its customers—*i.e.*, C&J contracts with certain vendors that qualify as Mineral Contractors to provide ancillary services to certain of C&J's customers. In Texas, for example, Mineral Contractors may assert a lien against the property of C&J's *customers* due to nonpayment (even if payment was due from C&J). This threat, particularly in light of uncertainty concerning C&J's financial condition, has caused certain of C&J's customers to seek alternative oilfield services providers—exacerbating C&J's financial difficulties. C&J has taken steps to quell these fears, however, including providing for payment in full of all Mineral Contractor Claims under the terms of the Plan.

While E&P companies generally consider a range of factors in contracting for well completion and support services, in a weak commodities pricing environment E&P companies tend to focus more closely—even primarily—on price. In light of C&J's competitive position and operating model, it is difficult for C&J to compete based solely on the basis of price—C&J focuses instead on differentiating itself through offering high-quality customer service and superior operating efficiency. Although C&J has endeavored to control input costs to provide competitive pricing, as the industry downturn wore on, C&J experienced decreased utilization rates across its service lines, which, in light of the substantial debt obligations C&J incurred in connection with the early-2015 merger transaction, strained liquidity enterprise wide.

B. Proactive Approach to Addressing Financial Issues

During the first quarter of 2015 C&J began to scale back operations by idling, or "stacking," unproductive equipment, reducing headcount, implementing strict cost-control measures, and negotiating price reductions with certain of its suppliers. As market conditions continued to decline post-merger, C&J instituted further cost-cutting and operational right-sizing measures, including stacking additional equipment, closing and consolidating duplicative facilities, and further reducing headcount—all told, C&J reduced employee headcount from a post-merger high of nearly 10,000 employees to approximately 4,977 employees as of the Petition Date. C&J has also scaled back capital expenditures, decreasing from $166.3 million for the year ended December 31, 2015 to a projected $60 million to $75 million for the year ending December 31, 2016.

These measures, by themselves, did not prove sufficient to resolve C&J's financial issues. Anticipating that it would not be in compliance with the Total Leverage Ratio and Interest Coverage Ratio under the Credit Agreement for the reporting period ended December 31, 2015, C&J negotiated an amendment (the "September Amendment") to the Credit Agreement, effective September 29, 2015, that: (a) suspended or relaxed certain covenants; (b) provided for a permanent reduction in commitments under the Revolver from $600 million to $400 million; (c) instituted a "collateral coverage" covenant that, in effect, limited availability under the Revolver to $300 million; (d) provided for an increase in the interest rate under the Revolver based on the Total Leverage Ratio; and (e) placed certain limitations on C&J's future capital expenditures.

The September Amendment, too, proved insufficient to resolve C&J's financial issues. As market conditions continued to decline over the first quarter of 2016—with oil falling to below $30 per barrel in February 2016—C&J's financial condition continued to worsen. For the year ended December 31, 2015, C&J incurred a net loss of approximately $872.5 million and incurred a further net loss of approximately $428.4 million for the first quarter of 2016. Despite the recent increase in commodities prices—oil has hovered near $45 per barrel in recent weeks—C&J has continued to experience low utilization rates across its service lines as E&P companies have remained hesitant to resume drilling activities due to perceived market volatility. Further, certain of C&J's larger competitors have attempted to take advantage of the downturn to grow market share by offering services below breakeven pricing. The foregoing factors, among others, caused C&J to breach the Minimum Cumulative Consolidated EBITDA covenant contained in the Credit Agreement, measured as of March 31, 2016. C&J's Form 10-Q for the quarter ended March 31, 2016 also contained language expressing "substantial doubt" regarding C&J's ability to continue as a going concern.

Recognizing the need to examine more comprehensive restructuring solutions, C&J sought outside strategic advice. In addition to Fried, Frank, Harris, Shriver & Jacobson LLP, which has served as C&J's debt financing counsel since 2011, to assist with exploring strategic alternatives, C&J engaged Kirkland & Ellis, LLP in March 2016 and Loeb & Loeb LLP in April 2016 as legal advisors, Evercore Group L.L.C. ("Evercore") as financial advisor in April 2016, and AlixPartners, LLP ("AlixPartners") as restructuring advisor in June 2016.

C. The Restructuring Negotiations, Temporary Waiver, and Forbearance Agreement

On May 10, 2016, C&J entered into a Temporary Limited Waiver Agreement (the "Temporary Waiver") with the Credit Agreement Agent, the members of the Steering Committee (at that time), and certain other Lenders (collectively, the "Waiver Parties"). Under the terms of the Temporary Waiver, (a) the Waiver Parties agreed that, through May 31, 2016, they would not consider C&J's failure to comply with the Minimum Cumulative Consolidated EBITDA covenant as of March 31, 2016 a breach of the Credit Agreement and (b) C&J agreed (in addition to certain other undertakings) to permanently reduce the maximum borrowing capacity under the Revolver to $300 million and otherwise continue to comply with the Credit Agreement.

While C&J actively negotiated with its key stakeholders, including Nabors, the Credit Agreement Agent, and the Steering Committee, during the Temporary Waiver period, it was ultimately unable to reach a resolution prior to the Temporary Waiver's expiration on May 31, 2016. Further, C&J, recognizing a need to preserve liquidity, sought a forbearance from the Lenders with respect to an interest payment of approximately $20 million due May 31, 2016 and certain other interest and fee obligations under the terms of the Credit Agreement. Led by the Steering Committee, the requisite Lenders agreed to grant this forbearance and, on May 31, 2016, C&J entered into a Forbearance Agreement (the "Forbearance Agreement") with the Credit Agreement Agent and the requisite Lenders (the "Forbearance Parties") under which the Forbearance Parties agreed to forbear, through June 30, 2016, from exercising any remedies under the Credit Agreement due to C&J's failure to comply with the Minimum Cumulative Consolidated EBITDA covenant and make the May 31, 2016 interest payment.

On June 30, 2016, C&J entered into a second forbearance agreement (the "Second Forbearance Agreement," and together with the Forbearance Agreement, the "Forbearance Agreements") with the Forbearance Parties that essentially extended the terms of the Forbearance Agreement to July 17, 2016, contingent on, among other things, entry into a restructuring support agreement by no later than July 8, 2016.

C&J took advantage of the time afforded by the Temporary Waiver and the Forbearance Agreements to comprehensively explore restructuring alternatives. C&J received and considered separate restructuring proposals from both the Steering Committee and Nabors (collectively, the "Proposals"). Each of them generally contemplated, among other things: (a) a substantial deleveraging of C&J's

balance sheet through the near total equitization of C&J's existing obligations under the Credit Agreement; and (b) a post-emergence capital infusion through the consummation of a $150 million to $200 million equity investment (in the case of the Steering Committee proposals, structured as a backstopped rights offering). While they may have contemplated similar post-reorganization balance sheets for C&J, there were at least two significant, categorical differences between the proposals from the Steering Committee and from Nabors. ***First***, the Steering Committee proposals were each delivered with the consent and support of a significant contingent of the Lenders, whereas the Nabors proposals, though conditioned on the willingness of Lenders to equitize their debt, did not provide any meaningful path to obtaining such necessary Lender support. ***Second***, while the Steering Committee proposals contemplated significant governance rights for the Lenders equitizing their debt, the Nabors proposals largely sought to keep control of C&J and its Board in the hands of Nabors.

Later Nabors proposals also contemplated a truncated sale process pursuant to section 363 of the Bankruptcy Code (which the Steering Committee indicated it would not support) that would result in the sale of substantially all of C&J's assets, with Nabors acting as the stalking horse, with a bid that would not provide sufficient cash to pay off C&J's secured debt under the Credit Agreement or provide recoveries on account of C&J's unsecured obligations and equity interests.

C&J ultimately negotiated a resolution—*i.e.*, the RSA—that will result in the ***complete*** equitization of its funded-debt obligations with the consent and support of a significant majority of the Lenders, facilitate a post-emergence rights offering at the top of the proposed range, and otherwise preserve and maximize C&J's value as a going concern on an enterprise-wide basis.

In the months immediately preceding the Petition Date, the Board met on 22 separate occasions to consider the Proposals and certain ancillary matters. Further, on May 26, 2016, the Board appointed a special restructuring committee (the "Special Committee") for the purpose of exploring strategic alternatives and closely monitoring the negotiations between C&J's management team and advisors and the Credit Agreement Agent, the Steering Committee, Nabors, and other potential third-party investors. In the two months immediately preceding the Petition Date, the Special Committee separately met on 18 occasions to consider the Proposals, authorize the terms of C&J's counterproposals to the Proposals, and other ancillary matters. In addition, during this time, the Debtors' management team and advisors and the Special Committee analyzed the validity of the Lenders' Claims and Liens against the Debtors as well as any potential Claims or Causes of Action that the Debtors could assert against the Prepetition Secured Parties.

On July 8, 2016, the Special Committee, after extensive analysis and discussions with C&J's management team and advisors, unanimously determined that the Plan Settlement constituted a good faith compromise and settlement of all Claims and controversies and, therefore, approved and recommended C&J's entry into the RSA to the full Board. On the same day, the Board approved C&J's entry into the RSA. Over the course of the next two weeks, the Debtors finalized preparation for the Chapter 11 Cases. Notably, on July 14, 2016, the Board approved a limited amendment to the RSA (including a corresponding amendment to the Second Forbearance Agreement), which, among other things, (a) effectively allowed non-Steering Committee Lenders to participate in the Proposed DIP Financing and (b) extended the terms of the Second Forbearance through July 20, 2016. On July 20, 2016 (*i.e.*, the Petition Date), after further analysis and discussions with C&J's management team and advisors, the Special Committee recommended and the full Board ultimately approved the Debtors' chapter 11 filings and, in accordance with the first Milestone, the Debtors commenced the Chapter 11 Cases.

D. The RSA and DIP Facility

As part of the RSA, certain of the Lenders (in their capacity as DIP Facility Lenders) agreed to fund the DIP Facility. The DIP Facility provides the Debtors with postpetition financing in the form of a senior secured, superpriority delayed-draw term loan credit facility in the aggregate principal amount of $100 million. The DIP Facility also contemplates consensual use of the Lenders' cash collateral. Based on the analysis C&J's management team and advisors, DIP Facility is on the most favorable terms available in light of the circumstances of the Chapter 11 Cases and the current market for such financing. The DIP Facility provides the Debtors with sufficient liquidity to stabilize their operations and fund the administration of the Chapter 11 Cases as the Debtors seek to implement the restructuring contemplated by the RSA. On July 25, 2016, the Bankruptcy Court entered the Interim DIP Order, approving the DIP Facility on an interim basis. The DIP Facility closed on July 29, 2016 and the Debtors made an initial draw of $25 million thereunder. On September 25, 2016, the Bankruptcy Court approved the DIP Facility on a final basis.

The RSA and Plan provide for the reorganization of the Debtors as a going concern with a deleveraged capital structure and sufficient liquidity to fund the Debtors' postpetition business plan. The cornerstone of the reorganization contemplated by the RSA and Plan is the full equitization of the Debtors' existing obligations under the Credit Agreement. Further, the liquidity contemplated by the RSA—including the $200 million Rights Offering committed thereunder and, to the extent applicable, the Exit Facility—will be sufficient to fund the debtors' post-emergence operations.

The Debtors filed the Chapter 11 Cases to implement their prearranged restructuring pursuant to the terms of the RSA, enhance liquidity, and bolster their long-term growth prospects and operating performance. The Plan represents the successful culmination of months of restructuring efforts and numerous compromises and concessions by the Supporting Creditors, and gives the Debtors the best opportunity to withstand current adverse market conditions, generate sufficient liquidity to fund their operations, and maximize value for the benefit of their stakeholders.

E. Bermudian and Canadian Proceedings

In addition to the Chapter 11 Cases, the Bermudian Debtors and Canadian Debtors have commenced foreign insolvency proceedings so that C&J may effectuate an enterprise-wide restructuring and otherwise protect its foreign assets and operations. Specifically, contemporaneously with the Debtors' commencing the Chapter 11 Cases, the Bermudian Debtors commenced "provisional liquidation" proceedings (*i.e.*, the Bermudian Proceedings) pursuant to sections 161 and 170 of the Bermuda Companies Act 1981 by presenting "winding up" petitions to the Bermudian Court. On July 22, 2016, the Bermudian Court appointed "joint provisional liquidators." The joint provisional liquidators will act as officers of the Bermudian Court to oversee the reorganization of the Bermudian Debtors. The joint provisional liquidators were appointed with "limited" powers, such that C&J's management team and the Board will remain in control of C&J's day-to-day operations and the Chapter 11 Cases (and likewise for C&J Corporate Services (Bermuda) Ltd.). The joint provisional liquidators are empowered to oversee and otherwise liaise with the existing Board of C&J Energy (and C&J Corporate Services (Bermuda) Ltd.) in administering the Chapter 11 Cases. The joint provisional liquidators will provide written reports to the Bermuda Court from time to time, or as the Bermuda Court requests, on the progress of the Chapter 11 Cases. A statutory stay of proceedings in Bermuda against the Bermudian Debtors or their assets automatically arose upon the appointment of the joint provisional liquidators. On August 26, 2016, the Bermudian Court entered an order postponing the Bermudian Debtors' petitions for an initial period of six months, while the Debtors administer the Chapter 11 Cases. If deemed appropriate, the joint provisional liquidators may pursue a parallel scheme or schemes of arrangement to give effect to the Chapter 11 Cases or to any Restructuring Transactions thereto.

Similarly, in light of C&J's substantial Canadian assets and operations, Canadian Debtor C&J Energy Production Services-Canada Ltd. ("C&J Canada") commenced proceedings (the "Canadian Proceedings") under the *Companies' Creditors Arrangement Act* (the "CCAA") in Canada, and requested that the Canadian Court recognize the Chapter 11 Cases of the Canadian Debtors as "foreign main proceedings" under Part IV of the CCAA—similar to the chapter 15 process under the Bankruptcy Code. To commence the Canadian Proceedings, C&J Canada filed a motion with and was authorized by the Bankruptcy Court to act as the Canadian Debtors' "foreign representative," as required under the CCAA. Shortly after the First Day Motions were approved by the Bankruptcy Court, the Canadian Court entered orders granting certain relief requested in the Canadian Proceedings, including the appointment of C&J Canada as foreign representative of the Canadian Debtors, recognition of the Chapter 11 Cases of the Canadian Debtors as "foreign main proceedings," granting a stay of proceedings in favor of the Canadian Debtors, restricting the sale or disposal of assets by the Canadian Debtors, restraining Canadian Debtor vendors from discontinuing, altering, interfering with or terminating the supply of goods or services, appointing Ernst & Young Inc. as an Information Officer, and recognizing certain of the orders entered by the Bankruptcy Court in Canada, including the Interim DIP Order. As with the Bermudian Proceedings, the Canadian Proceedings will be ancillary in nature to the Chapter 11 Cases, which will be the focus of the Debtors' restructuring efforts.

VII. MATERIAL DEVELOPMENTS AND ANTICIPATED EVENTS OF THE CHAPTER 11 CASES

A. Corporate Structure upon Emergence

Except as otherwise provided in the Plan or any agreement, instrument, or other document incorporated in the Plan or the Plan Supplement, on the Effective Date, each Debtor shall continue to exist after the Effective Date as a separate corporate entity, limited liability company, partnership, or other form of entity, as the case may be, with all the powers of a corporation, limited liability company, partnership, or other form of entity, as the case may be, pursuant to the applicable law in the jurisdiction in which each applicable Debtor is incorporated or formed and pursuant to the respective certificate of incorporation and by-laws (or other analogous formation documents) in effect before the Effective Date, except to the extent such certificate of incorporation and bylaws (or other analogous formation documents) are amended by the Plan or otherwise, and to the extent such documents are amended, such documents are deemed to be amended pursuant to the Plan and require no further action or approval (other than any requisite filings required under applicable state, provincial, or federal law).

B. Expected Timetable of the Chapter 11 Cases

The Debtors expect the Chapter 11 Cases to proceed quickly. Should the Debtors' projected timelines prove accurate, the Debtors could emerge from chapter 11 approximately five months after the Petition Date. Under the terms of the RSA and the DIP Facility, the Debtors are required to administer the Chapter 11 Cases in accordance with the Milestones, including exiting the Chapter 11 Cases. **No assurances can be made, however, that the Bankruptcy Court will enter various orders on the timetable anticipated by the Debtors.**

C. First Day Relief

On the Petition Date, along with their voluntary petitions for relief under chapter 11 of the Bankruptcy Code (the "<u>Petitions</u>"), the Debtors filed several motions (the "<u>First Day Motions</u>") designed to facilitate the administration of the Chapter 11 Cases and minimize disruption to the Debtors' operations, by, among other things, easing the strain on the Debtors' relationships with employees, vendors, and customers following the commencement of the Chapter 11 Cases. A brief description of each of the First Day Motions and the evidence in support thereof is set forth in the *Declaration of Mark Cashiola in Support of the Debtors' Chapter 11 Petitions and First Day Motions* [Docket No. 20], filed on July 20, 2016. Significantly, pursuant to the First Day Motions, the Debtors sought and were granted the authority to pay the Claims a number of their vendors in full, in the regular course business, including Mineral Contractor Claims.

The First Day Motions, the First Day Declaration, and all orders for relief granted in the Chapter 11 Cases, can be viewed free of charge at https://www.donlinrecano.com/cjenergy.

D. Other Procedural and Administrative Motions

The Debtors also filed several other motions subsequent to the Petition Date to further facilitate the smooth and efficient administration of the Chapter 11 Cases and reduce the administrative burdens associated therewith, including:

- <u>Ordinary Course Professionals Motion</u>. On August 10, 2016, the Debtors filed the Motion of CJ Holding Co., et al., for Entry of an Order Authorizing the Retention and Compensation of Certain Professionals Utilized in the Ordinary Course of Business [Docket No. 164] (the "<u>OCP Motion</u>"). The OCP Motion seeks to establish procedures for the retention and compensation of certain professionals utilized by the Debtors in the ordinary course operation of their businesses. On September 12, 2016, the Bankruptcy Court entered an order granting the OCP Motion [Docket No. 422].

- <u>Retention Applications</u>. On August 10, 2016, the Debtors filed a number of applications seeking to retain certain professionals postpetition pursuant to sections 327 and 328 of the Bankruptcy Code, including Kirkland & Ellis, LLP, Loeb & Loeb LLP, and Fried, Frank, Harris, Shriver & Jacobson LLP as legal counsel, Evercore as financial advisor, AlixPartners as restructuring advisor, and KPMG LLP as auditor (collectively, the "<u>Retention Applications</u>"). Between September 2, 2016 and September 12, 2016, the Bankruptcy Court approved each of the Retention Applications. The foregoing professionals are, in part, responsible for the administration of the Chapter 11 Cases. The postpetition compensation of all of the Debtors' professionals retained pursuant to sections 327 and 328 of the Bankruptcy Code is subject to the approval of the Bankruptcy Court.

E. The Nabors Proposal and Approval of the DIP Facility

Based on the Debtors' need for debtor-in-possession financing and their conclusion that the DIP Facility represents the best terms available, on the Petition Date, the Debtors filed a motion seek authorization to enter into the DIP Facility on an interim and final basis (the "<u>DIP Facility Motion</u>"). On July 21, 2016 (*i.e.*, the day after the Petition Date), Nabors filed an objection to the DIP Facility Motion, arguing that financing was available on better terms, from Nabors. In connection with its objection, Nabors submitted to the Debtors and filed with the Bankruptcy Court a term sheet outlining the terms of proposed debtor-in-possession financing and a proposed restructuring process (the "<u>Nabors Proposal</u>"). Nabors subsequently filed a supplemental objection, reaffirming the arguments raised in its initial objection, and provided the Debtors with a series of revised proposals (together with the Nabors Proposal, the "<u>Nabors Proposals</u>"). Following due consideration, the Debtors determined that attempting to pursue the Nabors Proposals would not be in the best interests of the Estates or a sound exercise of the Debtors' business judgment and would not merit exercise of the Debtors' "fiduciary out" under the RSA or risking the termination of the highly beneficial terms of the RSA or the DIP Facility. Based on the Debtors' analysis, the Nabors Proposals did not contain more favorable terms than the DIP Facility. Further, the

Nabors Proposals lacked the requisite documentation to be considered an actionable alternative and the Credit Agreement Agent and Lenders party to the RSA indicated that they would not support the Nabors Proposals. The Debtors thus determined to proceed with the DIP Facility and DIP Facility Motion. As discussed above, on July 25, 2016, the Bankruptcy Court entered the Interim DIP Order.

On August 18, 216, certain state and local taxing authorities (the "Taxing Authorities") filed two separate objections to the DIP Facility Motion. After discussions with the Debtors, the Taxing Authorities agreed to withdraw their objections. On September 23, 2016, the Taxing Authorities filed notices of withdrawal of their objections.

On September 2, 2016, the Committee (as defined below) filed an objection to the DIP Facility Motion, raising a number of purported issues with the terms of the DIP Facility. The Debtors, the Committee, and the Lenders ultimately negotiated and agreed to a number of modifications to the Final DIP Order and the DIP Documents to resolve the Committee's objection. On September 22, 2016, the Committee filed a notice of withdrawal of its objection to the DIP Facility Motion.

On September 22, 2016, after extensive discussions, Nabors agreed to withdraw its objection to the DIP Facility Motion and filed its notice of withdrawal on the same day. On September 25, 2016, the Bankruptcy Court entered the Final DIP Order approving the DIP Facility on a final basis.

F. Consideration of Alternative Proposals

The Debtors may determine to terminate the RSA if the board of directors or board of managers, as applicable, of any Debtor entity determines, after receiving advice from counsel, that proceeding with the transactions contemplated by the RSA (including the Plan or solicitation of the Plan) would be inconsistent with the exercise of their fiduciary duties.

G. Schedules and Statements

On September 2, 2016, the Debtors filed their Schedules of Assets and Liabilities and Statement of Financial Affairs [Docket Nos. 311–40].

H. Appointment of Official Committee

On August 2, 2016, the U.S. Trustee filed the *Appointment of Unsecured Creditors Committee* [Docket No. 142], notifying parties in interest that the U.S. Trustee had appointed a statutory committee of unsecured creditors (the "Committee") in the Chapter 11 Cases. The Committee is currently composed of the following members: GEODynamics, Inc.; Global Tubing, LLC; Specialty Welding & Machine; Owen Oil Tools LP; and Hunting Titan, Inc.. The Committee has retained Greenberg Traurig, LLP as its legal counsel and Conway Mackenzie, Inc. and Carl Marks & Co. as its financial advisors.

I. Litigation Matters

In the ordinary course of business, the Debtors are parties to certain lawsuits, legal proceedings, collection proceedings, and claims arising out of their business operations. The Debtors cannot predict with certainty the outcome of these lawsuits, legal proceedings, and claims.

With certain exceptions, the filing of the Chapter 11 Cases operates as a stay with respect to the commencement or continuation of litigation against the Debtors that was or could have been commenced before the commencement of the Chapter 11 Cases. In addition, the Debtors' liability with respect to litigation stayed by the commencement of the Chapter 11 Cases generally is subject to discharge, settlement, and release upon confirmation of a plan under chapter 11, with certain exceptions.

Therefore, certain litigation Claims against the Debtors may be subject to discharge in connection with the Chapter 11 Cases.

J. Rejection and Assumption of Executory Contracts and Unexpired Leases

Prior to the Petition Date and in the ordinary course of business, the Debtors entered into over one thousand Executory Contracts and Unexpired Leases. The Debtors, with the assistance of their advisors, have reviewed and will continue to review the Executory Contracts and Unexpired Leases to identify contracts and leases to either assume or reject pursuant to sections 365 or 1123 of the Bankruptcy Code. The Debtors intend to include information in the Plan Supplement regarding the assumption or rejection of the remainder of their Executory Contracts and Unexpired Leases to be carried out as of the Effective Date, but may also elect to file additional discrete motions seeking to assume or reject various of the Debtors' Executory Contracts and Unexpired Leases before such time.

Although their analysis is ongoing, the Debtors currently estimate that the aggregate amount of Claims on account of rejection of Executory Contracts and Unexpired Leases may be significant.

K. Exit Facility Negotiations

As of the date hereof, the Debtors have begun the process of soliciting potential Exit Facility lenders. This process includes providing informational materials and holding informal discussions to gauge interest. As of the date hereof, the Debtors have made no decisions regarding the necessity of and Exit Facility or the identity of the Exit Facility lenders.

L. The Ad Hoc Equity Group

On October 13, 2016, certain holders of Interests in C&J Energy (the "Ad Hoc Equity Group") submitted a letter to the U.S. Trustee requesting appointment of an official committee of equity security holders pursuant to section 1102(a) of the Bankruptcy Code. On October 21, 2016, the Debtors submitted a letter to the U.S. Trustee in opposition to the Ad Hoc Equity Group's request for an official committee of equity security holders, arguing, among other things, that holders of Interests in C&J Energy are between $576.5 million and $887.6 million out of the money in the Chapter 11 Cases and thus cannot meet the applicable standard under section 1102(a)—*i.e.*, that there is a substantial likelihood that holders of Interests in C&J Energy will receive a meaningful distribution in the Chapter 11 Cases.

On October 24, 2016, the U.S. Trustee sent a letter to the Ad Hoc Equity Group declining to appoint an official committee of equity security holders. On that same day, the Ad Hoc Equity Group filed their *Emergency Motion to Appoint an Official Committee of Equity Security Holders Pursuant to 11 U.S.C. § 1102* [Docket No. 623] seeking appointment of an official committee of equity security holders. On October 26, 2016, the U.S. Trustee filed a statement in the Chapter 11 Cases opposing the Ad Hoc Equity Group's motion [Docket No. 628], arguing that the Ad Hoc Equity Group had failed to satisfy its burden under section 1102(a)(2) of the Bankruptcy Code. Since the Valuation Analysis attached hereto as **Exhibit H** indicates that holders of Interests in C&J Energy are between $576.5 million and $887.6 million out of the money in the Chapter 11 Cases, the Debtors expect to continue to oppose any efforts to seek appointment of an official committee of equity security holders.

The Ad Hoc Equity Group also formally opposed the motion seeking approval of this Disclosure Statement and the related Solicitation Procedures. The Ad Hoc Equity Group argued that the Valuation Analysis does not contain adequate information, as required by section 1125 of the Bankruptcy Code, for holders of Claims or Interests entitled to vote on the Plan to make an informed judgment with respect their decision of whether to accept or reject the Plan. The Ad Hoc Equity Group further argued that this

Disclosure Statement does not contain adequate information regarding the 2015 merger transaction, the Lenders, and certain other matters. The Debtors disagree.

The Debtors anticipate that the Ad Hoc Equity Group will oppose confirmation of the Plan based on certain contentions regarding the Debtors' enterprise valuation. The Debtors' believe that the Valuation Analysis accurately reflects the Debtors' enterprise valuation and supports confirmation of the Plan. The Debtors are prepared to prove such belief is correct at the Confirmation Hearing.

M. Investigation of Certain Avoidance Actions

In connection with their formulation of the Plan, the Debtors undertook substantial analysis of certain avoidance actions arising under chapter 5 of the Bankruptcy Code, including any avoidance actions arising out of the 2015 merger transaction. Specifically, the Debtors analyzed whether the merger transaction constituted a fraudulent transfer under section 548 of the Bankruptcy Code. Ultimately the Debtors determined that any such avoidance action related to the merger transaction is highly unlikely to succeed.

To succeed on a fraudulent transfer action premised on section 548 of the Bankruptcy Code, the plaintiff must prove, as is relevant here, that the transferring debtor (a) was insolvent at the time of the transfer and (b) received less that reasonably equivalent value as a result of the transfer. Based on the Debtors' analysis, the Debtors were solvent at the time of the merger transaction because, as of the date of the merger transaction: (a) the fair market value of the Debtors' assets exceeded their total liabilities (*i.e.*, the Debtors passed the "balance sheet test"); (b) the Debtors were able to pay their debts as they came due; and (c) the Debtors had adequate capital funding. According to the Debtors' analysis, the Debtors likely did not become insolvent until early 2016, well after the merger transaction was consummated. Finally, the Debtors determined that the Legacy C&J shareholders received adequate consideration in connection with the merger transaction. Additionally, the merger transaction is potentially protected from challenge under certain "safe harbors" contained in the Bankruptcy Code. Accordingly, a hypothetical plaintiff is highly unlikely to succeed in challenging the merger transaction as a fraudulent transfer.

Thus, the Debtors are satisfied that the settlement of any Causes of Action arising out of the merger transaction, as well as other Causes of Action settled pursuant to the Plan, is a proper exercise of their business judgment and fair and equitable to their bankruptcy estates. Settlement of such Causes of Action maximizes the Debtors' fresh start upon emergence from chapter 11 and facilitates an efficient, cost-effective confirmation process.

N. Settlement with the Committee

The Debtors have reached a comprehensive settlement with the Committee. The material terms of the settlement are as follows:

- the Debtors will increase the aggregate Cash consideration paid to holders of Unsecured Claims to $33 million, which amount will be split between the Convenience Class Recovery Pool (in an amount not to exceed $2.5 million) and the Unsecured Creditor Cash Pool (in an amount not less than $30.5 million);
- the Debtors will divide the New Warrants into the Unsecured Creditor New Warrants (exercisable into up to four percent of the New Common Stock), which will be included in the Unsecured Creditor Recovery Pool, and the Interest Holder New Warrants (exercisable into up to two percent

of the New Common Stock), which will be distributed, as applicable, to holders of Interests in C&J Energy;

- on the Effective Date, the Debtors and the Committee will enter into the Unsecured Creditor Agreement, which will govern certain aspects of the post-Effective Date reconciliation, objection, settlement, and distribution of General Unsecured Claims and which contemplates appointment of an Unsecured Claims Representative (that will be granted certain consultation rights and standing to object to certain Claims), all as described more fully in Article VI.F of the Plan;

- the Committee will agree to (a) support and take actions necessary to obtain Bankruptcy Court approval of the Plan and Disclosure Statement, (b) not object to the Debtors' senior executive incentive plan, as modified by the Debtors and the Required Supporting Creditors, and (c) abate all discovery requests and suspend all discovery efforts with respect to the Debtors, the holders of Lender Claims, and their respective representatives; and

- the Debtors, the Committee, and the Supporting Creditors will agree to toll the Challenge Period indefinitely, subject to certain limitations.

This foregoing settlement represents a significant step forward in the Chapter 11 Cases. The compromises and settlements to be implemented pursuant to the Plan preserve value by enabling the Debtors to avoid costly and time-consuming litigation with the Committee that could delay the Debtors' emergence from chapter 11. Included with this Disclosure Statement is a letter from the Committee urging holders of Unsecured Claims to vote in favor of the Plan.

VIII. RISK FACTORS

Holders of Claims should read and consider carefully the risk factors set forth below before voting to accept or reject the Plan. Although there are many risk factors discussed below, these factors should not be regarded as constituting the only risks present in connection with the Debtors' businesses or the Plan and its implementation.

A. Bankruptcy Law Considerations

The occurrence or non-occurrence of any or all of the following contingencies, and any others, could affect distributions available to holders of Allowed Claims under the Plan but will not necessarily affect the validity of the vote of the Impaired Classes to accept or reject the Plan or necessarily require a re-solicitation of the votes of holders of Claims in such Impaired Classes.

1. Parties in Interest May Object to the Plan's Classification of Claims and Interests

Section 1122 of the Bankruptcy Code provides that a plan may place a claim or an equity interest in a particular class only if such claim or equity interest is substantially similar to the other claims or equity interests in such class. The Debtors believe that the classification of the Claims and Interests under the Plan complies with the requirements set forth in the Bankruptcy Code because the Debtors created Classes of Claims and Interests each encompassing Claims or Interests, as applicable, that are substantially similar to the other Claims or Interests, as applicable, in each such Class. Nevertheless, there can be no assurance that the Bankruptcy Court will reach the same conclusion.

Nabors objected to the classification of the Deficiency Lender Claims in the same class as other General Unsecured Claims. According to Nabors, such classification constitutes class gerrymandering in violation of section 1126(a) of the Bankruptcy Code. The Debtors disagree. The Debtors view the Deficiency Lender Claims as substantially similar to other General Unsecured Claims in this instance and feel they are obligated under the Bankruptcy Code to classify Deficiency Lender Claims with other General Unsecured Claims.

2. The Conditions Precedent to the Effective Date of the Plan May Not Occur

As more fully set forth in Article IX of the Plan, the Effective Date of the Plan is subject to a number of conditions precedent. If such conditions precedent are waived or not met, the Effective Date will not take place.

3. The Debtors May Fail to Satisfy Vote Requirements

If votes are received in number and amount sufficient to enable the Bankruptcy Court to confirm the Plan, the Debtors intend to seek, as promptly as practicable thereafter, Confirmation of the Plan. In the event that sufficient votes are not received, the Debtors may seek to confirm an alternative chapter 11 plan or transaction. There can be no assurance that the terms of any such alternative chapter 11 plan or other transaction would be similar or as favorable to the holders of Interests and Allowed Claims as those proposed in the Plan and the Debtors do not believe that any such transaction exists or is likely to exist that would be more beneficial to the Estates than the Plan.

4. The Debtors May Not Be Able to Secure Confirmation of the Plan

Section 1129 of the Bankruptcy Code sets forth the requirements for confirmation of a chapter 11 plan, and requires, among other things, a finding by the Bankruptcy Court that: (a) such plan "does not unfairly discriminate" and is "fair and equitable" with respect to any non-accepting classes; (b) confirmation of such plan is not likely to be followed by a liquidation or a need for further financial reorganization unless such liquidation or reorganization is contemplated by the plan; and (c) the value of distributions to non-accepting holders of claims or equity interests within a particular class under such plan will not be less than the value of distributions such holders would receive if the debtors were liquidated under chapter 7 of the Bankruptcy Code.

There can be no assurance that the requisite acceptances to confirm the Plan will be received. Even if the requisite acceptances are received, there can be no assurance that the Bankruptcy Court will confirm the Plan. A non-accepting holder of an Allowed Claim might challenge either the adequacy of this Disclosure Statement or whether the balloting procedures and voting results satisfy the requirements of the Bankruptcy Code or Bankruptcy Rules. Even if the Bankruptcy Court determines that this Disclosure Statement, the balloting procedures, and voting results are appropriate, the Bankruptcy Court could still decline to confirm the Plan if it finds that any of the statutory requirements for Confirmation are not met. If a chapter 11 plan of reorganization is not confirmed by the Bankruptcy Court, it is unclear whether the Debtors will be able to reorganize their business and what, if anything, holders of Interests and Allowed Claims against them would ultimately receive.

The Debtors, subject to the terms and conditions of the Plan and the RSA (including the requirement that the Plan be in form and substance acceptable to the Required Supporting Creditors), reserve the right to modify the terms and conditions of the Plan as necessary for Confirmation. Any such modifications could result in less favorable treatment of any non-accepting class of Claims or Interests, as well as any class junior to such non-accepting class, than the treatment currently provided in the Plan. Such a less favorable treatment could include a distribution of property with a lesser value than currently provided in the Plan or no distribution whatsoever under the Plan.

5. Nonconsensual Confirmation

In the event that any impaired class of claims or interests does not accept a chapter 11 plan, a bankruptcy court may nevertheless confirm a plan at the proponents' request if at least one impaired class (as defined under section 1124 of the Bankruptcy Code) has accepted the plan (with such acceptance being determined without including the vote of any "insider" in such class), and, as to each impaired class that has not accepted the plan, the bankruptcy court determines that the plan "does not discriminate unfairly" and is "fair and equitable" with respect to the dissenting impaired class(es). The Debtors believe that the Plan satisfies these requirements, and the Debtors may request such nonconsensual Confirmation in accordance with subsection 1129(b) of the Bankruptcy Code. Nevertheless, there can be no assurance that the Bankruptcy Court will reach this conclusion. In addition, the pursuit of nonconsensual Confirmation or Consummation of the Plan may result in, among other things, increased expenses relating to professional compensation.

6. Continued Risk upon Confirmation

Even if the Plan is consummated, the Debtors will continue to face a number of risks, including certain risks that are beyond their control, such as further deterioration or other changes in economic conditions, changes in the industry, potential revaluing of their assets due to chapter 11 proceedings, changes in demand for oil and natural gas (and thus demand for the services the Debtors provide), and increasing expenses. See Article VIII.C of this Disclosure Statement, entitled "Risks Related to the Debtors' and the Reorganized Debtors' Businesses," which begins on page 51. Some of these concerns and effects typically become more acute when a case under the Bankruptcy Code continues for a protracted period without indication of how or when the case may be completed. As a result of these risks and others, there is no guarantee that a chapter 11 plan of reorganization reflecting the Plan will achieve the Debtors' stated goals.

In addition, at the outset of the Chapter 11 Cases, the Bankruptcy Code provides the Debtors with the exclusive right to propose the Plan and prohibits creditors and others from proposing a plan. The Debtors will have retained the exclusive right to propose the Plan upon filing their Petitions. If the Bankruptcy Court terminates that right, however, or the exclusivity period expires, there could be a material adverse effect on the Debtors' ability to achieve confirmation of the Plan in order to achieve the Debtors' stated goals.

Furthermore, even if the Debtors' debts are reduced and/or discharged through the Plan, the Debtors may need to raise additional funds through public or private debt or equity financing or other various means to fund the Debtors' businesses after the completion of the proceedings related to the Chapter 11 Cases. Adequate funds may not be available when needed or may not be available on favorable terms.

7. The Chapter 11 Cases May Be Converted to Cases under Chapter 7 of the Bankruptcy Code

If the Bankruptcy Court finds that it would be in the best interest of creditors and/or the debtor in a chapter 11 case, the Bankruptcy Court may convert a chapter 11 bankruptcy case to a case under chapter 7 of the Bankruptcy Code. In such event, a chapter 7 trustee would be appointed or elected to liquidate the debtor's assets for distribution in accordance with the priorities established by the Bankruptcy Code. The Debtors believe that liquidation under chapter 7 would result in significantly smaller distributions being made to creditors than those provided for in a chapter 11 plan because of (a) the likelihood that the assets would have to be sold or otherwise disposed of in a disorderly fashion over a short period of time, when commodities prices are at historically low levels, rather than reorganizing or selling the business as a going concern at a later time in a controlled manner,

(b) additional administrative expenses involved in the appointment of a chapter 7 trustee, and (c) additional expenses and Claims, some of which would be entitled to priority, that would be generated during the liquidation, including Claims resulting from the rejection of Unexpired Leases and other Executory Contracts in connection with cessation of operations.

8. The Debtors May Object to the Amount or Classification of a Claim

Except as otherwise provided in the Plan, the Debtors reserve the right to object to the amount or classification of any Claim under the Plan. The estimates set forth in this Disclosure Statement cannot be relied upon by any holder of a Claim where such Claim is subject to an objection. Any holder of a Claim that is subject to an objection thus may not receive its expected share of the estimated distributions described in this Disclosure Statement.

9. Risk of Non-Occurrence of the Effective Date

Although the Debtors believe that the Effective Date may occur quickly after the Confirmation Date, there can be no assurance as to such timing or as to whether the Effective Date will, in fact, occur.

10. Contingencies Could Affect Votes of Impaired Classes to Accept or Reject the Plan

The distributions available to holders of Allowed Claims under the Plan can be affected by a variety of contingencies, including, without limitation, whether the Bankruptcy Court orders certain Allowed Claims to be subordinated to other Allowed Claims. The occurrence of any and all such contingencies, which could affect distributions available to holders of Allowed Claims under the Plan, will not affect the validity of the vote taken by the Impaired Classes to accept or reject the Plan or require any sort of revote by the Impaired Classes.

The estimated Claims and creditor recoveries set forth in this Disclosure Statement are based on various assumptions, and the actual Allowed amounts of Claims may significantly differ from the estimates. Should one or more of the underlying assumptions ultimately prove to be incorrect, the actual Allowed amounts of Claims may vary from the estimated Claims contained in this Disclosure Statement. Moreover, the Debtors cannot determine with any certainty at this time, the number or amount of Claims that will ultimately be Allowed. Such differences may materially and adversely affect, among other things, the percentage recoveries to holders of Allowed Claims under the Plan.

11. Releases, Injunctions, and Exculpations Provisions May Not Be Approved

Article VIII of the Plan provides for certain releases, injunctions, and exculpations, including a release of liens and third-party releases that may otherwise be asserted against the Debtors, Reorganized Debtors, or Released Parties, as applicable. The releases, injunctions, and exculpations provided in the Plan are subject to objection by parties in interest and may not be approved. If the releases are not approved, certain Released Parties may withdraw their support for the Plan.

The releases provided to the Released Parties and the exculpation provided to the Exculpated Parties is necessary to the success of the Debtors reorganization because the Released Parties and Exculpated Parties have made significant contributions to the Debtors' reorganizational efforts and have agreed to make further contributions, including by agreeing to massive reductions in the amounts of their claims against the Debtors' estates and facilitating a critical source of post-emergence liquidity by backstopping Rights Offering, but only if they receive the full benefit of the Plan's release and exculpation provisions. The Plan's release and exculpation provisions are an inextricable component of the RSA and Plan and the significant deleveraging and financial benefits that they embody.

B. Risks Related to Recoveries under the Plan

1. The Total Amount of Allowed General Unsecured Claims May Be Higher Than Anticipated By the Debtors

With respect to holders of Allowed General Unsecured Claims and Unsecured Convenience Class Claims, the claims filed against the Debtors' estates may be materially higher than the Debtors have estimated.

2. The Reorganized Debtors May Not Be Able to Achieve their Projected Financial Results

The Reorganized Debtors may not be able to achieve their projected financial results. The Financial Projections set forth in this Disclosure Statement represent the Debtors' management team's best estimate of the Debtors' future financial performance, which is necessarily based on certain assumptions regarding the anticipated future performance of the Reorganized Debtors' operations, as well as the United States and world economies in general, and the industry segments in which the Debtors operate in particular. While the Debtors believe that the Financial Projections contained in this Disclosure Statement are reasonable, there can be no assurance that they will be realized. If the Debtors do not achieve their projected financial results, the value of the New Common Stock may be negatively affected and the Debtors may lack sufficient liquidity to continue operating as planned after the Effective Date. Moreover, the financial condition and results of operations of the Reorganized Debtors from and after the Effective Date may not be comparable to the financial condition or results of operations reflected in the Debtors' historical financial statements.

3. A Liquid Trading Market for the Shares of New Common Stock or New Warrants (as applicable) May Not Develop

Although the Debtors and the Reorganized Debtors intend to apply to relist the New Common Stock on a national securities exchange on or as soon as reasonably practicable after the Effective Date, the Debtors make no assurance that they will be able to obtain this listing or, even if the Debtors do, that liquid trading markets for shares of New Common Stock will develop. The liquidity of any market for shares of New Common Stock or the New Warrants (as applicable) will depend upon, among other things, the number of holders of shares of New Common Stock, Reorganized C&J Energy's financial performance, and the market for similar securities, none of which can be determined or predicted. Accordingly, there can be no assurance that an active trading market for the New Common Stock or New Warrants (as applicable) will develop, nor can any assurance be given as to the liquidity or prices at which such securities might be traded. In the event an active trading market does not develop, the ability to transfer or sell New Common Stock or New Warrants (as applicable) may be substantially limited.

4. The Trading Price for the Shares of New Common Stock or the New Warrants May Be Depressed Following the Effective Date

Assuming that the Effective Date occurs, shares of New Common Stock and New Warrants (as applicable) will be issued to holders of certain Classes of Claims or Interests (as applicable). Following the Effective Date of the Plan, shares of New Common Stock and New Warrants (as applicable) may be sold to satisfy withholding tax requirements. In addition, holders of Claims or Interests (as applicable) that receive shares of New Common Stock or New Warrants (as applicable) may seek to sell such securities in an effort to obtain liquidity. These sales and the volume of New Common Stock available for trading could cause the trading price for the shares of New Common Stock or the New Warrants (as applicable) to be depressed, particularly in the absence of an established trading market for the New Common Stock or the New Warrants (as applicable).

5. If the New Warrants are Exercised, the Underlying Shares of New Common Stock Will Be Eligible for Future Resale in the Public Market, Which Could Lead to "Market Overhang," Resulting in Dilution and Potentially Depressing the Trading Price of the New Common Stock

If the New Warrants are issued and become exercisable, a substantial number of additional shares of New Common Stock could be eligible for resale in the public market, which could depress the trading price of the New Common Stock. Reorganized C&J Energy also may grant options and equity awards pursuant to the Management Incentive Plan and may grant additional options, warrants, or other convertible securities in the future. The exercise or conversion of the New Warrants (as applicable) or other options or convertible securities will dilute the percentage ownership of other holders of the New Common Stock. If holders of the New Common Stock sell substantial amounts of New Common Stock, shares issued upon the exercise of the New Warrants (as applicable), or other outstanding options or convertible securities in the public market, it could create a circumstance commonly referred to as an "overhang" and, in anticipation of which, the trading price of the New Common Stock could fall. An overhang may adversely affect Reorganized C&J Energy's ability to obtain financing on reasonable and acceptable terms whether or not sales have occurred or are occurring.

6. Certain Holders of New Common Stock or New Warrants May Be Restricted in their Ability to Transfer or Sell their Securities

To the extent that shares of the New Common Stock or New Warrants (as applicable) issued under the Plan is covered by section 1145(a)(1) of the Bankruptcy Code, such securities may be resold by the holders thereof without registration under the Securities Act unless the holder is an "underwriter," as defined in section 1145(b) of the Bankruptcy Code with respect to such securities. Resales by holders of Claims or Interests (as applicable) who receive New Common Stock or New Warrants (as applicable) pursuant to the Plan that are deemed to be "underwriters" would not be exempted by section 1145 of the Bankruptcy Code from registration under the Securities Act or applicable law. Such holders would only be permitted to sell such securities without registration if they are able to comply with an applicable exemption from registration, including Rule 144 under the Securities Act.

The New Common Stock and the New Warrants (as applicable) may not initially be registered under the Securities Act or any state securities laws, and the Debtors make no representation regarding the right of any holder of New Common Stock or New Warrants (as applicable) to freely resell the New Common Stock (including, as applicable, shares issuable upon exercise of the New Warrants) or the New Warrants (as applicable). *See* Article XII to this Disclosure Statement, entitled "Certain Securities Law Matters," which begins on page 63.

7. Restricted Securities Issued under the Plan May Not Be Resold or Otherwise Transferred Unless They Are Registered Under the Securities Act or an Exemption from Registration Applies

To the extent that securities issued pursuant to the Plan are not covered by section 1145(a)(1) of the Bankruptcy Code, such securities shall be issued pursuant to section 4(a)(2) under the Securities Act and will be deemed "restricted securities" that may not be sold, exchanged, assigned or otherwise transferred unless they are registered, or an exemption from registration applies, under the Securities Act. Holders of such restricted securities may not be entitled to have their restricted securities registered and will be required to agree not to resell them except in accordance with an available exemption from registration under the Securities Act. Under Rule 144, the public resale of restricted securities is permitted if certain conditions are met, and these conditions vary depending on whether the holder of the restricted securities is an "affiliate" of the issuer, as defined in Rule 144. A non-affiliate who has not been an affiliate of the issuer during the preceding three months may resell restricted securities after a six-month holding period unless certain current public information regarding the issuer is not available at the time of sale, in which case the non-affiliate may resell after a one-year holding period. An affiliate may resell restricted securities after a six-month holding period but only if certain current public information regarding the issuer is available at the time of the sale and only if the affiliate also complies with the volume, manner of sale and notice requirements of Rule 144. While the Debtors currently expect that the current public information requirement will be met when the six-month holding period expires, they cannot guarantee that resales of the restricted securities will qualify for an exemption from registration under Rule 144. In any event, holders of restricted securities should expect to be required to hold their restricted securities for at least six months.

Holders of New Common Stock or New Warrants (as applicable) who are deemed to be "underwriters" under Section 1145(b) of the Bankruptcy Code will also be subject to restrictions under the Securities Act on their ability to resell those securities. Resale restrictions are discussed in more detail in Article XII to this Disclosure Statement, entitled "Certain Securities Law Matters," which begins on page 63.

8. Certain Significant Holders of Shares of New Common Stock May Have Substantial Influence Over the Reorganized Debtors Following the Effective Date

Assuming that the Effective Date occurs, the Backstop Parties, pursuant to the Backstop Commitment Agreement, may receive a substantial percentage of the outstanding shares of New Common Stock in the form of Backstop Commitment Shares. As a result, the Backstop Parties, as well as any other holders of Claims or Interests (as applicable) who receive distributions representing a substantial percentage of the outstanding shares of the New Common Stock (including, as applicable, shares issued upon exercise of the New Warrants), may be in a position to influence matters requiring approval by the holders of shares of New Common Stock, including, among other things, the election of directors and the approval of a change of control of the Reorganized Debtors. The Backstop Parties, or other holders, may have interests that differ from those of the other holders of shares of New Common Stock and may vote in a manner adverse to the interests of other holders of shares of New Common Stock. This concentration of ownership may facilitate or may delay, prevent, or deter a change of control of the Reorganized Debtors and consequently impact the value of the shares of New Common Stock or the New Warrants (as applicable). In addition, one or more of the Backstop Parties, or other holders of a significant number of shares of New Common Stock, may sell all or a large portion of its shares of New Common Stock within a short period of time, which sale may adversely affect the trading price of the shares of New Common Stock or the New Warrants (as applicable). One or more of the Backstop Parties, or other holders of a significant number of shares of New Common Stock, may, on its own account, pursue acquisition opportunities that may be complementary to the Reorganized Debtors' businesses, and as a result, such acquisition opportunities may be unavailable to the Reorganized Debtors. Such actions by the Backstop Parties or other holders of a significant number of shares of New Common Stock may have a material adverse impact on the Reorganized Debtors' businesses, financial condition, and operating results.

9. Reorganized C&J Energy Does Not Expect to Pay Cash Dividends on the New Common Stock for the Foreseeable Future

The terms of the Exit Facility and any other new debt may limit, among other things, the Reorganized Debtors' ability to pay dividends.

10. Certain Tax Implications of the Plan

Holders of Allowed Claims should carefully review Article XII of this Disclosure Statement, entitled "Certain United States Federal Income Tax Consequences of the Plan," which begins on page 63, to determine how the tax implications of the Plan and the Chapter 11 Cases may adversely affect the Reorganized Debtors and holders of Claims and Interests.

11. The Debtors May Not Be Able to Accurately Report Their Financial Results

The Debtors have established internal controls over financial reporting. However, internal controls over financial reporting may not prevent or detect misstatements or omissions in the Debtors' financial statements because of their inherent limitations, including the possibility of human error, and the circumvention or overriding of controls or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If the Debtors fail to maintain the adequacy of their internal controls, the Debtors may be unable to provide financial information in a timely and reliable manner within the time periods required for the Debtors' financial reporting under SEC rules and regulations and the terms of the agreements governing the Debtors' indebtedness. Any such difficulties or failure could materially adversely affect the Debtors' business, results of operations, and financial condition. Further, the Debtors may discover other internal control deficiencies in the future and/or fail to adequately correct previously identified control deficiencies, which could materially adversely affect the Debtors' businesses, results of operations, and financial condition.

12. The Debtors May Not Be Able to Obtain Incremental Funding Under the DIP Facility

Under the terms of the DIP Facility Loan Agreement, the $100 million DIP Facility is available in multiple draws. Upon the Bankruptcy Court's entry of the Interim DIP Order, the Debtors were able to access $25 million under the DIP Facility. Upon the Bankruptcy Court's entry of the Final DIP Order, the Debtors are able to access the entire $100 million DIP Facility. However, availability of further incremental funding under the DIP Facility is subject to a number of conditions precedent, not all of which may occur. If the Debtors do not obtain the incremental funding under the DIP Facility, they may lack sufficient liquidity to continue operating in the ordinary course, may be unable to the consummate the Plan or any other plan of reorganization, or may be forced to seek alternative sources of financing, which may not be available on terms as favorable as those provided under the DIP Facility.

C. Risks Related to the Debtors' and the Reorganized Debtors' Businesses

1. The Reorganized Debtors May Not Be Able to Generate Sufficient Cash to Service All of their Indebtedness

The Reorganized Debtors' ability to make scheduled payments on, or refinance their debt obligations, depends on the Reorganized Debtors' financial condition and operating performance, which are subject to prevailing economic, industry, and competitive conditions and to certain financial, business, legislative, regulatory, and other factors beyond the Reorganized Debtors' control. The Reorganized Debtors may be unable to maintain a level of cash flow from operating activities sufficient to permit the Reorganized Debtors to pay the principal, premium, if any, and interest on their indebtedness, including, without limitation, potential borrowings under the Exit Facility upon emergence.

2. The Debtors Will Be Subject to the Risks and Uncertainties Associated with the Chapter 11 Cases

For the duration of the Chapter 11 Cases, the Debtors' ability to operate, develop, and execute a business plan, and continue as a going concern, will be subject to the risks and uncertainties associated with bankruptcy. These risks include the following: (a) ability to develop, confirm, and consummate the Restructuring Transactions specified in the Plan; (b) ability to obtain Bankruptcy Court approval with respect to motions filed in the Chapter 11 Cases from time to time; (c) ability to maintain relationships with suppliers, vendors, service providers, customers, employees, Mineral Contractors, and other third parties; (d) ability to maintain contracts that are critical to the Debtors' operations; (e) ability of third parties to seek and obtain Bankruptcy Court approval to terminate contracts and other agreements with the Debtors; (f) ability of third parties to seek and obtain Bankruptcy Court approval to terminate or shorten the exclusivity period for the Debtors to propose and confirm a chapter 11 plan, to appoint a chapter 11 trustee, or to convert the Chapter 11 Cases to chapter 7 proceedings; and (g) the actions and decisions of the Debtors' creditors and other third parties who have interests in the Chapter 11 Cases that may be inconsistent with the Debtors' plans.

These risks and uncertainties could affect the Debtors' businesses and operations in various ways. For example, negative events associated with the Chapter 11 Cases could adversely affect the Debtors' relationships with suppliers, service providers, customers, employees, and other third parties, which in turn could adversely affect the Debtors' operations and financial condition. Also, the Debtors will need the prior approval of the Bankruptcy Court for transactions outside the ordinary course of business, which may limit the Debtors' ability to respond timely to certain events or take advantage of certain opportunities. Because of the risks and uncertainties associated with the Chapter 11 Cases, the Debtors cannot accurately predict or quantify the ultimate impact of events that occur during the Chapter 11 Cases that may be inconsistent with the Debtors' plans.

3. Operating in Bankruptcy for a Long Period of Time May Harm the Debtors' Businesses

The Debtors' future results will be dependent upon the successful confirmation and implementation of a plan of reorganization. A long period of operations under Bankruptcy Court protection could have a material adverse effect on the Debtors' businesses, financial condition, results of operations, and liquidity. So long as the proceedings related to the Chapter 11 Cases continue, senior management will be required to spend a significant amount of time and effort dealing with the reorganization instead of focusing exclusively on business operations. A prolonged period of operating under Bankruptcy Court protection also may make it more difficult to retain management and other key personnel necessary to the success and growth of the Debtors' businesses. In addition, the longer the proceedings related to the Chapter 11 Cases continue, the more likely it is that customers and suppliers will lose confidence in the Debtors' ability to reorganize their businesses successfully and will seek to establish alternative commercial relationships.

So long as the proceedings related to the Chapter 11 Cases continue, the Debtors will be required to incur substantial costs for professional fees and other expenses associated with the administration of the Chapter 11 Cases. The chapter 11 proceedings also require debtor-in-possession financing to fund the Debtors' operations. If the Debtors are unable to fully draw on the availability under the DIP Facility, the chances of successfully reorganizing the Debtors' businesses may be seriously jeopardized, the likelihood that the Debtors will instead be required to liquidate or sell their assets may be increased, and, as a result, creditor recoveries may be significantly impaired.

Furthermore, the Debtors cannot predict the ultimate amount of all settlement terms for the liabilities that will be subject to a plan of reorganization. Even after a plan of reorganization is approved and implemented, the Reorganized Debtors' operating results may be adversely affected by the possible reluctance of prospective lenders and other counterparties to do business with a company that recently emerged from bankruptcy protection.

4. Financial Results May Be Volatile and May Not Reflect Historical Trends

During the Chapter 11 Cases, the Debtors expect that their financial results will continue to be volatile as asset impairments, asset dispositions, restructuring activities and expenses, contract terminations and rejections, and/or claims assessments significantly impact the Debtors' consolidated financial statements. As a result, the Debtors' historical financial performance likely will not be indicative of their financial performance after the Petition Date.

In addition, if the Debtors emerge from chapter 11, the amounts reported in subsequent consolidated financial statements may materially change relative to historical consolidated financial statements, including as a result of revisions to the Debtors' operating plans pursuant to a plan of reorganization. The Debtors also may be required to adopt "fresh start" accounting in accordance with Accounting Standards Codification 852 ("Reorganizations") in which case their assets and liabilities will be recorded at fair value as of the fresh start reporting date, which may differ materially from the recorded values of assets and liabilities on the Debtors' consolidated balance sheets. The Debtors' financial results after the application of fresh start accounting also may be different from historical trends. The Financial Projections contained in **Exhibit G** hereto do not currently reflect the impact of fresh start accounting, which may have a material impact on the Financial Projections.

5. The Debtors' Substantial Liquidity Needs May Impact and Revenue

The Debtors operate in a capital-intensive industry. The Debtors' principal sources of liquidity historically have been cash flow from operations, borrowings under the Credit Agreement, and issuances of equity securities. If the Debtors' cash flow from operations remains depressed or decreases as a result of lower commodity prices, decreased E&P sector capital expenditures, or otherwise, the Debtors may not have the ability to expend the capital necessary to improve or maintain their current operations, resulting in decreased revenues over time.

The Debtors face uncertainty regarding the adequacy of their liquidity and capital resources and have extremely limited, if any, access to additional financing. In addition to the cash necessary to fund ongoing operations, the Debtors have incurred significant professional fees and other costs in connection with preparing for the Chapter 11 Cases and expect to continue to incur significant professional fees and costs throughout the Chapter 11 Cases. The Debtors cannot guarantee that cash on hand, cash flow from operations, and cash provided by the DIP Facility will be sufficient to continue to fund their operations and allow the Debtors to satisfy obligations related to the Chapter 11 Cases until the Debtors are able to emerge from bankruptcy protection.

The Debtors' liquidity, including the ability to meet ongoing operational obligations, will be dependent upon, among other things: (a) their ability to comply with the terms and condition of any debtor-in-possession financing and/or cash collateral order entered by the Bankruptcy Court in connection with the Chapter 11 Cases; (b) their ability to maintain adequate cash on hand; (c) their ability to generate cash flow from operations; (d) their ability to develop, confirm, and consummate a chapter 11 plan or other alternative restructuring transaction; (e) the availability of incremental draws under the DIP Facility; and (f) the cost, duration, and outcome of the Chapter 11 Cases. The Debtors' ability to maintain adequate liquidity depends, in part, upon industry conditions and general economic, financial, competitive, regulatory, and other factors beyond the Debtors' control. In the event that cash on hand, cash flow from operations, and cash provided under the DIP Facility are not sufficient to meet the Debtors' liquidity needs, the Debtors may be required to seek additional financing. The Debtors can provide no assurance that additional financing would be available or, if available, offered to the Debtors on acceptable terms. The Debtors' access to additional financing is, and for the foreseeable future likely will continue to be, extremely limited if it is available at all. The Debtors' long-term liquidity requirements and the adequacy of their capital resources are difficult to predict at this time.

6. Oil and Natural Gas Prices Are Volatile, and Continued Low Oil or Natural Gas Prices Could Materially Adversely Affect the Debtors' Businesses, Results of Operations, and Financial Condition

The Debtors' revenues, profitability and the value of the Debtors' properties substantially depend on the willingness of their E&P customer base to make operating and capital expenditures to explore for, develop, and produce oil and natural gas. E&P companies' willingness to conduct such drilling, completion, and production activities are in turn dependent on prevailing oil and natural gas prices. Further, since E&P companies are reluctant to increase drilling activities in a high-volatility commodities pricing environment, demand for the Debtors' services is affected as much by oil and natural gas price expectations as actual pricing. In short, the Debtors face a high level of exposure to oil and natural gas price swings. Oil and natural gas are commodities, and therefore, their prices are subject to wide fluctuations in response to changes in supply and demand and are subject to both short- and long-term cyclical trends. Oil and natural gas prices historically have been volatile and are likely to continue to be volatile in the future, especially given current economic and geopolitical conditions. During 2015, oil prices fell from an already depressed $60 per barrel to as low as $35 per barrel, ultimately falling to below $27 per barrel in February 2016. Oil prices continue to hover at or near historical lows—priced at just $45 per Bbl as of close of markets on September 23, 2016. Over the same period, natural gas prices fell from as high as $3.70 per MMBtu to as low as $1.80 per MMBtu, with prices closing under $3.00 per MMBtu on September 23, 2016. The Debtors expect such volatility to continue in the future. The prices for oil and natural gas are subject to a variety of factors beyond the Debtors' control, such as:

- the current uncertainty in the global economy;
- changes in global supply and demand for oil and natural gas;
- the condition of the United States and global economies;
- the actions of certain foreign countries;
- the price and quantity of imports of foreign oil and natural gas;

- political conditions, including embargoes, war or civil unrest in or affecting other oil producing activities of certain countries;
- the level of global oil and natural gas exploration and production activity;
- the level of global oil and natural gas inventories;
- production or pricing decisions made by the Organization of Petroleum Exporting Countries ("OPEC");
- weather conditions;
- technological advances affecting energy consumption; and
- the price and availability of alternative fuels.

Continued volatility or weakness in oil and natural gas prices (or the perception that oil and natural gas prices will remain depressed) generally leads to decreased upstream spending, which in turn negatively affects demand to the Debtors' services. A sustained decline in oil or natural gas prices may materially and adversely affect the Debtors' future business, financial condition, results of operations, liquidity or ability to finance planned capital expenditures. As a result, if there is a further decline or sustained depression in commodity prices, the Debtors may, among other things, be unable to maintain or increase their borrowing capacity, meet their debt obligations or other financial commitments, or obtain additional capital, all of which could materially adversely affect the Debtors' businesses, results of operations, and financial condition.

7. The Debtors' Business is Subject to Complex Laws and Regulations That Can Adversely Affect the Cost, Manner, or Feasibility of Doing Business

The Debtors' operations are subject to extensive federal, state and local laws and regulations, including complex environmental laws and occupational health and safety laws. The Debtors may be required to make large expenditures to comply with such regulations. Failure to comply with these laws and regulations may result in the suspension or termination of operations and subject the Debtors to administrative, civil and criminal penalties. Additionally, in recent years, the practice of hydraulic fracturing has come under increased scrutiny by the environmental community. The Debtors' operations create the risk of environmental liabilities to the government or third parties for any unlawful discharge of oil, gas or other pollutants into the air, soil or water. In the event of environmental violations, the Reorganized Debtors may be charged with remedial costs and land owners may file claims for alternative water supplies, property damage or bodily injury. Laws and regulations protecting the environment have become more stringent in recent years, and may, in some circumstances, result in liability for environmental damage regardless of negligence or fault. In addition, pollution and similar environmental risks generally are not fully insurable. These liabilities and costs could have a material adverse effect on the business, financial condition, results of operations and cash flows of the Reorganized Debtors.

8. The Debtors' Operations are Subject to Hazards Inherent in the Energy Services Industry.

Risks inherent the oilfield services industry, such as equipment defects, vehicle accidents, explosions and uncontrollable flows of gas or well fluids, can cause personal injury, loss of life, suspension of operations, damage to formations, damage to facilities, business interruption and damage to, or destruction of property, equipment and the environment. In addition, the Debtors' hydraulic fracturing and well completion services could become a source of spills or releases of fluids, including chemicals used during hydraulic fracturing activities, at the site where such services are performed, or could result in the discharge of such fluids into underground formations that were not targeted for fracturing or well completion activities. These risks could expose the Debtors to substantial liability for personal injury, wrongful death, property damage, loss of oil and natural gas production, pollution and other environmental damages and could result in a variety of claims, losses and remedial obligations that could have an adverse effect on the Debtors' business and results of operations. The existence, frequency and severity of such incidents will affect operating costs, insurability and relationships with customers, employees and regulators. In particular, the Debtors' customers may elect not to purchase our services if they view our safety record as unacceptable, which could cause us to lose customers and substantial revenue.

9. The Debtors Operate in a Highly-Competitive Industry with Significant Potential for Excess Capacity.

The oilfield services industry in which the Debtors operate is highly competitive. The principal competitive factors in the oilfield services industry are generally technical expertise, the availability and condition of equipment, work force capability, safety record, reputation and experience. The Debtors compete with large national and multi-national companies that have longer operating histories, greater financial resources, and greater name recognition than the Debtors and who can operate at a loss in the regions in which the Debtors operate. Additionally, some of the Debtors' competitors provide a broader array of services or have a stronger presence in more geographic markets. As a result of such competition, the Debtors may lose market share or be unable to maintain or increase prices for their present services or to acquire additional business opportunities, which could have a material adverse effect on the Debtors business, financial condition, results of operations and cash flows.

10. The Reorganized Debtors May Be Adversely Affected by Potential Litigation, Including Litigation Arising Out of the Chapter 11 Cases

In the future, the Reorganized Debtors may become parties to litigation. In general, litigation can be expensive and time consuming to bring or defend against. Such litigation could result in settlements or damages that could significantly affect the Reorganized Debtors' financial results. It is also possible that certain parties will commence litigation with respect to the treatment of their Claims under the Plan. It is not possible to predict the potential litigation that the Reorganized Debtors may become party to, nor the final resolution of such litigation. The impact of any such litigation on the Reorganized Debtors' businesses and financial stability, however, could be material.

11. The Loss of Key Personnel Could Adversely Affect the Debtors' Operations

The Debtors' operations are dependent on a relatively small group of key management personnel and a highly-skilled employee base. The Debtors' recent liquidity issues and the Chapter 11 Cases have created distractions and uncertainty for key management personnel and employees. As a result, the Debtors have experienced and may continue to experience increased levels of employee attrition. Because competition for experienced personnel in the oilfield services industry can be significant, the Debtors may be unable to find acceptable replacements with comparable skills and experience and the loss of such key management personnel could adversely affect the Debtors' ability to operate their businesses. In addition, a loss of key personnel or material erosion of employee morale at the corporate and/or field levels could have a material adverse effect on the Debtors' ability to meet customer and counterparty expectations, thereby adversely affecting the Debtors' businesses and the results of operations.

12. Certain Claims May Not Be Discharged and Could Have a Material Adverse Effect on the Debtors' Financial Condition and Results of Operations

The Bankruptcy Code provides that the confirmation of a plan of reorganization discharges a debtor from substantially all debts arising prior to confirmation. With few exceptions, all Claims that arise prior to the Debtors' filing of their Petitions or before confirmation of the plan of reorganization (a) would be subject to compromise and/or treatment under the plan of reorganization and/or (b) would be discharged in accordance with the terms of the plan of reorganization. Any Claims not ultimately discharged through a plan of reorganization could be asserted against the reorganized entity and may have an adverse effect on the Reorganized Debtors' financial condition and results of operations.

IX. SOLICITATION AND VOTING PROCEDURES

This Disclosure Statement, which is accompanied by a Ballot or Ballots to be used for voting on the Plan, is being distributed to the holders of Claims or Interests in those Classes that are entitled to vote to accept or reject the Plan. The procedures and instructions for voting and related deadlines are set forth in the exhibits annexed to the Disclosure Statement Order, which is attached hereto as **Exhibit D**.

The Disclosure Statement Order is incorporated herein by reference and should be read in conjunction with this Disclosure Statement in formulating a decision to vote to accept or reject the Plan.

THE DISCUSSION OF THE SOLICITATION AND VOTING PROCESS SET FORTH IN THIS DISCLOSURE STATEMENT IS ONLY A SUMMARY.
PLEASE REFER TO THE DISCLOSURE STATEMENT ORDER ATTACHED HERETO FOR A MORE COMPREHENSIVE DESCRIPTION OF THE SOLICITATION AND VOTING PROCESS.

A. Holders of Claims Entitled to Vote on the Plan

Under the provisions of the Bankruptcy Code, not all holders of claims against or interests in a debtor are entitled to vote on a chapter 11 plan. The table in Article III.C of this Disclosure Statement, entitled "Am I entitled to vote on the Plan?" which begins on page 5, provides a summary of the status and voting rights of each Class (and, therefore, of each holder within such Class absent an objection to the holder's Claim or Interest) under the Plan.

As shown in the table, the Debtors are soliciting votes to accept or reject the Plan only from holders of Claims or Interests in Classes 4, 5, 6, 9, and 10 (collectively, the "Voting Classes").[9] The holders of Claims or Interests in the Voting Classes are Impaired under the Plan and may, in certain circumstances, receive a distribution under the Plan. Accordingly, holders of Claims or Interests in the Voting Classes have the right to vote to accept or reject the Plan.

The Debtors are ***not*** soliciting votes from holders of Claims or Interests in Classes 1, 2, 3, 7, and 8. Additionally, the Disclosure Statement Order provides that certain holders of Claims or Interests in the Voting Classes, such as those holders whose Claims or Interests have been disallowed or are subject to a pending objection, are not entitled to vote to accept or reject the Plan.

9 For the avoidance of doubt, even though the holders of Deficiency Lender Claims have agreed, in accordance with the Plan Settlement, to forgo their right to receive their Pro Rata share of the Unsecured Creditor Cash Pool, such holders shall be entitled to vote to accept or reject the Plan.

B. Voting Record Date

<u>The Voting Record Date is November 8, 2016</u>. The Voting Record Date is the date on which it will be determined which holders of Claims or Interests in the Voting Classes are entitled to vote to accept or reject the Plan and whether Claims or Interests have been properly assigned or transferred under Bankruptcy Rule 3001(e) such that an assignee or transferee, as applicable, can vote to accept or reject the Plan as the holder of a Claim or Interest.

C. Voting on the Plan

<u>The Voting Deadline is December 9, 2016, at 4:00 p.m. (prevailing Central Time)</u>. In order to be counted as votes to accept or reject the Plan, all ballots must be properly executed, completed, and delivered as directed, so that your ballot or the master ballot containing your vote is **<u>actually received</u>** by the Solicitation Agent on or before the Voting Deadline.

To vote, complete, sign, and date your ballot and return it (with an original signature) ***promptly*** in the enclosed reply envelope or to one of the below addresses.

<u>If sent by first-class mail</u>	**<u>If sent by hand delivery or overnight mail:</u>**
Donlin, Recano & Company, Inc. Re: CJ Holding Co., et al. P.O. Box 192016 Blythebourne Station Brooklyn, NY 11219	**Donlin, Recano & Company, Inc. Re: CJ Holding Co., et al. 6201 15th Avenue Brooklyn, NY 11219**

**PLEASE SELECT JUST ONE OPTION TO VOTE.
EITHER RETURN PROPERLY EXECUTED PAPER BALLOT WITH YOUR VOTE
OR
VOTE VIA ELECTRONIC MAIL TO CJENERGYVOTE@DONLINRECANO.COM**

Holders of Claims or Interests who cast a ballot via electronic mail to CJENERGYVOTE@DONLINRECANO.COM with "C&J Energy Vote" in the subject line should NOT also submit a paper Ballot.

FOR ANY BALLOT CAST VIA ELECTRONIC MAIL, A FORMAT OF THE ATTACHMENT MUST BE FOUND IN THE COMMON WORKPLACE AND INDUSTRY STANDARD FORMAT (*I.E.*, INDUSTRY-STANDARD PDF FILE) AND THE RECEIVED DATE AND TIME IN THE SOLICITATION AGENT'S INBOX WILL BE USED AS A TIMESTAMP FOR RECEIPT.

IF YOU HAVE ANY QUESTIONS ABOUT THE SOLICITATION OR VOTING PROCESS, PLEASE CONTACT THE SOLICITATION AGENT TOLL FREE AT (866) 296-8019 OR VIA ELECTRONIC MAIL TO DRCVOTE@DONLINRECANO.COM.

D. Ballots Not Counted

<u>No ballot will be counted toward Confirmation if, among other things</u>: (1) it is illegible or contains insufficient information to permit the identification of the holder of the Claim or Interest; (2) it was transmitted by means other than as specifically set forth in the ballots; (3) it was cast by an entity that is not entitled to vote on the Plan; (4) it was cast for a Claim listed in the Debtors' schedules as contingent, unliquidated, or disputed for which the applicable Bar Date has passed and no proof of claim was timely filed; (5) it was cast for a Claim that is subject to an objection pending as of the Voting Record Date (unless temporarily allowed in accordance with the Disclosure Statement Order); (6) it was sent to the Debtors, the Debtors' agents/representatives (other than the Solicitation Agent), the Credit Agreement Agent, or the Debtors' financial or legal advisors instead of the Solicitation Agent; (7) it is unsigned; or (8) it is not clearly marked to either accept or reject the Plan or it is marked both to accept and reject the Plan. **Please refer to the Disclosure Statement Order for additional requirements with respect to voting to accept or reject the Plan.**

ANY BALLOT RECEIVED AFTER THE VOTING DEADLINE OR THAT IS OTHERWISE NOT IN COMPLIANCE WITH THE DISCLOSURE STATEMENT ORDER WILL NOT BE COUNTED.

X. RIGHTS OFFERING PROCEDURES[10]

The procedures and instructions for exercising Subscription Rights are set forth in the Rights Offering Procedures, which are attached to this Disclosure Statement as **Exhibit E**. The Rights Offering Procedures are incorporated herein by reference and should be read in conjunction with this Disclosure Statement in formulating a decision to exercise Subscription Rights. ***The discussion of the Rights Offering Procedures set forth in this Disclosure Statement is only a summary. Please refer to the Rights Offering Procedures attached hereto for a more comprehensive description.***

Pursuant to the Plan, each Eligible Holder will receive Subscription Rights to subscribe for its pro rata Rights Offering Shares, provided that it (i) timely and properly executes and delivers its Lender Claim Subscription Form (with accompanying IRS Form W-9 or appropriate IRS Form W-8, as applicable) and Subscription Agreement, and for transferees only, a Transfer Notice included as Exhibit B to the Lender Claim Subscription Form, to the Subscription Agent in advance of the Subscription Expiration Deadline and (ii) pays the aggregate Purchase Price as set forth in the Rights Offering Procedures. The Eligible Holders will not have any "oversubscription" or "overallotment" rights. Any unsubscribed shares from the Rights Offering will be Backstop Commitment Shares to be purchased by the Backstop Parties pursuant to the Backstop Commitment Agreement.

No Eligible Holder shall be entitled to participate in the Rights Offering unless the aggregate Purchase Price for the Rights Offering Shares it subscribes for is received by the Subscription Agent (i) in the case of an Eligible Holder that is not a Backstop Party, by the Subscription Expiration Deadline, and (ii) in the case of an Eligible Holder that is a Backstop Party, by the deadline specified in the Backstop Commitment Agreement (the "Backstop Funding Deadline"). No interest is payable on any advanced funding of the Purchase Price. If the Rights Offering is terminated for any reason, your Purchase Price will be returned to you promptly. No interest will be paid on any returned Purchase Price.

IN ORDER TO PARTICIPATE IN THE RIGHTS OFFERING, EACH ELIGIBLE HOLDER MUST COMPLETE ALL THE STEPS OUTLINED IN THE RIGHTS OFFERING PROCEDURES. IF ALL OF THE STEPS OUTLINED IN THE RIGHTS OFFERING PROCEDURES ARE NOT COMPLETED BY THE SUBSCRIPTION EXPIRATION DEADLINE OR THE BACKSTOP FUNDING DEADLINE, AS APPLICABLE, THE ELIGIBLE HOLDER

[10] Capitalized terms used in this Article X but not otherwise defined in this Disclosure Statement or the Plan shall have the meanings ascribed to them in the Subscription Agreement.

SHALL BE DEEMED TO HAVE FOREVER AND IRREVOCABLY RELINQUISHED AND WAIVED ITS RIGHT TO PARTICIPATE IN THE RIGHTS OFFERING.

In order to validly exercise its Subscription Rights, each Eligible Holder that is not a Backstop Party must:

(A) return a duly executed Subscription Agreement along with a duly completed and executed Lender Claim Subscription Form (with accompanying IRS Form W-9 or appropriate IRS Form W-8, as applicable) and, for transferees only, a Transfer Notice included as Exhibit B to the Lender Claim Subscription Form, to the Subscription Agent, so that such documents are actually received by the Subscription Agent by the Subscription Expiration Deadline; and

(B) at the same time it returns its Subscription Agreement and Lender Claim Subscription Form to the Subscription Agent, but in no event later than the Subscription Expiration Deadline, pay the applicable Purchase Price to the Subscription Agent by wire transfer **ONLY** of immediately available funds in accordance with the instructions included in Item 4 of the Lender Claim Subscription Form.

In order to validly exercise its Subscription Rights, each Eligible Holder that is a Backstop Party must:

(A) return a duly executed Subscription Agreement along with a duly completed and executed Lender Claim Subscription Form (with accompanying IRS Form W-9 or appropriate IRS Form W-8, as applicable) to the Subscription Agent, so that such documents are actually received by the Subscription Agent by the Subscription Expiration Deadline; and

(B) no later than the Backstop Funding Deadline, pay the applicable Purchase Price to the Subscription Agent by wire transfer **ONLY** of immediately available funds in accordance with the instructions included in Item 4 of the Lender Claim Subscription Form.

All Eligible Holders must deliver their completed Lender Claim Subscription Form (with accompanying IRS Form W-9 or appropriate IRS Form W-8, as applicable), completed Subscription Agreement, and payment of the applicable Purchase Price payable for the Rights Offering Shares elected to be purchased by such Eligible Holder (with respect to the Eligible Holders that are not Backstop Parties) directly to the Subscription Agent on or before the Subscription Expiration Deadline. In all cases, Eligible Holders that are Backstop Parties must deliver their payment of the applicable Purchase Price payable for the Rights Offering Shares elected to be purchased by such Eligible Holder directly to the Subscription Agent no later than the Backstop Funding Deadline.

In the event that the funds received by the Subscription Agent from any Eligible Holder do not correspond to the Purchase Price payable for the Rights Offering Shares elected to be purchased by such Eligible Holder, the number of the Rights Offering Shares deemed to be purchased by such Eligible Holder will be the lesser of (a) the number of the Rights Offering Shares elected to be purchased by such Eligible Holder and (b) a number of the Rights Offering Shares determined by dividing the amount of the funds received on account of the Purchase Price.

The cash paid to the Subscription Agent in accordance with these Rights Offering Procedures will be deposited and held by the Subscription Agent in a segregated escrow account designated in escrow agreements mutually satisfactory to each of the Eligible Holders and the Debtors until administered in connection with the settlement of the Rights Offering on the Effective Date. The Subscription Agent may not use such cash for any other purpose prior to the Effective Date and may not encumber or permit such cash to be encumbered with any lien or similar encumbrance. The cash held by the Subscription Agent hereunder shall not be deemed part of the Debtors' bankruptcy estates.

XI. CONFIRMATION OF THE PLAN

A. Requirements for Confirmation of the Plan

Among the requirements for Confirmation of the Plan pursuant to section 1129 of the Bankruptcy Code are: (1) the Plan is accepted by all Impaired Classes of Claims or Interests, or if rejected by an Impaired Class, the Plan "does not discriminate unfairly" and is "fair and equitable" as to the rejecting Impaired Class; (2) the Plan is feasible; and (3) the Plan is in the "best interests" of holders of Claims or Interests.

At the Confirmation Hearing, the Bankruptcy Court will determine whether the Plan satisfies all of the requirements of section 1129 of the Bankruptcy Code. The Debtors believe that: (1) the Plan satisfies, or will satisfy, all of the necessary statutory requirements of chapter 11 for plan confirmation; (2) the Debtors have complied, or will have complied, with all of the necessary requirements of chapter 11 for plan confirmation; and (3) the Plan has been proposed in good faith.

B. Best Interests of Creditors/Liquidation Analysis

Often called the "best interests" test, section 1129(a)(7) of the Bankruptcy Code requires that a bankruptcy court find, as a condition to confirmation, that a chapter 11 plan provides, with respect to each impaired class, that each holder of a claim or an equity interest in such impaired class either (1) has accepted the plan or (2) will receive or retain under the plan property of a value that is not less than the amount that the non-accepting holder would receive or retain if the debtors liquidated under chapter 7.

Attached hereto as **Exhibit F** and incorporated herein by reference is a liquidation analysis (the "Liquidation Analysis") prepared by the Debtors with the assistance of the Debtors' advisors. As reflected in the Liquidation Analysis, the Debtors believe that liquidation of the Debtors' businesses under chapter 7 of the Bankruptcy Code would result in substantial diminution in the value to be realized by holders of Claims or Interests as compared to distributions contemplated under the Plan. Consequently, the Debtors and their management believe that Confirmation of the Plan will provide a substantially greater return to holders of Claims or Interests than would a liquidation under chapter 7 of the Bankruptcy Code.

If the Plan is not confirmed, and the Debtors fail to propose and confirm an alternative plan of reorganization, the Debtors' businesses may be liquidated pursuant to the provisions of a chapter 11 liquidating plan. In liquidations under chapter 11, the Debtors' assets could be sold in an orderly fashion over a more extended period of time than in a liquidation under chapter 7. Thus, a chapter 11 liquidation may result in larger recoveries than a chapter 7 liquidation, but the delay in distributions could result in lower present values received and higher administrative costs. Any distribution to holders of Claims or Interests (to the extent holders of Interests would receive distributions at all) under a chapter 11 liquidation plan would most likely be substantially delayed. Most importantly, the Debtors believe that any distributions to creditors in a chapter 11 liquidation scenario would fail to capture the significant going concern value of their businesses, which is reflected in the New Common Stock to be distributed under the Plan. Accordingly, the Debtors believe that a chapter 11 liquidation would not result in distributions as favorable as those under the Plan.

C. Feasibility

Section 1129(a)(11) of the Bankruptcy Code requires that confirmation of a plan of reorganization 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 (unless such liquidation or reorganization is proposed in such plan of reorganization).

To determine whether the Plan meets this feasibility requirement, the Debtors, with the assistance of AlixPartners and Evercore, have analyzed their ability to meet their respective obligations under the Plan. As part of this analysis, the Debtors have prepared their projected consolidated balance sheet, income statement, and statement of cash flows (the "Financial Projections"). Creditors and other interested parties should review Article VIII of this Disclosure Statement, entitled "Risk Factors," which begins on page 43, for a discussion of certain factors that may affect the future financial performance of the Reorganized Debtors.

The Financial Projections are attached hereto as **Exhibit G** and incorporated herein by reference. Based upon the Financial Projections, the Debtors believe that they will be a viable operation following the Chapter 11 Cases and that the Plan will meet the feasibility requirements of the Bankruptcy Code.

D. Acceptance by Impaired Classes

The Bankruptcy Code requires, as a condition to confirmation, except as described in the following section, that each class of claims or equity interests impaired under a plan, accept the plan. A class that is not "impaired" under a plan is deemed to have accepted the plan and, therefore, solicitation of acceptances with respect to such a class is not required.[11]

Section 1126(c) of the Bankruptcy Code defines acceptance of a plan by a class of impaired claims as acceptance by holders of at least two-thirds in dollar amount and more than one-half in a number of allowed claims in that class, counting only those claims that have *actually* voted to accept or to reject the plan. Thus, a class of Claims will have voted to accept the Plan only if two-thirds in amount and a majority in number of the Allowed Claims in such class that vote on the Plan actually cast their ballots in favor of acceptance.

Section 1126(d) of the Bankruptcy Code defines acceptance of a plan by a class of impaired equity interests as acceptance by holders of at least two-thirds in amount of allowed interests in that class, counting only those interests that have *actually* voted to accept or to reject the plan. Thus, a Class of Interests will have voted to accept the Plan only if two-thirds in amount of the Allowed Interests in such class that vote on the Plan actually cast their ballots in favor of acceptance.

Pursuant to Article III.E of the Plan, if a Class contains Claims or Interests is eligible to vote and no holders of Claims or Interests eligible to vote in such Class vote to accept or reject the Plan, the holders of such Claims or Interests in such Class shall be deemed to have accepted the Plan.

---

[11] A class of claims is "impaired" within the meaning of section 1124 of the Bankruptcy Code unless the plan (a) leaves unaltered the legal, equitable and contractual rights to which the claim or equity interest entitles the holder of such claim or equity interest or (b) cures any default, reinstates the original terms of such obligation, compensates the holder for certain damages or losses, as applicable, and does not otherwise alter the legal, equitable, or contractual rights to which such claim or equity interest entitles the holder of such claim or equity interest.

E. Confirmation without Acceptance by All Impaired Classes

Section 1129(b) of the Bankruptcy Code allows a bankruptcy court to confirm a plan even if all impaired classes have not accepted it; *provided*, that the plan has been accepted by at least one impaired class. Pursuant to section 1129(b) of the Bankruptcy Code, notwithstanding an impaired class's rejection or deemed rejection of the plan, the plan will be confirmed, at the plan proponent's request, in a procedure commonly known as a "cramdown" so long as the plan does not "discriminate unfairly" and is "fair and equitable" with respect to each class of claims or equity interests that is impaired under, and has not accepted, the plan.

If any Impaired Class rejects the Plan, the Debtors reserve the right to seek to confirm the Plan utilizing the "cramdown" provision of section 1129(b) of the Bankruptcy Code. To the extent that any Impaired Class rejects the Plan or is deemed to have rejected the Plan, the Debtors may request Confirmation of the Plan, as it may be modified from time to time, under section 1129(b) of the Bankruptcy Code. The Debtors reserve the right to alter, amend, modify, revoke, or withdraw the Plan or any Plan Supplement document, including the right to amend or modify the Plan or any Plan Supplement document to satisfy the requirements of section 1129(b) of the Bankruptcy Code.

1. No Unfair Discrimination

The "unfair discrimination" test applies to classes of claims or interests that are of equal priority and are receiving different treatment under a plan. The test does not require that the treatment be the same or equivalent, but that treatment be "fair." In general, bankruptcy courts consider whether a plan discriminates unfairly in its treatment of classes of claims or interests of equal rank (*e.g.*, classes of the same legal character). Bankruptcy courts will take into account a number of factors in determining whether a plan discriminates unfairly. A plan could treat two classes of unsecured creditors differently without unfairly discriminating against either class.

2. Fair and Equitable Test

The "fair and equitable" test applies to classes of different priority and status (*e.g.*, secured versus unsecured) and includes the general requirement that no class of claims receive more than 100 percent of the amount of the allowed claims in the class. As to the dissenting class, the test sets different standards depending upon the type of claims or equity interests in the class.

The Debtors submit that if the Debtors "cramdown" the Plan pursuant to section 1129(b) of the Bankruptcy Code, the Plan is structured so that it does not "discriminate unfairly" and satisfies the "fair and equitable" requirement. With respect to the unfair discrimination requirement, all Classes under the Plan are provided treatment that is substantially equivalent to the treatment that is provided to other Classes that have equal rank. With respect to the fair and equitable requirement, no Class under the Plan will receive more than 100 percent of the amount of Allowed Claims or Interests in that Class. The Debtors believe that the Plan and the treatment of all Classes of Claims or Interests under the Plan satisfy the foregoing requirements for nonconsensual Confirmation of the Plan.

F. Valuation of the Debtors

In conjunction with formulating the Plan and satisfying its obligations under section 1129 of the Bankruptcy Code, the Debtors determined that it was necessary to estimate the post-Confirmation going concern value of the Debtors. Accordingly, the Debtors, with the assistance of Evercore, produced the Valuation Analysis that is set forth in **Exhibit H** attached hereto and incorporated herein by reference. As set forth in the Valuation Analysis, the Debtors' going concern value is substantially less than the aggregate amount of its funded-debt obligations. Accordingly, the Valuation Analysis further supports the Debtors conclusion that the treatment of Classes under the Plan is fair and equitable and otherwise satisfies the Bankruptcy Code's requirements for confirmation.

The Ad Hoc Equity Group is likely to contest the Debtors' Valuation Analysis at the Confirmation Hearing, arguing for a higher valuation that would indicate holders of Interests in C&J Energy are entitled to some recovery. The Debtors disagree. The Ad Hoc Equity Group's valuation analysis is likely to focus on metrics that are not indicative of true enterprise value, including the historical book value of the Debtors' assets and the public trading price of the Debtors' funded-debt obligations. The Debtors are prepared to demonstrate at the Confirmation Hearing that such metrics do not accurately reflect enterprise value and that the Valuation Analysis ***does*** accurately reflect the Debtors' enterprise value and ultimately supports confirmation of the Plan.

The Valuation Analysis sets forth an estimated total enterprise value of $600 million to $900 million, with a midpoint of $750 million. In terms of liabilities, the Debtors have approximately $1.4 billion of funded debt (including accrued prepetition interest), $14.4 million to $16.7 million of projected Mineral Contractor Claims, and $74.1 million to $82.9 million of projected Unsecured Claims—all of which is senior in priority to the equity held by holders of Interests in C&J Energy (including the Ad Hoc Equity Group). Thus, holders of Interest in C&J Energy are between $576.5 million and $887.6 million short of receiving any recovery. In other words, even if the Debtors' enterprise is worth significantly more than what the Debtors' Valuation Analysis indicates, holders of interest in C&J Energy will still be significantly out of the money.

The proposed distribution of the Interest Holder New Warrants to holders of Interest in C&J Energy is not indicative of distributable value or the Debtors' solvency or an acknowledgement of the financial interests of holders of Interest in C&J Energy. Rather, the recovery was heavily negotiated to foster consensus, reduce costs, and provide some recovery to holders in Interest in C&J Energy in the event the Debtors exceed current market forecasts and over-perform.

The Ad Hoc Equity Group has argued that the Debtors should have "market tested" the value of their assets in connection with formulation of the Plan. The Debtors did not conduct such a market test. In the Debtors' view, no such market test is required by the Bankruptcy Code under the circumstances. Accordingly, the Debtors believe the Valuation Analysis accurately reflects enterprise value and supports confirmation of the Plan.

XII. CERTAIN SECURITIES LAW MATTERS

The Debtors believe that the New Common Stock, the New Warrants (as applicable), and the options or other equity awards (and any New Common Stock underlying such awards) to be issued pursuant to the Management Incentive Plan are "securities," as defined in section 2(a)(1) of the Securities Act, section 101 of the Bankruptcy Code, and any applicable state securities law (a "Blue Sky Law"). The Debtors further believe that the offer, sale, issuance, and initial distribution of the New Common Stock and New Warrants (as applicable) by Reorganized C&J Energy pursuant to the Plan is exempt from federal and state securities registration requirements under various provisions of the Securities Act, the Bankruptcy Code, and any applicable state Blue Sky Law as described in more detail below. The New Common Stock underlying the Management Incentive Plan will be issued pursuant to a registration statement or another available exemption from registration under the Securities Act and other applicable law.

A. 1145 Securities

As discussed herein, the Plan provides for the offer, issuance, sale, and distribution by Reorganized C&J Energy of the New Common Equity Pool, the Rights Offering Shares issued to Eligible Holders pursuant to the Rights Offering, the shares of New Common Stock issued to the Backstop Parties as the Backstop Fee, the New Warrants (as applicable), and the shares of New Common Stock underlying the New Warrants (as applicable) (collectively, the "1145 Securities").

1. Issuance

Section 1145(a)(1) of the Bankruptcy Code exempts the offer and sale of securities under a plan of reorganization from registration under section 5 of the Securities Act, and state securities laws if three principal requirements are satisfied: (a) the securities must be offered and sold under a plan of reorganization and must be securities of the debtor, of an affiliate participating in a joint plan with the debtor, or of a successor to the debtor under the plan; (b) the recipients of the securities must hold prepetition or administrative expense claims against the debtor or interests in the debtor; and (c) the securities must be issued entirely in exchange for the recipient's claim against or interest in the debtor, or principally in exchange for such claim or interest and partly for cash or property.

Because the total value of an Eligible Claim, as implied by the value of distributions under the Plan, significantly exceeds the cash value payable on account of such Claim pursuant to Subscription Rights in the Rights Offering, the Debtors submit that all 1145 Securities issued pursuant to the Plan will be issued principally in exchange for the corresponding Eligible Claims, and only partly in exchange for the cash purchase price to be paid pursuant to the Rights Offering. Accordingly, the 1145 Securities satisfy all the requirements of section 1145(a)(1) of the Bankruptcy Code and are, therefore, exempt from registration under the Securities Act and state securities laws (except with respect to an underwriter as described below). Furthermore, the Debtors believe that the value of the direct distributions being made to Eligible Holders (excluding the Subscription Rights), and thus the value of the interests in any such Eligible Claim to be exchanged pursuant to the Rights Offering, exceeds the value of the capital being raised pursuant to the exercise of the Subscription Rights.

Recipients of any 1145 Securities are advised to consult with their own legal advisors as to the availability of any exemption from registration under the Securities Act and any applicable state Blue Sky Law.

2. Subsequent Transfers

The 1145 Securities may be freely transferred by most recipients following the initial issuance under the Plan, and all resales and subsequent transfers of the 1145 Securities are exempt from registration under the Securities Act and state securities laws, unless the holder is an "underwriter" with respect to such securities. Section 1145(b)(1) of the Bankruptcy Code defines an "underwriter" as one who, except with respect to "ordinary trading transactions" of an entity that is not an "issuer": (a) purchases a claim against, interest in, or claim for an administrative expense in the case concerning, the debtor, if such purchase is with a view to distribution of any security received or to be received in exchange for such claim or interest; (b) offers to sell securities offered or sold under a plan for the holders of such securities; (c) offers to buy securities offered or sold under a plan from the holders of such securities, if such offer to buy is (i) with a view to distribution of such securities and (ii) under an agreement made in connection with the plan, with the consummation of the plan, or with the offer or sale of securities under the plan; or (d) is an issuer of the securities within the meaning of section 2(a)(11) of the Securities Act. In addition, a person who receives a fee in exchange for purchasing an issuer's securities could also be considered an underwriter within the meaning of section 2(a)(11) of the Securities Act.

The definition of an "issuer" for purposes of whether a person is an underwriter under section 1145(b)(1)(D) of the Bankruptcy Code, by reference to section 2(a)(11) of the Securities Act, includes as "statutory underwriters" all persons who, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with, an issuer of securities. The reference to "issuer," as used in the definition of "underwriter" contained in section 2(a)(11) of the Securities Act, is intended to cover "Controlling Persons" of the issuer of the securities. "Control," as defined in Rule 405 of the Securities Act, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise. Accordingly, an officer or director of a reorganized debtor or its successor under a plan of reorganization may be deemed to be a "Controlling Person" of the debtor or successor, particularly if the management position or directorship is coupled with ownership of a significant percentage of the reorganized debtor's or its successor's voting securities. In addition, the legislative history of section 1145 of the Bankruptcy Code suggests that a creditor who owns ten percent or more of a class of securities of a reorganized debtor may be presumed to be a "Controlling Person" and, therefore, an underwriter.

Resales of 1145 Securities by entities deemed to be "underwriters" (which definition includes "Controlling Persons") are not exempted by section 1145 of the Bankruptcy Code from registration under the Securities Act or other applicable law. Under certain circumstances, holders of New Common Stock who are deemed to be "underwriters" may be entitled to resell their New Common Stock pursuant to the limited safe harbor resale provisions of Rule 144 of the Securities Act. Generally, Rule 144 of the Securities Act would permit the public sale of securities received by such Person if the required holding period has been met and, under certain circumstances, current information regarding the issuer is publicly available and volume limitations, manner of sale requirements and certain other conditions are met. Whether any particular Person would be deemed to be an "underwriter" (including whether the Person is a "Controlling Person") with respect to the New Common Stock would depend upon various facts and circumstances applicable to that Person. Accordingly, the Debtors express no view as to whether any Person would be deemed an "underwriter" with respect to the New Common Stock and, in turn, whether any Person may freely resell New Common Stock. The Debtors recommend that potential recipients of New Common Stock consult their own counsel concerning their ability to freely trade such securities without compliance with the federal law and any applicable state Blue Sky Law.

B. 4(a)(2) Securities

1. Issuance

Section 4(a)(2) of the Securities Act provides that the issuance of securities by an issuer in transactions not involving any public offering are exempt from registration under the Securities Act. Regulation D is a non-exclusive safe harbor from registration promulgated by the SEC under section 4(a)(2) of the Securities Act.

The Debtors believe that any Backstop Commitment Shares (the "4(a)(2) Securities") would not be exempted by section 1145 of the Bankruptcy Code from registration under the Securities Act or other applicable law. The Debtors submit that the 4(a)(2) Securities are issuable without registration under the Securities Act in reliance upon the exemption from registration provided under section 4(a)(2) of the Securities Act and/or Regulation D promulgated thereunder. The 4(a)(2) Securities will be "restricted securities" subject to resale restrictions and may be resold, exchanged, assigned or otherwise transferred only pursuant to registration, or an applicable exemption from registration, under the Securities Act and other applicable law, as described below.

2. Subsequent Transfers

Unlike the securities that will be issued pursuant to section 1145(a)(1) of the Bankruptcy Code, the 4(a)(2) Securities will be deemed "restricted securities" that may not be offered, sold, exchanged, assigned or otherwise transferred unless they are registered under the Securities Act, or an exemption from registration under the Securities Act is available.

The Backstop Parties will not be permitted to offer, sell, or otherwise transfer their 4(a)(2) Securities except pursuant to a registration statement or an available exemption from registration.

Rule 144 provides an exemption for the public resale of "restricted securities" if certain conditions are met. These conditions vary depending on whether the holder of the restricted securities is an affiliate of the issuer. An affiliate is defined as "a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the issuer."

A non-affiliate who has not been an affiliate of the issuer during the preceding three months may resell restricted securities after a six-month holding period if at the time of the sale there is available certain current public information regarding the issuer, and may sell the securities after a one-year holding period whether or not there is current public information regarding the issuer. Adequate current public information is available for a reporting issuer if the issuer has filed all periodic reports required under Section 13 or 15(d) of the Securities Exchange Act of 1934 during the twelve months preceding the sale of the restricted securities. If the issuer is a non-reporting issuer, adequate current public information is available if certain information about the issuer is made publicly available. The Debtors currently expect that the Reorganized Debtors will continue to be a reporting issuer and file all such required periodic reports and that current public information will be available to allow resales by non-affiliates when the six-month holding period expires (approximately six months after the Effective Date).

An affiliate may resell restricted securities after the six-month holding period if at the time of the sale certain current public information regarding the issuer is available. As noted above, the Debtors currently expect that this information requirement will be satisfied. The affiliate must also comply with the volume, manner of sale and notice requirements of Rule 144. First, the rule limits the number of restricted securities (plus any unrestricted securities) sold for the account of an affiliate (and related persons) in any three-month period to the greater of one percent of the outstanding securities of the same class being sold, or, if the class is listed on a stock exchange, the greater of one percent of the average weekly reported volume of trading in such restricted securities during the four weeks preceding the filing of a notice of proposed sale on Form 144. Second, the manner of sale requirement provides that the restricted securities must be sold in a broker's transaction, which generally means they must be sold through a broker and handled as a routine trading transaction. The broker must receive no more than the usual commission and cannot solicit orders for the sale of the restricted securities except in certain situations. Third, if the sale exceeds 5,000 restricted securities or has an aggregate sale price greater than $50,000 in any three-month period, an affiliate must file with the SEC three copies of a notice of proposed sale on Form 144. The sale must occur within three months of filing the notice unless an amended notice is filed.

The Debtors believe that the Rule 144 exemption will not be available with respect to any 4(a)(2) Securities (whether held by non-affiliates or affiliates) until at least six months after the Effective Date. Accordingly, holders of 4(a)(2) Securities will be required to hold their 4(a)(2) Securities for at least six months and, thereafter, to sell them only in accordance with the applicable requirements of Rule 144.

All 4(a)(2) Securities will be issued in certificated or book-entry form and will bear a restrictive legend. Each certificate or book-entry representing, or issued in exchange for or upon the transfer, sale or assignment of, any 4(a)(2) Securities shall be stamped or otherwise imprinted with a legend in substantially the following form:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE WERE ORIGINALLY ISSUED ON [ISSUANCE DATE], HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY OTHER APPLICABLE STATE SECURITIES LAWS, AND MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR AN AVAILABLE EXEMPTION FROM REGISTRATION THEREUNDER."

The Reorganized Debtors will reserve the right to require certification or other evidence of compliance with Rule 144 as a condition to the removal of such legend or to any resale of the 4(a)(2) Securities. The Reorganized Debtors will also reserve the right to stop the transfer of any 4(a)(2) Securities if such transfer is not in compliance with Rule 144. Any Person who receives 4(a)(2) Securities will be required to acknowledge and agree not to resell such securities except in accordance with Rule 144, when available, and that the securities will be subject to the other restrictions described above.

Any Persons receiving "restricted securities" under the Plan should consult with their own counsel concerning the availability of an exemption from registration for resale of these securities under the Securities Act and other applicable law.

BECAUSE OF THE COMPLEX, SUBJECTIVE NATURE OF THE QUESTION OF WHETHER A PARTICULAR PERSON MAY BE AN UNDERWRITER OR AN AFFILIATE AND THE HIGHLY FACT-SPECIFIC NATURE OF THE AVAILABILITY OF EXEMPTIONS FROM REGISTRATION UNDER THE SECURITIES ACT, INCLUDING THE EXEMPTIONS AVAILABLE UNDER SECTION 1145 OF THE BANKRUPTCY CODE AND RULE 144 UNDER THE SECURITIES ACT, NONE OF THE DEBTORS OR THE REORGANIZED DEBTORS MAKE ANY REPRESENTATION CONCERNING THE ABILITY OF ANY PERSON TO DISPOSE OF THE SECURITIES TO BE DISTRIBUTED UNDER THE PLAN. THE DEBTORS RECOMMEND THAT POTENTIAL RECIPIENTS OF THE SECURITIES TO BE ISSUED UNDER THE PLAN CONSULT THEIR OWN COUNSEL CONCERNING WHETHER THEY MAY FREELY TRADE SUCH SECURITIES.

C. Subscription Rights

The Subscription Rights will be distributed and issued to Eligible Holders. The Subscription Rights are not detachable from Eligible Claims. Subscription Rights shall be transferable by Eligible Holders to an affiliate or to any third party but only in connection with a transfer of Eligible Claims. Any transferee of an Eligible Claim together with the related Subscription Rights may exercise such Subscription Rights before the Subscription Expiration Time as if an original Eligible Holder in accordance with the Rights Offering Procedures.

XIII. CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

A. Introduction

The following discussion summarizes certain United States ("U.S.") federal income tax consequences of the implementation of the Plan to the Debtors, the Reorganized Debtors, and beneficial owners of Claims (each, a "Holder"). This summary is based on the Internal Revenue Code of 1986, as amended (the "Tax Code"), the U.S. Treasury Regulations promulgated thereunder (the "Treasury Regulations"), judicial decisions and published administrative rules, and pronouncements of the Internal Revenue Service (the "IRS"), all as in effect on the date hereof (collectively, "Applicable Tax Law"). Changes in the rules or new interpretations of the rules may have retroactive effect and could significantly affect the U.S. federal income tax consequences described below. The Debtors have not requested, and will not request, any ruling or determination from the IRS or any other taxing authority with respect to the tax consequences discussed herein, and the discussion below is not binding upon the IRS or the courts. No assurance can be given that the IRS would not assert, or that a court would not sustain, a different position than any position discussed herein.

This summary does not address foreign, state, or local tax consequences of the Plan, nor does it purport to address all aspects of U.S. federal income taxation that may be relevant to a Holder in light of its individual circumstances or to a Holder that may be subject to special tax rules (such as Persons who are related to the Debtors within the meaning of the Tax Code, broker-dealers, banks, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, tax exempt organizations, pass-through entities, beneficial owners of pass-through entities, subchapter S corporations, persons who hold Claims or who will hold the New Common Stock as part of a straddle, hedge, conversion transaction, or other integrated investment, persons using a mark-to-market method of accounting, and holders of Claims who are themselves in bankruptcy). Furthermore, this summary assumes that a Holder holds only Claims in a single Class and holds a Claim only as a "capital asset" (within the meaning of section 1221 of the Tax Code). This summary also assumes that the various debt and other arrangements to which any of the Debtors are a party will be respected for U.S. federal income tax purposes in accordance with their form, and that the Claims constitute interests in the Debtors "solely as a creditor" for purposes of section 897 of the Tax Code. This summary does not discuss differences in tax consequences to a Holder that acts or receives consideration in a capacity other than as a Holder of a Claim of the same Class, and the tax consequences for such Holders may differ materially from that described below.

The U.S. federal income tax consequences of the implementation of the Plan will depend on, among other things, whether the Restructuring Transactions are structured as a taxable sale of the Debtors' assets and/or stock (such a structure, a "Taxable Transaction"). While a Taxable Transaction potentially offers the Reorganized Debtors certain tax advantages in periods following the Effective Date, the availability of these tax advantages depends on numerous considerations that cannot be known with certainty at this time. These considerations include the value and tax basis of the Debtors' assets on the Effective Date, and whether the Debtors have sufficient net operating loss carry forwards to offset any taxable gain arising from a Taxable Transaction. As a result, the Debtors have not yet determined whether they intend to structure the Restructuring Transactions as a Taxable Transaction, and the following discussion assumes that the implementation of the Plan will not be structured as a Taxable Transaction. Moreover, if the Debtors pursue a Taxable Transaction, the U.S. federal income tax consequences of the implementation of the Plan to Holders of Claims may differ materially from the tax consequences described below.

For purposes of this discussion, a "U.S. Holder" is a holder of a Claim that is: (1) an individual citizen or resident of the United States for U.S. federal income tax purposes; (2) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any state thereof or the District of Columbia; (3) an estate the income of which is subject to U.S. federal income taxation regardless of the source of such income; or (4) a trust (A) if a court within the United States is able to exercise primary jurisdiction over the trust's administration and one or more United States persons have authority to control all substantial decisions of the trust or (B) that has a valid election in effect under applicable Treasury Regulations to be treated as a United States person. For purposes of this discussion, a "non-U.S. Holder" is any Holder of a Claim that is not a U.S. holder other than any partnership (or other entity treated as a partnership or other pass-through entity for U.S. federal income tax purposes).

If a partnership (or other entity treated as a partnership or other pass-through entity for U.S. federal income tax purposes) is a Holder, the tax treatment of a partner (or other beneficial owner) generally will depend upon the status of the partner (or other beneficial owner) and the activities of the entity. Partners (or other beneficial owners) of partnerships (or other pass-through entities) that are Holders should consult their respective tax advisors regarding the U.S. federal income tax consequences of the Plan.

ACCORDINGLY, THE FOLLOWING SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF A CLAIM OR INTEREST. ALL HOLDERS OF CLAIMS OR INTERESTS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE FEDERAL, STATE, LOCAL, AND NON-U.S. INCOME, ESTATE, AND OTHER TAX CONSEQUENCES OF THE PLAN.

B. Certain U.S. Federal Income Tax Consequences to the Debtors and the Reorganized Debtors

1. Cancellation of Debt and Reduction of Tax Attributes

In general, absent an exception, a debtor will realize and recognize cancellation of debt income ("COD Income"), for U.S. federal income tax purposes, upon satisfaction of its outstanding indebtedness for total consideration less than the amount of such indebtedness. The amount of COD Income, in general, is the excess of (a) the adjusted issue price of the indebtedness satisfied, over (b) the sum of (i) the amount of Cash paid, (ii) the issue price of any new indebtedness of the taxpayer issued, and (iii) the fair market value of any other new consideration (including stock of the debtor or a party related to the debtor) given in satisfaction of such indebtedness at the time of the exchange.

Under section 108 of the Tax Code, a debtor is not required to include COD Income in gross income if the debtor is under the jurisdiction of a court in a case under chapter 11 of the Bankruptcy Code and the discharge of debt occurs pursuant to that proceeding. Instead, as a consequence of such exclusion, a debtor must reduce its tax attributes by the amount of COD Income that it excluded from gross income pursuant to the rule discussed in the preceding sentence. In general, tax attributes will be reduced in the following order: (a) NOLs and NOL carryforwards; (b) general business credit carryovers; (c) minimum tax credit carryovers; (d) capital loss carryovers; (e) tax basis in assets; (f) passive activity loss and credit carryovers; and (g) foreign tax credit carryovers. Alternatively, a debtor with COD Income may elect first to reduce the basis of its depreciable assets pursuant to section 108(b)(5) of the Tax Code. The Debtors have not yet determined whether this election will be made. Whether or not an election is made pursuant to section 108(b)(5) of the Tax Code, the reduction in tax attributes occurs only after the tax for the year of the debt discharge has been determined. Any excess COD Income over the amount of available tax attributes is not subject to U.S. federal income tax and generally has no other U.S. federal income tax impact.

The Treasury Regulations address the method and order for applying tax attribute reduction to an affiliated group of corporations filing a consolidated return for U.S. federal income tax purposes. Under these Treasury Regulations, the tax attributes of each member of an affiliated group that is excluding COD Income is first subject to reduction. To the extent the debtor member's tax basis in stock of a lower-tier member of the affiliated group is reduced, a "look through rule" requires that a corresponding reduction be made to the tax attributes of the lower-tier member. If a debtor member's excluded COD Income exceeds its tax attributes, the excess COD Income is applied to reduce certain remaining consolidated tax attributes of the affiliated group.

As of December 31, 2015, the Debtors had approximately $134.1 million of NOLs. The Debtors expect to incur additional NOLs in 2016. Because the Plan provides that the holders of Allowed Secured Lender Claims will receive New Common Stock (and Subscription Rights, as applicable) and that the holders of Allowed General Unsecured Claims will receive Unsecured Creditor New Warrants (and Cash), the amount of COD Income, and accordingly the amount of tax attributes required to be reduced, will depend, principally, on the fair market value of the New Common Stock, the Subscription Rights and the Unsecured Creditor New Warrants, which cannot be known with certainty at this time. However, as a result of the consummation of the Plan, the Debtors expect that there will be material reductions in, or elimination of, their NOLs, NOL carryforwards and certain other tax attributes.

2. Limitation of NOL Carryforwards and Other Tax Attributes.

If, after the Restructuring Transactions, the Reorganized Debtors continue to have any NOL carryovers, capital loss carryovers, tax credit carryovers, and certain other tax attributes (such as losses and deductions that have accrued economically but are unrecognized as of the date of the ownership change) allocable to periods before the Effective Date (collectively, the "Pre-Change Losses"), such Pre-Change Losses may be subject to limitation under sections 382 and 383 of the Tax Code as a result of an "ownership change" of the Reorganized Debtors by reason of the transactions consummated pursuant to the Plan.

Under sections 382 and 383 of the Tax Code, if a corporation undergoes an "ownership change," the amount of its Pre-Change Losses that may be utilized to offset future taxable income generally is subject to an annual limitation. The rules of section 382 of the Tax Code are complicated, but as a general matter, the Debtors anticipate that the distribution of the New Common Stock pursuant to the Plan will result in an "ownership change" of the Reorganized Debtors for these purposes, and that the Reorganized Debtors' use of their Pre-Change Losses will be subject to an annual use limitation unless an exception to the general rules of section 382 of the Tax Code applies.

For this purpose, if a corporation (or consolidated group) has a net unrealized built-in loss at the time of an ownership change (taking into account most assets and items of "built-in" income and deductions), then generally built-in losses (including amortization or depreciation deductions attributable to such built-in losses) recognized during the following five years (up to the amount of the original net unrealized built-in loss) will be treated as Pre-Change Losses and similarly will be subject to the annual limitation. In general, a corporation's (or consolidated group's) net unrealized built-in loss will be deemed to be zero unless it is greater than the lesser of (a) $10,000,000 or (b) 15 percent of the fair market value of its assets (with certain adjustments) before the ownership change.

(a) General Section 382 Annual Limitation

In general, the amount of the annual limitation to which a corporation that undergoes an "ownership change" would be subject is equal to the product of (a) the fair market value of the stock of the corporation immediately before the "ownership change" (with certain adjustments) multiplied by (b) the "long-term tax-exempt rate" (which is the highest of the adjusted federal long-term rates in effect for any month in the 3-calendar-month period ending with the calendar month in which the "ownership change" occurs: 1.54 percent for November 2016). The section 382 Limitation may be increased to the extent that the Debtors recognize certain built-in gains in their assets during the five-year period following the ownership change, or are treated as recognizing built-in gains pursuant to the safe harbors provided in IRS Notice 2003-65. Section 383 of the Tax Code applies a similar limitation to capital loss carryforwards and tax credits. Any unused limitation may be carried forward, thereby increasing the annual limitation in the subsequent taxable year. As discussed below, however, special rules may apply in the case of a corporation that experiences an ownership change as the result of a bankruptcy proceeding.

(b) Special Bankruptcy Exceptions

An exception to the foregoing annual limitation rules generally applies when so-called "qualified creditors" of a debtor corporation in chapter 11 receive, in respect of their Claims, at least 50 percent of the vote and value of the stock of the reorganized debtor (or a controlling corporation if also in chapter 11) pursuant to a confirmed chapter 11 plan (the "382(l)(5) Exception"). Under the 382(l)(5) Exception, a debtor's Pre-Change Losses are not limited on an annual basis, but, instead, NOL carryforwards will be reduced by the amount of any interest deductions claimed during the three taxable years preceding the effective date of the plan of reorganization, and during the part of the taxable year prior to and including the effective date of the plan of reorganization, in respect of all debt converted into stock in the reorganization. If the 382(l)(5) Exception applies and the Reorganized Debtors undergo another "ownership change" within two years after the Effective Date, then the Reorganized Debtors' Pre-Change Losses effectively would be eliminated in their entirety.

Where the 382(l)(5) Exception is not applicable to a corporation in bankruptcy (either because the debtor does not qualify for it or the debtor otherwise elects not to utilize the 382(l)(5) Exception), a second special rule will generally apply (the "382(l)(6) Exception"). Under the 382(l)(6) Exception, the annual limitation will be calculated by reference to the lesser of the value of the debtor corporation's new stock (with certain adjustments) immediately after the ownership change or the value of such debtor corporation's assets (determined without regard to liabilities) immediately before the ownership change. This differs from the ordinary rule that requires the fair market value of a debtor corporation that undergoes an "ownership change" to be determined before the events giving rise to the change. The 382(l)(6) Exception also differs from the 382(l)(5) Exception in that under it the debtor corporation is not required to reduce its NOL carryforwards by the amount of interest deductions claimed within the prior three-year period, and the debtor may undergo an ownership change within two years without automatically triggering the elimination of its Pre-Change Losses. The resulting limitation would be determined under the regular rules for ownership changes.

Based on currently available information, the Debtors do not believe that the Restructuring Transactions will qualify for the 382(l)(5) Exception, but even if the Restructuring Transactions qualify for the 382(l)(5) Exception, the Debtors or the Reorganized Debtors may decide to elect out of the 382(l)(5) Exception, particularly if it appears likely that another ownership change will occur within two years after emergence. Regardless of whether the Reorganized Debtors take advantage of the 382(l)(6) Exception or the 382(l)(5) Exception, the Reorganized Debtors' use of their Pre-Change Losses after the

Effective Date may be adversely affected if an "ownership change" within the meaning of section 382 of the Tax Code were to occur after the Effective Date.

3. Alternative Minimum Tax

In general, an alternative minimum tax ("AMT") is imposed on a corporation's alternative minimum taxable income ("AMTI") at a 20 percent rate to the extent such tax exceeds the corporation's regular federal income tax for the year. AMTI is generally equal to regular taxable income with certain adjustments. For purposes of computing AMTI, certain tax deductions and other beneficial allowances are modified or eliminated. For example, except for alternative tax NOLs generated in certain years, which can offset 100 percent of a corporation's AMTI, only 90 percent of a corporation's AMTI may be offset by available alternative tax NOL carryforwards. The effect of this rule could cause the Reorganized Debtors to owe an amount of federal income tax on taxable income in future years even if NOL carryforwards are available to offset that taxable income. Additionally, under section 56(g)(4)(G) of the Tax Code, an ownership change (as discussed above) that occurs with respect to a corporation having a net unrealized built-in loss in its assets will cause, for AMT purposes, the adjusted basis of each asset of the corporation immediately after the ownership change to be equal to its proportionate share (determined on the basis of respective fair market values) of the fair market value of the assets of the corporation, as determined under section 382(h) of the Tax Code, immediately before the ownership change, the effect of which may increase the amount of AMT owed by the Reorganized Debtors.

C. Certain U.S. Federal Income Tax Consequences to Certain U.S. Holders of Claims

The following discussion assumes that the Debtors will undertake the Restructuring Transactions currently contemplated by the Plan. Holders of Claims or Interests are urged to consult their tax advisors regarding the tax consequences of the Restructuring Transactions.

1. U.S. Federal Income Tax Consequences to U.S. Holders of Allowed Class 4 Claims

Pursuant to the Plan, except to the extent that a U.S. Holder of an Allowed Secured Lender Claim agrees to a less favorable treatment in exchange for full and final satisfaction, settlement, release and discharge of the Lender Claims, each U.S. Holder of such Claims shall receive a Pro Rata distribution of the New Common Equity Pool and Subscription Rights to purchase its Pro Rata Share of the Rights Offerings Shares.

Whether and the extent to which a U.S. Holder of a Lender Claim recognizes gain or loss as a result of the exchange of its claim for the New Common Stock depends on whether the debt underlying the Lender Claim surrendered and the Subscription Rights, as applicable, are treated as a "security" for purposes of the reorganization provisions of the Tax Code, as further described below.

(a) Treatment of a Debt Instrument as a "Security"

Whether a debt instrument constitutes a "security" for U.S. federal income tax purposes is determined based on all the relevant facts and circumstances, but most authorities have held that the length of the term of a debt instrument is an important factor in determining whether such instrument is a security for U.S. federal income tax purposes. These authorities have indicated that a term of less than five years is generally evidence that the instrument is not a security, whereas a term of ten years or more is evidence that it is a security. There are numerous other factors that could be taken into account in determining whether a debt instrument is a security, including the security for payment, the creditworthiness of the obligor, the subordination or lack thereof to other creditors, the right to vote or otherwise participate in the management of the obligor, convertibility of the instrument into an equity interest of the obligor, whether payments of interest are fixed, variable, or contingent, and whether such payments are made on a current basis or accrued. The Company has not yet determined its reporting position with respect to whether the obligations underlying the Lender Claims constitute securities for U.S. federal income tax purposes. U.S. Holders of Lender Claims are urged to consult their own tax advisors regarding the appropriate status for U.S. federal income tax purposes of their Claims.

(b) U.S. Holder Exchanges its Allowed Lender Claim, which Claim is not a Security

If a U.S. Holder's Allowed Lender Claim is not a security for U.S. federal income tax purposes, such U.S. Holder will be treated as exchanging such Claim for New Common Stock (and Subscription Rights, as applicable), in a taxable exchange under section 1001 of the Tax Code. In that case, each U.S. Holder of such Claim should recognize gain or loss equal to the difference between (1) the fair market value of New Common Stock (and Subscription Rights, as applicable) received in exchange for the Claim; and (2) such U.S. Holder's adjusted basis in such Claim. The character of such gain or loss as capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the U.S. Holder, the nature of the Claim in such U.S. Holder's hands, whether the Claim was purchased at a discount, and whether and to what extent the U.S. Holder previously has claimed a bad debt deduction with respect to its Claim. The deductibility of capital losses is subject to certain limitations as discussed below. *See* Articles XIII.C.6 and XIII.C.7 of this Disclosure Statement, entitled "Accrued Interest" and "Market Discount," respectively, which begin on page 76. A U.S. Holder's combined tax basis in any New Common Stock and Subscription Rights received should equal the fair market value of such New Common Stock and Subscription Rights as of the date such New Common Stock and Subscription Rights are distributed to the holder. A U.S. Holder's holding period for the New Common Stock and Subscription Rights received should begin on the day following the Effective Date.

(c) U.S. Holder Exchanges Its Allowed Lender Claim, which Claim is a Security

If a U.S. Holder's Allowed Lender Claim is treated as a security for U.S. federal income tax purposes, the exchange of such Claim for New Common Stock (and Subscription Rights, as applicable) should be treated as an exchange of securities pursuant to a "reorganization" under the applicable provisions of the Tax Code and Treasury Regulations (a "Reorganization") and a U.S. Holder should not recognize loss with respect to the exchange and should not recognize gain (subject to "Accrued Interest," as discussed in Article XIII.C.6 of this Disclosure Statement entitled "Accrued Interest" which begins on page 76). Such U.S. Holder's total combined tax basis in its New Common Stock (and Subscription Rights, as applicable) received should equal the U.S. Holder's tax basis in the Allowed Lender Claim surrendered therefor increased by gain, if any, recognized by such U.S. Holder in the transaction. Such combined tax basis will be divided between the New Common Stock and Subscription Rights, as applicable, based on their relative fair market value as of the Effective Date. Subject to Article XIII.C.6 of this Disclosure Statement, entitled "Accrued Interest," which begins on page 76, a U.S. Holder's holding period for its interest in the New Common Stock (and Subscription Rights, as applicable) should include the holding period for the Allowed Lender Claim surrendered therefor.

2. U.S. Federal Income Tax Consequences to U.S. Holders of Allowed Class 5 Claims

Pursuant to the Plan, each U.S. Holder of an Allowed Unsecured Convenience Class Claim will receive Cash in full and final satisfaction of such Claim. A U.S. Holder of a Unsecured Convenience Class Claim should be treated as exchanging such Unsecured Convenience Class Claim for Cash in a taxable exchange under section 1001 of the Tax Code. In that case, a U.S. Holder would recognize gain or loss equal to the difference between (1) the amount of Cash received in satisfaction of such U.S. Holder's Claims and (2) the U.S Holder's adjusted tax basis in its Claim. The character of such gain or loss as capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the U.S. Holder, the nature of the Claim in such U.S. Holder's hands, whether the Claim was purchased at a discount, and whether and to what extent the U.S. Holder previously has claimed a bad debt deduction with respect to its Claim. The deductibility of capital losses is subject to certain limitations as discussed below. See Articles XIII.C.6 and XIII.C.7 of this Disclosure Statement, entitled "Accrued Interest" and "Market Discount," respectively, which begin on page 76.

3. U.S. Federal Income Tax Consequences to U.S. Holders of Allowed Class 6 Claims

Pursuant to the Plan, each U.S. Holder of an Allowed General Unsecured Claim other than a Deficiency Lender Claim will receive, in full and final satisfaction of such Claim, its Pro Rata share of (1) the Unsecured Creditor Cash Pool and (2) the Unsecured Creditor New Warrants. A U.S. Holder of a General Unsecured Claim should be treated as exchanging such General Unsecured Claim for Cash and Unsecured Creditor New Warrants in a taxable exchange under section 1001 of the Tax Code. In that case, a U.S. Holder would recognize gain or loss in an amount equal to the difference between (1) the sum of the fair market value of the Unsecured Creditor New Warrants and the amount of Cash received in satisfaction of such U.S. Holder's Claims and (2) the U.S. Holder's adjusted tax basis in its Claim. The character of such gain or loss as capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the U.S. Holder, the nature of the Claim in such U.S. Holder's hands, whether the Claim was purchased at a discount, and whether and to what extent the U.S. Holder previously has claimed a bad debt deduction with respect to its Claim. The deductibility of capital losses is subject to certain limitations as discussed below. See Articles XIII.C.5, XIII.C.6, and XIII.C.7 of this Disclosure Statement, entitled "Exercise or Sale, Exchange, Lapse, or Other Disposition of New Warrants," "Accrued Interest," and "Market Discount," respectively, which begin on page 75. A U.S. Holder's initial tax basis in the Unsecured Creditor New Warrants will be the fair market value of the Unsecured Creditor New Warrants, and a U.S. Holder's holding period will begin the day after the Effective Date.

The foregoing discussion assumes that no Allowed General Unsecured Claim is a "security" for U.S. federal income tax purposes. See Article XII.C.1.(a) of this Disclosure Statement entitled "Treatment of a Debt Instrument as a "Security"," which begins on page 72. Each U.S. Holder of an Allowed General Unsecured Claim should consult its own tax advisor as to whether its Claim constitutes a "security" for U.S. federal income tax purposes.

4. U.S. Federal Income Tax Consequences to U.S. Holders of Allowed Class 9 Interests

Pursuant to the Plan, if the Holders of Interests in C&J Energy timely vote as a class to accept the Plan, then in exchange for full and final satisfaction, settlement, release, and discharge of the Interests in C&J Energy, the holders of such Interests shall receive a Pro Rata distribution of the Interest Holder New Warrants. If the Holders of Interests in C&J Energy do not vote as a class to accept the Plan and the Plan is effectuated, such Holders will not receive Interest Holder New Warrants, and the existing Interests will be cancelled for no recovery, in which case such U.S. Holders may be entitled to claim a worthless stock deduction. U.S. Holders of Interests in C&J Energy are urged to consult their tax advisors regarding the proper characterization of such exchange and the resulting U.S. federal income tax consequences to them.

While the matter is not free from doubt, the exchange of Interests for the Interest Holder New Warrants should likely be treated as a taxable transaction for U.S. Holders of Interests. In such case, a

U.S. Holder of Interests would recognize gain or loss for United States federal income tax purposes in an amount equal to the difference between (1) the fair market value of its share of the Interest Holder New Warrants and (2) the U.S. Holder's adjusted tax basis in its Interests. Such gain or loss should be capital gain or loss and should be long-term capital gain or loss if the Interests were held for more than one year by the holder. Long-term capital gains of an individual taxpayer generally are taxed at preferential rates. The deductibility of capital losses is subject to limitations, as discussed in Article XIII.C.8 of this Disclosure Statement. See Article XIII.C.5 of this Disclosure Statement, entitled "Exercise or Sale, Exchange, Lapse, or Other Disposition of New Warrants." A U.S. Holder's initial tax basis in the Interest Holder New Warrants will be the fair market value of the Interest Holder New Warrants, and a U.S. Holder's holding period will begin the day after the Effective Date.

Alternatively, because the Interest Holder New Warrants are issued only if the holders of Interests in C&J Energy vote as a class to accept the Plan, it is possible that the Interest Holder New Warrants would be treated as a fee paid to such holders, in which case the U.S. Holders would generally be taxed on the value of such Interest Holder New Warrants as ordinary income and would recognize a capital loss on the cancellation of their Interests.

Each holder of Interests in C&J Energy should consult its own tax advisor regarding the consequences to it of this issue.

U.S. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE RECOGNITION OF GAIN OR LOSS, FOR U.S. FEDERAL INCOME TAX PURPOSES, ON THE SATISFACTION OF THEIR CLAIMS OR INTERESTS.

5. Exercise or Sale, Exchange, Lapse, or Other Disposition of New Warrants

(a) Cashless Exercise of New Warrants

The tax consequences of the cashless exercise of a New Warrant are not clear. The exercise of the New Warrants may be treated for U.S. federal income tax purposes either as the exercise of an option to receive a variable number of shares of New Common Stock on exercise with an exercise price of zero or as a recapitalization under section 368(a)(1)(E) of the Tax Code. Under such treatment, in either case, a U.S. Holder generally will not recognize gain or loss upon exercise of a New Warrant except that, if the Warrant Agreement (when finalized) provides for the payment of cash in lieu of a fractional share of New Common Stock (and the discussion below so assumes), the receipt of such cash will generally be treated as if the U.S. Holder received the fractional share and then received such cash in redemption of such fractional share. Such redemption will generally result in capital gain or loss equal to the difference between the amount of cash received and the U.S. Holder's adjusted tax basis in the shares of New Common Stock that is allocable to the fractional share. A U.S. Holder will have a tax basis in the shares of New Common Stock received upon the exercise of a New Warrant (including any fractional share treated as redeemed) equal to its tax basis in the New Warrant. If a New Warrant is treated as an option to receive a variable number of shares of New Common Stock, the holding period of shares of New Common Stock received upon the exercise of a New Warrant will commence on the day the New Warrant is exercised (or possibly on the day following the day the New Warrant is exercised). If the exercise is treated as a recapitalization, the holding period of shares of New Common Stock received upon the exercise of a New Warrant will include the U.S. Holder's holding period of the New Warrants.

However, the IRS could take the position that the exercise of the New Warrants results in a taxable exchange resulting in gain or loss. The amount of gain or loss recognized on such deemed exchange and its character would depend on the position taken by the IRS regarding the nature of that exchange. If the U.S. Holder is treated as exchanging the New Warrants for the shares of New Common Stock received on exercise, the amount of gain or loss will be the difference between the fair market value of the shares of New Common Stock and cash in lieu of fractional shares received on exercise and the U.S. Holder's basis in the New Warrants. In that case, the U.S. Holder will have long-term capital gain or loss if its holding period in the New Warrant exceeds one year.

Alternatively, the IRS could take the position that the U.S. Holder is treated as selling a portion of the New Warrants or underlying shares of New Common Stock for cash that is used to pay the exercise price for the New Warrant, in which case the amount of gain or loss will be the difference between that exercise price and the U.S. Holder's basis attributable to the New Warrants or shares of New Common Stock deemed to have been sold. If the U.S. Holder is treated as selling New Warrants, such holder will have long-term capital gain or loss if its holding period in the New Warrants exceeds one year. If the U.S. Holder is treated as selling shares of New Common Stock, such holder will have short-term capital gain or loss. In either case, a U.S. Holder of a New Warrant will also recognize gain or loss in respect of the cash received in lieu of a fractional share of New Common Stock in an amount equal to the difference between the amount of cash received and the portion of the U.S. Holder's tax basis attributable to such fractional share.

U.S. Holders of New Warrants are urged to consult their tax advisors regarding these and other possible characterizations of the cashless exercise of their New Warrants for U.S. federal, state, local and foreign tax purposes.

(b) Sale, Exchange, Lapse or Other Disposition of New Warrants

Upon the sale, exchange, lapse, or other disposition (other than its exercise) of a New Warrant, a U.S. Holder should generally recognize capital gain or loss equal to the difference between the amount realized (if any) and such U.S. Holder's adjusted tax basis in such New Warrant. Such gain or loss should generally be long-term capital gain or loss if the U.S. Holder has held its New Warrant for more than one year at the time of the sale, exchange, or other disposition, and short-term capital gain or loss otherwise. The deductibility of capital losses is subject to certain limitations, as discussed in Article XIII.C.8 of this Disclosure Statement. Depending on the particular circumstances in which the Claim or Interest for which the New Warrant was exchanged had been acquired and the treatment of the U.S. Holder's exchange of its Claim or Interest for its New Warrant, the sale, exchange or other disposition of the New Warrant might result in the recognition of market discount. See Article XIII.C.7 of this Disclosure Statement, entitled "Market Discount," which begins on page 75.

(c) Adjustments

If the terms of the New Warrants provide for any adjustment to the number of shares of New Common Stock for which the New Warrants may be exercised or to the exercise price of the New Warrants, such adjustment may, under limited circumstances, result in a constructive distribution that could be taxable as a dividend to a U.S. Holder even though such holder would not receive any Cash related thereto. Conversely, the absence of an appropriate adjustment may result in a constructive distribution that could be taxable as a dividend to U.S. Holders of the New Common Stock.

6. Accrued Interest

To the extent that any amount received by a U.S. Holder of a Claim is attributable to accrued but unpaid interest on the debt instrument constituting the surrendered Claim, the receipt of such amount should be taxable to the U.S. Holder as ordinary interest income (to the extent not already taken into income by the U.S. Holder). Conversely, a U.S. Holder of a Claim may be able to recognize a deductible loss (or, possibly, a write off against a reserve for worthless debts) to the extent that any accrued interest previously was included in the U.S. Holder's gross income but was not paid in full by the Debtors. Such loss may be ordinary, but the tax law is unclear on this point.

If the fair value of the consideration is not sufficient to fully satisfy all principal and interest on Allowed Claims, the extent to which such consideration will be attributable to accrued interest for U.S. federal income tax purposes is unclear. Under the Plan, the aggregate consideration to be distributed to holders of Allowed Claims in each Class will be allocated first to the principal amount of Allowed Claims, with any excess allocated to unpaid interest that accrued on these Claims, if any. Certain legislative history indicates that an allocation of consideration as between principal and interest provided in a chapter 11 plan of reorganization is binding for U.S. federal income tax purposes, while certain Treasury Regulations treat payments as allocated first to any accrued but unpaid interest. The IRS could take the position that the consideration received by the holder should be allocated in some way other than as provided in the Plan. U.S. Holders of Claims should consult their own tax advisors regarding the proper allocation of the consideration received by them under the Plan.

U.S. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE ALLOCATION OF CONSIDERATION RECEIVED IN SATISFACTION OF THEIR CLAIMS AND THE FEDERAL INCOME TAX TREATMENT OF ACCRUED BUT UNPAID INTEREST.

7. Market Discount

Under the "market discount" provisions of the Tax Code, some or all of any gain realized by a U.S. Holder of a Claim who exchanges the Claim for an amount on the Effective Date may be treated as ordinary income (instead of capital gain) to the extent of the amount of "market discount" on the debt instruments constituting the exchanged Claim. In general, a debt instrument is considered to have been acquired with "market discount" if it is acquired other than on original issue and if its holder's adjusted tax basis in the debt instrument is less than (a) the sum of all remaining payments to be made on the debt instrument, excluding "qualified stated interest" or (b) in the case of a debt instrument issued with original issue discount, its adjusted issue price, by at least a de minimis amount (equal to 0.25 percent of the sum of all remaining payments to be made on the debt instrument, excluding qualified stated interest, multiplied by the number of remaining whole years to maturity).

Any gain recognized by a U.S. Holder on the taxable disposition of a Claim that had been acquired with market discount should be treated as ordinary income to the extent of the market discount that accrued thereon while the Claim was considered to be held by the U.S. Holder (unless the U.S. Holder elected to include market discount in income as it accrued). To the extent that the Allowed Claims that were acquired with market discount are exchanged in a tax-free transaction for other property, any market discount that accrued on the Allowed Claims (*i.e.*, up to the time of the exchange) but was not recognized by the U.S. Holder is carried over to the property received therefor and any gain recognized on the subsequent sale, exchange, redemption, or other disposition of the property is treated as ordinary income to the extent of the accrued, but not recognized, market discount.

U.S. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE APPLICATION OF THE MARKET DISCOUNT RULES TO THEIR CLAIMS.

8. Limitation on Use of Capital Losses

A U.S. Holder of a Claim who recognizes capital losses as a result of the distributions under the Plan will be subject to limits on the use of such capital losses. For a non-corporate U.S. Holder, capital losses may be used to offset any capital gains (without regard to holding periods), and also ordinary income to the extent of the lesser of (a) $3,000 ($1,500 for married individuals filing separate returns) or

(b) the excess of all the U.S. Holder's capital losses over all the U.S. Holder's capital gains. A non-corporate U.S. Holder may carry over unused capital losses and apply them against future capital gains and a portion of their ordinary income for an unlimited number of years. For corporate U.S. Holders, capital losses may only be used to offset capital gains. A corporate U.S. Holder that has more capital losses than may be used in a tax year may carry back unused capital losses to the three years preceding the capital loss year or may carry over unused capital losses for the five years following the capital loss year.

9. Exercise of Rights

A U.S. Holder of an Allowed Lender Claim that elects not to exercise the Subscription Rights may be entitled to claim a loss equal to the amount of tax basis allocated to the Subscription Rights, subject to any limitations on such U.S. Holder's ability to utilize capital losses.

SUCH U.S. HOLDERS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE TAX CONSEQUENCES OF ELECTING NOT TO EXERCISE THE RIGHTS.

A U.S. Holder that elects to exercise the Subscription Rights should be treated as purchasing, in exchange for its Subscription Rights and the amount of cash funded by the U.S. Holder to exercise the Subscription Rights, the additional New Common Stock it is entitled to pursuant to the Subscription Rights. Such a purchase should generally be treated as the exercise of an option under general tax principles, and as such U.S. Holder should not recognize income, gain, or loss for U.S. federal income tax purposes when it exercises the Subscription Rights. A U.S. Holder's aggregate tax basis in the New Common Stock should equal the sum of (i) the amount of Cash paid by the U.S. Holder to exercise its Subscription Rights plus (ii) such U.S. Holder's tax basis in its Subscription Rights immediately before the option is exercised. A U.S. Holder's holding period for the New Common Stock received on the Effective Date pursuant to the exercise of the Subscription Rights should begin on the day following the Effective Date.

This discussion does not address the consequences to the Backstop Parties, which may differ materially from the consequences presented herein. The Backstop Parties are urged to consult their own tax advisors as to the expected tax consequences to them of participating in the backstop of the Rights Offering, including any changes to such holders to the expected tax treatment described herein for transactions pursuant to the Plan.

10. Dividends on New Common Stock

Any distributions made on account of the New Common Stock will constitute dividends for U.S. federal income tax purposes to the extent of the current or accumulated earnings and profits of the Reorganized Debtors as determined under U.S. federal income tax principles. To the extent that a U.S. Holder receives distributions that would otherwise constitute dividends for U.S. federal income tax purposes but that exceed such current and accumulated earnings and profits, such distributions will be treated first as a non-taxable return of capital reducing the U.S. Holder's basis in its shares. Any such distributions in excess of the U.S. Holder's basis in its shares generally will be treated as capital gain.

Dividends paid to U.S. Holders that are corporations generally will be eligible for the dividends-received deduction. However, the dividends-received deduction is only available if certain holding period requirements are satisfied. The length of time that a shareholder has held its stock is reduced for any period during which the shareholder's risk of loss with respect to the stock is diminished by reason of the existence of certain options, contracts to sell, short sales, or similar transactions. In addition, to the extent that a corporation incurs indebtedness that is directly attributable to an investment in the stock on which the dividend is paid, all or a portion of the dividends received deduction may be disallowed.

11. Sale, Redemption, or Repurchase of New Common Stock

Unless a non-recognition provision applies, U.S. Holders generally will recognize capital gain or loss upon the sale, redemption, or other taxable disposition of New Common Stock. Subject to the recapture rules of section 108(e)(7) of the Tax Code and the discussion of market discount in Article XIII.C.5, such capital gain will be long-term capital gain if at the time of the sale, exchange, retirement, or other taxable disposition, the U.S. Holder held the New Common Stock for more than one year. Long-term capital gains of an individual taxpayer generally are taxed at preferential rates. The deductibility of capital losses is subject to certain limitations as described in Article XIII.C.6 above. Under the recapture rules of section 108(e)(7) of the Tax Code, a U.S. Holder may be required to treat gain recognized on the taxable disposition of the New Common Stock as ordinary income if such U.S. Holder took a bad debt deduction with respect to its Allowed Claim or recognized an ordinary loss on the exchange of its Allowed Claim for New Common Stock.

D. Certain U.S. Federal Income Tax Consequences to Certain Non-U.S. Holders of Claims

This following discussion includes only certain U.S. federal income tax consequences of the Restructuring Transactions to non-U.S. Holders. The discussion does not include any non-U.S. tax considerations. The rules governing the U.S. federal income tax consequences to non-U.S. Holders are complex. Each non-U.S. Holder should consult its own tax advisor regarding the U.S. federal, state, and local and the non-U.S. tax consequences of the consummation of the Plan to such non-U.S. Holders and the ownership and disposition of the New Common Stock, as applicable.

Whether a non-U.S. Holder realizes gain or loss on the exchange and the amount of such gain or loss is determined in the same manner as set forth above in connection with U.S. Holders.

1. Gain Recognition

Any gain realized by a non-U.S. Holder on the exchange of its Claim generally will not be subject to U.S. federal income taxation unless (i) the non-U.S. Holder is an individual who was present in the United States for 183 days or more during the taxable year in which the Restructuring Transactions occur and certain other conditions are met or (ii) such gain is effectively connected with the conduct by such non-U.S. Holder of a trade or business in the United States (and if an income tax treaty applies, such gain is attributable to a permanent establishment maintained by such non-U.S. Holder in the United States).

If the first exception applies, to the extent that any gain is taxable and does not qualify for deferral pursuant to a Reorganization as described above, the non-U.S. Holder generally will be subject to U.S. federal income tax at a rate of 30 percent (or at a reduced rate or exemption from tax under an applicable income tax treaty) on the amount by which such non-U.S. Holder's capital gains allocable to U.S. sources exceed capital losses allocable to U.S. sources during the taxable year of the exchange. If the second exception applies, the non-U.S. Holder generally will be subject to U.S. federal income tax with respect to any gain realized on the exchange if such gain is effectively connected with the non-U.S. Holder's conduct of a trade or business in the United States in the same manner as a U.S. Holder. In addition, if such a non-U.S. Holder is a corporation, it may be subject to a branch profits tax equal to 30 percent (or such lower rate provided by an applicable treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments.

2. Accrued Interest

Payments to a non-U.S. Holder that are attributable to accrued but untaxed interest generally will not be subject to U.S. federal income or withholding tax, provided that the withholding agent has received or receives, prior to payment, appropriate documentation (generally, IRS Form W-8BEN or W-8BEN-E) establishing that the non-U.S. Holder is not a U.S. person, unless:

(i) the non-U.S. Holder actually or constructively owns ten percent or more of the total combined voting power of all classes of Reorganized C&J Energy's stock entitled to vote;

(ii) the non-U.S. Holder is a "controlled foreign corporation" that is a "related person" with respect to Reorganized C&J Energy (each, within the meaning of the Tax Code);

(iii) the non-U.S. Holder is a bank receiving interest described in Section 881(c)(3)(A) of the Tax Code; or

(iv) such interest is effectively connected with the conduct by the non-U.S. Holder of a trade or business within the United States.

A non-U.S. Holder that does not qualify for exemption from withholding tax with respect to accrued but untaxed interest that is not effectively connected income generally will be subject to withholding of U.S. federal income tax at a 30 percent rate (or at a reduced rate or exemption from tax under an applicable income tax treaty) on payments that are attributable to accrued but untaxed interest. For purposes of providing a properly executed IRS Form W-8BEN or W-8BEN-E, special procedures are provided under applicable Treasury Regulations for payments through qualified foreign intermediaries or certain financial institutions that hold customers' securities in the ordinary course of their trade or business.

If payments of accrued untaxed interest are effectively connected with a non-U.S. Holder's trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment or fixed base) and the non-U.S. Holder provides a properly executed IRS Form W-8ECI (or successor form) to the withholding agent, the non-U.S. Holder (x) generally will not be subject to withholding tax, but (y) will be subject to U.S. federal income tax in the same manner as a U.S. Holder (unless an applicable income tax treaty provides otherwise), and a non-U.S. Holder that is a corporation for U.S. federal income tax purposes may also be subject to a branch profits tax with respect to such non-U.S. Holder's effectively connected earnings and profits that are attributable to the accrued but untaxed interest at a rate of 30 percent (or at a reduced rate or exemption from tax under an applicable income tax treaty)).

3. Dividends on New Common Stock

Any distributions made with respect to New Common Stock will constitute dividends for U.S. federal income tax purposes to the extent of the Reorganized Debtor's current or accumulated earnings and profits as determined under U.S. federal income tax principles. To the extent that a non-U.S. Holder receives distributions that would otherwise constitute dividends for U.S. federal income tax purposes but that exceed such current and accumulated earnings and profits, such distributions will be treated first as a non-taxable return of capital reducing the non-U.S. Holder's basis in its shares. Any such distributions in excess of a non-U.S. Holder's basis in its shares generally will be treated as capital gain from a sale or exchange (and the respective excess distributions as proceeds from a sale or exchange as described below; *see* "Sale, Redemption, or Repurchase of New Common Stock and New Warrants" in Article XIII.D.4 herein). Except as described below, dividends paid with respect to New Common Stock held by a non-U.S. Holder that are not effectively connected with a non-U.S. Holder's conduct of a U.S. trade or business (or if an income tax treaty applies, are not attributable to a permanent establishment maintained by such non-U.S. Holder in the United States) will be subject to withholding at a rate of 30 percent (or lower treaty rate or exemption from tax, if applicable). A non-U.S. Holder generally will be required to satisfy certain IRS certification requirements in order to claim a reduction of or exemption from withholding under a tax treaty by filing IRS Form W-8BEN or W-8BEN-E (or a successor form) upon which the non-U.S. Holder certifies, under penalties of perjury, its status as a non-U.S. person and its entitlement to the lower treaty rate or exemption from tax with respect to such payments. Dividends paid with respect to New Common Stock held by a non-U.S. Holder that are effectively connected with a non-U.S. Holder's conduct of a U.S. trade or business (and if an income tax treaty applies, are attributable to a permanent establishment maintained by such non-U.S. Holder in the United States) generally will be subject to U.S. federal income tax in the same manner as a U.S. Holder, and a non-U.S. Holder that is a corporation for U.S. federal income tax purposes may also be subject to a branch profits tax with respect to such non-U.S. Holder's effectively connected earnings and profits that are attributable to the dividends at a rate of 30 percent (or at a reduced rate or exemption from tax under an applicable income tax treaty).

4. Sale, Redemption, or Repurchase of New Common Stock and Exercise or Sale, Exchange, Lapse or Other Disposition of New Warrants

The treatment of the cashless exercise of a New Warrant by a non-U.S. Holder generally is the same as described above in Article XIII.C.5(a). While alternative characterizations of the cashless exercise of the New Warrants for U.S. federal income tax purposes are possible, in general, any gain or loss recognized by a non-U.S. Holder should give rise to the same U.S. federal income tax consequences as described in the next paragraph. Subject to the discussion below regarding backup withholding, if a non-U.S. Holder owns New Common Stock or New Warrants (as applicable), the non-U.S. Holder generally will not be subject to U.S. federal income tax with respect to any gain or loss realized on the sale, exchange or other taxable disposition of such New Common Stock or New Warrants (as applicable) unless:

- the non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of disposition, and certain other conditions are met;
- such gain is effectively connected with the non-U.S. Holder's conduct of a trade or business in the United States; or
- Reorganized C&J Energy is a "United States real property holding corporation" (a "USRPHC") for U.S. federal income tax purposes during the shorter of the non-U.S. Holder's holding period or the five-year period ending on the date of disposition of the New Common Stock or New Warrants (as applicable), as the case may be, unless certain exceptions apply.

C&J Energy does not believe that it is, and does not currently anticipate that Reorganized C&J Energy will be, a USRPHC for U.S. federal income tax purposes.

5. FATCA

Under the Foreign Account Tax Compliance Act ("FATCA"), foreign financial institutions and certain other foreign entities must report certain information with respect to their U.S. account holders and investors or be subject to withholding at a rate of 30 percent on the receipt of "withholdable payments." For this purpose, "withholdable payments" are generally U.S. source payments of fixed or determinable, annual or periodical income (including dividends, if any, on shares of New Common Stock), and also include gross proceeds from the sale or other disposition of any property of a type which can produce U.S. source interest or dividends (which would include New Common Stock and the New Warrants, as applicable) if such sale or other disposition occurs after December 31, 2018. FATCA withholding will apply even if the applicable payment would not otherwise be subject to U.S. federal nonresident withholding.

E. Information Reporting and Backup Withholding

The Debtors will withhold all amounts required by law to be withheld from payments of interest and dividends. The Debtors will comply with all applicable reporting requirements of the Tax Code. In general, information reporting requirements may apply to distributions or payments made to a holder of a Claim under the Plan. In addition, backup withholding of taxes will generally apply to payments in respect of an Allowed Claim under the Plan unless, in the case of a U.S. Holder, such U.S. Holder provides a properly executed IRS Form W-9 and, in the case of non-U.S. Holder, such non-U.S. Holder provides a properly executed applicable IRS Form W-8 (or otherwise establishes such Non-U.S. Holder's eligibility for an exemption).

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a holder's U.S. federal income tax liability, and a holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing an appropriate claim for refund with the IRS (generally, a federal income tax return).

In addition, from an information reporting perspective, the Treasury Regulations generally require disclosure by a taxpayer on its U.S. federal income tax return of certain types of transactions in which the taxpayer participated, including, among other types of transactions, certain transactions that result in the taxpayer's claiming a loss in excess of specified thresholds. Holders are urged to consult their tax advisors regarding these regulations and whether the transactions contemplated by the Plan would be subject to these regulations and require disclosure on the holders' tax returns.

THE FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN ARE COMPLEX. THE FOREGOING SUMMARY DOES NOT DISCUSS ALL ASPECTS OF FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER IN LIGHT OF SUCH HOLDER'S CIRCUMSTANCES AND INCOME TAX SITUATION. ALL HOLDERS OF CLAIMS OR INTERESTS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE TRANSACTIONS CONTEMPLATED BY THE PLAN, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL, OR FOREIGN TAX LAWS, AND OF ANY CHANGE IN APPLICABLE TAX LAWS.

[*Remainder of page intentionally left blank*]

XIV. RECOMMENDATION

In the opinion of the Debtors, the Plan is preferable to all other available alternatives and provides for a larger distribution to the Debtors' creditors than would otherwise result in any other scenario. Accordingly, the Debtors recommend that holders of Claims entitled to vote on the Plan vote to accept the Plan and support Confirmation of the Plan.

Dated: November 3, 2016

C&J ENERGY SERVICES LTD.
on behalf of itself and all other Debtors

/s/ Mark Cashiola

Mark Cashiola
Chief Financial Officer
C&J Energy Services Ltd.

Exhibit A

Plan of Reorganization

Exhibit B

Restructuring Support Agreement

Exhibit C

Corporate Organization Chart

Exhibit D

Disclosure Statement Order

Exhibit E

Rights Offering Procedures

Exhibit F

Liquidation Analysis

Exhibit G

Financial Projections

Exhibit H

Valuation Analysis