

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

IN RE: §
AMARILLO BIOSCIENCES, INC., § Case No. 13-20393-RLJ-11
Debtor. §

DEBTOR’S PLAN OF REORGANIZATION

AMARILLO BIOSCIENCES, INC., Debtor and Debtor in Possession (“*ABI*” or “*Debtor*”), submits this Plan of Reorganization under Chapter 11 of the United States Bankruptcy Code:

ARTICLE 1
Definitions

1.01. ABI: Amarillo Biosciences, Inc., the Debtor and Debtor in Possession in this case.

1.02. Administrative Expense Claims: Claims that arise from those expenses described in Section 503 of the Bankruptcy Code.

1.03. Affiliate: For purposes of the Plan, “Affiliate” has the meaning found in Section 101 of the Bankruptcy Code.

1.04. Allowed Claim: A claim with respect to which: (a) a proof of claim has been filed with the Court on or before the Bar Date, or (b) Debtor has scheduled in a list of creditors prepared and filed with the Court pursuant to Rule 1007, and such claim is not listed as disputed, contingent, or unliquidated as to amount; and in either case, a claim: (i) to which no objection has been timely filed by any party-in-interest, or (ii) that has been allowed by order of the Court that has become final and is no longer subject to appeal.

1.05. Allowed Unsecured Claim of Yang: The unsecured claim of Yang arising from Yang’s funding of the continuing operating expenses of Debtor pre-petition, accrued and unpaid obligations of Debtor under the Pre-Petition Credit Documents, and from funding provided pursuant to the Post-Petition Loan Agreement, but excluding the amount of the Allowed Secured Claim of Yang. *The Class Two Claim of Yang.*¹

¹ This does not include claims, if any, that Yang or any Affiliate of Yang may acquire or have acquired from a third party; the Allowed Unsecured Claim of Yang and the Allowed Secured Claim of Yang is limited to funds actually advanced by Yang to ABI.

1.06. Allowed Priority Claim: An Allowed Claim for which the holder asserts and is determined to be entitled to priority under Section 507, *et seq.*, of the Bankruptcy Code in an amount allowed by final order of the Court. *Administrative Expense Claims or Class One Claims.*

1.07. Allowed Secured Claim of Yang: An Allowed Secured Claim against Debtor held by Yang, secured by substantially all of Debtor's assets, in particular its tangible and intangible personal property. This claim relates to the secured portion of Debtor's obligations to Yang under the Pre-Petition Credit Documents. *The Class Three Claim of Yang.*

1.08. Allowed Unsecured Claims of General Unsecured Creditors: An unsecured Allowed Claim against Debtor that is not an Allowed Priority Claim or an Allowed Unsecured Claim of a creditor in Class Two or Class Five. *The Class Four Claims.*

1.09. Applicable Federal Rate: The applicable federal rate of interest as determined pursuant to Section 1274(d) of the Internal Revenue Code ("**IRC**").

1.010. Bankruptcy Code: The United States Bankruptcy Code as codified at 11 U.S.C. § 101, *et seq.* Text references to statutory code sections refer to the Bankruptcy Code unless otherwise indicated.

1.011. Bankruptcy Court: United States Bankruptcy Court for the Northern District of Texas, Amarillo Division (or a successor court having bankruptcy jurisdiction).

1.012. Bankruptcy Rules: The Federal Rules of Bankruptcy Procedure, and where appropriate, the applicable local rules of the Bankruptcy Court.

1.013. Bar Date: The deadline fixed by the Court as the last day for filing a proof of claim. As of the date of this Plan, that date was set as **March 10, 2014** for non-governmental claimants.

1.014. Ballot Deadline: The deadline for submitting ballots to vote to accept or reject this Plan. The Ballot Deadline will be set in an order of the Bankruptcy Court upon or after approval of the Disclosure Statement.²

1.015. Cash Contribution: Funds to be paid by Yang upon the Effective Date to Debtor to be used by Debtor to consummate this Plan, including the distributions to the Unsecured Creditors as set forth in the Plan. The Cash Contribution is in the amount of \$250,000.00.

1.016. Causes of Action: Causes of action held by Debtor or the Estate against third parties, including Chapter Five Causes of Action.

² It is anticipated that the order approving a disclosure statement will include a specific date that will serve as the Ballot Deadline.

1.017. Chapter Five Causes of Action. Any claim or action arising under Section 510, 544 – 551 (inclusive), or 553, or otherwise arising under the Bankruptcy Code.

1.018. Common Equity: All issued and outstanding common stock in or to ABI as of October 31, 2013 (73,291,008 issued and outstanding shares).

1.019. Common Equity Security Holders: Holders of any common stock issued pre-petition by Debtor. *The Class Eight Interest Holders.*

1.020. Confirmation: Approval of the Plan by the Court, which shall occur the date upon which the Confirmation Order is entered.

1.021. Confirmation Order: The order of the Court confirming the Plan of Reorganization.

1.022. Consummation: The time when the last act required under the Plan has been completed.

1.023. Debtor: Amarillo Biosciences, Inc. (“**ABI**”), a Texas corporation whose principal office is in Amarillo, Texas, the Debtor and Debtor-in-Possession (“**DIP**”) in this case.

1.024. Dollars: United States dollars. Any reference to currency or monetary values in this Plan is to United States dollars.

1.025. Effective Date: Twenty-eight (28) days following the entry of the Confirmation Order or such other date as agreed upon by Debtor and Yang following Confirmation.

1.026. Equity Security Holders: The Common Equity Security Holders and the Preferred Equity Security Holders, whenever referenced collectively.

1.027. FINRA: Financial Industry Regulatory Authority; www.finra.org.

1.028. General Unsecured Creditors: Those creditors who hold allowed unsecured claims, other than (and excluding any claim of) Yang.

1.029. Governmental Effective Date: Thirty days following the later of the governmental bar date or the Effective Date.

1.030. Hayashibara: Hayashibara Co., Ltd., of Okayama, Japan, now the purported owner and holder of the HBL Notes.

1.031. HBL: Hayashibara Biochemical Laboratories, Inc., the original holder of the HBL Notes.

1.032. HBL Notes: Two promissory notes, each in the original principal amount of one million each (\$1,000,000.00), originally payable to HBL, now purportedly held by Hayashibara.

1.033. IRC: The United States Internal Revenue Code of 1954, as amended, as codified at Title 26, United States Code.

1.034. Insider: Insider is given the meaning found in Section 101(31) of the Bankruptcy Code.

1.035. Nagase: Nagase & Co., Ltd. On information and belief, Nagase is an affiliate of Nagase America Corp., and it is the owner or parent company of Hayashibara.

1.036. New ABI: ABI (as of the filing of this Plan, the Debtor) on and after: (i) the Effective Date and (ii) the closing of the reverse stock split and the issuance of new common stock under this Plan.

1.037. Petition Date: The date on which Debtor filed its petition for relief, October 31, 2013.

1.038. Plan: This Plan of Reorganization, including the addendum, attached to and incorporated in the Plan.

1.039. Post-Confirmation Forbearance Agreement: An agreement between Yang and Debtor providing for forbearance on collection of Yang's security interest in the Yang Collateral for a minimum period of twelve months after the Effective Date, consistent with the terms of this Plan.

1.040. Post-Petition Financing Claim: The claim of Yang arising from Yang's funding of the continuing operating expenses of Debtor, pursuant to the Post-Petition Loan Agreement, part of the Allowed Unsecured Claim of Yang.

1.041. Post-Petition Loan Agreement: That certain Loan Agreement entered into by and between Debtor and Yang on December 20, 2013 (effective as of the Petition Date), and approved by the Court in an interim order on December 20, 2013 (Doc. No. 66) and in a final order entered January 15, 2014 (Doc. No. 86).

1.042. Preferred Equity: All issued and outstanding shares of Class 2010-A preferred stock in ABI, being 3,262 shares that are believed held by Tibbits.

1.043. Preferred Equity Security Holders: Holders of any equity securities that have preference rights over general equity securities. The only known Preferred Equity Security Holder is Paul Tibbits, who is believed to hold 3,262 shares out of 10,000 authorized Class 2010-A preferred stock.

1.044. Pre-Petition Credit Documents: The July 19, 2013 Promissory Note from ABI to Yang (renewal of prior debt); the July 25, 2013 Promissory Note from ABI to Yang; the Security Agreement dated July 25, 2013, between ABI and Yang; any other pre-petition documents evidencing the pre-petition claim of Yang.

1.045. Retained Assets: The assets of Debtor that will revert in Debtor on the Effective Date, subject to the Allowed Secured Claim of Yang. The Retained Assets will be and include all assets of Debtor's estate.

1.046. SEC: Securities and Exchange Commission - United States of America.

1.047. Secured Claims: Allowed secured claims of any creditor whose claim is secured by a valid, perfected security interest in pre-petition property of Debtor, other than Yang. *The Class Six Claims.*

1.048. Tibbits: Paul Tibbits, and to the extent she has any direct or marital property interest, his spouse, Marian Tibbits.

1.049. Unclassified Claims: Claims that pursuant to Section 1123(a)(1) of the Bankruptcy Code are not classified and that includes collectively all claims accorded priority pursuant to Sections 507(a)(1), 507(a)(2), and 507(a)(8) of the Code.

1.050. Unsecured Creditors: All Unsecured Creditors, other than Yang, holding unsecured claims that are not Allowed Priority Claims; generally, the Class Four and Class Five Claimants.

1.051. Yang: The Yang Group, Taiwan, is an association, the principal of which is Patrick Ng of Canada. Yang is the creditor holding the Class Two and Class Three Claims and the "secured party" under the Yang Financing Statement.

1.052. Yang Collateral: The assets pledged by Debtor in accordance with the Pre-Petition Credit Documents, including any proceeds, which currently secure the Class Three Secured Claim of Yang.

ARTICLE 2

Classification of Claims

Administrative Expense Claims that are accorded priority pursuant to Section 507(a)(1) and Allowed Priority Claims pursuant to Sections 507(a)(2) and 507(a)(8) are not separately classified.

- 2.01. **Class One:** Allowed Priority Claims under Section 507(a)(3) to (a)(7) of the Bankruptcy Code.
- 2.02. **Class Two:** Allowed Unsecured Claim of Yang.
- 2.03. **Class Three:** Allowed Secured Claim of Yang.
- 2.04. **Class Four:** Allowed Unsecured Claims of General Unsecured Creditors.
- 2.05. **Class Five:** Administrative Convenience Claims.
- 2.06. **Class Six:** Allowed Secured Claims, other than the Secured Claim of Yang.
- 2.07. **Class Seven:** The interests of the Preferred Equity Security Holders.
- 2.08. **Class Eight:** The interests of the Common Equity Security Holders.
- 2.09. **Class Nine:** The interests of the holders of Warrants and Options.

ARTICLE 3
Treatment of Claims and Interests

Except as expressly provided in this Plan, all classes of claims are impaired to some extent under the Plan.

3.01. Unclassified Administrative Claims. Administrative Expense Claims that are accorded priority pursuant to Section 507(a)(1) and Allowed Claims under 507(a)(2) are not impaired and shall receive cash in the full amount of each such claim on the later of: (i) the Effective Date, or (ii) ten days after such claim becomes an Allowed Claim, unless the holder of the claim agrees to less favorable treatment. It is not believed that there are any such claims in this category other than administrative claims owing Debtor's counsel and Debtor's other retained professionals, which claims will be paid subject to Court approval from the post-petition financing provided by Yang.

3.02. Unclassified Tax Claims. Allowed Priority Claims pursuant to Section 507(a)(8) are not impaired and shall be paid as follows:

1. Claims that are equal to or less than \$1,000 in amount will be paid in full on or within sixty (60) days after the Governmental Effective Date;

2. Claims that are greater than \$1,000 in amount will be paid, at the option of Debtor: (a) in full on or within sixty (60) days after the Governmental Effective Date, or (b) by deferred annual cash payments over the next four (4) years. Each of the deferred annual payments will be twenty-five percent (25%) of the Allowed Claim amount, plus interest as determined pursuant to 11 U.S.C. § 511, with the first payment due one (1) year after the Governmental Effective Date. Debtor expressly reserves the right to prepay any deferred Unclassified Tax Claim; and

3. Except as may otherwise be agreed to by the parties, within sixty (60) days after the Governmental Effective Date, New ABI shall file its objection to the allowance of a claim pursuant to Section 507(a)(8) that is disputed. Ten (10) days after the entry of a final order allowing the amount, if any, of such claim, the allowed portion of all such disputed claims shall be paid consistent with the provisions above. It is not believed that there are any such unpaid claims in this category.

3.03. Class One. Allowed Priority Claims under Section 507(a)(3) to (a)(7) of the Bankruptcy Code shall be paid in cash in full on the Effective Date of the Plan, unless otherwise agreed by the applicable claimant. Class One is not impaired under the Plan.

3.04. Class Two. The Allowed Unsecured Claim of Yang is deemed allowed in an amount to be determined on the Effective Date. This amount consists of:

- a. \$1,256,792.89 principal plus accrued interest, advanced by Yang pursuant to the Pre-Petition Credit Documents;

- b. Plus all amounts advanced as of the Effective Date by Yang to Debtor, including that evidenced by the Post-Petition Loan Agreement;
- c. Plus any amount required to be paid by Yang to pay Administrative Expense Claims;
- d. Less the deemed value of Yang's Secured Class Three Claim in the amount of \$150,000.00.³

Yang shall receive 80% of the equity interest in New ABI in exchange for extinguishment of its Class Two Claim against Debtor and payment of the Cash Contribution. Upon issuance of 80% of the equity interest in New ABI to Yang, Debtor will have no further obligation for payment of the Class Two Claim. Class Two is impaired under the Plan.

3.05 Class Three. On the Effective Date, the Class Three Secured Claim of Yang shall be deemed allowed in the amount of \$150,000.00, secured by the same assets that secured Yang's pre-petition secured claim (*See* Texas Financing Statement No. 13-0029795076). This claim shall bear interest at the Applicable Federal Rate, and be fully amortized and paid as follows: five (5) consecutive equal annual installments of combined principal and interest, beginning September 1, 2014, and continuing on the same date of each succeeding year until September 1, 2018, when the obligation is due and payable in full.

3.06. Class Four. Each of the General Unsecured Creditors holding an Allowed Claim (and who has not elected Administrative Convenience treatment under Class Five) will be paid an amount equal to six percent (6%) of its Allowed Claim no later than ninety (90) days after the later of the Effective Date or final resolution of all claim objections. Objections to any Class Four Claims must be filed within twenty-eight (28) days after the Effective Date. Upon

³ The net amount of this Class Two Claim is not less than \$1,216,765.12 as of the date this Plan is filed. It may increase in amount based on post-petition advances from Yang to ABI.

distribution of the amount set forth in this paragraph, the remaining balance of the Class Four Claims will be discharged with respect to Debtor, and Debtor will have no further obligation for payments to Class Four Claimants. A claimant's negotiation of any check or instrument evidencing this distribution will be deemed to be in full and complete satisfaction of all claims of that claimant against the Debtor or any Affiliate of the Debtor. Class Four is impaired.

3.07. Class Five (Administrative Convenience). Any holder of a Class Four Claim may elect to accept Administrative Convenience treatment, as follows: any holder of an allowed Class Four Claim who timely elects Administrative Convenience treatment under this Class Five will be paid the lesser of: (i) its Allowed Claim amount (without interest) or (ii) \$500.00 within twenty-eight (28) days after the Effective Date.

To elect Administrative Convenience treatment, a claimant must elect such treatment in writing on or before the Ballot Deadline.⁴

A claimant's negotiation of any check or instrument evidencing this distribution will be deemed to be in full and complete satisfaction of all claims of that claimant against the Debtor or any Affiliate of the Debtor. Class Five is impaired.

3.08. Class Six. Any Class Six Secured Claims will be paid by New ABI according to the terms of the existing loan and security documents. Each secured claimant will retain its respective security interests in the collateral securing its claim. To the extent a Class Six Claimant is under-secured, (a) it will have no recourse for such deficiency against New ABI, and (b) it may seek to have its deficiency treated as a Class Four Allowed Unsecured Claim, subject to objections of New ABI. To the Debtor's best knowledge and belief, *no such claims exist in this class*. Class Six is impaired under the Plan.

⁴ The form and mechanism for exercising this election will be set forth on the Class Four Ballot form.

3.09. Class Seven (Preferred Equity). The interests of the Preferred Equity Security Holders of ABI will be canceled on the Effective Date, which cancellation shall be deemed to occur simultaneously with the issuance of new stock to Yang as described in the Plan; provided, however, that the Preferred Equity Security Holders will be deemed to have been issued 3,262,000 shares of Common Equity immediately prior to the reverse split of the Common Equity as contemplated under Class Eight.⁵ This is more fully described in the *Addendum* to this Plan. Upon issuance of the new (common) stock in New ABI to the Preferred Equity Security Holders, the remaining balance of any Class Seven Claims or interests will be discharged, and Debtor will have no further obligation for payments to Class Seven Claimants or interests.⁶ Class Seven is impaired under the Plan.

3.010. Class Eight (Common Equity). The interests and claims of the Common Equity Security Holders of ABI will be canceled on the Effective Date, which cancellation shall be deemed to occur simultaneously with the issuance of new stock in New ABI to Yang and the implementation of a reverse stock split for all Common Equity Security Holders⁷ as described in the *Addendum* to this Plan. Upon issuance of the new stock in New ABI, and implementation of the reverse stock split, Debtor will have no further obligation for payments or other consideration to Class Eight Interests. Class Eight is impaired under the Plan, and it is deemed to have rejected the Plan.

3.011. Class Nine (Warrants and Options). The interests and claims of the holders of any warrants or options to purchase common stock in ABI will be treated as follows: warrants

⁵ This deemed issuance is in addition to any existing common equity ownership – see the *Plan Addendum*.

⁶ Accrued, unpaid dividends, if any, that were due and unpaid as of the Petition Date will be treated under Class Four.

⁷ Including the deemed converted interest of the Preferred Equity Security Holders.

and options will be converted by a negative factor of 19 (consistent with the 1:19 reverse stock split in Class Eight) so that each 19 warrants or options would be reduced to one (1), with all other conversion or exercise rights to remain in effect, as to the newly issued stock in New ABI, subject, however, to a proportionate conversion in the per-share purchase price, as more specifically set forth in the *Plan Addendum*. The specific conversion affecting known warrants and options holders is set forth in the *Plan Addendum*. Class Nine is impaired under the Plan, and it is deemed to have rejected the Plan.

3.012. Cancellation and Issuance of Stock. The deemed conversion of the Preferred Equity, the reverse split of the Common Equity, and issuance of stock in New ABI as contemplated by this Plan are set forth and more fully described in Article 4 and in the *Plan Addendum*.

ARTICLE 4 Implementation of the Plan

4.01. Except as otherwise provided in the Plan, New ABI will remain in possession and ownership of all of the assets of Debtor (*i.e.*, all assets of the estate will vest in New ABI), without any liquidation of assets being contemplated by this Plan, and it will continue to maintain and operate Debtor's assets and affairs, post-confirmation. After the Effective Date, additional capitalization and financing of New ABI may be made on an as-needed basis by Yang. All liens and security interests of Yang in the Yang Collateral and the Retained Assets will be preserved and remain in full force and effect. New ABI will take such actions as required by Yang to enforce, preserve, and otherwise maintain such liens and encumbrances, including without limitation executing any new documents, financing statements, or other instruments. Documentation acceptable to Debtor and Yang will be executed and delivered to implement the Plan.

4.02. Prior to the Effective Date, Debtor will estimate the amount of Administrative Expense Claims to be paid and pay such claims.⁸ If Debtor has insufficient funds to pay such claims, then Yang will pay, or make arrangements to pay, such estimated claims pursuant to this Plan. (Any such items paid by Yang will become part of the Financing Claim of Yang.)

4.03. On or before the Effective Date, Debtor will arrange post-Confirmation financing with Yang sufficient to fund payments necessary to pay all Class One Claims, if any.

4.04. On or before the Effective Date, Yang shall pay into Debtor the Cash Contribution, to be utilized consistent with this Plan.

4.05. On the Effective Date, Debtor shall become “New ABI” for purposes of this Plan and shall:

- a. Pay the claims amounts, if any, due for Unclassified Claims or Class One Claims pursuant to the terms of the Plan;
- b. Grant and convey a security interest in the Retained Assets and the Yang Collateral to Yang for its Class Three Claim; and
- c. Cancel all of the stock of the Preferred Equity Security Holders (subject to the conversion to common equity described in the *Plan Addendum*), implement a reverse stock split for all Common Equity Security Holders and issue new stock in New ABI as stated in this Plan. All stock certificates of the Preferred Equity Security Holders will be deemed canceled, and the Common Equity Security Holders will undergo the reverse stock split upon the extinguishment of the Allowed Unsecured Claim of Yang and issuance of the new stock in New ABI under this Plan. Debtor will issue new New ABI stock to Yang and the Preferred Equity

⁸ Subject to approval of fees and expenses incurred by professional persons.

Security Holders and implement the reverse stock split for all Common Equity Security Holders on the Effective Date in exchange for extinguishment of the Allowed Unsecured Claim of Yang, Yang's payment of the Cash Contribution, and otherwise in satisfaction of the Class Seven and Eight interests and claims, respectively.⁹

4.06. Upon becoming the owner of the stock in New ABI, Yang, as the holder of 80% of the issued and outstanding common stock in New ABI, may immediately elect or appoint new directors, who may immediately appoint new officers.

4.07. Within twenty-eight (28) days after the Effective Date, New ABI shall disburse the Administrative Convenience payments to those creditors with allowed claims electing treatment under Class Five (Administrative Convenience).

4.08. Subject to the claims objection process contemplated by the Plan, ABI will disburse cash necessary to treat the holders of Allowed Claims as provided in Article 3 of the Plan.

ARTICLE 5

Executory Contracts

5.01. Executory Contracts and Unexpired Leases. All contracts of insurance and all of the leases entered into by Debtor, as lessee, in the ordinary course of business and that remain as property of Debtor as of the Effective Date shall be deemed assumed by, and assigned to, New ABI as of the Effective Date (the "*Assumed Leases*"). In addition to the Assumed Leases, the additional leases and executory contracts set forth herein shall be assumed by Debtor, and deemed assigned to New ABI, as of the Effective Date. Such additional leases and executory contracts are: *None*.

⁹ See the *Plan Addendum* for more detailed treatment of Classes Seven, Eight, and Nine.

Any lease or executory contract that is not an Assumed Lease or that is not listed in this Section shall be deemed *rejected* as of the Effective Date unless a motion to assume such lease or executory contract is filed prior to Confirmation. The Debtor may implement a procedure for estimating claims for voting purposes, including claims, if any, from contract rejection.

5.02. Allowance and Payment of Cure Sum Claims. Any entity whose executory contract or lease is assumed by New ABI pursuant to the Plan must file its cure sum claim¹⁰ with the Court within thirty (30) days after the Effective Date (“*Cure Sum Claim Bar Date*”), or the right to assert such cure sum claim shall be deemed forever waived and barred.

Except as may otherwise be agreed to by the parties, within twenty-one (21) days after the Cure Sum Claim Bar Date, New ABI will pay all undisputed cure sum claims or file its objection to the Allowance of any cure sum claims that are disputed.

All disputed cure sum claims will be paid within ten (10) days after entry of a final order determining the amount of such cure sum claim; provided, however, that New ABI may, in its sole discretion, reject any previously assumed contract or lease to which it has interposed an objection to the allowance of the cure sum claim, within two (2) business days after the entry of a final order allowing the cure sum claim.

5.03. Bar Date for Filing Proofs of Claim Relating to Rejected Executory Contracts and Leases. If the rejection of an executory contract or unexpired lease gives rise to a claim, that claim will be forever disallowed, barred, and will be unenforceable against Reorganized Debtor, unless that claim is filed within thirty (30) days after the latter of the Effective Date or the date on which New ABI elects to reject a contract or lease otherwise previously assumed by the Plan.

¹⁰ In other words, the amount of money claimed as necessary for Debtor or the Reorganized Debtor to cure a past default.

ARTICLE 6
Releases and Injunctions

6.01. Discharge of Debtor. Except as otherwise provided in the Plan or the Confirmation Order, the rights afforded under the Plan and the treatment of all claims, and interests of Equity Security Holders under the Plan will be in exchange for and in complete satisfaction, discharge, release, and cancellation of all claims against the Debtor and the interests of the Equity Security Holders of any nature whatsoever, including, without limitation, any interest accrued on any claim from and after the Petition Date, against Debtor, New ABI, or any of their respective assets and properties, including subsidiaries of New ABI. (Consistent with the treatment set forth herein with respect to the Class Three Allowed Secured Claim of Yang, that secured claim is not discharged and will be paid according to this Plan, as it may be amended, and all liens and security interests of Yang in and to the Yang Collateral and Retained Assets shall be preserved and remain in full force and effect.) Except as otherwise provided in the Plan or the Confirmation Order, the Confirmation shall, as of the Effective Date:

1. Discharge Debtor and New ABI from all claims, demands, liabilities, other debts, or interests that arose on or before the Effective Date, and all debts of the kind specified in Sections 502(g), 502(h), or 502(i) of the Bankruptcy Code, whether or not:

a. A proof of claim based on such debt is filed or deemed filed pursuant to Section 501 of the Bankruptcy Code;

b. Such claim is allowed pursuant to Section 502 of the Bankruptcy Code; or

c. The holder of a claim has accepted the Plan.

2. Terminate and cancel all rights and interests of the Preferred Equity Security Holders and the Common Equity Security Holders;¹¹ and

3. Preclude all persons from asserting against New ABI, its successors, Affiliates, or its assets or properties, any other or further claim based upon any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date.

6.02. Injunction Related to the Discharge. Except as otherwise provided in the Plan or the Confirmation Order, all persons and entities, including the Equity Security Holders, that have held, currently hold, or may hold equity security interests, claims, or other debts or liabilities against Debtor or New ABI that are discharged pursuant to the terms of the Plan are **PERMANENTLY ENJOINED**, on and after the Effective Date, from taking any of the following actions on account of any such claims, debts, liabilities, or equity security interests:

1. Commencing or continuing in any manner any action or other proceeding of any kind with respect to any such claim, debt, liability, or equity security interests, or right, other than to enforce any right pursuant to this Plan;

2. Enforcing, attaching, collecting, or recovering in any manner any judgment, award, decree, or order against Debtor, New ABI, their Affiliates, or their property or interests in property, on account of any such claim, debt, liability, or equity security interests;

3. Creating, perfecting, or enforcing any lien or encumbrance against Debtor, New ABI, or their property or interests in property on account of any such claim, debt, liability, or equity security interest;

4. Asserting any right of setoff, subrogation, or recoupment of any kind against any debt, liability, or obligation due to Debtor or New ABI or against its property or interests in property on account of any such claim, debt, liability, or equity security interest; and

¹¹ Subject, however, to the simultaneous issuance of stock in New ABI under this Plan.

5. Commencing or continuing any action, in any manner, in any place that does not comply with or is inconsistent with the provisions of the Plan or the Confirmation Order.

Such injunction extends to and for the benefit of any successor of Debtor, including, without limitation, New ABI and its respective property and interests in property. Any entity injured by any willful violation of such injunction shall recover actual damages, including costs and attorneys' fees, and, in appropriate circumstances, may recover punitive damages, from the willful violator.

6.03. Terms of Bankruptcy Injunction or Stays. All injunctions or stays provided for in Section 362 of the Bankruptcy Code, or otherwise, and in existence at Confirmation, remain in full force and effect until the Effective Date.

6.04. Releases by Holders of Claims. On the Effective Date, in exchange for and in consideration of, among other things, the payments set forth in this Plan by or on behalf of Debtor for the benefit of holders of Allowed Claims, the financing provided to Debtor and the present and future undertakings in accordance with the terms of the Plan, each holder of a claim or interest (including equity) shall be deemed to release and forever waive and relinquish, unconditionally: all claims, debts, obligations, demands, liabilities, suits, judgments, damages, rights, and Causes of Action, whatsoever (other than the right to enforce Debtor's or New ABI's obligations under the Plan and the contracts, instruments, releases, and other agreements and documents delivered under the Plan), whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, then existing or thereafter arising, in law, equity, or otherwise that are based in whole or in part upon any transactions or matters with Debtor, or in connection with this bankruptcy case, the Plan, or the Disclosure Statement that occurred or

could have occurred on or prior to the Effective Date against ABI and its agents, officers, directors, employees, professionals, or its successors and assigns, including New ABI (collectively, “*the Released Persons*”).

6.05. Injunction Related to Releases. The Confirmation Order will constitute an injunction permanently enjoining the commencement or prosecution by any person or entity, including, without limitation, Equity Security Holders, whether directly, derivatively, or otherwise, of any claim, demand, debt, liability, cause of action, or right that is released, discharged, or waived pursuant to the Plan against the Released Persons.

6.06. Exculpation. From and after the Effective Date, and except as provided by the Plan, neither Yang nor any of its respective members, officers, directors, employees, professionals (*e.g.*, lawyers or accountants), lenders, or other representatives, shall have or incur any liability to any holder of a Claim, Preferred Equity Securities, or Common Equity Securities for any act or omission in connection with, related to, or arising out of the bankruptcy case, the pursuit of Confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan (including objections to, and settlements of, claims under the Plan), except for willful misconduct or gross negligence. Yang and each of its respective members, officers, directors, employees, professionals, lenders, or other representatives shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

To the extent Yang has a lien on (or security interest in) any Causes of Action that the estate became entitled to bring at any time pre- or post-petition, Yang and New ABI shall release Debtor and the Released Persons, and other professionals from liability for or on any such Causes of Action. This release(s) shall be effectuated by independent agreement and

documentation executed contemporaneous with Confirmation of the Plan. (This release does not affect the right of Yang, in its sole discretion, to pursue any such Causes of Action against unreleased third parties.)

ARTICLE 7
Additional Provisions

7.01. Vesting of Property. Upon Confirmation of the Plan and except as otherwise provided in this Plan, all of the property of the Chapter 11 estate shall vest in New ABI. Such vesting is expressly subject to the duties of New ABI and the rights of Yang as set forth in this Plan.

7.02. Retention of Jurisdiction. Until full consummation of the Plan, the Bankruptcy Court shall retain jurisdiction for the following purposes:

1. The determination of all questions and disputes regarding title to the assets of the estate, and determination of all Causes of Action, controversies, disputes, or conflicts, whether or not subject to action pending as of the date of Confirmation, between Debtor and any other party-in-interest;
2. The correction of any defect, curing of any omission, or reconciliation of any inconsistency in the Plan, the order of Confirmation, or other document or instrument as may be necessary to carry out the purposes and intent of the Plan;
3. The modification of this Plan after Confirmation;
4. The enforcement and interpretation of the terms and conditions of this Plan, which specifically includes hearing objections to claims and resolution of disputes with respect to Retained Residuals and leases to which Debtor is a party; and

5. The entry of any order necessary to enforce the title, rights, and powers of Debtor, and to impose such limitations, restrictions, terms, and conditions as the Bankruptcy Court may deem necessary.

7.03. Discrepancies. In the event of a discrepancy between the terms of the Plan and the Disclosure Statement, the terms of the Plan shall control.

7.04. Future Earnings. All income of Debtor shall be paid to New ABI, subject only to the continued perfected liens and security interests of Yang.

7.05. Causes of Action. All of the Causes of Action, will be retained by and remain the property of New ABI, except as set forth in this Plan. Without limitation, the Causes of Action include any rights or claims arising under Chapter 5 of Title 11 and any claims or causes of action arising out of any infringement upon the Debtor's patents or other intellectual property.

7.06. No Waiver. Nothing contained herein shall constitute a waiver or release of any claim, counterclaim, or dispute that Debtor may have regarding the validity of any claim or lien by way of a subsequent adversary proceeding or amendment to the Plan in the event this Plan is not confirmed as filed. The treatment outlined in this Plan is for the purposes of this Plan only and only in the event of Confirmation of this Plan, and Debtor reserves the right to provide for different treatment of any claim in any amended or supplemental plan submitted by Debtor under this or any other chapter of the Bankruptcy Code.

7.07. Values. Any values set forth or referenced in this Plan are Debtor's estimate based only upon work performed by Debtor, Debtor's counsel, or independent accountants hired by Debtor. In the event of a valuation hearing, Debtor reserves the right to present and rely upon expert appraisal testimony that may contradict the values set forth herein. These values (and

those referenced in the accompanying disclosure statement) are also subject to further orders of the Bankruptcy Court.

7.08. Other Definitions. Except as expressly provided herein (as allowed under the Bankruptcy Code), reference is made to the definitions set forth at Section 101 of the Bankruptcy Code.

7.09. Revocation. Debtor reserves the right to revoke and withdraw this Plan at any time prior to its Confirmation.

7.010. Exemption from Transfer Taxes. Pursuant to Section 1129(c) of the Bankruptcy Code, no tax may be assessed or collected upon any issuance, transfer, or exchange of a security, or the making or delivery of an instrument of transfer pursuant to this Plan.

7.011 Statutory Fees. All fees payable pursuant to 20 U.S.C. § 1930(a) shall be paid each quarter until this case is converted, dismissed, or a final decree closing this case is entered (whichever occurs first).

ARTICLE 8 Compliance with Confirmation Requirements

8.01. Compliance with Laws and Good Faith. Debtor believes that the Plan complies with all provisions of Chapter 11 and any other applicable provision of the Bankruptcy Code, that the Plan has been proposed in good faith and not by any means forbidden by law, and that all fees, charges, or amounts required to be paid before Confirmation have been paid.

ARTICLE 9 Procedure for Filing and Allowance of Claims and Interests

9.01. Debtor has scheduled, to its knowledge, all claims and interests. The failure of any claimant or holder of an interest that is scheduled to file a proof of claim or proof of interest before the claims deadline set by the Court will be deemed agreement to the manner in which the

claim or interest was scheduled, except that a secured creditor will be entitled to the benefits of Section 506 of the Bankruptcy Code in the event its collateral is of a value in excess of its claim.

ARTICLE 10
Exhibits

10.01. The following exhibits and addenda are attached to and incorporated in this Plan:

Plan Addendum: Treatment of Equity / Warrants and Options

DATED: February 21, 2014

Respectfully submitted,

AMARILLO BIOSCIENCES, INC.

By: /s/ Bernard Cohen
Bernard Cohen, Vice President and CFO

Respectfully submitted,

/s/ Roger S. Cox
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**ADDENDUM
to Plan of Reorganization**

TREATMENT OF EQUITY / WARRANTS AND OPTIONS

A-1. COMMON EQUITY – REVERSE SPLIT

1. 16,000,000 shares of common stock in New ABI will be issued to Yang, effective immediately upon the expiration and cancellation of the Preferred Equity (and subject to funding of the Cash Contribution by Yang).

2. The Common Equity Security Holders will undergo a reverse stock split on the basis of one (1) New ABI common share received for every nineteen (19) Old ABI common shares held pre-split, as of a record date to be set by the Directors of ABI pursuant to Section 6.101(b) of the Texas Business Organizations Code, which date shall be no more than 60 days prior to the implementation of said reverse stock split. The New ABI common shares received pursuant to the reverse split shall not be in addition to, but shall replace, the Old ABI common shares held pre-split, and such Old ABI common shares shall be returned to the status of authorized, but unissued common shares.

3. It is the intention of this Plan that upon the Effective Date and closing and funding of this Plan, Yang will own 80% of the common stock in New ABI and the Common Equity Security Holders and Preferred Equity Security Holders will, in the aggregate, own 20% of the common stock in New ABI. In the event the reverse stock split contemplated by subparagraph 2 above results in a partial number of shares for any holder, that holder's shares will be rounded down to the next whole number. In the event this results in an aggregate share amount greater or less than 4,000,000 shares, the number of shares issued to Yang will increase or decrease by a proportionate amount so that the Yang interest in New ABI as of closing will remain as nearly close as possible, without issuance of fractional shares, to 80%.

A-2. CONVERSION OF PREFERRED EQUITY INTERESTS

1. As stated in Paragraph 3.09 of the Plan, the interests of the Preferred Equity Security Holders will be cancelled; however, the Preferred Equity Security Holders will be treated as if their Preferred Equity was converted to Common Equity, immediately prior to the record date defined in Paragraph 2 above. This will be based on a conversion rate of 1 to 1000, so that for each share of Preferred Stock, the holder will be deemed to hold 1000 shares of Common Equity for purposes of Plan treatment and participation in the reverse split of common stock.

2. Specifically, the Debtor believes there is one holder of Preferred Equity: 3,262 shares of Preferred Equity held by Paul Tibbits (or Paul Tibbits and wife, Marian Tibbits). This is described in Section 1 of the Plan as the Preferred Equity.

3. Based on the deemed conversion of 3,262 shares of Preferred Equity held by Tibbits, Tibbits will be deemed to be holder(s) of 3,262,000 additional shares of Common Equity

as of confirmation. Thus, assuming Tibbits already holds 11,163,278 shares of Common Equity, Tibbits would be treated as if Tibbits held an aggregate of 14,425,278 shares of Common Equity for purposes of treatment under Class Eight.

4. Subject to the foregoing, as of the Effective Date, all existing Preferred Equity will be cancelled and terminated. (All cancelled shares will be returned to the status of authorized, but unissued shares.)

A-3. EXEMPTIONS FROM SECURITIES LAWS

1. Issuance of the new stock in New ABI and the implementation of the reverse stock split will be exempt from registration under Section 1145 of the Bankruptcy Code, which exempts certain securities issued under a plan of reorganization under the Bankruptcy Code from registration under the Securities Act of 1933 or any state or local laws otherwise requiring registration.

2. Nothing in this Plan, however, is intended to preclude the SEC or any other governmental agency from exercising its police or regulatory powers with respect to the Debtor or any other person.

A-4. NEW ABI COMMON STOCK – RESTRICTION ON CERTAIN TRADING

1. All of the shares of the common stock in New ABI issued pursuant to the Plan, including without limitation those shares issued to implement the reverse stock split, will be duly authorized, validly issued, fully paid, and non-assessable. New ABI may use its best efforts to list the stock on a national securities exchange when deemed appropriate by the directors of New ABI.

2. Issuance and allocation of any common stock in New ABI will be structured to ensure that the issuance qualifies as an exchange subject to Section 382(l)(5) of the Internal Revenue Code, as applicable. In addition, any such stock will be subject to trading restrictions, as necessary, to prevent an “ownership change” within the meaning of Section 382 of the IRC from occurring following the Effective Date.

A-5. WARRANTS AND OPTIONS – CLASS NINE

1. As stated in the Plan, warrants and options to purchase any common stock in ABI will be converted on a ratio of 19:1 so that each 19 options or warrants, respectively, will be converted to one (1).¹²

2. Upon Plan confirmation, the holder will be able to exercise the warrant or option at the adjusted per-share price shown in the following tables. The Plan does not change the expiration date of any option or warrant, or any other terms, all of which will continue to be governed by the applicable option or warrant agreement(s).

¹² For example, an option to purchase 38 shares of common stock at \$1.00 each would be converted to an option to purchase two (2) shares at \$19.00 each.

3. The following tables identify all outstanding warrants and options known to ABI, together with the applicable conversions as a result of the Plan.

TABLE 1

| Table 1 | | | | | | | | | |
|---------------------------|------------|-----------------|------|--------------------|----------------|--|----------------------------------|---|-------------------------------|
| Warrants Outstanding 2013 | | | | | | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| GRANTEE | ISSUE DATE | EXPIRATION DATE | TERM | NUMBER OF WARRANTS | EXERCISE PRICE | Total Exercise Price = Exercise. Price X no. of Warrants | Squeezed Down Number of Warrants | Adjusted Exercise Price of the Warrants | Total Adjusted Exercise Price |
| Asher Enterprises | 4/15/2011 | 4/15/2014 | 3 | 787,500 | \$ 0.04 | \$ 31,500 | 41,447 | \$ 0.76 | \$ 31,500 |
| Asher Enterprises | 5/27/2011 | 5/27/2014 | 3 | 500,000 | \$ 0.04 | \$ 20,000 | 26,315 | \$ 0.76 | \$ 20,000 |
| Yasushi Chikagami | 11/5/2011 | 11/5/2015 | 4 | 1,000,000 | \$ 0.03 | \$ 30,000 | 52,631 | \$ 0.57 | \$ 30,000 |
| Total | | | | 2,287,500 | | \$ 81,500 | 120,394 | | \$ 81,500 |

TABLE 2

| Table 2 | | | | | | | | | |
|------------------------------|------------|-----------------|---------------|-------------------|----------------|--|---------------------------------|--|-------------------------------|
| Options Outstanding 2013 | | | | | | | | | |
| EMPLOYEE | ISSUE DATE | EXPIRATION DATE | TERM IN Years | NUMBER OF OPTIONS | EXERCISE PRICE | Total Exercise Price = Exercise Price X no. of Options | Squeezed Down Number of Options | Adjusted Exercise Price of the Options | Total Adjusted Exercise Price |
| Charles Blitzer ^A | 10/20/2010 | 10/20/2015 | 5 | - | \$ - | \$ - | - | \$ - | \$ - |
| Steve Chen | 04/30/09 | 04/30/14 | 5 | 200,000 | \$ 0.125 | \$ 25,000 | 10,526 | \$ 2.375 | \$ 25,000 |
| Steve Chen | 7/29/2010 | 7/29/2015 | 5 | 100,000 | \$ 0.065 | \$ 6,500 | 5,263 | \$ 1.235 | \$ 6,500 |
| Bernard Cohen | 10/27/2011 | 10/27/2016 | 5 | 50,000 | \$ 0.050 | \$ 2,500 | 2,631 | \$ 0.95 | \$ 2,500 |
| Joe Cummins | 10/27/2011 | 10/27/2016 | 5 | 1,190,000 | \$ 0.050 | \$ 59,500 | 62,631 | \$ 0.95 | \$ 59,500 |
| Chrystal Shelton | 10/27/2011 | 10/27/2016 | 5 | 112,792 | \$ 0.050 | \$ 5,640 | 5,936 | \$ 0.95 | \$ 5,640 |
| TOTAL | | | | 1,652,792 | | \$ 99,139 | 86,987 | | \$ 99,139 |

^A Charles Blitzer's Options Expired 90 days after his contract expired and he did not execute another. He has no options now.

END OF ADDENDUM