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8 IN THE UNITED STATES BANKRUPTCY COURT  
9 FOR THE DISTRICT OF ARIZONA

10  
11 In re:

12 **CORE RESOURCE MANAGEMENT,**  
13 **INC.,**

14 Debtor.

15  
16 In re:

17 **NITRO PETROLEUM, INC.,**

18 Debtor.

In Chapter 11 Proceedings

Case No.: 2:16-BK-06712-BKM

Case No.: 2:16-BK-08288-SHG

(Jointly Administered)

(This pleading applies to CORE  
RESOURCE MANAGEMENT only)

21  
22 DISCLOSURE STATEMENT  
23 OF  
24 DEBTOR-IN-POSSESSION

25 Dated: 10/12/2016

26 Filed by: The Debtor,

27 **CORE RESOURCE MANAGEMENT, INC.**

**ARTICLE I**  
**INTRODUCTION**

**A. GENERAL INFORMATION**

The Debtor, (“Core Resource Management, Inc.”) hereinafter referred to as the Debtor, provides this Disclosure Statement (“Disclosure Statement”) pursuant to 11 U.S.C. Section 1125 to all of its known Creditors and parties-in-interest in order to disclose that information deemed by the Debtor to be material, important and necessary for its creditors and parties-in-interest to arrive at a reasonable, informed decision in exercising their right to vote for acceptance of the Debtor’s Plan of Reorganization (hereinafter referred to as the “Plan”), dated 10/12/2016 and presently on file with the United States Bankruptcy Court for the District of Arizona (“Court”) and attached hereto as Exhibit “A”. Both the Disclosure Statement and Plan are being proposed by Core Resource Management, Inc. only at this time based upon the presumption that Case No. 2:16-bk-08288 regarding Nitro Petroleum, Inc. will be dismissed.

The Court determined that this Disclosure Statement contained information of a kind and in sufficient detail for holders of claims and interests to make an informed judgment concerning the Plan. The Court further determined that this Disclosure Statement may be used in connection with the solicitation of acceptances of the Plan.

A copy of the Debtor’s Plan and a ballot for voting accompanies this Disclosure Statement. The definitions found in Article I of the Plan are incorporated herein by reference and should be referred to in reading and analyzing the Plan and Disclosure Statement.

Unless otherwise noted, this Disclosure Statement was prepared from information provided by the Debtor. The Debtor has utilized all information available to it in preparing this Disclosure Statement and the Plan. It has utilized its best efforts in preparing and submitting this information for your consideration. You are urged to carefully read the contents of this Disclosure Statement before making your decision to accept or reject the Plan. This Disclosure Statement and the Plan Classifies all creditors into classes. The specific treatment of each class of creditors will be set forth in this

1 Disclosure Statement and the Plan. You should carefully examine the treatment of the  
2 class or classes to which your claim will be assigned.

3 This Disclosure Statement contains information that may influence your  
4 decision to accept or reject the debtor's proposed Plan of Reorganization. Please read  
5 this document with care. The only representations that are authorized by the Debtor  
6 concerning the value of the Debtor's assets, or the value of the reorganized Debtor, are  
7 the representations contained in this Disclosure Statement. The financial information  
8 contained in this Disclosure Statement has not been subject to an audit by an  
9 independent certified public accountant. For that reason, as well as the complexity of  
10 the Debtor's financial affairs, the Debtor is not able to warrant or represent that the  
11 information contained in this Disclosure Statement is without any inaccuracy. To the  
12 extent practicable, the information has been prepared from the Debtor's financial books  
13 and records and great effort has been made to ensure that all such information is fairly  
14 representative.

15 The Court has not verified the accuracy of the information contained herein, and  
16 the Court's approval of this Disclosure Statement does not imply that the Court  
17 endorses or approves the Plan. Rather, the approval of this Disclosure Statement by the  
18 Court indicates that if the information contained herein is accurate, it is sufficient to  
19 provide an adequate basis for creditors and parties-in-interest to make an informed  
20 decision with respect to voting on the plan.

## 21 **B. REPRESENTATIONS**

22 Certain materials contained in this Disclosure Statement are taken directly from  
23 other, readily accessible instruments or are digests of other instruments. While every  
24 effort has been made to retain the meaning of such instruments, you are urged to rely  
25 upon the contents of such instruments only, and only upon a thorough review of the  
26 instruments themselves.  
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1 NO REPRESENTATIONS OR ASSURANCES CONCERNING THE  
2 DEBTOR INCLUDING, WITHOUT LIMITATION, THE VALUE OF  
3 PROPERTY, ARE AUTHORIZED BY THE DEBTOR, OTHER THAN AS SET  
4 FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS  
5 OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE WHICH ARE  
6 OTHER THAN THOSE CONTAINED IN THIS DISCLOSURE STATEMENT  
7 SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR  
8 DECISION, AND SUCH ADDITIONAL REPRESENTATIONS OR  
9 INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE  
10 DEBTOR, WHO IN TURN, SHALL DELIVER SUCH INFORMATION TO THE  
11 COURT FOR SUCH ACTION AS MAY BE APPROPRIATE.

12 THIS IS A SOLICITATION BY THE DEBTOR ONLY AND IS NOT A  
13 SOLICITATION BY THE DEBTOR'S ATTORNEYS OR ACCOUNTANTS,  
14 AND THE REPRESENTATIONS MADE HEREIN ARE THOSE OF THE  
15 DEBTOR AND NOT OF THE DEBTOR'S ATTORNEYS OR ACCOUNTANTS,  
16 EXCEPT AS OTHERWISE INDICATED. REASONABLE EFFORTS HAVE  
17 BEEN MADE TO PREPARE ALL UN-AUDITED FINANCIAL INFORMATION  
18 WHICH MAY BE CONTAINED IN THIS DISCLOSURE STATEMENT IN  
19 ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING  
20 PRINCIPALS; HOWEVER, AS TO ALL FINANCIAL INFORMATION, THE  
21 DEBTOR IS UNABLE TO WARRANT OR REPRESENT THE ACCURACY OF  
22 THE INFORMATION CONTAINED THEREIN TO BE WITHOUT ERROR.

23 THE LIQUIDATION ANALYSIS CONTAINED HEREIN HAS NOT  
24 BEEN SUBJECT TO AN AUDIT OR EXAMINATION BY INDEPENDENT  
25 CERTIFIED PUBLIC ACCOUNTANTS. RECORDS SUBSEQUENT TO THE  
26 FILING OF THE PETITION FOR REORGANIZATION HAVE BEEN KEPT  
27 BY THE DEBTOR AND MONTHLY FINANCIAL REPORTS HAVE BEEN  
28 SUBMITTED BY THE DEBTOR TO THE COURT SINCE THE FILING OF  
29 THE PETITION.

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**C. FILING OF REORGANIZATION CASE**

On 6/13/2016, the Debtor filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code.

**D. VOTING**

1. Time and Manner of Voting. All creditors or parties-in-interest entitled to vote on the plan may cast their votes for or against the Plan by completing, dating, signing, and mailing the original ballot to the Bankruptcy Court and a copy to the attorneys for the Debtor. The Court has issued its Order requiring that all votes for the acceptance or rejection of the Plan be received by \_\_\_\_ p.m. on \_\_\_\_\_, \_\_. The ballots should be sent as follows:

**The Original to:**

**Hauf Law PLC.,  
c/o Adam Hauf  
4225 W. Glendale Ave. Ste. A104  
Phoenix, AZ 85051**

2. Return of Ballot. Mail or deliver your ballot so that it will reach the attorneys for the Debtor before the deadline. A vote received by the attorneys for the Debtor after the deadline may not be counted.

3. Parties Bound. Whether a creditor votes on the Plan or not, such creditor will be bound by the terms and treatment set forth in the Plan, if the Plan is accepted by the requisite majorities of classes of creditors and/or is confirmed by the Court.

4. Ballots. Each creditor and party-in-interest is urged to fill in, date, sign and promptly mail the enclosed ballots. Be sure to properly complete the form and legibly identify the name of the claimant.

5. Multiple Claims. If you have a claim in more than one class, you may receive separate ballots for each claim.

1 PLEASE VOTE AND RETURN EACH OF THE BALLOTS YOU RECEIVE.  
2 SINCE MAIL DELAYS MAY OCCUR, IT IS IMPORTANT THE BALLOT OR  
3 BALLOTS BE MAILED OR DELIVERED WELL IN ADVANCE OF THE DATE  
4 SPECIFIED. ANY BALLOT RECEIVED AFTER \_\_\_\_\_ MAY NOT BE  
5 INCLUDED IN ANY CALCULATION TO DETERMINE WHETHER THE  
6 DEBTOR'S CREDITORS AND INTEREST HOLDERS HAVE VOTED TO ACCEPT  
7 OR REJECT THE PLAN.

8 **E. CONFIRMATION OF THE PLAN**

9  
10 1. Solicitation of Votes. This Disclosure Statement has been approved by  
11 the Court in accordance with 11 U.S.C. Section 1125 and is provided to each creditor  
12 whose claim has been scheduled by the Debtor or who has filed a proof of claim against  
13 the Debtor. This Disclosure Statement is intended to assist creditors in evaluating the  
14 Plan and in determining whether to accept the Plan. Under the Bankruptcy Code, your  
15 vote for acceptance or rejection may not be solicited unless you receive a copy of this  
16 Disclosure Statement prior to or concurrently with such solicitation. The solicitation of  
17 votes on the Plan is governed by the provisions of 11 U.S.C. Section 1125(b), the  
18 violation of which may result in sanctions by the Court, including disallowance of the  
19 solicited vote.

20 2. Persons Entitled to Vote on the Plan. A creditor, in order to vote on the  
21 Plan, must have either filed a Proof of Claim with the Court or been scheduled by the  
22 Debtor as not being disputed, contingent or unliquidated. Any creditor scheduled as not  
23 being disputed, contingent, or unliquidated is, to the amount listed in the schedules,  
24 deemed to have filed a Proof of Claim, and, absent an objection to the claim, such claim  
25 is deemed allowed. However, only the votes of claimants that are impaired under the  
26 Plan are counted in connection with confirmation of the Plan. Pursuant to the  
27 provisions of 11 U.S.C. Section 1124, a claimant is deemed to be impaired under the  
28 Plan unless the legal and contractual rights of the claimants are left unaltered.  
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1 3. Hearing on Confirmation of the Plan. The Court will hold a hearing to  
2 determine whether or not the Plan should be confirmed on \_\_\_\_\_, 201\_\_ at  
3 \_\_\_\_\_ at the United States Bankruptcy Court, 230 N. 1<sup>st</sup> Avenue, Courtroom 701,  
4 Phoenix, Arizona. You may attend that hearing and present to the Court your  
5 arguments in favor of or in opposition to the confirmation of the Plan.

6 4. Acceptances Necessary to Confirm Plan. At the scheduled confirmation  
7 hearing, the Bankruptcy Court must determine, among other things, whether the Plan  
8 has been accepted by each “impaired” class (e.g., a claim that will not be paid in full or  
9 payment other than as contracted upon final confirmation or an interest that is adversely  
10 affected, is considered impaired). Under 11 U.S.C. Section 1126, an impaired class is  
11 deemed to have accepted the Plan if at least two thirds in amount and more than one  
12 half in numbers of claims of class members who have voted to accept or reject the Plan  
13 have voted for acceptance of the Plan. A class of interest holders is deemed to have  
14 accepted the Plan if two thirds of the amount of the allowed interests are voted in favor  
15 of the Plan.

16 5. Confirmation of Plan Without Necessary Acceptances – Cramdown.  
17 The Plan may be confirmed if it is not accepted by all of the impaired classes, if the  
18 Court finds that the Plan does not discriminate unfairly against, and is fair and equitable  
19 to, such non-accepting class or classes. This provision is set forth in 11 U.S.C. Section  
20 1129(b), The Debtor may choose to rely upon this provision to seek confirmation of the  
21 Plan if it is not accepted by all impaired classes of creditors.

## 22 **ARTICLE II**

### 23 **BRIEF SUMMARY OF THE PLAN**

24 The Debtor is in the business of investing in cash flowing business  
25 opportunities. Currently the Debtor is operating oil and gas assets in the hopes of  
26 generating the necessary cash flow to continue operations and pay its creditors. In  
27 addition, the Debtor intends to sell strategic assets, pursue causes of action, collect upon  
28 unpaid working interest receivables, pursue voidable transactions and such other  
29 activities as necessary to properly administer the estate.

1 After reviewing its financial condition and the prevailing economic conditions  
2 the Debtor believes it is in the best interest of itself and its creditors to reorganize  
3 pursuant to the provisions of Chapter 11 of the Code. Based upon such belief the Debtor  
4 has proposed a Plan that will treat its creditors and interest holders as follows:

5 Administrative and other Priority Claimants will be paid on the Effective Date  
6 of the Plan unless all or any of them agree to an alternate payment plan and are therefore  
7 not impaired under the Plan. It is Debtors opinion that there are no secured claims,  
8 however to the extent that any such creditor can prove the validity of its secured position,  
9 such creditor shall receive payment of the allowed amount in 36 or 94 equal monthly  
10 installments, bearing no interest, in the allowed amount of such claim with payments  
11 commencing on the first day of the month after a non appealed order by a court of  
12 competent jurisdiction determining that the validity of the secured claim. Non Priority  
13 Unsecured creditors will receive the full amount of their allowed claims over 94 months  
14 with payments commencing on the 1<sup>st</sup> day of the month after the Effective Date except  
15 for Debenture Holders who will receive the allowed amount of their claims without  
16 interest in 120 equal monthly payments commencing on the first day of the month after  
17 the Effective Date of the Plan. Interest Holders shall retain their interest in the Debtor,  
18 however they will not be entitled to any dividends until all Classes of Creditors have been  
19 paid in full in accordance with the terms of the confirmed Plan of Reorganization.

20 THE FOREGOING DISCUSSION IS ONLY A BRIEF SUMMARY OF THE  
21 PLAN AND ALL PARTIES SHOULD REVIEW THE FULL TEXT OF THE PLAN.

22 **ARTICLE III**  
23 **HISTORY AND ORGANIZATION OF THE DEBTOR**

24 1. History of the Debtor

25 Core Resource Management, Inc. (“Debtor “) was incorporated in Nevada on the  
26 17th day of February, 1999. The original company name was Apex Sports.com, Inc. and  
27 then after through several name changes the company became, Direct Pet Health  
28 Holdings, Inc. On September 20, 2012, Direct Pet Health Holdings, Inc. then merged  
29



1 with Clark Scott LLC with the resulting corporation was named Core Resource  
2 Management, Inc being the surviving entity. Since its inception, the Debtor has been  
3 involved in the business of investing in cash flow positive opportunities. Upon  
4 completion of this process, approximately, \$5 million were raised for what was a startup  
5 oil and gas company with no assets. The primary use case for the invested funds was to  
6 purchase royalties and working interest of existing oil and gas wells.

7 The first \$4 million was raised by selling stock in the Debtor at \$2 share in late  
8 2012 to mid-2013. In mid-2013, the company conducted two private offerings, a 4-year  
9 convertible note that offered the investor 7% return annually and the second offering was  
10 a 5-year convertible note that offered investors 8% return annually. The premise was by  
11 investing only in royalty interest; investors in the Debtor would not be subjected to the  
12 operational expenses normally associated with the ownership of gas and oil wells, thus  
13 reducing the risk of financial loss to the Debtor and its investors.

14 Accordingly, the Debtor, as of 9/20/2012, was involved only in the acquisition of  
15 existing oil and gas production income by partnering with established oil and gas  
16 operators in Texas and the Southwest. Further, the Debtor itself did not engage in  
17 exploration for the establishment of new oil and gas wells, however, the Debtor did  
18 acquire positions of up to 50% in current oil and gas production from wells with  
19 established operators, seeking from time to time, sell a percentage of their existing  
20 production in order to recycle their capital into new leases and wells.

21 The board at the end of the 2013 included James D. Clark, Dennis Orsi, John  
22 Danan, Ed Butowsky, and Dennis W. Miller. Chairman of the Board and CEO was  
23 William Brown Glenn. The key issue during this period was lack of financial statements  
24 and a professional CFO to manage the company financially.

25 On March 30, 2014, there was a change in overall management of the Debtor  
26 including James Clark assuming the role of CEO and several new board members. The  
27 group that assisted Clark in this change asked Mr. Glenn for his resignation and those  
28 board members still loyal to him. Those included Orsi, Danan and Butowsky. The Debtor  
29 was relocated to Phoenix, Arizona. Company continued to raise capital including another  
\$2 million raised after the company was relocated to Arizona. Phil Nucoila assumed the

1 Chairman of the Board position. The other board members included Alex Campbell,  
2 Dennis W. Miller, James D. Clark and Jeff Tregaskas.

3 In the fall of 2014, the Debtor began reviewing a merger with Nitro Petroleum  
4 Inc. The merger was conceived at a time when crude oil prices where over \$100 per  
5 barrel but by the time the merger was completed, oil prices had drop to historic lows of  
6 around \$30 per barrel. The concept of the merger was to leverage the value of Company  
7 stock to the acquire Proven Oil Reserves owned by Nitro and then leverage the reserves  
8 to acquire producing oil and gas properties. In early 2014, finance companies were using  
9 proven reserves as security for lending opportunities. However, by the end of 2014 the  
10 industry was in crisis and finance companies were no longer valuing proven reserves as  
11 collateral. The Debtor was also forced to into operating wells which not part of our  
12 business model. In January 1, 2015, James Clark abandoned the company and  
13 disappeared for two months, also cash flow dictated drastic pay cuts for executives. Many  
14 of the other executives soon left the company.

15 The Debtor, effective January 1, 2015, further merged with Nitro Petroleum, Inc.,  
16 to become an oil and gas operator owning more than 50% in a number of wells based in  
17 Oklahoma.

18 In March 2015, the largest creditors assumed responsibility for the management of  
19 the company. Dennis Miller (second largest creditor) was appointed as CEO with Jeff  
20 Tregaskas (a shareholder) as CFO and shortly after Alex Campbell (the largest creditor)  
21 was appointed Chairman of the Board. The remaining employees started to attempt to  
22 find a way through the worst oil crisis in decades. We were also thrown many  
23 unnecessary challenges by unscrupulous accountants, lawyers, investors, vendors and  
24 many others.

25 In June of 2016, Company was forced to file for bankruptcy protection primarily  
26 due to low crude oil prices and Mechanics liens placed against well assets that prevented  
27 the company from receiving the proceeds from the sale of oil produced from its wells.  
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2. Events leading to the Chapter 11 Filing.

One of the events leading to the bankruptcy is the merger which was conceived at a time when crude oil prices were over \$100 per barrel but by the time the merger was completed, oil prices had dropped to historic lows of around \$30 per barrel.

The concept of the merger was to leverage the value of Company stock to acquire Proven Oil Reserves and then leverage the reserves to acquire producing oil and gas properties. The importance of this information is that the wells acquired were not intended to be large producing and profitable wells as the initial strategy was a means to an end. This group of wells did not make a profit for Nitro in 2014 when oil prices averaged over \$90 per barrel. Gas prices also reached a historic low at the same time crude oil prices were down. The Debtor was also forced into operating wells which were not part of our business model. The Debtor was forced to file for bankruptcy protection in a large part due to the collection efforts by the professionals hired by previous management. These professionals include: Goldman Legal Services, Now CFO and Chapman Hext. Vendors: Electric Services Company, Kay Productions Company and dba Perkins Productions, Cone Tools and all of the other oil field services vendors from prior to the merger which are disputed.

In addition to the above issues, the Debtor incurred significant repair expenses leading up to the Debtor's filing for Bankruptcy Protection under Chapter 11.

These expenses include but are not limited to Mr. John Stovall of Crush Minerals, the Project Engineer, who incurred significant expenses on the Giant Lease repairs originally started in January of 2016. These repairs were originally estimated at \$15,000, however, actual costs exceeded \$30,000. Further the Quinlan Lease repairs were budgeted at approximately \$125,000. The actual cost exceeded the estimate by \$50,000. These repairs and costs impacted the Debtor's cash flow these wells represent roughly 60% of the Debtor's revenue.

For these reasons it was apparent to the Debtor that it was necessary to seek the protection of Chapter 11 of the Code in order to allow the Debtor to reorganize.

1           3. Events Subsequent to Filing this Case.

2           A. SCHEDULING MEETING OF CREDITORS. On June 13, 2016 the Meeting  
3 of Creditors was scheduled for July 19, 2016 at the U.S. Trustee Meeting Room, 230 N.  
4 First Ave, Suite 102, Phoenix, Arizona. For various reasons the Meeting of Creditors was  
5 continued several times and was concluded on August 25, 2016.

6           B. FILING SCHEDULES AND STATEMENT OF AFFAIRS. On June 28, 2016  
7 the Debtor filed its Motion to Extend Time to File Schedules and Statement of Affairs  
8 which Motion was granted by the Court on June 30, 2016. On August 19, 2016 the  
9 Debtor filed an amendment to its original Petition to Indicate That Debtor's Aggregate  
10 Noncontingent, Liquidated Debts Owed to Non Insiders or Affiliates Is In Excess of  
11 \$2,566,050; Amendments to Schedules A, B, C, G, H, and I; Amendments to the  
12 Statement of Financial Affairs; Amendments to the List of Equity Security Holders; and  
13 Amendments to Schedules D, E and F.

14           C. EMERGENCY MOTION RE CASH COLLATERAL. On June 30, 2016, the  
15 Debtor filed an Emergency Motion Authorizing the Use of Cash Collateral and  
16 Determining the Sufficiency of Adequate Protection. This Motion was coupled with a  
17 Motion for an Expedited Hearing. The Court granted the Motion for Expedited Hearing  
18 on the Motion. A Limited Objection was filed by Goldman Advisors, LLC. The Hearing  
19 was held on July 5, 2016 at which an Interim order was granted and a determination of  
20 adequate protection was reached. It was also determined that the adequate protection  
21 funds would not be paid to the creditor prior to a hearing proving the secured status of  
22 such creditor. The Debtor was ordered to sequester \$2000 per month until the rights of  
23 the secured creditor were determined. A Final Order was entered on August 3, 2016  
24 authorizing the Debtor to use cash collateral, to file budgets and to set aside in a  
25 sequestered account \$2,000 per month as adequate protection in the event the secured  
26 creditor could prove its right to the secured creditor status. On August 15, 2016 the  
27 Official Creditors Committee filed a Motion for Reconsideration (1) if Final Order (A)  
28 Authorizing the Use of Cash Collateral; and (B) Determining Sufficiency of Adequate  
29 Protection; (2) Declaration that Property is not Cash Collateral; and (3) Demand for  
Turnover of Estate Property. Goldman Advisors responded the Motion on September 22,

1 2016. The Official Creditors filed its Reply to the Goldman Advisors Motion on October  
2 6, 2016.

3 D. APPOINTMENT OF CREDITORS COMMITTEE. On July 15, 2016 the  
4 Appointment of the Official Creditors Committee was filed by the U.S. Trustee.

5 E. MOTION TO CONVERT OR DISMISS. On July 27, 2016 the U.S. Trustee  
6 filed a Motion to Convert or Dismiss the Chapter 11 Case filed by the Debtor which was  
7 coupled with a Motion to Expedite the hearing of said Motion. The Court granted the  
8 Motion to Expedite the Hearing. The expedited hearing was set for August 3, 2016 with  
9 Objections and Responses due by August 2, 2016. Debtor filed its Response and  
10 Objection to the Motion and Goldman Advisors, LLC filed its Statement of Position  
11 regarding the Motion. At the August 3<sup>rd</sup> hearing it was determined that the major issue  
12 was whether the wells and equipment were insured. The Court expressed its  
13 disappointment regarding the insurance issue not having been resolved to date and  
14 Ordered that August 17, 2016 was the drop dead date for cutting the check for the  
15 insurance and that the hearing would be continued to August 16<sup>th</sup>. At the hearing on the  
16 16<sup>th</sup> Patty Chan of the US Trustee's Office informed the court that she had received  
17 copies of insurance, proofs of insurance and attempts of getting insurance and that she  
18 was somewhat satisfied. The issue is that it is under Nitro, a companion case that is  
19 under Nitro Petroleum, Inc., a wholly owned subsidiary of the Debtor, presently before  
20 Judge Whinery. Ms. Chan also reported that a motion for joint administration is pending  
21 and pointed out items in the schedules and statement of affairs that needed attention and  
22 requested a 30 day continuance of the motion. The court heard the position of Goldman  
23 Advisors and the Debtor. The Court granted the 30 day extension, directed the Debtor's  
24 counsel to address the U.S. Trustee's concerns and set a continued hearing for September  
25 15, 2016. In addition the Court directed Counsel for the Debtor to file a request for an  
26 extension and the court would enter an order in due course. At the September 15<sup>th</sup> hearing  
27 Ms. Chan reported that the insurance was in place in Nitro Petroleum's name and she  
28 requested another 30 day continuance of the Motion. The issue of whether there should  
29 be a substantive consolidation of Nitro Petroleum and the Debtor was raised as well as  
the need to notify shareholders of the pending chapter 11. The Court expressed its

1 concerns regarding an expedited hearing on substantive consolidation as well as Debtor  
2 making sure that everyone receives notice, including the shareholders. Although  
3 Goldman Advisors wanted to set a deadline for the filing of a plan and said it would  
4 oppose an extension of the time for exclusivity the court refused to set such deadline and  
5 did not preclude the Debtor from requesting an extension of the time for exclusivity. The  
6 Court also continued the hearing to October 13, 2016 at 1:00 p.m.

7 F. APPOINTMENT OF DEBTOR'S COUNSEL. On August 3, 2016 the Debtor  
8 filed its Application Pursuant To Section 327(a) of the Bankruptcy Code For  
9 Authorization To Employ And Retain Hauf Law, P.LC As Attorneys For The Debtors  
10 Nunc Pro Tunc To The Petition Date together with a Proposed Order. On August 8, 2016  
11 the order was entered appointing the Hauf Law firm as general counsel for the Debtor.  
12 The issue of whether such appointment will be Nunc Pro Tunc to the Petition date is still  
13 to be determined by the Court.

14 G. APPOINTMENT OF COUNSEL FOR CREDITORS COMMITTEE. On  
15 August 4, 2016 the Official Creditors Committee filed its Application to have the law  
16 firm of Dickinson Wright PLLC as its counsel together with a proposed order making  
17 such appointment and affidavits from Dickinson Wright as provided in FRBP 2014 and  
18 2016. The Court granted the appointment in its Order entered on August 10, 2016.

19 H. MOTION TO CONSOLIDATE. On August 16, 2016 Debtor file its Motion to  
20 Consolidate for Administration its Chapter 11 case with the Chapter 11 case of Nitro  
21 Petroleum Inc., its wholly owned subsidiary which was filed on July 20, 2016, has been  
22 given the case number 2:16-bk-08288 and was originally assigned to Judge Whinery.  
23 The Debtor filed a proposed order Authorizing and Directing (1) Joint Administration;  
24 and (2) Transfer and Assignment of Cases to One Judge which was granted on August 17,  
25 2016.

26 I. APPOINTMENT OF SPECIAL COUNSEL. On September 14, 2016, the  
27 Debtor filed its Application to Employ C. Eric Shephard as Special Counsel together with  
28 a proposed order.

29 J. NOTICE RE MECHANICS AND MATERIALS LIEN. On September 14,  
2016, Goldman Advisors filed a Notice Pursuant to 11 U.S. § 546(b) As To Maintenance,

Continuation and Perfection of Oil and Gas Mechanics and Materialman's Lien. The Official Creditor's Committee filed a Reservation of Objection on September 29, 2016.

K. MOTION TO DISMISS NITRO PETROLEUM CASE. On September 30, 2016 the Official Creditors Committee and Debtor filed a Joint Motion to Dismiss the Bankruptcy Case of Nitro Petroleum Only. An accelerated hearing was requested on October 3, 2016 and was granted by the Court on October 3, 2016 for hearing on October 13, 2016.

L. OFFICIAL CREDITORS COMMITTEE MOTION TO APPOINT A CHAPTER 11 TRUSTEE. On September 30, 2016 the Official Creditors Committee filed its Motion to Appoint a Chapter 11 Trustee. It also filed a Motion for Expedited Hearing which was granted by the Court and scheduled for October 13, 2013 at 1:p.m. Debtor filed its objection to such appointment on October 12, 2013.

M. FILING OF PLAN AND DISCLOSURE STATEMENT. Debtor filed its Plan of Reorganization and Disclosure Statement on October 12, 2016.

#### ARTICLE IV

#### CLASSIFICATION OF CLAIMS AND INTERESTS

The Plan provides for the separate classification of all claims against and interests as follows.

##### 1. Priority Claims

Section 507 of the Bankruptcy Code identifies certain types of Claims entitled to payment with priority over all other unsecured claims. Certain of the priority claims must be paid in full on the Effective Date of the Plan, pursuant to section 1129(a)(9)(A) and (B) of the Bankruptcy Code, or consent to an alternative payment schedule, in order for a plan to be confirmed. The Plan defines the following classes of such claims and provides for the manner of payment.

Class 1A – Administrative Expenses Fees and Charges Specified in Section 507(a)(1) and Section 507 (a)(2)

Class 1B – Allowed Claims Entitled to Priority under Section 507(a)(3)(4)(5)(6) and (7)

1 Class 1C – Allowed Claims Entitled to Priority under Section 507(a)(8)  
2 Class 2A – Disputed Secured Claim of Goldman Advisors.  
3 Class 2B – Disputed Secured Claim of Electric Service Company  
4 Class 2C – Disputed Secured Claims Relating to Loans  
5 Class 2D – Disputed Secured Claims Relating to Repurchase Agreement  
6 Class 3A – Trade Vendors-Critical  
7 Class 3B – Non Priority Unsecured Creditors  
8 Class 3C – Debenture Holders  
9 Class 4A – Allowed Claim of Interest Holder

## 10 ARTICLE V

### 11 TREATMENT OF ALLOWED CLAIMS

#### 12 1. Class 1A Administrative Claims

13 The Plan classifies all administrative Claims and expenses allowable under  
14 §503(b) and entitled to priority under §507(a)(1) and a(2) as Class 1A Administrative  
15 Claims, as defined in §503 of the Code. These claims consist of the actual, necessary  
16 costs and expenses of preserving the Estate, including taxes incurred, salaries or  
17 commissions for services rendered after the commencement of the case, fees of  
18 professionals employed by Debtor, and fees and charges assessed against the Estate under  
19 Chapter 123 of Title 28 of the United States Code.

20 Under §1129(a)(9)(A), Administrative Claims must be paid in full on the  
21 Effective Date in order for a Plan to be confirmed. The Plan complies with this  
22 requirement by providing that Class 1A Claims will be paid in full on the Effective Date  
23 of the Plan, or upon allowance, whichever occurs first, except to the extent a holder of an  
24 administrative Claim otherwise agrees. Debtors anticipate that the following  
25 administrative expenses will accrue during these proceedings and will be payable on the  
26 Effective Date of the Plan.

#### 27 a. Professional Fees:

28 The Bankruptcy Code requires that fees and expenses of attorneys and other  
29 professionals are subject to Court approval under §330 of the Bankruptcy Code.



1 Accordingly, the Plan provides that the fees of such professionals shall not be paid until  
2 final orders of the Bankruptcy Court have been entered approving and authorizing  
3 payment of such fees. Debtors anticipate that these fees will aggregate approximately  
4 \$250,000 through these proceedings, including the fees of Debtors' counsel, Debtor's  
5 Special Counsel and the Official Creditors Committee Counsel.

6 b. Vendor Payments:

7 As of the date of this Disclosure Statement there are payments which must be  
8 paid to Vendors in the amount of \$8,158.13.

9 Because the Plan provides for payment in full of Class 1A Claims as of the  
10 Effective Date, except to the extent that any such creditor agrees to an alternate pay plan  
11 the Class 1A Claims are not impaired.

12 2. Class 1B. Wage Claims

13 The Plan classifies Claims for wages entitled to priority under §507(a)(3) as  
14 Class 1B Claims. Such Claims include Claims for wages, salaries, and commissions,  
15 including severance, sick pay and vacation leave, to the extent the Claims were incurred  
16 within the 90-day period immediately prior to the bankruptcy filing. The amount of each  
17 such Claim entitled to priority is limited to \$4650 per Claimant. Claims for wages  
18 outside the 90 day period or in excess of the dollar amount limitation are classified as  
19 non-priority Unsecured Claims and will receive the treatment provided such creditors.

20 Debtor does not believe that any such claims exist. To the extent there are  
21 any such claims they will be paid on the Effective Date of the Plan and are therefore not  
22 impaired.

23 3. Class 1C. Allowed Claims Entitled to Priority Under Section 507(a)(4)(5)(6)  
24 and (7).

25 After payment of Allowed Secured Claims and Allowed Administrative Claims  
26 specified in §507(a)(1) and §507(a)(2) of the Bankruptcy Code, Allowed Claims  
27 entitled to priority under Sections 507(a), (4), (5),(6) and (7) of the Bankruptcy Code, if  
28 any, shall be paid in full and in cash on the Effective Date. The Debtor does not  
29 believe there are any Class 1C Claims. To the extent there are any such claims they will  
be paid on the Effective Date of the Plan and are therefore not impaired.

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4. Class 1D. Tax Claims

The Plan classifies Claims for taxes entitled to priority under §507(a)(8) as Class 1D Claims. Under Section 1129(a)(9)(C), Claims for taxes entitled to priority must be paid the total value, as of the Effective Date of the Plan, equal to the allowed amount of such claim, in regular installments over a period ending not later than 5 years after the date of the order for relief. Debtor does not believe that any taxes are owed however to the extent any such taxes are determined to be owed it shall pay as provided in the Code.

Because the Plan provides for payment in full of Class 1D Claims and complies with the requirements of §1129(a)(9)(C), holders of Class 1 Claims, if any, are not an impaired class.

5. Class 2A – Disputed Secured Claim of Goldman Advisers. Debtor disputes this Secured Claim, however, to the extent than Goldman Advisers can prove its secured status by a court of competent jurisdiction, Debtor shall pay the Allowed Amount of such claim in 36 equal monthly installments, without interest, commencing the first day of the month following a non appealable order by such court of competent jurisdiction.

6. Class 2B – Disputed Secured Claim of Electric Service Company. Debtor disputes this Secured Claim, however, to the extent that Electric Service Company can prove its secured status by a court of competent jurisdiction, Debtor shall pay the Allowed Amount of such claim in 36 equal monthly installments, without interest, commencing the first day of the month following a non appealable order by such court of competent jurisdiction.

7. Class 2C – Disputed Secured Claims Relating To Notes. Debtor agrees that Secured Notes were issued to Creditors Alex Campbell, Dennis Miller and Phil, Alex and Dr. Roy but dispute the perfection of such Security Interest. If the Notes are deemed to be secured notes by a court of competent jurisdiction they will retain their liens against the assets described in the security agreement. Debtor agrees to pay the Allowed Amount of their respective claims in 94 equal monthly payments, without interest, commencing the first day of the month following the Effective Date of the Plan.

8. Class 2D – Disputed Secured Claims Relating To Stock Repurchase Agreement. Debtor agrees that the Notes issued to Mr. Kestner and Ms. Corea were

1 secured by assets of the Debtor but dispute the perfection of such Security Interest. If the  
2 Notes are deemed to be secured by a court of competent jurisdiction they will retain their  
3 liens against the assets described in the security agreement. Debtor agrees to pay the  
4 Allowed Amount of their respective claims in 94 equal monthly payments, without  
5 interest, commencing the first day of the month following the Effective Date of the Plan.

6 9. Class 3A – Trade Vendors-Critical. Debtor has certain Vendors whose services  
7 and materials are necessary for its continued operation. These critical vendors whose  
8 claims amount to approximately \$90,000 will in all likelihood continue to cooperate and  
9 work with the Debtor if they are paid expeditiously under the terms of the Plan. Debtor  
10 shall pay such critical vendors the Allowed Amount of their respective Claims in 36 equal  
11 monthly installments, without interest, commencing the first day of the month following  
12 the Effective Date of the Plan.

13 10. Class 3B – Non Priority Unsecured Creditors. This Class consists of the  
14 remaining unsecured creditors except for Debenture Holder. Debtor intends to pay such  
15 creditors the Allowed Amount of their respective claims in 94 equal monthly payments,  
16 without interest, commencing the first day of the month following the Effective Date of  
17 the Plan.

18 11. Class 3C – Debenture Holders. This Class consists of Debenture Holders  
19 whose claims are not yet due; however the Debtor intends to start reducing the obligation  
20 upon confirmation of the Plan. Debtor intends to pay such creditors the Allowed Amount  
21 of their respective claims in 120 equal monthly installments, without interest,  
22 commencing the first day of the month following the Effective Date of the Plan.

23 12. Class 4A – Allowed Claims of Interest Holders. The shareholders of the  
24 Debtor shall retain their Interest in the Debtor with the understanding that no dividends  
25 shall be paid until all Classes of Creditors provided for in the Plan have been paid the full  
26 Allowed Amount of their respective claims.

27 CREDITORS AND INTEREST HOLDERS ARE URGED TO READ THE  
28 PLAN IN FULL. CREDITORS AND INTEREST HOLDERS ARE FURTHER URGED  
29 TO CONSULT WITH COUNSEL IN ORDER TO FULLY UNDERSTAND THE PLAN

**ARTICLE VI**  
**POST PETITION OPERATIONS AND DEVELOPMENT AND**  
**IMPLEMENTATION OF THE PLAN**

Debtor sets forth the following concerning the Post-Petition Operations and Development of the Debtor

1. Management

Directors and Officers will consist of current management until such time as a new C.E.O and board of directors are appointed pursuant to the vote of the Debtor equity and shareholders.

2. Finances of Reorganized Entity

The Debtor is currently generating cash flow through the sale of oil as more specifically set forth below under Operations. Debtor projects that sales will increase the output over the next few months which will increase the Reorganized Debtor's cash flow from oil production to approximately \$ 1,200,000 annually. This can be accomplished as more specifically described in the discussion of Operations set forth below. In addition to the cash flow generated by the increased well production Debtor intends to sell certain assets which the maintenance of which are now burdensome to the Debtor, thereby furnishing immediate cash and reducing its operating costs.

4. Amendment to Articles of Incorporation

The Board of Directors shall make such amendments to the Articles of Incorporation as may be necessary to carry out the Plan of Reorganization.

5. Operations

Company acquired 16 oil wells according to the May 31, 2015 reserve report. These consist of six oil wells which have been producing in the past 90-days, four salt water disposal wells (SWD) of which three have repairs pending and nine other oil wells with repairs scheduled prior to October 31, 2016.

The Oklahoma Corporation Commission (OCC) has issued several orders to plug or produce on the wells that have been abandoned. To plug a well requires pulling all down-hole material out of the ground such as the pump, rods, tubing and casings. Remove all above ground equipment such as the pump jack, storage tanks, separator,

heater and all flowlines. Most importantly, if there is remediation required, approximately 10 to 20 square yards of soil three feet deep has to be removed and replaced. A standard plugging job costs around \$20,000 and remediation can cost as much as \$60,000.

See below for the current status of all wells.

Loc	Well Name	County	Actual Daily Production	Reserves	Status
1	Quinlan 1	Pottawatomie	N/A	15,764	Not Running
2	Quinlan 2	Pottawatomie	N/A	47,014	Repair Pending
3	Quinlan 3	Pottawatomie	N/A	17,974	Not Running
4	Quinlan 4 SWD	Pottawatomie	N/A	N/A	Repair Pending
5	Crown 1	Pottawatomie	N/A	N/A	Not Repairable
6	Crown 2 SWD	Pottawatomie	N/A	N/A	Not Repairable
7	Crown 3	Pottawatomie	N/A	10,205	Under Review
8	Gloria SWD	Pottawatomie	N/A	N/A	Under Review
9	Giant 1-21	Stephens	N/A	7,850	Repair Pending
10	Giant 2-21	Stephens	6	7,895	Producing
11	Branch 1	Garvin	6	8,392	Producing
12	Bromide 1	Garvin	N/A	N/A	Not Repairable
13	Fuller 2	Garvin	N/A	N/A	Not Repairable
14	Fuller 3	Garvin	1	6,073	Producing
15	Kimberly 3	Garvin	N/A	N/A	Not Repairable
16	Mason Burns 2	Garvin	N/A	10,097	Repair Pending
17	McNeil 1	Garvin	N/A	TBD	Repair Pending
18	Plummer 1	Garvin	N/A	3,859	Remediation
19	Plummer 2	Garvin	N/A	3,212	Remediation
20	Roach 1 SWD	Garvin	N/A	N/A	Repair Pending
21	Sarah	Garvin	N/A	N/A	Plugged
22	Teresa 1	Garvin	N/A	9,414	Repair Pending
23	Thompson 1-18	Garvin	6	3,628	Producing
24	Ed Thompson 2-18	Garvin	N/A	N/A	Not Repairable
25	Bobbie 1	Seminole	N/A	10,323	Repair Pending
26	Jessica 23A	Seminole	1	72,942	Producing

1 **Wells Being Repaired**

2 The following wells are listed in order as to how the Debtor intends to prioritize  
3 the repairs and maintenance of its well assets. Further, through negotiations the Debtor  
4 has arranged that the vendors needed to perform the below repairs will defer payment  
5 until such time as the wells become operable and produce oil.

6  
7 Giant Lease: The Giant 1-21 well went offline at the end of September 2015  
8 with a reported tubing leak so we have scheduled the rig to pull the tubing and the  
9 project engineer to find the leak and replace the tubing. Since the rig time is the most  
10 expensive part of the project we will also clean the pump while we have it out of the  
11 ground. The total budget is capped at \$10,000 but it's anticipated these repairs will cost  
12 less.

13 Quinlan Lease: This location has three oil wells and a salt water disposal well.  
14 The oil wells are Quinlan 1, Quinlan 2 and Quinlan 3 with Quinlan 4 as the salt water  
15 well. These wells have not produced oil since July of 2015 but we were told they ran  
16 for at least six week as of May of 2016. The entire property needs to be cleaned up and  
17 maintained. The landscaping projects will cost approximately \$5,000 for tree removal  
18 and trimming, road reconstruction including new gravel and bridge rebuild. The salt  
19 water disposal needs a new injection pump which will cost approximately \$10,000.  
20 Quinlan 2 needs an electrical controller which will cost approximately \$5,000. Quinlan  
21 1 and Quinlan 3 have had the electrical repaired and have operated just prior to October  
22 7, 2016. This lease also includes S2S poisonous gas which requires a flair and the flair  
23 needs to be repaired. These wells are capable of producing \$500,000 per year based on  
24 1,000 barrels per month.

25 A recent review of the flow lines and electrical wiring of the lease concluded the  
26 setup and past work performed on site was not done in a workman like manner and  
27 therefore the Debtor intends to object to several vendor claims thereby reducing the  
28 total pre petition debt. Those vendors include, but are not limited to, Crush Minerals,  
29

1 Kay Productions Company and the dba company Perkins Productions, Electric Service  
2 Company and Tiger Trucks.

3 Crown Lease: The lease is really one well, Crown 3, and a salt water well,  
4 Gloria. The other two wells listed in the OCC database under Nitro as the operator have  
5 not been discussed within the operations for more than 18-months and after a site visit  
6 there is no opportunity for repairs. The Debtor had been told the oil well did not work  
7 but after recently reviewing the paperwork required annually for each salt water well it  
8 was discovered the tubing leak appears to be in the salt water well and not the oil well.  
9 However, the MIT (material integrity test) conducted back in February failed but was  
10 not supervised by an OCC field representative.

11 The oil well needs new transformers for roughly \$10,000 and there is not a  
12 backup water tank which will cost approximately \$4,000 to install. Repairs to the salt  
13 water well are a minimum of \$10,000 and could cost more than \$25,000. There is also  
14 a past due balance since the bankruptcy of approximately \$5,000. On October 7, 2016,  
15 the Debtor brought in a generator to power the oil well submersible pump and a  
16 temporary water tank holding 500 barrels of water. The oil well pressured up and more  
17 than 800 barrels of water was pumped the first day. The next step is to rerun the MIT  
18 test on the Gloria salt water well with a reliable pump truck company and be overseen  
19 by the OCC field representative. It's clear the power to the oil well needs to be repaired  
20 and the salt water well working for this well to operate profitably.

21 Mason Burns and Teresa: These two wells are in close proximity within Garvin  
22 County; therefore, they will be repaired as part of one project. Both wells need pump  
23 changes also referred to as a work-over. We have pressure tested both wells and the  
24 tubing is good. We replaced fuses at the Mason Burns 2 and the flow line test also  
25 passed. Teresa 1 needed additional electrical work as an existing underground line  
26 needed repairs which were completed on or about October 3, 2016. A pump change  
27 runs about \$10,000 per well. Each well is expected to produce 5 barrels per day or 180  
28 barrels per month so the entire expense should be paid in full within 90-days.

1 Negotiations have taken place with the pump repair company and the rig company to  
2 make sure the Debtor can pay those expenses from the proceeds of the oil production.

3 McNeil 1: The McNeil well is being review by the OCC and additional  
4 remediation repairs may be required. As of October 7, 2016, a propane tank is required  
5 to attempt to turn the well on and to troubleshoot the well for other mechanical related  
6 issues. The pump for this well is gas operated and normally is powered by the gas  
7 produced from the well itself. However, with the well not being turned for at least 18-  
8 months, Debtor needs propane to help power up the pump. The Debtor has ordered a  
9 propane tank and a more thorough evaluation of the well is pending. Expectations are  
10 that this well will produce approximately 200 barrels per month.

11  
12 Bobbie 1: During a site visit around the end of September of 2016, it was  
13 discovered a large tree had fallen over the road leading to the well. Further, during the  
14 evaluation and setup of the online access to OG&E's electric bills we were informed the  
15 meter had been removed due to the meter base not functioning. The tree has been  
16 cleared and a dirt road partially reconstructed. The landowner reports this well has not  
17 operated in sometime but our pumper reported to management the well operated in  
18 2015. The Debtor was able to pick up approximately 40 barrels of oil for sale which  
19 was left over from the last time it operated.

20  
21 Roach 1 SWD: Filed its MIT test in July of 2016. The test was ordered by the  
22 OCC and now that the well failed this test there is an order to plug or produce the well.  
23 This disposal well currently provides service for the Branch 1 and the Fuller 3 oil wells.  
24 These two wells were turned on after being off for approximately 18-months. The oil  
25 wells have produced enough oil to justify repairing the disposal well and the hauling  
26 cost for the salt water from the backup tanks of approximately \$5,000 per month which  
27 is equal to or slightly less than the oil production. The estimated cost of repairs is  
28 \$10,000.  
29



1 **Wells with Orders from the OCC to Plug or Produce**

2 Plummer 1 & 2: Both have significant remediation concerns and therefore each  
3 well has approximately \$60,000 in cost to clean up the soil damage. Previous written  
4 estimates are approximately \$250,000 each to rework each well including both above  
5 ground and down-hole repairs. These two wells are projected to produce one barrel per  
6 day and therefore based on \$40 per barrel the Debtor can anticipate three loads per year  
7 for a total of \$15,000.

8 Debtor had negotiated with the land owner to transfer ownership for a fee prior  
9 to the bankruptcy and Debtor intends to file a motion with the bankruptcy court to  
10 approve this transfer.

11 Ed Thompson 2-18: The OCC has an order to plug this well. The landowner has  
12 surrounded the well area with large hay barrels and has been requested to remove them  
13 so we can plug this well.

14  
15 Kimberly 3: The OCC has an order to plug this well. This well was reworked  
16 many years ago to be a gas producing well and then abandoned. This well cannot  
17 affordably be reopened.

18  
19 Barring any unforeseen issues these additional revenues puts the Debtor back on  
20 solid footing to pay operational costs and fund the Plan. Additionally, the Debtor will  
21 retain the services of the necessary professionals, including geologists and appraisers, in  
22 order to assess the current value of the Debtor's well assets and further determine if any  
23 additional reserves exist.

1 **Total Monthly Projected Well Production**

2

Well	Price	Barrels	Estimate
3 Fuller 3	\$ 50.00	50	\$ 2,500
4 Bobbie	\$ 50.00	100	\$ 5,000
5 Jessica 23A	\$ 50.00	100	\$ 5,000
6 Branch 1	\$ 50.00	180	\$ 9,000
7 Giant 1	\$ 50.00	180	\$ 9,000
8 Giant 2	\$ 50.00	180	\$ 9,000
9 Mason Burns	\$ 50.00	180	\$ 9,000
10 Theresa 1	\$ 50.00	180	\$ 9,000
11 Thompson 1-18	\$ 50.00	180	\$ 9,000
12 McNeil	\$ 50.00	200	\$ 10,000
13 Crown 3	\$ 50.00	300	\$ 15,000
14 Quinlan Lease	\$ 50.00	300	\$ 15,000
15 <b>Total</b>		<b>2,130</b>	<b>\$ 106,500</b>
16 <b>Annual Projection</b>		<b>25,560</b>	<b>\$ 1,278,000</b>

15 **ARTICLE VII**

16 **SATISFACTION OF CLAIMS**

17 1. Satisfaction of Claims:

18 All Creditors, Equity Security Holders and other parties in interest who have or  
19 assert Claims in any class shall, upon Confirmation of the Plan, be deemed to have  
20 acknowledged that their respective Claims are fully satisfied by the distribution provided  
21 herein, each of which Claims, whether known or unknown, scheduled or unscheduled,  
22 filed or unfiled, asserted or assertable, is declared and shall be, for all purposes, upon the  
23 entry of the Order confirming the Plan, satisfied in full.

24 **ARTICLE VIII**

25 **UNEXPIRED LEASES AND EXECUTORY CONTRACTS**

26 1. Assumption: All leases, wherein the Debtor is the lessee and not  
27 otherwise rejected or assumed, are hereby assumed, however, the assumption of such  
28  
29

1 leases shall not act as a bar to the assertion by the Debtor of a breach of any such lease by  
2 the lessor.

3 2. Cure of Defaults: Upon Confirmation, the Court shall provide that any  
4 contract assumed pursuant to this Article VII or previously assumed pursuant to Section  
5 365 of the Code, will be in force upon cure of any defaults requiring cure under Section  
6 365 of the Code.

7 3. Claims After Rejection: Any Creditor who wishes to assert a Claim due  
8 to the rejection of any executory contract or unexpired lease must file said Claim with the  
9 Court within thirty (30) days after Confirmation.

## 10 **ARTICLE IX**

### 11 **PRESERVATION OF BANKRUPTCY CAUSES OF ACTION**

12 Any and all causes of action which the Debtor may have or which may arise  
13 under any of the provisions of the Code or which may be enforceable under any of the  
14 provisions of the Code or any other law or statute, shall be preserved and this Court  
15 shall retain jurisdiction to dispose of such causes of action. All such causes of action  
16 shall belong to the Debtor as a part of the assets retained by him.

## 17 **ARTICLE X**

### 18 **GENERAL PROVISIONS**

19 1. No Additional Charges Except as expressly stated in the Plan, or as  
20 allowed by Court Order, no interest, penalty, late charge or additional charges (such as  
21 attorney's fees) shall be allowed on any Claim subsequent to the Filing Date.

22 2. Remedies to Cure Defects After Confirmation, the Debtors may, with  
23 the approval of the Court, and so long as it does not materially or adversely affect the  
24 interest of Creditors, remedy any defect or omission, or reconcile any inconsistencies in  
25 the Plan, or in the Confirmation of the Plan, in such a manner as may be necessary to  
26 carry out the purpose and the intent of the Plan.

27 3. Discharge Nothing in the Plan shall be deemed to waive, limit or  
28 restrict in any way the discharge granted upon Confirmation of the Plan in Section 1141  
29

1 of the Code. Except as otherwise provided in the Plan or in the Order confirming the  
2 Plan, such Confirmation Order acts as of the Effective Date, as a discharge of any and  
3 all debts of the Debtor that arose at any time before the entry of the Confirmation Order,  
4 including, but not limited to, all principal and any and all interest accrued thereon,  
5 pursuant to Section 1141(d)(1) of the Code. The discharge of the Debtor shall be  
6 effective as to each Claim, regardless of whether a proof of claim thereof was filed,  
7 whether the Claim is an Allowed Claim or whether the holder thereof votes to accept  
8 the Plan.

9 4. Release of Liens and Interests. Unless otherwise provided in the Plan or  
10 in the Order confirming the Plan, all creditors possessing Allowed Secured Claims shall  
11 retain their liens on any of their collateral the Reorganized Debtor acquires as the result  
12 of confirmation of the Plan to secure payment of all cash or other property to be  
13 distributed to them on account of those liens pursuant to the terms of the Plan. Such  
14 liens on the Reorganized Debtor's property shall be deemed relinquished and  
15 reconveyed to the Reorganized Debtor upon the payment to the holders of such liens of  
16 all money or property due them in satisfaction of their Allowed Secured Claims  
17 according to the terms of the Plan.

18 5. Stay and Enforcement of the Plan. The automatic stay of § 362(a) of the  
19 Bankruptcy Code shall terminate when all orders necessary to the confirmation of the  
20 Plan become Final Orders. Although confirmation of the Plan may not discharge the  
21 Debtor pursuant to Section 1141 of the Bankruptcy Code, the Reorganized Debtor in  
22 only assuming the obligations set forth in this Plan in the amounts so specified herein  
23 and the Reorganized Debtor is only obligated and liable to make payment of such  
24 amounts in the manner set forth by and pursuant to the terms of the Plan. The  
25 Reorganized Debtor is not liable to any holders of Allowed Claims and Allowed  
26 Interests except as specifically provided for by the terms of the Plan when confirmed by  
27 Order of the Bankruptcy Court. If and only if the Reorganized Debtor fails to comply  
28 with the provisions of the Plan, the Holders of Claims in any class may proceed against  
29 the Reorganized Debtor and its property in order to enforce the Plan under Federal or  
State Law, in Bankruptcy Court, or any other Court of competent jurisdiction, and in the

1 case of Secured Creditors in accordance with any applicable and existing mortgage,  
2 deed of trust, security agreement, or other lien instrument.

3 6. Disputed Claims and Appeals. Where timely objections are made to any  
4 Claim in any Class, to any Priority Claim, or to any Claim for administrative expenses,  
5 or any motions or proceedings are filed in regard to any lien, claim or privilege, any  
6 cash payments due such Claimant shall be held by the Reorganized Debtor in a  
7 separately segregated interest bearing bank account, subject to the Bankruptcy Court's  
8 jurisdiction. For purposes of distribution to creditors, calculations shall be made as if a  
9 Disputed Claim becomes an Allowed Claim. Distributions shall be made to the holder  
10 of such claim to the extent such distributions have already been made to Holders of  
11 Allowed Claims generally, if the objection to the Claim is overruled and the Disputed  
12 Claim becomes an Allowed Claim.

13 7. Tax Considerations. The Debtor does not know of and shall not make  
14 any representations about any possible tax consequences that may affect creditors.  
15 Federal income tax consequences may result to particular creditors. Certain types of  
16 creditors may be subject to special rules that cannot be addressed herein. There may  
17 also be state, local or foreign tax considerations applicable to each creditor.

18 EACH CREDITOR IS URGED TO CONSULT HIS OR HER OWN TAX  
19 ADVISOR AS TO THE CONSEQUENCES OF THE PLAN FOR HIM, HER OR IT  
20 UNDER FEDERAL, STATE AND LOCAL TAX LAW.

21 8. Headings: Paragraph headings have been inserted in the Plan for the  
22 convenience of the reader. Such headings shall not serve in any way to limit or modify  
23 the provisions of the paragraph.  
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**ARTICLE XI**

**EXHIBITS**

A – Plan of Reorganization

**ARTICLE XII**

**JURISDICTION OF THE COURT**

1. Reinvestment of Title and Retention of Jurisdiction: On Confirmation, the Debtor shall be reinvested with its assets, subject only to the terms of the Plan and the liens of the Secured Creditors described herein. The Debtor shall be entitled to manage its affairs, subject to the limitations set forth herein, without further order of the Court. Subject to such limitations, the Court will retain jurisdiction until the Plan has been fully consummated for certain purposes, including, but not limited to:

2. The Classification of a Claim of any Creditor, the re-examination of any Claim which has been allowed for the purposes of voting and the determination of such objections as may be filed to any Claim: The failure by the Debtor to object to or to examine any Claim for the purposes of voting, shall not be deemed a waiver of the Debtor's right to object to or reexamine the Claim in whole or in part. If a Creditor does not file a Claim in these proceedings, the Debtor may object to the amount scheduled as owing to that Creditor, in whole or in part. If any objection to a Claim is filed, no payment will be made with respect to such Claim until a determination on such objection has been made by the Court.

3. Disputed Claims; Objections to Claims: Any party in interest may file an objection to any claim within ninety (90) days from the Effective Date. Objections not filed within such time shall be deemed waived.

If any Claim or any portion thereof is challenged by objection, the Debtor shall segregate and set aside funds, consistent with the Plan, sufficient to satisfy the Claim as filed, or as scheduled by the Debtor. When an objection to a Claim has been resolved, distribution shall be made accordingly.

4. Title to and Liens Against Assets: Determination of all questions and disputes regarding title to and liens on the assets of the Debtor and determination of all

1 causes of action, controversies, disputes or conflicts whether or not subject to an action  
2 pending as of the date of Confirmation, between the Debtor and any other party,  
3 including, but not limited to, the right of the Debtor to recover assets pursuant to the  
4 provisions of the Code.

5 5. Correction of Defects: Correction of any defect, the curing of any  
6 omission or the reconciliation of any inconsistency in the Plan or in the Confirmation as  
7 may be necessary to carry out the purposes and intent of the Plan.

8 6. Modification: After Confirmation, the Debtor may, with the approval of  
9 the Court, and so long as it does not materially or adversely affect the interest of  
10 Creditors, remedy any defect or omission, or reconcile any inconsistencies in the Plan or  
11 in the Confirmation in such manner as may be necessary to carry out the purposes and  
12 effect of the Plan.

13 7. Enforcement: To enforce and interpret the terms and conditions of the  
14 Plan.

15 8. Further Orders: Entry of any order, including injunctions, necessary to  
16 enforce the title, rights and powers of the Debtor and to impose such limitations,  
17 restrictions, terms and conditions of such title, rights and powers as the Court may deem  
18 necessary.

19 9. Conclusion: Entry of an order concluding and terminating this case.

### 20 **ARTICLE XIII**

#### 21 **CONSIDERATIONS IN VOTING ON THE CHAPTER 11 PLAN**

22 1. Plan Proponent. In a Chapter 11 Case, the Debtor is the only possible  
23 proponent of a Plan of Reorganization during the initial one hundred twenty (120) days  
24 of the proceedings, unless certain special conditions (appointment of a trustee or  
25 reduction of the one hundred twenty (120) day period), not present in this case are met.  
26 After the one hundred twenty (120) day period (unless the Court extends it), any party  
27 in interest may propose a Plan of Reorganization. Once a Plan has been filed by a  
28 Debtor, no other Plan may be submitted to Creditors until additional time has expired  
29 without acceptance of that Plan.

1           2. The Court may confirm a Plan where there is a negative class vote “if the  
2 Plan does not discriminate unfairly, and is fair and equitable, with respect to each class  
3 of claims or interest that is impaired under, and has not accepted the Plan “pursuant to  
4 Section 1129(1) of the Code.

5           3. Before the Court can confirm a Plan, the requirements of Chapter 11 must be  
6 met. There are certain formalities a Plan must adhere to under the Code. Among  
7 others, the Plan must designate classes and specify whether or not classes are impaired,  
8 and their treatment if they are impaired. The Plan must also provide adequate means for  
9 its execution.

10           4. The Court can confirm a Plan under section 1129 of the Code; assuming all  
11 other requirements are met, if two-thirds (2/3) in amount and more than one-half (1/2)  
12 in number of the allowed interests of each impaired class of claims and two-thirds (2/3)  
13 in amount of the allowed interests of each impaired class of interests accept. In the  
14 alternative, if there is a dissenting class or classes of claims or interests, the Court can  
15 confirm a Plan if the proponent of the Plan so requests and the Court finds that all  
16 requirements other than all classes consenting are met and the Plan does not  
17 discriminate unfairly, and is fair and equitable, with respect to each class of claims or  
18 interests impaired under, and who has not accepted the Plan.

19   **ARTICLE XIV**  
20   **LIQUIDATION ANALYSIS**

21           1. General. In order to arrive at a judgment on whether or not to vote for or  
22 against the Plan, a Creditor or other party-in-interest needs to have an understanding of  
23 the consequences of what would be realized by the estate of the Debtor if the assets of  
24 the Debtor were sold pursuant to another Plan, the assets are sold pursuant to a motion  
25 to sell free and clear of liens, or if the case is converted to one under Chapter 7 of the  
26 Code. Additionally, in order for the Court to confirm the Plan, it must find pursuant to  
27 Section 1129(a)(7)(A)(I)(ii) with respect to each impaired class of Claims or interests  
28 that each holder of a Claim or interest of such class: (i) has accepted the Plan; or (ii)  
29 will receive or retain under the Plan on account of such Claim or interest, property



1 value, as of the Effective Date of the Plan, that is not less than the amount that such  
2 holder would receive under Chapter 7 on such date. The Code further requires that if  
3 Section 1111(b)(2) applies to Claims of a class, each holder of a Claim of such class  
4 will receive or retain under the Plan, on account of such Claim, property of value, as of  
5 the Effective Date of the Plan, that is not less than the value of such holder's interest in  
6 the estate's interest in the property that secured such Claims pursuant to Section  
7 1129(a)(7)(B). Debtor based upon offers received for its assets prior and subsequent to  
8 the filing of this Chapter 11 case has determined that a forced sale of all the assets and  
9 the ceasing of operation of the wells a liquidation sale would produce no more than  
10 \$100,000 per operating well. With the present situation of six operating wells it is  
11 projected that the most that could be obtained upon liquidation would be \$600,000 after  
12 payment of Administrative Expenses and related costs it is clear that the unsecured  
13 creditors would receive nearly nothing and the Interest Holders would receive nothing.  
14 As demonstrated under the Operations portion of this Disclosure Statement it is clear  
15 that by the continued operation of the Reorganized Debtor that the value of the Debtor  
16 will be substantially enhanced as well as its ability to pay current operating expenses as  
17 well as payments provided under the Plan. This contemplates the fact that the reserves  
18 are only available by the continued operation of the Debtor. Liquidation of the estate  
19 assets would not provide the 100 % payment to all creditors and the retention of the  
20 Interest Holders of their interest and eventually a return to receiving dividends.

## 21 **ARTICLE XV**

### 22 **ACCEPTANCE AND CONFIRMATION**

#### 23 **A- FEASIBILITY**

##### 24 **1. Description of Debtor's Assets**

25 The assets of the Debtor are listed on the Debtor's Schedules filed with the  
26 Court. As demonstrated in the Liquidation Analysis unsecured creditors will receive  
27 very little, if anything, on their claims in the event of liquidation of the assets of the  
28 Debtor.  
29

1 2. The debtor believes that the Plan satisfies the requirements of §1129(a)(ii) of the  
2 Code and that the Disclosure Statement and its Exhibits demonstrate that Confirmation  
3 of the Plan is not likely to be followed by the liquidation of or need for further  
4 reorganization of the Reorganized Debtor.

#### 5 B- CONFIRMATION OVER DISSENTING CLASS

6 The Bankruptcy Code contains provisions for confirmation of a plan even if the  
7 plan is not accepted by all impaired classes, so long as at least one impaired class of  
8 claims has accepted it. These "'cram-down'" provisions for confirmation of a plan,  
9 despite the non-acceptance of one or more impaired classes of claims or interests, are  
10 set forth in §1129(b) of the Bankruptcy Code.

11 If a Class of secured Claims rejects the Plan, the Plan may still be confirmed so  
12 long as the Plan does not discriminate unfairly as to a Class and is "fair and equitable"  
13 to such Class under §1129 (b) of the Bankruptcy Code and applicable case law. Section  
14 1129 (b) of the Bankruptcy Code states that the "fair and equitable standard may  
15 require, among other things, that the Plan provide (i) that the lien securing the Claims of  
16 members of the Class is to be left in place and the holders of the Claim will receive  
17 deferred cash payments of a present value equal to the lesser of the amount of such  
18 Claims or the value of the collateral securing such Claims; (ii) that the collateral  
19 securing the Claims be sold free of the lien with the lien attaching to the proceeds and  
20 with the lien on the proceeds being treated under one of the two other standards  
21 described in this paragraph; or (iii) a treatment for the Claim that is the "indubitable  
22 equivalent" of the Claim. The Debtor believes that the Plan satisfies the test and  
23 therefore that the Plan can be confirmed even if it is rejected by holders of Secured  
24 Claims. If a Class of unsecured Claims rejects the Plan, the Plan may still be confirmed  
25 so long as the Plan is not unfairly discriminatory as to that Class and is "fair and  
26 equitable" to such Class. Under §1129 (b) of the Bankruptcy Code, a Plan is "fair and  
27 equitable" as to a class if, among other things, the Plan provides that (i) each holder of a  
28 Claim included in the rejecting class receive or retain on account of that Claim property  
29 which has a value, as of the Effective Date, equal to the allowed amount of such Claim;  
or that (ii) the holder of any Claim or interest that is junior to the Claim of such Class

1 will not receive or retain on account of such junior Claim or interest any property at all;  
2 or (iii) although not included in § 1129 (b) but as determined by case law that if a junior  
3 Claim receives or retains anything on account, even though the senior holder has not  
4 received a one hundred percent (100%) return, that a substantial new contribution, as  
5 determined by the Court, shall be made by the junior Claimant. The Debtor believes  
6 that the Plan meets this test as to all impaired Classes of unsecured Claims. Therefore  
7 the Debtor believes the Plan could be confirmed even if it is rejected by the Classes of  
8 unsecured Claims as long as at least one impaired Class accepts the Plan.

9 With respect to a Class of interests, such interest holders may not receive any  
10 distribution or retain any value on account of such interests unless all Classes of  
11 creditors have been paid in full or that a substantial new contribution, as determined by  
12 the Court, shall be made by any interest holder retaining any distribution or value on  
13 account of such interests in the event all classes of creditors have not been paid in full.

## 14 **ARTICLE XVI**

### 15 **ALTERNATIVES TO THE PLAN**

16 The debtor expects that the Plan will enable the Reorganized Debtor to continue  
17 to operate on a going concern basis. However, if the Plan is not confirmed, the Debtor  
18 would continue to seek other rehabilitative alternates. In the event that no suitable  
19 alternative could be found, the Debtor might be forced to recommend to the Court the  
20 liquidation of the Debtor's estate.

21 The Debtor is of the opinion that liquidation would not be in the best interests of  
22 the creditors and interest holders generally. As stated above, liquidation of the Debtor's  
23 estate would render little or no distributions to unsecured creditors.

## 24 **ARTICLE XVII**

### 25 **RECOMMENDATION OF PROPONENT**

26 The Debtor recommends that all creditors and interest holders vote to accept the  
27 Plan because it provides, in the view of the Debtor, the only presently available  
28 alternative for the continued operation of the Debtor and the only presently available  
29

1 alternative which would result in unsecured creditors and certain junior secured  
2 creditors receiving distributions out of the Debtor's estate. As previously stated, if the  
3 Plan is not approved the Debtor would continue to seek other rehabilitative alternatives  
4 but liquidation might ensue, with the consequences discussed above. Thus the Debtor  
5 believes that acceptance of the Plan is the preferable alternative for creditors and  
6 interest holders, and he urges all creditors and interest holders to vote to accept the Plan.

7  
8 DATED this 12<sup>th</sup> day of October, 2016.

9  
10 HAUF LAW PLC

11 By: /s/ Adam E. Hauf  
12 Adam E. Hauf, Esq., (026702)  
13 Attorney for Debtor  
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