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**UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF ALASKA**

In Re: )  
)  
AURORA GAS, LLC, ) Case No. A-16-00130  
) Chapter 11  
)  
Debtor. )  
\_\_\_\_\_)

**DEBTOR’S FIRST AMENDED DISCLOSURE STATEMENT DATED APRIL 28, 2017**

*Table of Contents*

I. Introduction .....2  
A. Purpose of this Document .....2  
B. Deadlines for Voting and Objecting .....3  
  
II. Background and Current Status of the Debtor.....4  
A. Debtor’s Business .....4  
B. Ownership.....5  
C. Issues that Brought About the Bankruptcy Case .....5  
D. Status of Significant Issues.....6  
E. Management .....12  
F. Events During the Bankruptcy Case .....13  
G. Projected Recovery of Avoided Transfers .....14  
H. Claims Objections .....14  
I. Current and Historical Financial Conditions .....15  
  
III. Summary of the Plan of Reorganization .....15  
A. Purpose of the Plan .....15  
B. Unclassified Claims .....15  
C. Classes of Claims and Equity Interests .....17  
D. Means of Implementing the Plan .....19  
E. Risk Factors .....21

F. Executory Contracts .....	21
G. Tax Consequences of Plan .....	22
IV. Confirmation Requirements and Procedures .....	22
A. Who May Vote or Object .....	23
B. Votes Necessary to Confirm the Plan .....	24
C. Liquidation Analysis .....	25
D. Feasibility .....	28
V. Effect of Confirmation of the Plan .....	28
A. Discharge of Debtor .....	28
B. Modification of the Plan .....	28
C. Final Decree .....	28

## I. INTRODUCTION.

**This is the First Amended Disclosure Statement (the “Disclosure Statement”) in the chapter 11 case of AURORA GAS, LLC (“Aurora” or the “Debtor”). This Disclosure Statement contains information about the Debtor and describes the First Amended Plan of Reorganization (the “Plan”) filed by the Debtor on April 27, 2017. In the case of any inconsistency between this Disclosure Statement and the Plan, the language of the Plan shall control.**

**A full copy of the Plan is attached to this Disclosure Statement as Exhibit 1.**

*Your rights may be affected. You should read the Plan and this Disclosure Statement carefully and discuss them with your attorney. If you do not have an attorney, you may wish to consult one.*

The proposed distributions under the Plan are discussed at pages 17 - 21 of this Disclosure Statement. General unsecured creditors are classified in Class 1. If all of the Debtor's leases can be sold under its plan, general unsecured creditors will receive a distribution estimated at approximately 100% of their allowed claims in the year 2017. If none of the Debtor's leases can be sold under its plan, general unsecured creditors will receive a small fraction of their allowed claims in 2017.

### A. Purpose of This Document

This Disclosure Statement describes:

- The history of the Debtor and significant events during the bankruptcy case,
- How the Plan proposes to treat claims or equity interests of the type you hold (*i.e.*, what you will receive on your claim or equity interest if the plan is confirmed),
- Who can vote on or object to the Plan,

- What factors the Bankruptcy Court (the “Court”) will consider when deciding whether to confirm the Plan,
- Why the Debtor believes the Plan is feasible, and how the treatment of your claim under the Plan compares to what you would receive on your claim in liquidation, and
- The effect of confirmation of the Plan.

Be sure to read the Plan as well as the Disclosure Statement. This Disclosure Statement describes the Plan, but it is the Plan itself that will, if confirmed, establish your rights.

## **B. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing**

The Court has not yet confirmed the Plan described in this Disclosure Statement. This section describes the procedures pursuant to which the Plan will or will not be confirmed.

### *1. Time and Place of the Hearing to Finally Approve This Disclosure Statement.*

The hearing at which the Court will determine whether to approve this Disclosure Statement will take place on \_\_\_\_\_ at \_\_\_\_\_ a.m. at the U. S. Bankruptcy Court, 605 West Fourth Avenue, Anchorage, AK 99501. If you cannot attend the hearing in person, you may call the U. S. Bankruptcy Court in-Court Deputy Clerk at (907) 271-2640, at least three (3) days in advance of the hearing to request telephonic attendance

### *2. Deadline For Voting to Accept or Reject the Plan*

If you are entitled to vote to accept or reject the plan, then along with this Disclosure Statement then you have received a ballot to vote to approve or reject the Plan. Assuming the Disclosure Statement is approved at the hearing on \_\_\_\_\_, the Court will then hold a hearing on confirmation (approval) of the Plan of Reorganization. You should return the ballot to the Debtor’s attorney David H Bundy PC, 310 K Street, Suite 200, Anchorage AK 99501 not later than \_\_\_\_\_. See section IV.A. below for a discussion of voting eligibility requirements.

Your ballot must be received by the deadline the Court will set, or it will not be counted.

### *3. Deadline For Objecting to the Adequacy of Disclosure*

Objections to this Disclosure Statement and the Plan of Reorganization must be filed with the Court and served upon:

the Debtor’s attorney  
David H Bundy PC  
310 K Street Suite 200  
Anchorage AK 99501

and

The Office of the United States Trustee  
700 Stewart Street Suite 5103  
Seattle, WA 98101-1271

and the attorney for the Unsecured Creditors' Committee

Erik LeRoy, PC  
500 L Street Suite 302  
Anchorage AK 99501

by \_\_\_\_\_, 2017

#### 4. *Identity of Person to Contact for More Information*

If you want additional information about the Plan, you should contact the Debtor's attorney.

#### C. **Overview of Plan**

As explained in greater detail below, the Plan provides for liquidation of the Debtor's assets in order to pay administrative, priority and general unsecured creditors to the extent possible. The liquidation will be conducted by current management over a period of time (the "Liquidation Period") commencing on the effective date of the Plan and terminating October 31, 2017. All asset sales, net of sales expenses and current operating expenses of the Debtor ("Liquidation Proceeds"), will be deposited in a separate bank account, from which claims will be paid in the following order: (1) administrative claims, (2) priority unsecured claims and (3) general unsecured claims.

#### D. **Disclaimer**

*The Court has not approved this Disclosure Statement as containing adequate information to enable parties affected by the Plan to make an informed judgment about its terms. After the Disclosure Statement has been approved, the fact that the Court has approved the Disclosure Statement does not constitute an endorsement of the Plan by the Court, or a recommendation that it be accepted.*

## II. **BACKGROUND AND CURRENT STATUS OF THE DEBTOR**

**A. Debtor's Business:** Aurora Gas, LLC was founded in 1999 to develop and produce small gas fields "forgotten" by the big companies that had dominated the Cook Inlet Basin of Alaska since the 1970s. Since the first well work in 2000, Aurora has developed five

gas fields, drilled 17 new wells, re-entered and tested 4 wells, worked over and recompleted 10 wells, and currently operates 19 wells, all of which are on on-shore on the west side of the Cook Inlet in the vicinity the Native Village of Tyonek and Shirleyville . Currently, 10 of these wells are producing natural gas. Aurora has produced 29 BCF ("billion cubic feet") of natural gas since first production in 2001, selling 27.6 BCF to multiple customers in the Anchorage, Homer, and Kenai-Nikiski areas, including large commercial, industrial, and utility end users. Aurora has strived to be a low cost developer, producer, and marketer of natural gas.

Aurora has 9 employees and uses contractors as needed to operate and service its gas fields. In addition to producing the natural gas, Aurora's facilities compress and dehydrate produced gas. To get the gas to the pipeline system, Aurora owns and operates 3 miles of flowlines and 21 miles of Department of Transportation regulated gathering lines, delivering gas to 3 meter stations on the Kenai-Beluga Pipeline, where it can be shunted north to Anchorage or east across the Inlet to Nikiski. Five of Aurora's employees are in the field, two in the Anchorage office and two are based in Sugar Land, Texas (Houston area).

**B. Ownership:** Aurora Gas was founded by 2 companies, Aurora Power Resources, Inc. and Orion Resources, LLC, each with 2 individual owners or members. After establishing sales from the first well, Nicolai Creek Unit #3, following a major workover, the owners determined that additional funding was needed to grow the company, as many low-risk opportunities were available, but the cash flow from the one well was not sufficient to pursue them. Aurora sought additional capital from potential investors in 2001 and 2002. In early 2002 Kaiser-Francis Oil Company of Tulsa, Oklahoma agreed to invest in Aurora forming Aurora K-F, LLC (K-F), and providing \$25 million in equity capital to pursue a program of acquisitions, drilling, workovers, and capital equipment investments. In 2003-2005 gross production averaged more than 4 BCF of gas per year; sales were about 4% less than 4 BCF due to fuel gas and shrinkage. Production peaked in November, 2003, when production averaged 20 MMcfpd ("million cubic feet per day"). After 2005, the lower-risk, high volume opportunities based on existing data were exhausted. Aurora found fewer less productive opportunities As a result, in 2007, Kaiser-Francis announced it wanted to sell its membership in the LLC. In 2008 Meagher Oil & Gas Properties, Inc., was employed to find a buyer. It was unsuccessful. In 2011, Aurora and Apache Alaska Inc. negotiated a sale of the deep rights (Middle Tyonek formation and deeper, prospective for oil) under Aurora's leases. This sale closed in two components in January 2012 and in August 2012. In 2013, Aurora drilled two development wells (more accurately extension wells, to extend the field to the northwest and east across a fault block). Both of these wells were unsuccessful. Kaiser Francis announced that it would invest no significant capital in the company and requested another effort to sell. Rieck Oil Inc. purchased all the membership interests in Aurora Gas, LLC, effective as of August 1, 2015. Rieck Oil Inc. is a Delaware Company owned or controlled by Kay Rieck. Mr. Rieck also had and may still have a significant interest in Deutsche Oel & Gas SA and Furie Operating Alaska, which until April 7, 2017, supplied gas to Aurora for sale. Bruce Webb is the registered agent for Rieck Oil and may be its president. Mr. Webb is also a senior vice president of Furie Operating Alaska and involves himself in the management of Aurora. Kaiser Francis has indicated its intention of pursuing Deutsche Oel & Gas SA and or Rieck Oil Inc. because of their failure to remove Kaiser Francis and George Kaiser's guarantees to Cook Inlet Region, Inc. and State of Alaska DNR.

**C. Issues that brought about the current bankruptcy case:** Most of the outstanding pre-petition debt was incurred on two projects:

1) Cuttings Disposal – As part of the Purchase and Sale Agreement, K-F was to be responsible for transport and disposal of drilling cuttings for the two dry holes drilled in 2013. The estimated cost at closing was \$300,000, which was credited to K-F on the balance sheet adjustment at closing. The start of this project was delayed resulting in significant cost overruns due to handling water based mud and cuttings during winter months. The total cost of this cuttings disposal and pit closure ended up being \$870,350.19. K-F has been invoiced for the balance less some non-related post-closing credits of \$439,946.88. This amount has subsequently been reduced to about \$415,000, to account for legal and accounting professional fees K-F paid on behalf of Aurora. K-F is withholding payment of this amount until another condition of the PSA has been met: replacement of a personal guarantee of Mr. George Kaiser to CIRI for abandonment costs associated with the wells on CIRI leases that are operated by Aurora Gas. The amount of the replacement guarantee is still being evaluated by CIRI. Most of these costs qualify for State of Alaska tax credits at a rate of 40%, as it is Intangible Drilling Costs—however, K-F would be entitled to these credits.

2) Workover of Kaloa 2—shortly after closing, Aurora Gas commenced a recompletion workover of the Kaloa 2 well, which cost a total of about \$1,065,000. This work is also eligible for State tax credits, possibly at 40%—close to \$400,000, although the ambiguity of some wording in the regulations makes some of this amount questionable.

Certain unpaid creditors filed an involuntary bankruptcy petition against Aurora Gas on May 3, 2016 and Aurora Gas consented to an order for relief under Chapter 11 on June 13, 2016.

**D. Status of Significant Issues: There are several open issues which affect Aurora Gas operations and make its continuance as a going business problematic. These issues will also determine the ultimate recovery for creditors under Aurora’s proposed plan.**

1) State Tax Credits—As mentioned above, much of the work for which the outstanding invoices pertain, is eligible for State Tax credits. Aurora’s consultant filed an application for these in April, 2016. However, the State subsequently asked for proof of payment of some of these costs, which Aurora was unable to provide. Thus, Aurora withdrew the application before it was rejected on the grounds of non-payment, with the plan to resubmit it when a payment plan was in place. Tax credits which are owed by the State of Alaska were not paid in 2016 and their timely payment in the future is doubtful due to state budget issues and political complications.

2) Cash Flow and Indebtedness—Aurora Gas has been operating at a loss since the Chapter 11 case was filed. Management believes it was important to remain as a going concern, in order to maximize asset values and to provide the opportunity to attract new investors or buyers. Despite ongoing losses, Aurora Gas continues to produce and sell natural gas to several customers. March 2017 gas sales resulted in \$98,100 in revenue. Gas production during March

2017 averaged about 535 mcfpd, however a facility has been recently brought back on-line after compressor repairs have been made and the sales have increased to 750 mcfpd. Starting about April 1<sup>st</sup>, progress was made on the freeze-ups at Lone Creek Field, and sales from there have once again commenced at 100-300 mcfpd, expected to stabilize near the 300 mcfpd level.

Aurora Gas has a firm contract with the Tesoro refinery to sell 1000 mcfpd. Additionally, Aurora Gas is obligated to provide make-up gas for contract volumes deferred from 2016, of which 200-300 mcfpd are sold at the 2016 price. To meet contractual delivery volumes, about 800 mcfpd were purchased from Furie Operating Alaska, LLC with a \$0.07 positive margin (\$0.12 on current firm delivery and \$0.02 on make-up delivery) after transportation to make up the difference. All purchases from Furie ceased as of April 6, 2017.

Aurora Gas has an interruptible sales contract with Helena Energy, LLC, a company owned by Electo Limited, another company in which Kay Rieck holds controlling interest. Helena acquired sales contracts that were previously owned by Aurora until shortly before the bankruptcy. The interruptible sales contract provides Aurora the option but not the obligation to sell Helena up to 5000 mcfpd of gas. Aurora has been buying 200-300 mcfpd of gas from Furie and reselling to Helena, for a margin of about \$0.59 per mcf. Helena in turn, sells the gas to the customers that were previously Aurora's.

Aurora has been paying transportation, royalties, insurance, and some operating expenses related to these sales from cash flow, as well as personnel costs (salaries, wages, and benefits) of both field people and administrative people. However, with production down since November, 2016 some of the operating costs and some larger (usually annual) costs have gone beyond cash flow, including ad valorem property taxes of about \$50,000 and Tyonek Native Corp. surface use rental, totaling about \$600,000. Aurora receives income between the 25th and the end of each month and makes payments with these funds. Aurora recently made a \$40,000 pay to Furie for past gas deliveries during this chapter 11, but the remainder of what is owed Furie for such deliveries has not been paid

After payments in March 2017, Aurora will have outstanding post-petition invoices of about \$1.4 million, including \$338,251 Gap period, in addition to Aurora's Pre-petition (\$1,665,657) debt, for total indebtedness of just less than \$3.1 million.

See more in Liabilities below.

### 3) **Current Production and Reserves:**

Current gas sales from Aurora's production are 1000- 1500 –mcfpd. Aurora sold about 1375 mcfpd of production in October 2016, but in November, the Lone Creek #3 well, a low pressure, high-water volume well and the most prolific well in October, loaded up with sand and died. Unable to clean it to restore production, downhole mechanical means were shifted to allow production from other zones and any earlier, #1, well was brought back on line. However, production from these alternative zones was slow coming on and cold weather caused flowline and produced water dump lines to freeze, stopping production. These freezing issues have since been resolved, and production has increased to about 300 mcfpd.

In December, two compressors were lost due to wear on cylinders from sand production, and both Moquawkie #4 and Nicolai Creek (NC) #10 were down for major repairs. To keep costs low, the cylinder from #10 was removed and sent in for a coating to build it up to spec—this process has taken weeks, and only now is the cylinder back in operation. Due to the cost, the Moquawkie cylinder was delayed to see the result of the NC 10 work—it has been removed but not shipped until there is more history on the NC 10 compressor. Also, the Kaloa well has been restored to production after several issues were resolved there—it is selling only a small amount of gas, but more than when last tested. Aurora expects to continue to clean up. The firm commitment to Tesoro is now 1000 mcfpd, which Aurora Gas was not been able to fully deliver until April, 2017, so it has been purchasing gas to cover this amount and to make-up for deferred sales from 2016. This gas sells for a margin of \$0.17/per mcf (2017 contract) or \$0.07 (2016 make-up gas). NC 10 is operating and Lone Creek is back up, so management expects to be making the 1000 mcfpd needed to fulfill the Tesoro contract.

The most recent internal reserves estimate (February 2017) is that Aurora has 3.2 BCF gross and 2.2 BCF net reserves (internal estimate), assuming that \$850,000 capital costs are spent, mostly to clean sand fill out of 4 wells with coiled tubing, which would likely result in an increase in production by 500-1000 mcfpd or more. Currently, the funds are not available for this work. The value of these reserves is very dependent upon Overhead Cost (G&A), the Tyonek Native Corporation surface use cost, and timing and cost of well abandonment. Without considering these costs, the value of the proved reserves is estimated at about \$4.8 million—see Exhibit 2. However, abandonment costs of the wells is estimated at \$100,000-250,000 per well and there are 19 wells, for a total estimated abandonment cost of a minimum of about \$2-3 million. Aurora believes these costs would be either be calculated into a purchase price for Aurora's leases or will be general unsecured claims resulting from the rejection of the leases where these well are located. The TNC surface use fees have an annual cost of \$400,000-450,000, but these costs: 1) could possibly be reduced in the short term by negotiation, as was done 2013-2015, and 2) could be offset (shared) by additional wells drilled on these lands, and there are at least 5 potential extension well locations on these leases. The G&A (administrative overhead) costs are largely dependent upon additional activities, i.e., for a buyer with other activities, the incremental overhead for these wells would be minimal.

4) **Other Assets.** In addition to reserves and production from the Debtor's gas wells, there are other assets that are not currently utilized: an inventory of pipe, an inventory of equipment (some used in regular operations and some used for drilling and workovers), seismic data, and leases with geological leads and prospects—these are difficult to evaluate (and to sell independently).

**Leases:** Aurora's acreage position as of November 30th, was 32,415 net acres. However, Aurora was unable to make the annual payment for its 50% "Bird Lake" acreage (ADL- ADL-393036, 1205 net acres), so the partner found another party to take Aurora's position, and an annual payment for the "Coho" Lease (on Kenai Peninsula, ADL-392472, 4449 net acres) was due on December 1<sup>st</sup>, totaling about \$44,500, which Aurora was unable to make. The Alaska attorney general's office has asked if Aurora Gas plans to release the acreage, but the Debtor has not yet given a definitive answer. As the State leases are not currently in great demand, the



payment could possibly still be made and the lease retained. Without these leases, Aurora has 26,761 net acres, all of which is held by production or by units. Because the leases on the West Side of the Inlet are “Held by Production” and would go with the reserves, no independent sale of these leases could be made, although a buyer should see upside value in the large contingent acreage position and consider that in valuing the reserves. However, Aurora’s “Held by Unit” Kenai Peninsula leases may be worth \$25 per net acre for a total of \$76,175 without the Coho lease and \$187,400 with it, assuming the \$44,500 lease rental payment was made and accepted (to net \$142,900).

**Seismic and Data:** Aurora Gas owns and can sell, license, or transfer 439 miles of 2-D seismic data and 24 sq. miles of 3-D seismic data. The 3-D data is over the Aurora Nicolai Creek and Moquawkie Fields, and would be of value only to one with rights in those fields. The 2-D data is both over Aurora leases and over other areas leased by others or open to leasing. In addition, Aurora has licenses to another 3100+ miles of 2-D data of many vintages and folds over lands throughout the Cook Inlet Basin—however, these seismic licenses cannot be transferred—they are of use only to the owners of Aurora Gas and partners in joint venture exploration agreements (if Aurora Gas ceases to exist, the licenses go away and the data must be destroyed). All the seismic data is in electronic form and is stored on CD’s, tapes, and diskettes in Houston (and is loaded on 2 work stations). The 3-D surveys owned by Aurora cover producing leases, and should give additional value to the reserves. The 2-D data owned by Aurora has a broader coverage and should have some value. However, seismic is usually marketable only to a party investigating exploration in the area. Thus, a liquidation sale for decent value in a short time frame would not likely find interested buyers. The alternative would be a seismic broker who would buy with the idea of resale. Due to the risk involved, one could only expect pennies on the dollar—perhaps \$10,000 to \$40,000 for the 439 miles. In addition to seismic data, Aurora has many logs, studies, and files for many wells throughout the Cook Inlet Basin, some which came from Anadarko when Aurora purchased all of Anadarko’s interests in the Cook Inlet (leases, seismic, and other data) in 2002. The log data is mostly, if not all, in electronic form: PDF, PDS, or LAS formats or raster images on computer (workstation) hard drives. This is an extension collection of data but could probably not be sold separately. More likely it would add some value to the seismic data or producing leases.

**Vehicles:** Aurora Gas has an aging fleet of 19 ¾-ton and one-ton diesel 4X4 pickup trucks, ranging in age from 1991 to 2008 models, all for use on the West Side of the Cook Inlet (one is at a dealer in Kenai after being repaired from sliding off the road—it is repaired but was there when the bankruptcy was filed, so the payment for repairs is a prepetition debt). Three have flat beds, one has a utility box, and one has a hydraulic dump box and duals. The condition varies, but most are in need of some maintenance or repairs (COPAS C condition), but 4 are junked and used for parts. Five (including the one in Kenai) are 2005-2008 Chevrolets with Duramax engines.

**Equipment:** Aurora Gas has equipment needed to support remote operations without relying on contractors for “roustabout” maintenance support. This included 2 older Cat 966 front-end loaders, a 2004 Cat 236 skid-steer loader with backhoe and other attachments, a 75 KW portable diesel generator, a 50-hp electric triplex pump, a 25-hp portable electric vacuum unit, a well test skid (2-phase) with piping and flare stack, well control equipment (including a

diverter system and choke skid control panel), and an extensive array of drilling rig support equipment including a full mud system and fuel tanks, a portable booster compressor, and many small tools and equipment.

**Tubular Inventory:** Aurora Gas has a fair amount of miscellaneous pipe (tubing, casing, and line pipe) including about 9400' of 5-1/2" casing (most purchased in 2013), 13,000' of 3-1/2" tubing, 9500' of 2-7/8" tubing (7400' new in 2013), and 4000' of FBE-coated 4" line pipe (new in 2012). Also, there are miscellaneous construction materials in our yard.

**Office Furnishings:** Aurora Gas has two offices, one in Anchorage and one in Sugar Land, Texas. The Anchorage office is fully furnished, including furnishings in 5 offices, a conference room, and a reception area. In Sugar Land, there are 3 fully furnished offices.

**Detailed inventories of all of the above with liquidation values are attached as Exhibits 3 through 8.**

5) **Liabilities:** The pre-petition and Gap-period claims are about \$2.0 million. Aurora Gas has assigned asset values based on the totality of the assets in place forming a functional business unit. Because of the apparent higher value of the assets (i.e., book values and estimated market value), the pre-petition and gap creditors may expect full payment of their claims; however the liquidation value of the assets may be considerably lower than book value.

Post-petition debt has been increasing due to some annual payments that have come due and due to recent low production. This debt is estimated at about \$1.3 million, mostly due to: annual Tyonek Native Corporation (TNC) surface use (\$609,000 in 2016 and part of 2015), the 2nd half of 2016 ad valorem tax payment of \$49,364; purchased gas from Furie to fulfill contract amount (make-up gas due to low production), which will be \$366,025; the Coho lease rental payment mentioned above of \$44,500; \$106,451 owed to Aurora's man camp (Shirleyville); and other miscellaneous yet unpaid bills.

Accounts receivable collections are uncertain: 1) Aurora's former owners, primarily Kaiser Francis, owe about \$415,000 for drilled cuttings disposal, which was done in late 2015 and constituted about 40% of the pre-petition debt. K-F is reluctant to pay until its guarantee to CIRI for lease abandonment costs is replaced, as was required by the August 2015 Purchase and Sale Agreement with ~~Reiek~~ Rieck Oil which is obligated to replace the guarantee, but has not done so to date. This is an ongoing issue (see below). 2) Aurora has a potential claim for net state of Alaska tax credits of +/- \$450,000 (another +/- \$250,000 would go to K-F), but the work which are eligible for reimbursement must first be paid for—most of these costs are pre-petition unpaid invoices, and settlement to amounts less than 100% would reduce these credits proportionally. The State must also resolve current budgeting problems in order to free up this money. 3) Aurora is owed about \$45,000 by Cook Inlet Energy (now Glacier Energy) as a claim in its bankruptcy case, about half of which would go to previous owners—payment has been approved by the settlement but not yet been paid.

**Tyonek Native Corporation surface use payments:** TNC reduced the amount due for surface use in 2013-2015 due to our low cash flow, to help Debtor out, as we have a mutually

beneficial relationship. Also, Debtor has given them notice that we believe that the quantities for which Debtor has been charged (miles of roads and acreage of pads and yard) are too high. If / when the bankruptcy is resolved, negotiations are in order, both to reduce this amount invoiced and future payments.

**CIRI Abandonment Guarantee:** Aurora Gas has mineral leases from Cook Inlet Region, Inc. ("CIRI") and if those leases are rejected by Aurora Gas there will be costs incurred to plug and clean up the wells. Kaiser Francis gave CIRI a guarantee (essentially unlimited) for abandonment liability. In the 2015 PSA, Rieck Oil was to replace it and gave Kaiser a \$5 million guarantee of its obligation to CIRI to do so. CIRI engaged a consulting engineering firm to estimate the abandonment cost; the initial estimate that was based on erroneous assumptions, including facilities incorrectly attributed to Aurora, the scope of restoration and abandonment liabilities. This bond or guarantee amount is an outstanding issue.

There a \$500,000 Alaska Department of Natural Resources bond which Kaiser secured for Aurora at the Bank of Texas (Mr. Kaiser is the majority shareholder), which ~~will~~ may pay surface demobilization and which will need to be replaced in 2017. Previously it had been secured by a CD.

There is also an AOGCC \$200,000 bond to cover plug and abandonment costs on the State leases (which is backed by an Aurora \$200,000 CD at First National Bank).

**Abandonment Liabilities.** When the Held-by-Production leases expire, Aurora has the obligation to plug 19 wells. Of these, 10 are on CIRI leases: Aspen (1 well), Kaloa (1 well), Lone Creek (3 wells), and Moquawkie (5 wells) leases. The remaining 9 wells are on State of Alaska DNR and Mental Health Trust (administered by the DNR) leases at Nicolai Creek and Three Mile Creek Gas Fields. All wells except the Aspen well are dry gas wells with no liquid hydrocarbons; the Aspen well is a Class II disposal well for "oilfield" waste. After discussions with the AOGCC, it is believed that most of the wells can be plugged with tubing and casing in place, not requiring a rig. This will reduce the plugging cost to an estimated \$100,000-250,000 per well. The cleanup costs are expected to be fairly low, as no liquid hydrocarbons have been produced on any of the leases, and the only liquids have been used in the operations are compressor oil, glycol, and methanol. All spills have been reported to the DEC and cleaned up as they have occurred. Pipelines are almost all buried and can be left in place with proper purging and sealing, cutting off any risers below ground level. It is Aurora's belief that surface demobilization and down well plug and abandonment costs will either be assumed by the purchaser of the leases or, if the leases are rejected in the bankruptcy, will be general unsecured claims which will be paid pro rata from sale proceeds. Even if unsecured, these claims may dilute considerably any recovery for unsecured creditors.

6) **Need for New Investment.** In the year since the bankruptcy case was filed, the Debtor's reorganization and continuance as a going concern has depended on receipt of new capital from its current owner, Rieck Oil Corporation, or another source. Rieck Oil has been unable to attract new investors and has therefore declined to invest additional funds. Accordingly management has decided on a liquidation of the Debtor's assets, whether as a whole or individually, in order to pay creditors. Debtor has been in frequent contact with several

companies, who have evaluated or are evaluating the Debtor as a going concern or its assets, but has not yet been able to attract a new investor to assume ownership of the Debtor. However, four prospective buyers have conducted evaluations or are in the process of doing so. One made an offer to purchase the Debtor in January, but it was declined as inadequate. However, that company and several others continue to express an interest in the Debtor or its producing assets, and Debtor believes that the most value can be obtained in this manner. As part of the Plan, Debtor will give these companies a near-term deadline to submit bids, while simultaneously soliciting offers for individual assets, subject to prior sale.

**E. Management.** Debtor's operations are currently managed by three employees.

President. J. Edward (Ed) Jones, President of Aurora Gas, LLC, has more than 42 years of petroleum industry experience in engineering, operations, acquisitions and divestitures, and executive management of activities throughout the U.S., Canada, and South America. Mr. Jones graduated from Colorado State University with High Honors with a degree in Civil Engineering and was recruited by Texaco as a petroleum engineer. After 5 years with Texaco in the northern Rockies as a production and drilling engineer, he joined Energy Reserves Group, working in Casper and Houston in engineering and operations management. In 1984 Energy Reserves Group was acquired by BHP Petroleum, a division of BHP (now BHP Billiton), one of Australia's largest companies. Mr. Jones worked for them in Oklahoma City and Houston as Regional Manager and in several Vice Presidential positions, including Vice President of Production and Asset Management for all of the Americas. He left BHP in 1997 after managing the program to divest of most of their producing properties in the U.S., Canada, and South America, which resulted in sales of \$325 million. Mr. Jones then consulted for BHP and several other clients in acquisitions and divestiture efforts, until joining forces with 3 colleagues in late 1999 to form Aurora Gas, LLC. At Aurora he was Vice President responsible for the engineering and operations management, including drilling, workovers and completions, production facility design and construction, and production operations, becoming President in 2011. As President, he remains very involved in the day-to-day operations and all other activities of the company.

Assistant Vice President. Patti S. Polk-- Ms. Polk is a native Houstonian and began working for Aurora Power Resources, a founder of Aurora Gas, LLC, in 1996. With a fifteen year commercial lending and banking background, she began as Administrative Manager for Aurora Power, whose focus was natural gas marketing in the Cook Inlet of Alaska. She was responsible for accounting, contract administration, human resources, insurance, banking, and customer relations, basically handling the day to day office operations to allow the partners to focus on growing the young company. Following the founding of Aurora Gas, in 2002, as Assistant Vice President, she began traveling to Alaska to focus on gas purchase and supply contract negotiations and coordinating policies and procedures for both the Houston and Anchorage offices. When Aurora Gas, LLC, an E&P company, began production, the companies combined efforts in the marketing and sales of gas, and Ms. Polk eventually transitioned to work solely for Aurora Gas. She is currently responsible for the negotiation of gas sales contracts to utilities and industrial end-users in the Cook Inlet. In addition she handles the gas control (scheduling, nominations and balancing) along with overseeing the human

resource and financial responsibilities of the company, including the bookkeeping, A/R, A/P, and preparation of financial reports, including royalty and production reports and lease operating statements.

Manager, Production Operations & Engineering. George Pollock, a 24 year resident of Alaska, is responsible for operating and maintaining existing wells and facilities to high integrity standards and managing day-to-day operations with a strong focus on safety, environmental and regulatory issues. Working closely with Texas-based executive and field-based operations personnel; Mr. Pollock balances day-to-day operational priorities with long-term strategic objectives. Responsibilities include field development planning, project identification and development, logistics for major projects and existing wells and facilities, managing contracts, performance of gas field contractors, regulatory compliance and stakeholder interaction. Mr. Pollock received a Bachelor of Science and Master of Science degrees in Polymer Engineering from Case Western Reserve University. Shortly after moving to Alaska, Mr. Pollock began working in the oil patch executing special projects under contract to BPXA in the Endicott field. In 2000, Mr. Pollock joined Michael Baker Jr. managing multiple projects for BP Alaska in the Prudhoe Bay field, for Alyeska Pipeline/GCI along the Trans Alaska Pipeline System (TAPS), and natural gas exploration drilling programs in Cook Inlet. In 2006, Mr. Pollock was transferred to Baker Energy and continued to work projects in Prudhoe Bay for BP Alaska, in Kazakhstan for Karachaganak Petroleum Operating, oil exploration drilling programs for Brooks Range Petroleum on Alaska's North Slope, and unconventional gas plays (CBM) in the Powder River Basin of Wyoming, Wainwright, Alaska and Coos Bay, Oregon. Wood Group Production Services acquired Baker Energy in 2009 and appointed Mr. Pollock North Dakota Operations Manager based in Minot, North Dakota, responsible for front-end engineering design (FEED) studies for multiple pipeline projects and engineering design and construction management of well pad locations to accommodate simultaneous drilling and hydraulic fracturing simultaneous operations.

## F. Significant Events During the Bankruptcy Case

### 1. Bankruptcy Proceedings

- **Asset Sales.** There have been no asset sales.
- **Appointment of Professionals.** The Debtor has employed a number of professionals with the approval of the Bankruptcy Court:

David H. Bundy, P.C. as its bankruptcy counsel;

Blakely & Weeks-Thome, PLLC to prepare tax returns and review of the Debtor's books and financial statements.

Dan E. Dickinson, CPA, with respect to State of Alaska royalties and related issues including monthly state royalty and production tax returns and annual tax credit filings.

- **Real Property Leases.** The Debtor has moved to assume its mineral leases and its surface use agreement with Tyonek Native Corporation, although the resolution of the motion will be deferred pending approval of the proposed plan.
- **Appointment of Unsecured Creditors' Committee.** The United States Trustee appointed the following creditors to the Official Committee of Unsecured Creditors. The Committee has authority to represent the interests of all unsecured creditors in the Bankruptcy Case.

Tyonek Native Corporation  
Tyonek Contractors  
Knight Oil Tools, LLC  
Aurora Well Service, LLC  
Tanks A Lot, Inc.  
Shirleyville Enterprises, LLC

The Committee retained Erik LeRoy, 500 L Street Suite 301, Anchorage AK, 99501, as its attorney.

#### **G. Projected Recovery of Avoidable Transfers.**

None contemplated. In its Statement of Affairs filed July 1, 2017 Aurora identified \$437,661.50 in transfers within 90 days of the Petition Date. However Aurora believes these payments were contemporaneous payments made according to ordinary terms and not payments on antecedent debt, and are therefore probably not avoidable as preferential transfers.

#### **H. Claims Objections**

A list of all filed and scheduled claims is attached as Exhibit 9. Except to the extent that a claim is already allowed pursuant to a final non-appealable order, the Debtor reserves the right to object to claims. Therefore, even if a claim is allowed for voting purposes, the claimant may not be entitled to a distribution if an objection to your claim is later upheld. The procedures for resolving disputed claims are set forth in Article V of the Plan.

Generally, if a real property lease is rejected, the rejection is treated as a breach of the lease as of the bankruptcy filing date, for a long term lease, the lessor is entitled to an unsecured claim for lost rents, limited to the greater of one year's rent or 15% of the remaining lease term, but not more than three years of lost rent. The Debtor's mineral leases do not have fixed rental obligations but rejection may trigger claims for abandonment costs, discussed above. If such claims are filed they will need to be resolved before distributions to creditors can be made.

#### **I. Current and Historical Financial Conditions**

The Debtor's financial statements show the following:

	Receipts (less returns)	COGS	Expenses	Income/Loss
2014	5,056,712	5,346,198	1,605,444	(1,894,931)
2015	4,310,574	4,339,767	1,873,380	(1,902,573)
2016	4,149,484	4,152,633	1,413,205	(1,416,354)

The Debtor's unaudited statements for 2014, 2015 and 2016 are attached as Exhibits 10 through 12.

The monthly reports filed by the Debtor for January, February and March of 2017 show the following:

Month	Revenues	Expenses	Net
January	288,725	439,453	(150,728)
February	252,955	336,219	(83,264)
March	298,838	467,241	(168,403)

Projected income and expenses for the second quarter 2017 are shown in Exhibit 14.

### III. THE PLAN OF REORGANIZATION

#### A. What is the Purpose of the Plan of Reorganization?

As required by the Code, the Plan places claims and equity interests in various classes and describes the treatment each class will receive. The Plan also states whether each class of claims or equity interests is impaired or unimpaired. If the Plan is confirmed, your recovery will be limited to the amount provided by the Plan.

#### B. Unclassified Claims

Certain types of claims are automatically entitled to specific treatment under the Code. They are not considered impaired, and holders of such claims do not vote on the Plan. They may, however, object if, in their view, their treatment under the Plan does not comply with that required by the Code. As such, the Debtor has *not* placed the following claims in any class:

1. *Administrative Expenses*

Administrative expenses are costs or expenses of administering the Debtor's chapter 11 case which are allowed under § 507(a)(2) of the Code. Administrative expenses also include the value of any goods sold to the Debtor in the ordinary course of business and received within 20 days before the date of the bankruptcy petition. The Code requires that all administrative expenses be paid on the effective date of the Plan, unless a particular claimant agrees to a different treatment.

The following chart lists the Debtor's estimated administrative expenses, and their proposed treatment under the Plan:

<u>Type</u>	<u>Estimated Amount Owed</u>	<u>Proposed Treatment</u>
Expenses Arising in the Ordinary Course of Business After the Petition Date	\$1.4 million  (as of 4/4/17)	To be paid prorata from distributions of Liquidation Proceeds on the schedule set forth in the Plan.
Professional Fees, as approved by the Court.	\$60,000	To be paid prorata from distributions of Liquidation Proceeds on the schedule set forth in the Plan.
Other administrative expenses	None	Paid in full on the effective date of the Plan or according to separate written agreement
Office of the U.S. Trustee Fees	\$10,000	Paid in full on the effective date of the Plan
<b>TOTAL</b>	<b>\$1,470,000</b>	

2. *Priority Tax Claims*

Priority tax claims are unsecured income, employment, and other taxes described by § 507(a)(8) of the Code. Unless the holder of such a § 507(a)(8) priority tax claim agrees otherwise, it must receive the present value of such claim, in regular installments paid over a period not exceeding 5 years from the order of relief.

The following chart lists the Debtor's estimated § 507(a)(8) priority tax claims and their



proposed treatment under the Plan:

Description (name and type of tax)	Estimated Amount Owed	Date of Assessment	Treatment
IRS 941 payroll taxes	\$0	Not assessed	The IRS payroll taxes should be current on the effective date; any amount owed at that time will be paid on that date
Alaska ESC payroll taxes	\$0	Not assessed	The Alaska ESC payroll taxes should be current on the effective date; any amount owed at that time will be paid on that date
Alaska Property Taxes	\$50,000		The Alaska property taxes will be paid pro rata with other administrative expenses.

**C. Classes of Claims and Equity Interests**

The following are the classes set forth in the Plan, and the proposed treatment that they will receive under the Plan:

1. *Classes of Secured Claims*

There are no pre-petition secured claims.

2. *Classes of Priority Unsecured Claims*

Certain priority claims that are referred to in §§ 507(a)(1), (4), (5), (6), and (7) of the Code are required to be placed in classes. The Code requires that each holder of such a claim

receive cash on the effective date of the Plan equal to the allowed amount of such claim. However, a class of holders of such claims may vote to accept different treatment. In this case no vote by the holders of priority wage claims is required because those claims are being paid in full. As of this filing the Debtor has not identified any priority wage claims. If any priority wage claims are identified, they will be paid in full on the Effective Date with interest at 6% from May 5, 2016. This class is not impaired.

3. *Classes of General Unsecured Claims*

General unsecured claims are not secured by property of the estate and are not entitled to priority under § 507(a) of the Code.

The following chart identifies the Plan's proposed treatment of Class 1:

<b>Class #</b>	<b>Description</b>	<b>Impairment</b>	<b>Treatment</b>
1	General Unsecured Class	Impaired	<p>Class 1 unsecured claims will receive payments on a schedule agreed to by the Debtor and the Unsecured Creditors' Committee with the goal of completing all distributions by December 31, 2017.</p> <p>Payments on unsecured claims will be made until the earlier of: (a) all Liquidation Proceed have been distributed, or (b) all allowed unsecured claims have been paid in full with interest at 5% per annum from May 3, 2016.</p>

The total amount of unsecured creditor claims will be approximately \$1.6 million. The amount of unsecured claims could change if plug and abandonment claims are asserted following the termination of any mineral leases the Debtor is not able to sell during the Liquidation Period.

4. *Equity Interest Holders*

Equity interest holders are parties who hold an ownership interest (*i.e.*, equity interest) in the Debtor. In a for-profit corporation, entities holding preferred or common stock are equity interest holders. In a partnership, equity interest holders include both general and limited partners. In a limited liability company the equity interest holders are the members. Finally, with respect to an individual who is a debtor, the debtor is the equity interest holder. In this case, Rieck Oil, Inc., a Delaware corporation, is the sole equity owner. Rieck Oil will receive no

assets or other payments from the Debtor unless and until all administrative, priority and unsecured claims are paid in full in accordance with the Plan.

**D. Means of Implementing the Plan**

1. *Source of Payments*

Payments and distributions under the Plan will be funded from cash, ongoing revenue, and the sales proceeds of Debtor's assets.

2. *Post-confirmation Management.*

Current management of the Debtor shall remain in office and conduct the liquidation of the Debtor's assets. After May 1, 2017, their salaries shall continue as follows:

J. Edward Jones: \$16,792 per month

Patti S. Polk; \$9,650 per month

George Pollock; \$14,250 per month

On confirmation of the Plan the Debtor will discontinue its contributions to the 401 (k) retirement plan. The salaries shall be renegotiated with the Unsecured Creditors' Committee as the liquidation process moves forward.

3. *Explanation of the Liquidation Process and Projected Timeline*

Debtor's Reorganization Plan is liquidation of the company, either in its entirety (preferred scenario) or as individual assets, while continuing gas field operations for a predefined time period. The preferred scenario reflects the best chance of maximizing value for Debtor assets. Currently four companies have signed Confidentiality Agreements and have either completed or are in the process of conducting due diligence with respect to the entirety of Debtor's assets. An offer was tendered in January 2017, which was deemed as inadequate at that time. However, that company maintains a strong interest in Debtor's assets and is looking for additional funding to buttress the initial offer. Two other companies have been given access to evaluation data and are actively formulating the scope of their interest. Another company has expressed interest only in some producing fields and limited assets.

This Plan presents the methodology and schedule by which the four companies currently performing due diligence may tender an offer for Debtor's assets by a published deadline of June 1, 2017. In the interim period, Debtor will continue to operate the gas fields. With recent production increases from compressor repairs and the thawing of flowlines, the Debtor's gas production has increased significantly and is expected to average about 1000 mcfpd in April (an increase of about 100% from March). This increase in sales will increase expected cash flow

and reduce the operation losses in April and May—see attached Short-Term Cash Flow Projection, Exhibit 14.

If one or more prospective buyers submits an offer that is deemed acceptable, field operations will continue until closing or until rejection of the offer. Debtor will conditionally accept or reject all received offers by June 15<sup>th</sup> and will seek court and creditor approvals. If an offer is deemed acceptable by all parties, the buyer would have 30 days to close, July 14<sup>th</sup>. If no offers are received that are deemed acceptable or if the closing failed, the gas field would be shut down as soon as possible. All facilities and equipment will be secured, and equipment prepared for sale. If the entire company is sold in a single or multiple transactions, whether on a corporate or assets basis, plans for payments to creditors would be made and agreed upon at closing with court approval.

Prior to the deadline for offers for the entire company, Debtor will solicit offers for assets of the company: producing fields with wells, non-producing leases, surface production equipment, vehicles, portable service equipment (“Well & Lease Service Equipment”), seismic and well data, and office furniture and equipment. These solicitations will go to all Alaska oil and gas producers and to specialists who buy and sell particular assets. The deadline for offers for these assets will be June 1, 2017, but notices of deferred deadline will be sent out prior to this if an apparently acceptable offer for the entire company has been received, deferring the deadline until the offer for the entire company has been rejected or has otherwise failed. If the sales efforts continue for individual assets, the successful bidders will be notified July 1, 2017, and plans will be made to remove and transport assets to new owners. Should no acceptable offers for some assets be received, efforts to sell individual assets will continue with the goal of selling all assets by September.

Depending upon the purchases, i.e., how the assets are sold, there may be wells to plug and abandon and surface equipment removed, pipelines purged and closed, and surface locations cleaned. The proceeds of the sales will be utilized to pay costs associated with these activities prior to payment of creditors’ claims. The goal is to finish all abandonments, removal and demobilization, and cleanup prior to the end of October. Payments to creditors will then be made, by the end of the year, with any remaining funds going to Debtor’s owner.

The Debtor expects the liquidation effort to proceed on the following schedule, which is subject to adjustment as the process goes ahead, in consultation with the Creditors’ Committee.

April 7, 2017—file Plan with intention to continue producing gas wells to maximize sales value for limited time.

April 10, 2017—send Notice to prospective purchasers of company or gas fields for sale and deadline for submission of offers.

--4 companies with confidentiality agreements with the Debtor

April 17, 2017—send Notice to prospective buyers of individual assets of deadline for bids and offers.

--Hilcorp, Glacier, AIX, Stellar, BlueCrest, Brooks Range Petroleum, Great Bear, Ahtna,

Doyon, (any and all AK potential buyers), Solsten, pipe dealers, equipment dealers, seismic brokers, furniture resellers, CIRI, TNC

June 1, 2017—deadline for offers / proposals for purchase of entire company (corporate or asset basis)

June 2, 2017—cease operations of gas wells if no apparently acceptable offers are received—shut in wells and start cold shut down of facilities, secure equipment.

June 15, 2017—respond to offers to purchase entire company.

June 17, 2017—deadline for offers/proposals for individual assets

June 30, 2017—close Anchorage office

July 1, 2017—respond to offers to purchase individual assets

July 14, 2017—deadline to close purchase of company, including agreement of payments to creditors

September 1, 2017—deadline for sale of assets

September 6, 2016—start P&A operations of any unpurchased wells.

October 31, 2017—finish demobilization of P&A equipment and any assets

December 31, 2017—payments to creditors if asset sold as individual assets.

#### **E. Risk Factors**

The Debtor's payments to creditors depend on proceeds which can be realized from the sale of the Debtor's assets. Considering current market conditions and the small number of likely buyers for these assets the value to be obtained is difficult to estimate.

#### **F. Executory Contracts and Unexpired Leases**

##### Assumed Executory Contracts and Unexpired Leases.

The Debtor will assume and assign any mineral leases and other executory contracts for which are assigned to successor parties during the Liquidation Period.

The terms of the mineral leases shall remain in effect. If any cure payments or compensation for prior defaults is required, those payments shall be made by the assignee in connection with the assignment of the mineral leases.

The Debtor will assume and assign its surface use agreement with Tyonek Native Corporation on terms to be negotiated with the Lessor and the proposed assignee. Any amount owed pursuant to the agreement which is not assumed by a transferee will be a general unsecured claim.

The Debtor's gas sales agreement with Tesoro will be assumed if there is an assignee who agrees to perform the agreement.

Rejected Executory Contracts and Unexpired Leases.

The Debtor rejects all executory contracts and/or unexpired leases which are not assumed and assigned during the Liquidation Period, or sooner as provided in separate orders of the Bankruptcy Court.

All executory contracts and unexpired leases that are not listed in the Plan as assumed will be rejected under the Plan. Consult your adviser or attorney for more specific information about particular contracts or leases if you believe that you have any such agreement with the Debtor.

If you object to the rejection of your contract or lease, you must file and serve your objection to the Plan within the deadline for objecting to the confirmation of the Plan or by the deadline set forth in a separate notice.

**G. Tax Consequences of Plan**

***Creditors and Equity Interest Holders Concerned with How the Plan May Affect Their Tax Liability Should Consult with Their Own Accountants, Attorneys, And/Or Advisors.***

The following are the anticipated tax consequences of the Plan:

(1) Tax consequences to the Debtor of the Plan. As the Debtor has accumulated significant net operating losses the Debtor does not anticipate any tax consequences as a result of confirmation of the Plan or the sale of the Denali Property other than the reduction of accrued losses.

(2) General tax consequences on creditors of any discharge, and the general tax consequences of receipt of plan consideration after confirmation. The tax consequences to creditors from the receipt of less than the full balances owed by the Debtor will depend on their method of tax accounting and reporting, and therefore creditors should consult their own tax advisors for advice on whether the plan will have tax consequences.

#### IV. CONFIRMATION REQUIREMENTS AND PROCEDURES

To be confirmable, the Plan must meet the requirements listed in §§ 1129(a) or (b) of the Code. These include the requirements that: the Plan must be proposed in good faith; at least one impaired class of claims must accept the plan, without counting votes of insiders; the Plan must distribute to each creditor and equity interest holder at least as much as the creditor or equity interest holder would receive in a chapter 7 liquidation case, unless the creditor or equity interest holder votes to accept the Plan; and the Plan must be feasible. These requirements are not the only requirements listed in § 1129, and they are not the only requirements for confirmation.

##### A. Who May Vote or Object

Any party in interest may object to the confirmation of the Plan if the party believes that the requirements for confirmation are not met.

Many parties in interest, however, are not entitled to vote to accept or reject the Plan. A creditor or equity interest holder has a right to vote for or against the Plan only if that creditor or equity interest holder has a claim or equity interest that is both (1) allowed or allowed for voting purposes and (2) impaired.

In this case, the Debtor believes that holders of general unsecured claims in Class 1 are entitled to vote to accept or reject the plan.

##### 1. *What Is an Allowed Claim or an Allowed Equity Interest?*

Only a creditor or equity interest holder with an allowed claim or an allowed equity interest has the right to vote on the Plan. Generally, a claim or equity interest is allowed if either (1) the Debtor has scheduled the claim on the Debtor's schedules, unless the claim has been scheduled as disputed, contingent, or unliquidated, or (2) the creditor has filed a proof of claim or equity interest, unless an objection has been filed to such proof of claim or equity interest. When a claim or equity interest is not allowed, the creditor or equity interest holder holding the claim or equity interest cannot vote unless the Court, after notice and hearing, either overrules the objection or allows the claim or equity interest for voting purposes pursuant to Rule 3018(a) of the Federal Rules of Bankruptcy Procedure.

***The deadline for filing a proof of claim in this case was October 25, 2016.***

##### 2. *What Is an Impaired Claim or Impaired Equity Interest?*

As noted above, the holder of an allowed claim or equity interest has the right to vote only if it is in a class that is *impaired* under the Plan. As provided in § 1124 of the Code, a class is considered impaired if the Plan alters the legal, equitable, or contractual rights of the members of that class.

##### 3. *Who is Not Entitled to Vote*

The holders of the following five types of claims and equity interests are *not* entitled to vote:

- holders of claims and equity interests that have been disallowed by an order of the Court;
- holders of other claims or equity interests that are not “allowed claims” or “allowed equity interests” (as discussed above), unless they have been “allowed” for voting purposes.
- holders of claims or equity interests in unimpaired classes;
- holders of claims entitled to priority pursuant to §§ 507(a)(2), (a)(3), and (a)(8) of the Code; and
- holders of claims or equity interests in classes that do not receive or retain any value under the Plan;
- administrative expenses.

***Even If You Are Not Entitled to Vote on the Plan, You Have a Right to Object to the Confirmation of the Plan and to the Adequacy of the Disclosure Statement.***

#### 4. *Who Can Vote in More Than One Class*

A creditor whose claim has been allowed in part as a secured claim and in part as an unsecured claim, or who otherwise hold claims in multiple classes, is entitled to accept or reject a Plan in each capacity, and should cast one ballot for each claim.

#### **B. Votes Necessary to Confirm the Plan**

If impaired classes exist, the Court cannot confirm the Plan unless (1) at least one impaired class of creditors has accepted the Plan without counting the votes of any insiders within that class, and (2) all impaired classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by “cram down” on non-accepting classes, as discussed in Section B.2.



1. *Votes Necessary for a Class to Accept the Plan*

A class of claims accepts the Plan if both of the following occur: (1) the holders of more than one-half (1/2) of the allowed claims in the class, who vote, cast their votes to accept the Plan, and (2) the holders of at least two-thirds (2/3) in dollar amount of the allowed claims in the class, who vote, cast their votes to accept the Plan.

A class of equity interests accepts the Plan if the holders of at least two-thirds (2/3) in amount of the allowed equity interests in the class, who vote, cast their votes to accept the Plan.

2. *Treatment of Nonaccepting Classes*

Even if one or more impaired classes reject the Plan, the Court may nonetheless confirm the Plan if the nonaccepting classes are treated in the manner prescribed by § 1129(b) of the Code. A plan that binds nonaccepting classes is commonly referred to as a “cram down” plan. The Code allows the Plan to bind nonaccepting classes of claims or equity interests if it meets all the requirements for consensual confirmation except the voting requirements of § 1129(a)(8) of the Code, does not “discriminate unfairly,” and is “fair and equitable” toward each impaired class that has not voted to accept the Plan. One requirement is that no class of claims or interests junior to the dissenting class may receive or retain any property under the Plan.

***Debtor does not believe that the Plan as currently proposed can be confirmed by the “cramdown” procedure.***

**C. Liquidation Analysis**

**A table showing the Debtor’s liquidation analysis is attached as Exhibit 13.**

1. Introduction

Under the “best interests” of creditors test set forth in section 1129(a)(7) of the Bankruptcy Code, the Bankruptcy Court may not confirm a plan of reorganization unless the plan provides each holder of a claim or interest who does not otherwise vote in favor of the plan with property of a value, as of the effective date of the plan, that is not less than the amount that such holder would receive or retain if the debtor was liquidated under chapter 7 of the Bankruptcy Code. To demonstrate that the Plan satisfies the “best interests” of creditors test, the Debtor has prepared a hypothetical Liquidation Analysis, which is based upon certain assumptions discussed in the Disclosure Statement and in the notes accompanying the Liquidation Analysis. As the Debtor is proposing to pay its creditors through sale of its assets, the issue is whether liquidation under the direction of current management is preferable to allowing a chapter 7 trustee to conduct the liquidation.

The Debtor believes that a trustee, new to the case, would have several obstacles to overcome. The trustee would have no staff to assist him or her in the liquidation, or to secure the assets, in a number of locations, during the sale process. The trustee would need to hire

contractors to assemble and market the Debtor's inventory and equipment. The trustee will not be familiar with the property being sold and thus be less able to negotiate with buyers. In addition, the United States Trustee is concerned that a chapter 7 trustee may be required to assume cleanup responsibilities or other environmental risks without adequate funds to do so.

If the plan is not confirmed and conversion to a chapter 7 liquidation is denied, the other alternative is dismissal of the pending bankruptcy case. If the case is dismissed creditors would be free to pursue state law remedies through litigation, and those creditors first able to obtain enforceable judgments could then attempt to satisfy their claims through execution and forced sale of the Debtor's property. This is likely to be time consuming and expensive for creditors, with assets being sold at great discounts, or taken by creditors in kind to satisfy their claims. Many creditors would probably be excluded in this process, either because they did not move quickly enough, or because they would decide that the likely result would not be worth the effort of bringing a collection lawsuit and trying to execute on any remaining property.

The Liquidation Analysis estimates potential cash distributions to holders of allowed claims and Interests in a hypothetical chapter 7 liquidation of the Debtor's assets, assuming that the case is converted to chapter 7 on June 1, 2017. Asset values discussed in the liquidation analysis may differ materially from values referred to in the plan and disclosure statement.

The determination of the costs of, and hypothetical proceeds from, the liquidation of the Debtor's assets is an uncertain process involving the estimates and assumptions that are subject to significant business, economic, and competitive uncertainties. Some assumptions in the liquidation analysis may not materialize in actual chapter 7 liquidation. The Liquidation Analysis was prepared for the sole purpose of generating a reasonable good-faith estimate of the proceeds that would be generated if the Debtor is liquidated in accordance with chapter 7 of the Bankruptcy Code. The underlying financial information in the liquidation analysis was not compiled or examined by any independent accountants. No independent appraisals were conducted in preparing the Liquidation Analysis. **NEITHER THE DEBTOR NOR ITS ADVISORS MAKE ANY REPRESENTATION OR WARRANTY THAT THE ACTUAL RESULTS WOULD OR WOULD NOT APPROXIMATE THE ESTIMATES AND ASSUMPTIONS REPRESENTED IN THE LIQUIDATION ANALYSIS. ACTUAL RESULTS COULD VARY MATERIALLY.**

In preparing the liquidation analysis, the Debtor estimated allowed claims based upon a review of Claims listed on the Debtor's Schedules and Proofs of Claim filed to date. In addition, the liquidation analysis includes estimates for Claims not currently asserted in the chapter 11 case, but which could be asserted and allowed in a chapter 7 liquidation, including administrative claims, wind down costs, trustee fees, tax liabilities, and certain lease and contract rejection damages claims. To date, the Bankruptcy Court has not estimated or otherwise fixed the total amount of allowed claims. Therefore, the Debtor's estimate of allowed claims set forth in the liquidation analysis should not be relied on for any other purpose, including determining the value of any distribution to be made under the Plan. **NOTHING CONTAINED IN THE LIQUIDATION ANALYSIS IS INTENDED TO BE OR CONSTITUTES A CONCESSION**

OR ADMISSION OF THE DEBTOR. THE ACTUAL AMOUNT OF ALLOWED CLAIMS IN THE CHAPTER 11 CASE COULD MATERIALLY DIFFER FROM THE ESTIMATED AMOUNTS SET FORTH IN THE LIQUIDATION ANALYSIS.

a. Primary Assets of the Debtor

The Liquidation Analysis assumes a liquidation of all of the Debtors' assets, which constitutes mineral leases, equipment, inventory, cash on hand, and accounts receivable. The Debtor's Net Operating Losses (NOLs) are assumed to offset federal taxes (e.g. capital gains) expected to be incurred, if any, by the Trustee in a liquidation. Any NOLs remaining are ascribed no value in the Liquidation Analysis because the remaining NOLs do not retain value in a chapter 7 liquidation. Finally, the Liquidation Analysis does not attribute any value to the Debtors' intangible assets.

b. General Assumptions of Liquidation of Assets

The Liquidation Analysis assumes that the liquidation of the Debtor's assets would commence on June 1, 2017. The value contained in the Liquidation Analysis reflects a "liquidation" value as opposed to a "going concern" value. Further, it is assumed that the Trustee will attempt to maximize recoveries for Creditors with an "orderly" liquidation which includes auction style liquidation of some or all assets. However, there is a risk that the Trustee would be unable to liquidate all of the assets with an "**orderly**" liquidation and may instead proceed with a "**forced**" liquidation of some or all of the assets in which the first available buyer is used.

There can be no assurance that the liquidation would be completed in any specific time frame, nor is there any assurance that the recovery assigned to the assets would in fact be realized. Under Section 704 of the Bankruptcy Code and appointed trustee must, among other duties, collect and convert the property of the estate as expeditiously as is compatible with the best interests of the parties in-interest. **The Liquidation Analysis assumes that there would be pressure to complete the sales process within nine months.** During this time the trustee would sell the Debtors' assets, wind-down operational activities, complete the claims reconciliation process and make distributions to parties-in-interest. Depending on actual circumstances, the time to complete a liquidation could be significantly longer, in which event, the wind down costs would increase substantially and recoveries would likely decrease.

The liquidation Analysis assumes that the proceeds generated from the liquidation of the Assets, plus Cash estimated to be held by the Debtors on the Conversion Date and estimated preference action recoveries, will be available to the Trustee to satisfy the costs and expense of the liquidation, including wind-down costs and Trustee fees, and such additional Administrative and Priority Claims that are estimated to be incurred in a chapter 7 liquidation. Any remaining net Liquidation Proceeds would then be allocated to Creditors and Interest Holders in accordance with the priorities set forth in section 726 of the Bankruptcy Code. The Liquidation Analysis provides for high and low recovery percentages for Claims and Interests upon the Trustee's application of the Liquidation Proceeds. The high and low recovery ranges reflect a high and low range of estimated Liquidation Proceeds from the Trustee's sale of the Assets which reflects

either an “orderly” liquidation or a distressed liquidation as the case may be. The estimated recovery for unsecured creditors is based on the arithmetic average of the estimated high and low recoveries.

Certain factors may limit the amount of the Liquidation Proceeds available to the Trustee. Certain of these factors that relate specifically to the liquidation of the Assets are discussed in further detail below. In addition, it is possible that distribution of the Liquidation Proceeds would be delayed while the Trustee and his or her professionals become knowledgeable about the Chapter 11 case and the Debtors’ business and operations. This delay could materially reduce the value, on a “present value” basis, of the Liquidation Proceeds.

#### **D. Feasibility**

The Court must find that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtor or any successor to the Debtor, unless such liquidation or reorganization is proposed in the Plan. As the Debtor is proposing to liquidate itself, this factor is satisfied.

The Debtor has prepared a budget showing its estimates of income and expenses during the liquidation process described above and in the proposed plan. That budget is included in Exhibit 14.

*You should consult with your accountant or other financial advisor if you have any questions pertaining to these projections. The projections can be provided to interested creditors in Microsoft Excel format, on request to the Debtor’s counsel.*

#### **V. EFFECT OF CONFIRMATION OF PLAN**

##### **A. Discharge of Debtor**

Discharge. As the Debtor is proposing a liquidation plan, The Debtor will not receive a discharge on the effective date of the Plan.

##### **B. Modification of Plan**

The Debtor may modify the Plan at any time before confirmation of the Plan. However, the Court may require a new disclosure statement and/or revoting on the Plan.

The Debtor may also seek to modify the Plan at any time after confirmation only if (1) the Plan has not been substantially consummated *and* (2) the Court authorizes the proposed modifications after notice and a hearing.

**C. Final Decree**

Once the estate has been fully administered, as provided in Rule 3022 of the Federal Rules of Bankruptcy Procedure, the Debtor, or such other party as the Court shall designate in the Plan Confirmation Order, shall file a motion with the Court to obtain a final decree to close the case. This may occur before all distributions required by the Plan have been made.

Dated: April 28, 2017

AURORA GAS, LLC

By: /s/ J. Edward Jones  
J. Edward Jones, President

David H. Bundy, PC  
Attorney for Debtor

By: /s/ David H. Bundy  
David H. Bundy

## List of Exhibits

1. Plan of Reorganization
2. Reserve Valuation
3. Reserves
4. Mineral Leases
5. Surface Equipment
6. Tubular Inventory
7. Well and Lease Service Equipment
8. Office Furniture
9. List of Claims
10. Unaudited Statement December 31 2014
11. Unaudited Statement December 31 2015
12. Unaudited Statement December 31 2016
13. Liquidation Analysis
14. Liquidation Budget and Cash Flow Projection second quarter 2017