

1 T. SCOTT BELDEN, CSB NO. 184387
 2 *sbelden@beldenblaine.com*
 3 BELDEN BLAINE RAYTIS, LLP
 4 5016 California Avenue, Suite 3
 5 Bakersfield, California 93309
 Telephone: (661) 864-7826
 Facsimile: (661) 878-9797

6 Counsel for Debtor, PACE DIVERSIFIED
 CORPORATION

7
 8 **UNITED STATES BANKRUPTCY COURT**
 9 **EASTERN DISTRICT OF CALIFORNIA, FRESNO DIVISION**

10 In re:
 11 PACE DIVERSIFIED CORPORATION,
 12 a California corporation,¹
 13 Debtor.

Case No.: 17-11028-B-11

Chapter 11

DC No. BBR-8

**FIRST AMENDED DISCLOSURE
 STATEMENT OF DEBTOR PACE
 DIVERSIFIED CORPORATION,
 DATED OCTOBER 6, 2017**

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 28 ¹ The last four digits of the federal tax ID number and address for Pace Diversified Corporation is: 0981 and 13061
 Rosedale Highway, Suite G-196, Bakersfield, CA.

TABLE OF CONTENTS

Contents

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

ARTICLE I INTRODUCTION AND OVERVIEW 1

 1.1 Introduction 1

 1.2 Disclaimers 2

 1.3 Overview of Chapter 11 4

 1.4 Overview of the Plan 4

 1.5 Voting Instructions 5

 1.5.1 How to Vote 5

 1.5.2 Who Is Being Solicited to Vote 6

 1.5.3 Record Date 6

 1.5.4 Voting Procedures 7

 1.5.5 Withdrawal of Votes on the Plan 7

 1.5.6 Balloting Agent, Questions and Requests for Ballots 7

 1.6 Confirmation 8

ARTICLE II HISTORY, ORGANIZATION AND OPERATIONS OF THE DEBTOR 10

 2.1 Events Prior to the Bankruptcy Filing 14

 2.2 The Debtor’s Assets and Liabilities. 14

 2.2.2 Administrative Expenses 16

 2.2.3 Blue Rock Claim 17

 2.2.4 United Security Bank Claim 17

 2.2.5 Other Secured Claims 17

 2.2.6 Priority Tax Claims 18

 2.2.7 Priority Non-Tax Claims 18

 2.2.8 General Unsecured Claims 18

ARTICLE III SIGNIFICANT POST-PETITION EVENTS 19

 3.1 Administrative and Operational Motions and Applications 19

 3.1.1 Cash Collateral Motion 19

 3.1.2 Application to Employ General Insolvency Counsel 20

 3.1.3 Application to Employ Wayne Long & Associates as CPA 21

 3.1.4 Motion to Extend Time to Assume/Reject Leases 21

 3.1.5 Applications to Employ WFBM, LLC 21

 3.1.6 Motion to Extend Exclusive Period to Accept/Reject Plan 22

 3.1.7 Motion for Relief From Stay Filed by Macpherson Oil Company and National Petroleum Associates. 22

 3.1.8 Motion for Relief From Stay filed by United Security Bank 23

 3.2 Filing of Debtor’s Schedules; Bar Dates 23

 3.2.1 Schedules and Statements of Financial Affairs 23

1 3.2.2 Monthly Operating Reports 24

2 3.2.3 Claims Bar Dates 24

3 3.3 Meeting of Creditors 24

4 ARTICLE IV DESCRIPTION OF THE PLAN 24

5 4.1.1 Classification of Claims and Interests..... 25

6 4.2 Summary of Classification. 25

7 ARTICLE V TREATMENT OF CLAIMS AND INTERESTS..... 26

8 5.1 Class 1 – Blue Rock. 26

9 5.1.1 Impairment and Voting. 26

10 5.1.2 Treatment. 26

11 5.2 Class 2 – Claims of United Security Bank. 26

12 5.2.1 Impairment and Voting. 26

13 5.2.2 Treatment of Class Two(a) Claim..... 26

14 5.2.3 Treatment of Class Two(b) Claim. 26

15 5.3 Class 3 – Priority Tax Claims..... 26

16 5.3.1 Impairment and Voting. 26

17 5.3.2 Treatment. 27

18 5.4 Class 4 – Priority Non-Tax Claims. 27

19 5.4.1 Impairment and Voting. 27

20 5.4.2 Treatment. 27

21 5.5 Class 5 – General Unsecured Claims. 27

22 5.5.1 Impairment and Voting. 27

23 5.5.2 Treatment. 27

24 5.6 Class 6 – Claims of MacPherson Oil Company and National Petroleum Associates. 28

25 5.6.1 Description. 28

26 5.6.2 Impairment and Voting. 28

27 5.6.3 Treatment. 28

28 5.7 Class 7 – WFBM, LLC Unsecured Claim..... 28

5.7.1 Impairment and Voting. 28

5.7.2 Treatment. 28

5.8 Class 8 – Insider Claims of Dark Rock, LLC..... 29

1 5.8.1 Impairment and Voting 29

2 5.8.1 Treatment 29

3 5.9 Class 9 – Insider Claims of Patricia and Dwayne Roach 29

4 5.9.1 Impairment and Voting 29

5 5.9.2 Treatment 29

6 5.10 Class 10 – Interests 29

7 5.10.1 Impairment and Voting 29

8 5.11 Nonconsensual Confirmation 30

9 ARTICLE VI EXECUTORY CONTRACTS AND UNEXPIRED LEASES 30

10 6.1 Assumption 30

11 6.2 Rejection 30

12 6.3 Assumption Obligations 31

13 6.4 Effect of Confirmation Order 31

14 ARTICLE VII IMPLEMENTATION OF THE PLAN 32

15 7.1 Continuing Operations 32

16 7.2 Insurance Proceeds 32

17 7.3 Sale of Assets or Refinance 32

18 7.4 Section 17 Litigation Proceeds 33

19 7.5 The Debtor After the Effective Date 34

20 7.5.1 Continued Existence of the Reorganized Debtor 34

21 7.5.2 Revesting of Estate Assets 34

22 7.5.3 Retained Causes of Action and/or Defenses 34

23 7.5.4 Post-Effective Date Matters 35

24 7.5.5 Final Decree 36

25 ARTICLE VIII EFFECTS OF CONFIRMATION 36

26 8.1 Binding Effect 36

27 8.2 Property Reverts Free and Clear 36

28 8.3 Discharge and Permanent Injunction 37

8.4 Limitation of Liability 37

8.5 Release 37

8.6 Exculpation 38

ARTICLE IX MISCELLANEOUS 39

9.1 Effectuating Documents; Further Transactions; Timing 39

9.2 Exemption from Transfer Taxes 39

9.3 Governing Law 39

9.4 Modification of Payment Terms 40

9.5 Provisions Enforceable 40

1 9.6 Quarterly Fees to the United States Trustee 40

2 ARTICLE X OTHER IMPORTANT INFORMATION REGARDING THE PLAN 40

3 10.1 Potential Litigation 40

4 10.1.1 Potential Litigation Recoveries..... 40

5 10.1.2 Estimation of Claims..... 41

6 10.2 Risk Factors 41

7 10.2.1 The Plan Projections Are Based on Estimates and Numerous Assumptions..... 41

8 10.2.2 The Debtor May Not Be Successful With Respect to Contested Claims 42

9 ARTICLE XI REQUIREMENTS FOR CONFIRMATION 42

10 11.1 Good Faith and Compliance with Law..... 42

11 11.2 Best Interests 42

12 11.3 Plan Acceptance 43

13 11.4 Confirmation of the Plan Without Acceptance by All Impaired Classes 43

14 11.5 Feasibility 44

15 ARTICLE XII LIQUIDATION ANALYSIS 45

16 ARTICLE XIII CONCLUSION 46

17 LIST OF EXHIBITS..... i

18

19

20

21

22

23

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1 PACE DIVERSIFIED CORPORATION (“**Debtor** and/or **Pace**”) has filed a First Amended
2 Plan of Reorganization dated October 6, 2017 (the “**Plan**”), under section 1121(a) of the United
3 States Bankruptcy Code, 11 U.S.C. §§, 101, *et seq.* (the “**Bankruptcy Code**”), for the resolution of
4 the Debtor’s outstanding Claims and Interests and submits this Disclosure Statement (the
5 “**Disclosure Statement**”), in support of the Plan. The definitions contained in the Bankruptcy Code
6 are incorporated in this Disclosure Statement by this reference, and the definitions set forth in the
7 Plan will apply to capitalized terms used in this Disclosure Statement not otherwise defined.

8 All Creditors and other parties-in-interest should refer to this Disclosure Statement for a
9 discussion of the Debtor’s history, business, property, results of operations, and events leading up to
10 the proposed restructuring and for a summary and analysis of the Plan and certain related matters.
11 *All holders of Claims against, and Interests in, the Debtor are encouraged to read the Plan, the*
12 *Disclosure Statement and the related solicitation materials in their entirety before voting to*
13 *accept or reject the Plan.*

14 ARTICLE I

15 INTRODUCTION AND OVERVIEW

16 **1.1 Introduction**

17 Pace is an independent oil and gas corporation located in Kern County, California. Debtor is
18 Operator number P0130 in good standing with the California Division of Oil, Gas, and Geothermal
19 Resources (“DOGGR”). Debtor currently operates in Round Mountain Oil Field and Mount Poso Oil
20 Field, in Kern County, California. Debtor owns and operates nine oil and gas properties with twenty-
21 nine active producing oil wells and five active water injection wells. Debtor has five San Joaquin
22 Valley Air Pollution Controlled District licensed production facilities for crude oil management and
23 processing. Debtor’s properties include approximately 4,046 acres under oil and gas leases and 280
24 acres in Fee. Debtor has approximately 36.4 million recoverable barrels of oil in reserve.

25 The Plan provides for the restructuring of the Debtor’s financial affairs, including the
26 satisfaction of its obligations. This Disclosure Statement describes the Plan, which is being filed and
27 served concurrently herewith and provides other adequate information, including (without
28 limitation) information on voting procedure and important disclosures. Under the Plan, the Debtor

1 proposes to repay its creditors in full either within one year of the Effective Date of the Plan or over
2 time as set forth in the Plan. Specifically, all non-insider claims other than the claims of Blue Rock
3 Energy Capital, II LLC (“Blue Rock”), Macpherson Oil Company (“MOC”), National Petroleum
4 Associates (“NPA”) and Debtor’s litigation law firm, WFBM, LLC, will be paid in full within one
5 year of the Effective Date of the Plan. The creditors identified above will be paid over time as more
6 specifically set forth in the Plan.

7 Allowed Administrative Claims (except for Professional Fees) shall be paid in full in Cash on
8 the latest of: (i) the Effective Date, or as soon thereafter as practicable; (ii) such date as may be fixed
9 by the Bankruptcy Court; (iii) the tenth (10th) Business Day after such Claim is Allowed; or (iv) the
10 date such Claim is otherwise due according to its terms.

11 Unless otherwise agreed between the parties, (i) holders of Allowed Priority Tax Claims shall
12 receive regular installment payments of a total value equal to the Allowed amount of such Priority
13 Tax Claim, plus interest, provided that full repayment of such Allowed Priority Tax Claim shall in
14 no event be later than the date that is five (5) years after the Petition Date; and (ii) holders of
15 Allowed Priority Non-Tax Claims shall receive payment in full on account of such Claims.

16 Each holder of an Allowed General Unsecured Claim will receive, on account of such Claim,
17 Cash payment in the amount of such holder’s Allowed Claim, which payment shall be made not later
18 than one (1) year after the Effective Date of the Plan (or such later date when such Claim becomes
19 an Allowed Claim) or over time as set forth in the Plan.

20 **1.2 Disclaimers**

21 FOR THE CONVENIENCE OF CREDITORS, THIS DISCLOSURE STATEMENT
22 SUMMARIZES THE TERMS OF THE PLAN, BUT IF ANY INCONSISTENCY EXISTS
23 BETWEEN THE PLAN AND THIS DISCLOSURE STATEMENT, THE TERMS OF THE PLAN
24 ARE CONTROLLING.

25 NO REPRESENTATIONS CONCERNING THE DEBTOR’S FINANCIAL CONDITION
26 OR ANY ASPECT OF THE PLAN ARE AUTHORIZED BY THE BANKRUPTCY COURT OR
27 DEBTOR OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY
28 REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE THAT

1 ARE OTHER THAN AS CONTAINED IN OR INCLUDED WITH THIS DISCLOSURE
2 STATEMENT SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR
3 DECISION.

4 THIS DISCLOSURE STATEMENT IS CURRENT AS OF THE DATE SET FORTH IN
5 ITS TITLE. THE DELIVERY OF THIS DISCLOSURE STATEMENT WILL NOT, UNDER ANY
6 CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION IN THIS
7 DISCLOSURE STATEMENT IS CORRECT AS OF ANY TIME AFTER THE DATE IN ITS
8 TITLE, OR THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE DEBTOR AS
9 OF SUCH LATER DATE.

10 ALL PROFESSIONALS TO THE DEBTOR HAVE RELIED UPON INFORMATION
11 PROVIDED BY THE DEBTOR IN CONNECTION WITH PREPARATION OF THIS
12 DISCLOSURE STATEMENT. ALTHOUGH PROFESSIONALS FOR THE DEBTOR HAVE
13 PERFORMED CERTAIN LIMITED DUE DILIGENCE IN CONNECTION WITH THE
14 PREPARATION OF THIS DISCLOSURE STATEMENT, THE PROFESSIONALS HAVE NOT
15 INDEPENDENTLY VERIFIED ALL OF THE INFORMATION CONTAINED IN OR
16 ATTACHED TO THIS DISCLOSURE STATEMENT.

17 THE CONTENTS OF THIS DISCLOSURE STATEMENT SHOULD NOT BE
18 CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE. CREDITORS SHOULD CONSULT
19 THEIR OWN LEGAL COUNSEL AND ACCOUNTANTS AS TO LEGAL, TAX AND OTHER
20 MATTERS CONCERNING THEIR CLAIMS.

21 This Disclosure Statement may not be relied on for any purpose other than to determine
22 whether to vote to accept or reject the Plan, and nothing stated therein will constitute an admission
23 of any fact or liability by any party, or be admissible in any proceeding involving the Debtor or
24 any other party, or be deemed conclusive evidence of the tax or other legal effects of the Plan on
25 the Debtor or Creditors.

26 Summaries of certain provisions of agreements referenced in this Disclosure Statement do
27 not purport to be complete and are subject to, and are qualified in their entirety by reference to, the
28

1 full text of the applicable agreement, including the definitions of terms contained in such
2 agreement.

3 **1.3 Overview of Chapter 11**

4 Chapter 11 of the Bankruptcy Code (“**Chapter 11**”) is the principal business reorganization
5 chapter of the Bankruptcy Code. Under Chapter 11, a debtor is authorized to reorganize or liquidate
6 its business for the benefit of itself, its creditors, and equity interest holders. Another goal of
7 Chapter 11 is to promote equality of treatment for similarly situated creditors and similarly situated
8 equity interest holders with respect to the distribution of a debtor’s assets.

9 The commencement of a Chapter 11 case creates an estate that is composed of all of the legal
10 and equitable interests of a debtor as of the filing date. The Bankruptcy Code provides that the
11 debtor may continue to operate its business and remain in possession of its property as a “debtor in
12 possession.”

13 The consummation of a plan of reorganization is the principal objective of a Chapter 11
14 reorganization case. A plan of reorganization sets forth the means for satisfying claims against, and
15 interests in, a debtor. Confirmation of a plan of reorganization by the bankruptcy court makes the
16 plan binding upon the debtor, any issuer of securities under the plan, any person acquiring property
17 under the plan, and any creditor, interest holder, or general partner in the debtor. The provisions of
18 the Debtor’s Plan are summarized in Sections IV through X of this Disclosure Statement.

19 As noted above, certain holders of claims against and equity interests in a debtor are
20 permitted to vote to accept or reject a plan. Prior to soliciting acceptances of a proposed plan,
21 however, section 1125 of the Bankruptcy Code requires a debtor and any other plan proponent to
22 prepare a disclosure statement containing adequate information of a kind, and in sufficient detail, to
23 enable a hypothetical reasonable investor to make an informed judgment about the plan. The Debtor
24 is submitting this Disclosure Statement to holders of Claims against and Interests in the Debtor to
25 satisfy the requirements of section 1125.

26 **1.4 Overview of the Plan**

27 The following Chart describes the treatment of Claims under the Plan.

28 ///

CLASS NO.	DESCRIPTION	ESTIMATED AMOUNT OR VALUE OF ALLOWED CLAIMS ²	ESTIMATED PROJECTED PAYMENT/TREATMENT ³
1	Blue Rock	\$2,572,020.00	Unimpaired. Continue receiving payments per Production Assignment from Debtor
2	USB Secured Claim	00.00	Unimpaired. The Class Two Claims have been satisfied in full prior to the Effective Date.
3	Priority Tax Claims	\$11,257.52	Unimpaired. Paid as required by law.
4	Priority Non-Tax	\$00.00	Unimpaired. Paid as required by law.
5	General Unsecured Claims	\$198,960.00	Impaired. Paid in full within one year 100% of Allowed Claims.
6	MacPherson Oil Company/ National Petroleum	\$00.00	Impaired. If claim is Allowed, it will be paid over five years with interest at 4% in quarterly installments commencing when claim is deemed an Allowed Claim.
7	WFBM, LLC	\$435,000	Impaired. No interest unless there is a default. Payments of \$10,000.00 per month until paid in full.
8	Insider Claim (Dark Rock)	\$196,800.00	Impaired. Subordinated to Class 1 through 5 Claims. Paid from available cash.
9	Insider Claim (Dwayne and Patricia Roach)	\$127,849.00	Impaired. Subordinated to Class 1 through 8 and shall not receive payment until those claims are paid in full. Paid from available cash.

1.5 Voting Instructions

The Disclosure Statement Order will set forth the deadlines for voting to accept or reject the Plan and for filing objections to Confirmation of the Plan.

1.5.1 How to Vote

A ballot is enclosed herewith for Creditors to use in voting on the Plan. To vote on the Plan, indicate on the enclosed ballot that you accept or reject the Plan, provide the requested information, sign your name, and mail the ballot in the envelope provided for this purpose.

² The aggregate figures provided herein are estimates only and subject to all qualifications and disclaimers described above.

³ This is a summary of treatment of the listed claims. The Plan should be reviewed to determine exact treatment of such claim.

1 In order to be counted, ballots must be completed, signed and returned so that they are
2 actually **received no later than 5:00 p.m., prevailing Pacific Time, on November 22, 2017**, by
3 Pace's bankruptcy counsel at the following address:

4 Belden Blaine Raytis, LLP
5 5016 California Avenue, Suite 3
6 Bakersfield, CA 93309
7 Telephone: (661) 864-7827
8 Facsimile: (661) 878-9797
9 Attn: Isabel Medellin

10 To be counted for purposes of voting on the Plan, all of the information requested on the
11 ballot must be provided. If your ballot is not properly completed, signed and returned as described
12 by the voting deadline, it will not be counted. If your ballot is damaged or lost, you may request a
13 replacement by sending a written request to this same address.

14 **1.5.2 Who Is Being Solicited to Vote**

15 The ballot form that you received does not constitute a proof of Claim. If you are in any way
16 uncertain whether or if your Claim has been correctly scheduled, you should review the Debtor's
17 Schedules that are on file with the Bankruptcy Court located at 2500 Tulare Street, Fresno,
18 California 93721. In accordance with an order of the Bankruptcy Court, the Bankruptcy Court
19 established July 31, 2017, as the general Bar Date by which Creditors, other than governmental
20 units, must file proofs of claim against the Debtor. The Bar Date for governmental units is
21 September 19, 2017. Holders of equity Interests need not file proofs of interest.

22 **1.5.3 Record Date**

23 The record date for voting on the Plan is October 11, 2017. To be entitled to vote to accept
24 or reject the Plan, a holder of a Claim against the Debtor must be the record holder of such Claim at
25 the close of business on the record date. Holders who acquire Claims against the Debtor after the
26 record date must arrange with their seller to receive a proxy from the holder of record of such Claim
27 on the record date.
28

1 **1.5.4 Voting Procedures**

2 All votes to accept or reject the Plan must be cast by using the ballot. Votes that are cast in
3 any other manner will not be counted. Ballots must be received no later than 5:00 p.m., Pacific
4 Time, on November 22, 2017.

5 Parties who elect to vote on the Plan should complete and sign the ballot in accordance with
6 the instructions thereon, being sure to check the appropriate box entitled “Accept the Plan” or
7 “Reject the Plan.” Parties should carefully review the voting procedures set forth here and in the
8 ballot.

9 **1.5.5 Withdrawal of Votes on the Plan**

10 The solicitation of acceptances of the Plan will expire on the voting deadline of November
11 22, 2017. A properly submitted ballot may be withdrawn by delivering a written notice of
12 withdrawal to Pace’s bankruptcy counsel at its address set forth on the ballot at any time prior to the
13 voting deadline. Thereafter, withdrawal may be effected only with the approval of the Bankruptcy
14 Court, pursuant to Bankruptcy Rule 3018(a).

15 To be valid, a notice of withdrawal must (a) specify the name of the holder who submitted
16 the vote on the Plan to be withdrawn, (b) contain the description of the Claim to which it relates and
17 the amount of such Claim, and (c) be signed by the holder in the same manner as on the ballot. The
18 Debtor reserves the right to contest the timeliness or validity of any such withdrawals of votes on the
19 Plan.

20 In addition to withdrawal as specified above, any holder who has previously submitted a
21 properly completed ballot prior to the voting deadline may revoke and change such vote by
22 submitting to Pace’s counsel prior to the voting deadline a subsequent properly completed ballot for
23 acceptance or rejection of the Plan. In the case where more than one timely, properly completed
24 ballot is received, only the ballot that bears the latest date will be counted for purposes of
25 determining whether acceptances sufficient to seek Confirmation of the Plan have been received.

26 **1.5.6 Balloting Agent, Questions and Requests for Ballots**

27 Debtor’s bankruptcy counsel, Belden Blaine Raytis LLP (“BBR”), shall serve as balloting
28 agent for the Plan. Questions, requests for assistance, and requests for additional copies of this

1 Disclosure Statement or ballots should be directed to BBR at its address set forth on the ballots
2 (which is the same as the address above).

3 **1.6 Confirmation**

4 “Confirmation” is the technical term for a bankruptcy court’s approval of a plan of
5 reorganization. At the Confirmation Hearing, in order to confirm the Plan, the Debtor must
6 demonstrate that it has met the requirements of section 1129 of the Bankruptcy Code. If the
7 Bankruptcy Court determines that all of the requirements of section 1129 have been satisfied, the
8 Bankruptcy Court will enter an order confirming the Plan. The Debtor believes that the Plan
9 satisfies all the statutory requirements of chapter 11 of the Bankruptcy Code.

10 Your vote on the Plan is important. Rejection of the Plan may lead to a conversion of the
11 Debtor’s case to chapter 7 of the Bankruptcy Code and subsequent liquidation of the Debtor by a
12 trustee who would be appointed as of the date of such conversion. This alternative would create
13 uncertainty not evident under the Plan. Further, it may not result in the realization of the Estate’s
14 maximum potential value. Therefore, the Debtor urges you to accept the Plan by completing and
15 returning the enclosed ballot so as to be received no later than 5:00 p.m., prevailing Pacific Time, on
16 November 22, 2017.

17 Voting is tabulated by Class. An impaired Class of Claims that votes will have accepted the
18 Plan if (a) the holders (other than any holder designated by the Bankruptcy Court based on their vote
19 or its solicitation not being in good faith under section 1126(e) of the Bankruptcy Code) of at least
20 two-thirds in amount of the Claims actually voting in such Class have voted to accept the Plan and
21 (b) the holders (other than any holder designated under section 1126(e) of the Bankruptcy Code) of
22 more than one-half in number of the Claims actually voting in such Class have voted to accept the
23 Plan.

24 If a Class of Claims entitled to vote on the Plan rejects the Plan, the Debtor reserves the right
25 to amend the Plan or request Confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy
26 Code, or both. Section 1129(b) permits the confirmation of a plan of reorganization notwithstanding
27 the nonacceptance of a plan by one or more impaired classes of claims or equity interests. Under
28

1 that statute, a plan may be confirmed by a bankruptcy court if it does not “discriminate unfairly” and
2 is “fair and equitable” with respect to each nonaccepting class.

3 The Bankruptcy Court has set December 6, 2017, 2017, at 9:30 a.m. prevailing Pacific Time,
4 for the Confirmation Hearing at which it will determine whether the Plan has been accepted by the
5 requisite number of Creditors and whether the other requirements for Confirmation of the Plan have
6 been satisfied. The Confirmation Hearing may be continued from time to time and day to day
7 without further notice. If the Bankruptcy Court confirms the Plan, it will enter the Confirmation
8 Order. Any objections to Confirmation of the Plan must be in writing and must be filed with the
9 Clerk of the Bankruptcy Court and served on counsel for the Debtor and the Office of the United
10 States Trustee on or before the date set forth in the notice of the Confirmation Hearing sent to you
11 with this Disclosure Statement and the Plan. Bankruptcy Rule 3007 and Local Bankruptcy Rule
12 3018-1 govern the form of any such objection.

13 The parties on whom objections must be served are:

14 Counsel for Debtor:

15 Belden Blaine Raytis, LLP
16 5016 California Avenue, Suite 3
17 Bakersfield, CA 93309
18 Telephone: (661) 864-7827
19 Facsimile: (661) 878-9797
20 Attn: T. Scott Belden, Esq.

21 Office of the United States Trustee:

22 Office of the United States Trustee
23 2500 Tulare Street, Suite 1401
24 Fresno, California 93721
25 Tel: (559) 487-5002
26 Facsimile: (559) 487-5030
27 Attn: Gregory Powell, Esq.
28

1 **ARTICLE II**

2 **HISTORY, ORGANIZATION AND OPERATIONS OF THE DEBTOR**

3 **A. Background of Debtor and its operations.**

4 Pace was incorporated in 2001 by its owners Dwayne and Patricia (“Tish”) Roach. Pace is an
5 oil and gas producer. Dwayne is the President and manages the company operations for the oil field,
6 the executive duties, engineering and compliance. Tish manages the office, banking, mail, accounts
7 payable and accounts receivable.

8 Between 2001 and 2008 Debtor purchased several oil and gas properties. Some were rights
9 under oil and gas leases. Some were Mineral Fee and some Fee Land and Minerals. Most of the
10 properties purchased were distressed properties in need of clean-up work and repair. Much of the
11 properties were in a state of disrepair and not producing. Many issues of non-compliance were levied
12 against the properties at the county, state and/or federal regulator level. Debtor paid off all of its
13 properties and performed clean-up, regulatory and “on the ground repair” of production facilities and
14 wells, returning many of the wells to production. Others were plug and abandoned wells that were of
15 no further utility. Millions of dollars of Debtor’s income was re-invested into the properties to pay
16 the costs of repairs, upgrades and to study the crude oil in place volumes.

17 In 2009, Debtor drilled three wells to help prove up in ground reserves and increase
18 production. Between 2007 and 2009 Debtor paid for extensive geologic studies of its properties to
19 quantify its oil in place volume and ultimately its recoverable oil. In 2011, Pace drilled its first grass
20 roots horizontal well in Round Mountain Field, Olcese 1-17H. Though it was tedious drilling, the
21 well was a big success, doubling Pace production and providing additional geologic development
22 information.

23 **B. Olcese Lease and related claims**

24 At completion of the well in or about 2011, Debtor was informed by DOGGR that MOC
25 made a claim that Debtor’s well (Olcese 1-17H) was illegally drilled too close to the shared property
26 line. DOGGR gave Debtor the option to voluntarily shut in the well, or they would order it shut in.
27 Debtor complied and shut in the well. Debtor had the location and well bore path re-surveyed.
28

1 DOGGR determined the well was legally situated on Debtor's Olcese lease and Debtor was allowed
2 to resume production.

3 During the course of the next two months, MOC made another claim that Debtor damaged
4 six of their wells while drilling Olcese 1-17H. Debtor cooperated with MOC giving them Debtor's
5 drilling records and other information on Olcese 1-17H not yet available to the public. In 2011,
6 MOC filed a multi-million dollar lawsuit against Debtor claiming damage to six horizontal wells
7 owned by MOC and its core partners, located on the Stephens Lease adjacent to Pace Olcese lease.

8 During the course of the litigation, Pace learned MOC had drilled the six Stephens Lease
9 horizontal wells right next to Debtor's Olcese lease border and was secretly draining Pace's oil
10 reserves. Notwithstanding the claims made by MOC, in or about 2015, after three and a half years
11 of litigation Debtor prevailed with a defense verdict after an eight week trial.

12 In November 2015, Debtor learned of two horizontal water injection wells drilled into
13 Debtor's Olcese lease in section 17 by MOC in 2014, and that the wells had injected millions of
14 barrels of produced water into pace minerals estate. Debtor hired Rex Paris Law Firm and George
15 Martin Law Firm in 2015, on a contingency basis, to prosecute the claim for damages against MOC
16 for the damage they caused to Debtor's wells and to the reservoir and theft of Debtor's oil on the
17 Olcese lease section 17. In November 2016, MOC filed a Cross Complaint in the litigation.
18 Debtor's Travelers Insurance policy is covering the cost of defending the MOC Cross-Complaint.
19 This matter is pending, but has been stayed due to the bankruptcy filing by Debtor.

20 **C. Gardner Lease and related claims**

21 In or about 2012, shortly after the 2011 notice from DOGGR referenced above, MOC sent a
22 demand letter for royalties and performance to Debtor stating that Debtor was subject to a lease on
23 Gardner property. Debtor attempted to resolve MOC's claims through counsel and even paid
24 \$130,000.00 in calculated past royalties under protest, only to fail at any attempts to amicably
25 resolve the demand.

26 Instead, MOC sent Debtor a Notice of Lease Cancellation and demand to abandon all
27 Gardner wells, restore the property and surrender the Gardner property to MOC. In response, Debtor
28

1 filed a lawsuit in 2013 for quiet title and adverse possession to protect itself and the Gardner
2 property.

3 MOC has asserted several million dollars' worth of claims relating to the Gardner lease and
4 has caused Debtor to expend hundreds of thousands of dollars to prosecute and defend this matter.
5 A trial, which Debtor could not afford, was set for March 27, 2017, and was ultimately one of the
6 factors in forcing Debtor into bankruptcy.

7 **D. Debtor's Recent and Current operations**

8 Debtor is Operator number P0130 in good standing with the California DOGGR. Debtor
9 currently operates in Round Mountain Oil Field and Mount Poso Oil Field, in Kern County,
10 California. Debtor owns and operates nine oil and gas properties with twenty-nine active producing
11 oil wells and five active water injection wells. Debtor has five San Joaquin Valley Air Pollution
12 Controlled District licensed production facilities for crude oil management and processing. Debtor's
13 properties include approximately 4,046 acres under oil and gas leases and 280 acres in Fee. Debtor
14 has approximately 36.4 million recoverable barrels of oil in reserve.

15 In 2013, Debtor produced and sold 38,289.14 barrels of oil with revenues of \$3,319,716.99
16 from such sales. In 2014, Debtor produced and sold 32,892.20 barrels of oil with revenues of
17 \$2,870,831.22. In 2015, Debtor produced and sold 28,942.80 barrels of oil with revenues of
18 \$1,294,032.59. In 2016, Debtor produced and sold approximately 24,923.23 barrels of oil for
19 \$843,433.00 in gross revenues.

20 Thus far, in 2017, Debtor produced and sold 16,946.82 barrels of crude oil from January 1,
21 2017 to August 31, 2017. In June 2017, someone attempted to steal Debtor's workover rig, valued
22 at \$765,000.00. However, the person(s) (unknown) lost control of it and crashed into a ravine. The
23 workover rig was fully insured and Debtor and Traveler's Insurance have settled the loss claim for
24 \$498,000.00.

25 **E. Blue Rock Energy Capital II, LLC.**

26 In June 2014, Debtor entered into an agreement with Blue Rock to fund a drilling program
27 for three wells in the Olcese lease. The amount of the funding was \$3.330 million for three wells;
28 however, only two wells were drilled for funding of \$2,200,000.00.

1 In exchange for the agreement to fund the drilling program, Debtor agreed to convey an
2 overriding royalty (“ORRI”) payment of 40% of the Net Revenue Interest in the Olcese lease and a
3 production payment (“Production Payment”) assignment to Blue Rock corresponding to that from
4 the production of oil from not only those wells that were drilled with Blue Rock funds but the
5 production from the entire Olcese lease. Based upon the recorded “Conveyance of Production
6 Payment” recorded in the records of the Kern County Recorder, Debtor believes that this Production
7 Payment and Corresponding ORRI falls within the definition of “Production Payment” within the
8 meaning of 11 USC Section 101(42A). As such, payments to Blue Rock on account of their ORRI
9 and Production Payment are made directly by Shell Trading (US) Company (“Shell”) to Blue Rock
10 and are not included in the income received by Debtor. Under California law, Debtor believes that
11 such interests (ORRI and Production Payment) is an interest in real property. See *Callahan v.*
12 *Martin*, 3 Cal.2d 110 (Cal. 1935); *La Laguna Rancho Co. v. Dodge*, 18 Cal. 2d 132 (Cal. 1941).

13 **E. Secured Creditors.**

14 Debtor’s production is subject to a 16.667 royalty burden due to oil and gas lessors and, as
15 noted above, the 40% ORRI and Production Payment that is paid directly to Blue Rock. Thus, of the
16 oil produced from the Olcese lease, Debtor receives 49.999% of the net production (100%-16.667 %
17 to royalty owners, leaving 83.333%, which is divided 40% to Blue Rock and 60% to Debtor). Gross
18 Revenue – Royalties of 16.667% = Net Revenue of 83.333% {40% to Blue Rock and 60% to
19 Debtor}.

20 Over the years, Debtor has borrowed money from United Security Bank (“USB”) to meet
21 operating needs. On the Petition Date, Debtor had two loans with USB, one in the amount of
22 \$66,000.00 that is asserted to be secured by a bond in the amount of \$70,000.00 and another in the
23 amount of \$95,000.00. In 2016, Debtor entered into a Security Agreement and Loan Amendment
24 that extended that loan for one year (being all due and payable on March 1, 2017) and changed the
25 security to a blanket lien on Debtor’s personal property. USB is the only creditor asserting a lien on
26 Debtor’s Post-Blue Rock production. USB’s claim has been fully satisfied as of September 2017.

27 MOC asserted some rights in the production from the Gardner lease, which is a very
28 minuscule amount of Debtor’s overall production. However, the status of the Gardner lease was

1 resolved by way of a settlement between the parties as described below.

2 **2.1 Events Prior to the Bankruptcy Filing**

3 Debtor's ultimate decision to file bankruptcy flowed from the culmination of a number of
4 events that made a reorganization under Chapter 11 necessary for Debtor and its creditors. A
5 significant factor in Debtor's bankruptcy filing was the precipitous drop in oil prices that started in
6 2013, accelerated in 2014 and has held firm through 2017. In 2013 and early 2014, prices for Kern
7 River Crude dropped from about \$100.00 per barrel to \$50-60.00 per barrel. In 2015 prices
8 depressed even further and since late 2015, prices have been about \$42.00 per barrel. The cost to
9 produce the oil, however, has remained relatively constant, dramatically cutting down on the
10 profitability of the oil operations. Because of the low oil prices, Debtor decreased production to
11 preserve the asset until oil prices increased.

12 At the same time, however, Debtor was involved in the litigation noted above regarding the
13 Gardner Lease and the case that was ultimately tried to a defense verdict in favor of Debtor. The
14 cost of that litigation, however, was heavy and Debtor ended up indebted to its counsel in an amount
15 in excess of \$435,000.00.

16 Further, Debtor obtained financing from Blue Rock as noted above for a three well program,
17 two of which were drilled at the cost of over \$2.0 million, but produced no oil. These damaged
18 wells are part of the litigation of the Olcese case brought by Debtor against MOC. Due to the
19 assignment of overriding royalty interest and production payment, a significant portion of the
20 production proceeds are being forwarded to Blue Rock and are not available for Debtor's operations
21 or payment of its creditors.

22 Finally, Debtor could not sustain the cost of further litigation and commenced its bankruptcy
23 case prior to the trial date for the Gardner matter, which was set for March 27, 2017.

24 **2.2 The Debtor's Assets and Liabilities.**

25 **1. Debtor's Assets.**

26 The Debtor's estimate of certain of its assets are set forth below. Unless otherwise stated,
27 Debtor's valuation is based upon the expertise of Debtor and its principals and is their opinion as to
28 the value of the assets listed.

1 (a) Real Property

2 The Debtor listed various interests in fee, including surface right ownership, and oil and gas
 3 leaseholds. These oil and gas leaseholds and similar rights are interests in real property under well
 4 settled California law. Although the real property is valued for purposes of Kern County Tax
 5 records, Debtor has listed their value as “unknown” at this time due to the inherent uncertainty of
 6 valuing oil and gas interests in times of depressed oil prices.

7 (b) Personal Property. Debtor listed the following personal property in its
 8 Schedules:

9	Cash on Hand	\$500.00
10	Bank Accounts and Certificates of Deposit	\$311,619.46
11	Accounts Receivable	\$79,000.00
12	Crude Oil Reserves (Book Value 12/31/16--\$460,558,393.00)	\$unknown
13	Office furniture and computers	\$10,000.00
14	Vehicles	\$330,000.00
15	Other machinery and equipment (tanks pumping units etc.)	\$2,585,070.40
16	Total	\$3,316,189.86

17 (c) Causes of Action and Claims.

18 Debtor has listed its claims against MOC/NPA described above relating to the Gardner Lease
 19 and Olcese Section 17 and ascribed an “unknown” value to them in its Schedules. Further
 20 discussion of that litigation is set forth below as is Debtor’s assessment of the value of those claims.

21 (d) Lease of Real Property from Dark Rock, LLC

22 Debtor rents its office space, maintenance yard and shop from Dark Rock, LLC, (“Dark
 23 Rock”) an entity owned by Dwayne and Tish Roach. The term of the lease is one year commencing
 24 in October 2016 and renewable in October 2017. The amount of the rent is \$3,000.00 per month.
 25 Debtor anticipates renewing this lease. Dark Rock is an affiliate of Debtor due to its ownership by
 26 the Roaches.

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1 (e) Other Executory Contracts

2 Debtor listed other executory contracts including its Crude Oil Purchase Agreement with
3 Shell and its oil and gas bonds with the Bureau of Land Management and the California Division of
4 Oil and Gas. Debtor is assuming those agreements in its Plan.

5 **2. Liabilities.**

6 Debtor's estimate of certain of its liabilities are set forth below.⁴ In connection with voting
7 on the Plan, Plan Confirmation, or other purpose, the Debtor may file with the Bankruptcy Court a
8 motion or motions to have disputed, contingent and/or unliquidated Claims Estimated by the
9 Bankruptcy Court pursuant to section 502(c) of the Bankruptcy Code.

10 EXCEPT AS OTHERWISE SET FORTH IN THE PLAN, THE DEBTOR IS NOT
11 WAIVING UNDER THE PLAN OR IN THIS DISCLOSURE STATEMENT ANY RIGHT TO,
12 AMONG OTHER THINGS, OBJECT TO THE CLAIM OF ANY CREDITOR. IN VOTING ON
13 THE PLAN, CREDITORS SHOULD ASSUME THAT THEIR CLAIM MAY BE OBJECTED TO
14 BY THE DEBTOR, OTHER CREDITORS, THE REORGANIZED DEBTOR, OR OTHER
15 PARTIES IN INTEREST.

16 **2.2.2 Administrative Expenses**

17 The Plan provides for the payment of Allowed Administrative Claims for the actual and
18 necessary costs or expenses of preserving the Debtor's Estate or conducting the affairs of the Debtor.
19 Further, the Plan provides that fees and expenses of Professionals retained by the Debtor for services
20 rendered and costs incurred after the Petition Date and prior to the Effective Date will be paid
21 following approval by the Bankruptcy Court after notice and at hearing.

22 The Debtor estimates that the Administrative Claims against its Estate will total, as of the
23 Effective Date, approximately \$30,000.00, primarily for payment of its bankruptcy counsel and
24 accountant.

25 There is a potential for an additional administrative claim that may be made by MOC/NPA
26 on the basis that it is entitled to the proceeds from the Gardner Lease. However, Debtor has been

27 _____
28 ⁴ The Debtor's estimates are projections of its ultimate liability and are subject to the risk factors identified in this Disclosure Statement. Also, the priorities and amounts of claims in each class shown herein are subject to the notes to the Schedules.

1 reserving between \$3,500 and \$4,300 per month, which constitutes more than the actual Gardner
2 Lease production and Debtor believes that this reserve will be more than sufficient to pay any
3 Administrative Claim that may ultimately be allowed in favor of MOC/NPA. MOC/NPA have also
4 asserted claims relating to Section 17. MOC has provided comprehensive title documents to support
5 their claim and Debtor is currently reviewing those documents.

6 Allowed Administrative Claims will be paid from the funds available to the Debtor as of the
7 Effective Date.

8 **2.2.3 Blue Rock Claim**

9 According to the Debtor's schedules, Blue Rock holds a claim in the amount of
10 \$2,572,010.72. This obligation, however, is non recourse as to the Debtor and instead is satisfied
11 through proceeds from an Overriding Royalty Interest and Assignment of Production Payment
12 entered into in 2014 as described above. Upon the satisfaction of that amount, the ORRI and
13 Assignment of Production Payment will be deemed satisfied and will be released.

14 **2.2.4 United Security Bank Claim**

15 On the Petition Date, Debtor had two loans with USB, one in the amount of \$66,000.00 that
16 was asserted to be secured by a bond in the amount of \$70,000.00 and another in the amount of
17 \$95,000.00. In 2016, Debtor entered into a Security Agreement and Loan Amendment that extended
18 that loan for one year (being all due and payable on March 1, 2017) and changed the security to a
19 blanket lien on Debtor's personal property. The Claims of United Security Bank have been paid off
20 during the course of the Chapter 11.

21 **2.2.5 Other Secured Claims**

22 Debtor did not list any other secured claims in its Schedule D: Creditors Who Have Claims
23 Secured by Property filed on April 6, 2016. However, R. Rex Parris Law Firm filed a secured claim
24 in the amount of \$450,088.82 for attorneys' fees and the Kern County Treasurer Tax Collector
25 ("KCTTC") filed a secured claim in the amount of \$11,793.45 for estimated property taxes due on or
26 before June 30, 2017. The attorneys' fee claim is being satisfied by way of the settlement with
27 MOC. Debtor is current on its property taxes and will pay the estimated property taxes claimed by
28

1 the KCTTC on or before the due date. Debtor does not believe there will be any Other Secured
2 Claims on the Effective Date.

3 **2.2.6 Priority Tax Claims**

4 Debtor's only Priority Tax Claim listed in its schedules is for \$800.00 to the California
5 Franchise Tax Board for a corporate fee. However, the following proofs of claim have been filed
6 by: (a) the Internal Revenue Service ("IRS") for unassessed liabilities for employee withholdings
7 for the period ending July 31, 2017 (amended claim) in the amount of \$650.00; and (b) the
8 California State Controller's Office for production tax payments in the amount of \$11,257.52. The
9 IRS claim will be satisfied through the quarterly payments made to the taxing agency by Debtor's
10 payroll service. The CSC claim is an estimated contingent claim based on Debtor's failure to
11 comply with its decommissioning obligations with the Department of the Interior, Bureau of Land
12 Management. Based on the foregoing, Debtor does not believe there will be any Priority Tax Claims
13 owed on the Effective Date. The Bar Date for governmental units to file claims against the Debtor
14 was September 19, 2017.

15 **2.2.7 Priority Non-Tax Claims**

16 The Debtor has not scheduled any Priority Non-Tax Claims and does not believe any will
17 exist on the Effective Date. Traveler's filed a Priority Claim under 507 (a)(2) in the amount of \$0.00.

18 **2.2.8 General Unsecured Claims**

19 Debtor listed general unsecured debts of \$959,894.20 on its Schedule F. However,
20 \$127,849.00 of that amount is owed to Dwayne and Patricia Roach and another \$196,800.00 is owed
21 to Dark Rock, a related entity. Additionally, \$435,000 of that amount is owed to WFBM, LLC,
22 Debtor's litigation attorneys and a finance agreement was in place at the time of filing.

23 The claims of Dark Rock, Dwayne and Patricia Roach, MOC/NPA, and WFBM, LLC are
24 separately classified under the Plan because their treatment will be different than that of the General
25 Unsecured Claims.

26 The Debtor estimates that the aggregate amount of Allowed General Unsecured Claims not
27 separately classified will be approximately \$200,000.00.

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ARTICLE III

SIGNIFICANT POST-PETITION EVENTS

Since the Petition Date, significant events in the Debtor's Chapter 11 Case have included the following filings and entered orders. Copies of all relevant court papers are on file with the Bankruptcy Court.

3.1 Administrative and Operational Motions and Applications

Subsequent to the filing of its voluntary petition, among other things, Debtor moved for and obtained the following relief:

3.1.1 Cash Collateral Motion

On March 31, 2017, Debtor filed an *Emergency Motion for Interim Order Authorizing Use of Cash Collateral for the Period April 1-30, 2017 and for a Final Hearing on Use for May and June 2017* [Docket No. 11] and on April 3, 2017, *Debtor's Amended Emergency Motion for Interim Order Authorizing Use of Cash Collateral for the Period April 1-30, 2017 and for a Final Hearing on Use for May and June 2017* [Docket No. 45] (collectively the "**Cash Collateral Motion**"), by which Debtor sought entry of an order (a) authorizing it to use cash on hand, money on deposit and accounts receivable which constitutes cash collateral of USB; and (b) providing USB with certain adequate protection.

On April 13, 2017, the Court conducted a preliminary hearing regarding the Cash Collateral Motion and entered an *Order Authorizing Interim Cash Collateral Use and Granting Adequate Protection* [Docket No. 41], in which it authorized Debtor to use cash collateral on an interim basis through May 4, 2017. The Court granted adequate protection to USB in the form of replacement liens on Debtor's post-petition assets of the like kind and to the same extent as existed prior to the Petition Date. The Court scheduled a further hearing regarding the Cash Collateral Motion and set it for hearing on May 4, 2017.

On April 6, 2017, Debtor and USB entered into a *Stipulation Between United Security Bank and Debtor Regarding Use of Cash Collateral for the Period April 1-30, 2017* [Docket No. 55] (the "**Cash Collateral Stipulation**"), specifying the terms for cash collateral use on an interim basis and

1 the provisions for adequate protection to be given to USB. On April 10, 2017, MOC and NPA filed
2 a limited opposition to the Cash Collateral Motion [Docket No. 57].

3 At the final hearing on the Cash Collateral Motion on May 4, 2017, the Court granted the
4 Motion but only on a further interim basis until June 30, 2017, and set the matter for an evidentiary
5 hearing on June 29, 2017. On May 16, 2017, the Court entered its order granting the Cash
6 Collateral Motion on an interim basis through June 30, 2017 [Docket No. 122] (the “**Initial Cash**
7 **Collateral Order**”). The Cash Collateral Order provided Debtor with authority to operate its
8 business and use cash collateral through June 30, 2017 in accordance with the terms of the order and
9 the budget attached to it. Among other protections afforded USB, the Initial Cash Collateral Order
10 provided USB with adequate protection payments in the amount of \$2,500.00 per month plus interest
11 commencing in April.

12 Prior to the deadlines set forth by the court regarding the evidentiary hearing, Debtor and
13 MOC/NPA entered into a Stipulation to Continue the evidentiary hearing to provide the parties with
14 additional time to resolve the pending disputes regarding the use of cash collateral. Debtor also
15 entered into a Stipulation with USB to extend the use of Cash Collateral through November 30, 2017
16 (the “**Second Cash Collateral Stipulation**”). The Court entered orders approving the stipulations
17 with MOC/NPA and USB on June 28, 2017. The evidentiary hearing on Debtor’s use of cash
18 collateral was dropped from calendar after MOC/NPA filed a withdrawal of their objection. Debtor
19 has received approval for use of Cash Collateral through November 30, 2017.

20 **3.1.2 Application to Employ General Insolvency Counsel**

21 On March 23, 2017, Debtor filed an application [Docket No. 4] to employ BBR as its general
22 insolvency counsel in order to assist Debtor in its responsibilities as debtor in possession, including
23 consulting with Debtor’s principals regarding Debtor’s financial situation, preparing documents
24 necessary to commence the Chapter 11 Case, helping formulate a chapter 11 plan and prosecuting
25 legal proceedings towards confirming such plan, preparing complaints to address avoidance actions,
26 motions to borrow money, sell property, or to compromise or disallow claims.

27 Initially, the Application was filed without setting it for hearing. After the filing of the
28 Application and at the request of the United States Trustee, Debtor set the Application for hearing

1 and filed a supplemental declaration of T. Scott Belden addressing the United States Trustee's
2 concerns. The BBR Application was heard on April 13, 2017, at which hearing the Court granted
3 the Application. An Order Authorizing Employment of Belden Blaine Raytis, LLP was entered on
4 April 19, 2017 (Dkt. 66)

5 **3.1.3 Application to Employ Wayne Long & Associates as CPA**

6 On August 25, 2017, Debtor filed a motion to employ Wayne Long & Associates ("WLA"),
7 to provide accounting services to Debtor, including the preparation of annual audited financial
8 statements, tax returns and the Monthly Reports of Operation. WLA was recently retained by
9 Debtor to perform these services due to its prior accountant's representation of Debtor's principals
10 and related affiliates. Debtor anticipates the motion will be approved on or about September 28,
11 2017.

12 **3.1.4 Motion to Extend Time to Assume/Reject Leases**

13 On June 15, 2017, Debtor filed a motion [Docket No. 153] seeking an order granting a ninety
14 (90) day extension of time to assume, assume and assign, or reject its leases, including but not
15 limited to the rights under oil and gas leases and/or Mineral Fee and/or Fee Land and Mineral
16 Agreements and the office lease with Dark Rock (collectively the "Leases") pursuant to section
17 365(d)(4) of Chapter 11 of Title 11 of the United States Bankruptcy Code and Federal Rules
18 Bankruptcy Procedure, Rule 6006 to the extent such interests were considered "non residential real
19 property leases." The hearing on the Assumption/Rejection of Leases Motion was held on June 29,
20 2017 and an order granting the motion was entered on July 5, 2017 (Dkt. 185).

21 **3.1.5 Applications to Employ WFBM, LLC**

22 On June 30, 2017, Debtor filed an application [Docket No. 179] seeking to employ
23 Walsworth WFBM, LLP as special counsel under section 327(e) of the Bankruptcy Code for the
24 purpose of assisting and representing Debtor in the following litigation:

- 25 a. *Pace Diversified Corporation, a California Corporation vs. National Petroleum*
26 *Associates, a California Limited Partnership; Macpherson Oil Company, a*
27 *California Corporation, and DOES 1 through 50 inclusive, Kern County Superior*
28 *Court Case No. S1500-CV-279640-SPC (the "Gardner Lease Litigation"); WFBM*

1 represents the interests of Debtor as Plaintiff and Cross-Defendant in this quiet title –
2 adverse possession case.

3 b. *Pace Diversified Corporation, a California Corporation vs. Macpherson Oil*
4 *Company, a California Corporation, and DOES 1 through 100, inclusive*, Kern
5 County Superior Court Case No. BCV-15-101562-DRL; WFBM currently represents
6 the interests of Debtor as Cross-Defendant in this action (the “Contingency Litigation
7 and/or Section 17 Litigation.”).

8 The Contingency Litigation and Gardner Lease Litigation shall be known collectively as the
9 “Litigation”. The hearing on the WFBM Application was held on August 3, 2017, and the WFBM
10 Application was approved. An Order Authorizing the Employment of WFBM was entered on
11 August 11, 2017 (Dkt. 244).

12 **3.1.6 Motion to Extend Exclusive Period to Accept/Reject Plan**

13 Debtor filed a *Motion for Order Extending the Exclusivity Period to Accept/Reject the Plan*
14 *of Reorganization filed by Debtor*, requesting that the Court extend the time for the Debtor to solicit
15 acceptances of its Plan filed on July 20, 2017 for an additional 120 days. The hearing on that
16 Motion took place on August 31, 2017. The motion was granted and Debtor’s exclusive right to
17 seek acceptance of a Plan was extended to and including January 18, 2017.

18 **3.1.7 Motion for Relief From Stay Filed by Macpherson Oil Company and** 19 **National Petroleum Associates.**

20 MOC and NPA filed a *Motion for an Order Granting Relief from Stay to Pursue Pending*
21 *Action in Non Bankruptcy Forum Pursuant to 11 USC Section 362(d)(1)* on April 25, 2017 (Dkt. 73)
22 which sought an order authorizing it to proceed with the Gardner Lease Litigation. Debtor filed an
23 opposition to MOC’s Motion for Relief from Stay (Dkt.107); however, the motion was granted at the
24 hearing held on May 25, 2017. An *Order Granting Relief from Stay to Pursue Pending Action in*
25 *Non Bankruptcy Forum Pursuant to 11 USC Section 362(d)(1)* was entered by the bankruptcy court
26 on May 30, 2017 (Dkt. 134).

1 **3.1.8 Motion for Relief From Stay filed by United Security Bank.**

2 United Security Bank (“USB”) filed a *Motion for Relief from Stay to Offset Deposit Account*
3 on May 15, 2017 (Dkt. 114). By way of its motion, USB sought to offset a claim against Debtor
4 purportedly secured by a CD held by USB in Debtor’s name. The claim amount is approximately
5 \$66,000.00 and the CD held by USB is in the amount of \$70,000.00. Debtor and USB are working
6 to resolve this claim issue and have entered into three stipulations to continue the hearing on this
7 matter while these issues are worked out. A continued hearing is currently set for November 30,
8 2017 (Dkt. 276). However, the hearing will be dropped because USB has been paid in full.

9 **3.1.9 Motion to Compromise with Macpherson and National Petroleum.**

10 Following two days of mediation in July 2017, Debtor reached a Stipulated Settlement with
11 Macpherson and NPA. The Settlement resolved the pending litigation between the parties and will
12 provide \$500,000.00 for use to pay claims owed by Debtor. A Motion to Approve Compromise was
13 filed by Debtor on July 26, 2017, and was approved on August 11, 2017. (Dkt. 245). Disputes have
14 arisen about one of the key terms of the Settlement, the terms of a quitclaim deed relative to the
15 Gardner Lease. The parties are scheduled to arbitrate that portion of the dispute in December 2017.

16 **3.1.10 Motion to Compromise with Traveler’s.**

17 After two months of exchanging valuations with Traveler’s Insurance Company, Debtor
18 reached an agreement whereby Traveler’s would pay Debtor about \$498,000.00 for the destruction
19 of Debtor’s workover rig. Debtor sought approval of the compromise with Traveler’s on August 25,
20 2017. The compromise was approved on September 8, 2017 (Dkt. 282) and Traveler’s has paid the
21 settlement.

22 **3.2 Filing of Debtor’s Schedules; Bar Dates**

23 **3.2.1 Schedules and Statements of Financial Affairs**

24 Debtor filed its Schedules and Statement of Financial Affairs on April 6, 2017. Debtor has
25 not filed any amendments to the Schedules and Statement of Financial Affairs.
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3.2.2 Monthly Operating Reports

Debtor is current on the filing of its Monthly Operating Reports as required by 11U.S.C. section 2015 and Local Rule 2015-1. The following is a summary of Debtor’s post-petition income and expenses:

Period Covered	Income	Expenses	Net Income
March 23-31, 2017	\$0.45	(\$5,471.49)	(\$5,471.04)
April 1-30, 2017	\$79,027.77	(\$56,590.48)	\$22,437.29
May 1-31, 2017	\$72,146.16	(\$61,709.69)	10,436.47
June 1-30, 2017	\$72,535.38	(\$80,957.37)	(\$8,421.99)
July 1-31, 2017	\$61,897.40	(\$80,390.59)	(\$18,493.19)
August 1-31, 2017	\$82,309.04	(\$63,083.13)	\$19,225.91
Totals	\$367,916.20	(\$348,202.75)	\$19,713.45

The reports are available on the Court’s docket or from Debtor’s attorneys upon request.

3.2.3 Claims Bar Dates

On March 28, 2017, the Bankruptcy Court issued a *Notice of Chapter 11 Bankruptcy Case* in Debtor’s Chapter 11 Case [Docket No. 24] which established July 31, 2017, as the general Bar Date in the Debtor’s Chapter 11 Case and September 19, 2017, as the claims Bar Date for governmental units in the Chapter 11 Case.

3.3 Meeting of Creditors

The Meeting of Creditors, as required by section 341(a) of the Bankruptcy Code, was scheduled for May 2, 2017, and was concluded that day.

ARTICLE IV

DESCRIPTION OF THE PLAN

A discussion of the principal provisions of the Plan as they relate to the treatment of Classes of Allowed Claims and Interests is set forth below. The discussion of the Plan that follows constitutes a summary only and should not be relied upon for voting purposes. You are urged to

1 read the Plan in full in evaluating whether to accept or reject the Plan proposed by the Debtor. If any
 2 inconsistency exists between this summary and the Plan, the terms of the Plan will control.

3 **4.1.1 Classification of Claims and Interests**

4 **4.2 Summary of Classification.**

5 In accordance with section 1123(a)(1) of the Bankruptcy Code, all Claims of Creditors
 6 (except those Claims receiving treatment as set forth in Article 2 of the Plan) are placed in the
 7 Classes described below for all purposes, including voting on, Confirmation of, and Distributions
 8 under, the Plan.

<u>Class</u>	<u>DESCRIPTION</u>	<u>VOTING</u>
CLASS 1	UNIMPAIRED CLAIM OF BLUE ROCK	UNIMPAIRED, NOT ENTITLED TO VOTE
CLASS 2	USB SECURED CLAIMS	UIMPAIRED, NOT ENTITLED TO VOTE
CLASS 3	PRIORITY TAX CLAIMS	UNIMPAIRED, NOT ENTITLED TO VOTE
CLASS 4	PRIORITY NON-TAX CLAIMS	UNIMPAIRED, NOT ENTITLED TO VOTE
CLASS 5	GENERAL UNSECURED CLAIMS	IMPAIRED, ENTITLED TO VOTE
CLASS 6	CLAIMS OF MACPHERSON OIL COMPANY AND NATIONAL PETROLEUM ASSOCIATES	UNIMPAIRED, NOT ENTITLED TO VOTE
CLASS 7	WFBM UNSECURED CLAIM	IMPAIRED, ENTITLED TO VOTE
CLASS 8	INSIDER CLAIMS (DARK ROCK)	IMPAIRED, ENTITLED TO VOTE
CLASS 9	INSIDER CLAIM (DWAYNE AND PATRICIA ROACH)	IMPAIRED, ENTITLED TO VOTE

ARTICLE V

TREATMENT OF CLAIMS AND INTERESTS

5.1 Class 1 – Blue Rock.

5.1.1 Impairment and Voting.

Blue Rock is unimpaired under the Plan. Blue Rock is not entitled to vote on the Plan.

5.1.2 Treatment.

(a) Blue Rock shall retain its production payment interest in Debtor’s oil and gas production until such time as the financial requirements for release of that interest are met pursuant to the Conveyance of Production Payment effective July 1, 2014. The Class One Claim shall not accrue interest. Upon satisfaction of the conditions set forth in the contract documents between Blue Rock and Debtor, such interest shall be deemed fully satisfied and shall be released.

(b) Allowance of Class 1 Claim

The Class One Claim of Blue Rock shall be allowed as non-recourse to the Debtor and rather a claim against assets of the Debtor as specified and limited by the Conveyance of Production Payment. Nothing in this Plan shall enlarge or abridge Blue Rock’s rights with respect to its interests in Debtor’s production.

5.2 Class 2 – Claims of United Security Bank.

5.2.1 Impairment and Voting.

The Class Two Claims, having been fully satisfied, are unimpaired and not entitled to vote on the Plan.

5.2.2 Treatment of Class Two Claims.

The Class Two Claims, having been fully satisfied, shall not be entitled to any distributions under the Plan.

5.3 Class 3 – Priority Tax Claims.

5.3.1 Impairment and Voting.

Class 3 is unimpaired under the Plan. Holders of Allowed Priority Tax Claims are deemed to accept the Plan under section 1126(f) of the Bankruptcy Code and holders of Class 3 Claims are not entitled to vote on the Plan.

1 **5.3.2 Treatment.**

2 Provided that an Allowed Priority Tax Claim has not been paid prior to the Effective Date,
3 on, or as soon as reasonably practicable after, the later of (x) the Effective Date and (y) the date a
4 Priority Tax Claim becomes Allowed, each holder of such Allowed Priority Tax Claim shall receive,
5 in full and final satisfaction, settlement and release of and in exchange for such Allowed Tax Priority
6 Claim, (a) Cash equal to the unpaid portion of such Allowed Tax Priority Claim, or (b) such other
7 treatment as to which such holder and Debtor shall have agreed upon in writing.

8 **5.4 Class 4 – Priority Non-Tax Claims.**

9 **5.4.1 Impairment and Voting.**

10 Class 4 is unimpaired under the Plan. Holders of Allowed Priority Non-Tax Claims are
11 deemed to accept the Plan under section 1126(f) of the Bankruptcy Code and holders of Class 4
12 Claims are not entitled to vote on the Plan.

13 **5.4.2 Treatment.**

14 Provided that an Allowed Priority Non-Tax Claim has not been paid prior to the Effective
15 Date, on, or as soon as reasonably practicable after, the later of (x) the Effective Date and (y) the
16 date a Priority Non-Tax Claim becomes Allowed, each holder of such Allowed Priority Non-Tax
17 Claim shall receive, in full and final satisfaction, settlement and release of and in exchange for such
18 Allowed Non-Tax Priority Claim, (a) Cash equal to the unpaid portion of such Allowed Non-Tax
19 Priority Claim, or (b) such other treatment as to which such holder and Debtor shall have agreed
20 upon in writing.

21 **5.5 Class 5 – General Unsecured Claims.**

22 **5.5.1 Impairment and Voting.**

23 Class 5 shall consist of the general unsecured claims not separately classified under the Plan.
24 Class 5 is impaired under the Plan. Holders of General Unsecured Claims are entitled to vote on the
25 Plan.

26 **5.5.2 Treatment.**

27 On the later of (x) the date that is one (1) year after the Effective Date, or (y) as soon as
28 reasonably practicable after the date a General Unsecured Claim becomes Allowed, the holder of an

1 Allowed General Unsecured Claim shall receive a Cash payment in the amount of such holder's
2 Allowed Claim, in full and final satisfaction, settlement and release of and in exchange for such
3 Allowed General Unsecured Claim. The Class 5 Claims shall be paid in full from the sale of
4 equipment, collection of receivables, or refinance within one year of the Effective Date.

5 **5.6 Class 6 – Claims of MacPherson Oil Company and National Petroleum Associates.**

6 **5.6.1 Description.**

7 Class 6 consists of the general unsecured Claims of MOC and NPA arising from (a) the
8 Gardner Litigation and (b) the Contingency Litigation.

9 **5.6.2 Impairment and Voting.**

10 The Class 6 Claims have been extinguished by virtue of the Order Approving Compromise of
11 Controversy entered on August 11, 2017 (the "Macpherson Order"). (Dkt. 245). Therefore, Class 6
12 is unimpaired under the Plan and is not entitled to vote.

13 **5.6.3 Treatment.**

14 Class 6 shall be fully satisfied by the effectuation of the terms and conditions of the
15 Macpherson Order and shall not be entitled to distributions under the Plan.

16 **5.7 Class 7 – WFBM, LLC Unsecured Claim.**

17 **5.7.1 Impairment and Voting.**

18 Class 7 is impaired under the Plan. The holder of the WFBM, LLC Claim is entitled to vote
19 on the Plan.

20 **5.7.2 Treatment.**

21 The Allowed Class 7 Claim shall not accrue interest so long as the payments required under
22 the Plan are timely made. In the event of default, interest shall accrue at the rate of ten (10%) per
23 annum until the default is cured. Unless there is a default in payment, no interest shall accrue. Prior
24 to the trial in the Gardner Lease Litigation, Debtor's principals shall make a capital contribution to
25 pay the amount of the WFBM, LLC claim to be reduced to \$350,000.00. Additionally, commencing
26 on the Effective Date and each month thereafter, payments of \$10,000.00 per month shall be made to
27 WFBM, LLC by Debtor until the Allowed Class 7 claim is paid in full.
28

1 **5.8 Class 8 – Insider Claims of Dark Rock, LLC.**

2 **5.8.1 Impairment and Voting.**

3 Class 8 Claims consist of the Allowed Claims of Dark Rock. Class 8 Claims are impaired
4 and are entitled to vote on the Plan.

5 **5.8.1 Treatment.**

6 Class 8 Claims shall be subordinated to all Class 1 through 5 claims and shall not receive
7 distributions until such claims are paid in full. Commencing after the satisfaction of all Class 1
8 through 5 Claims, payments may be made to Dark Rock from available cash; provided, however,
9 that the Reorganized Debtor is current on its payments to the Class 7 claimant and is otherwise
10 paying its debts in the ordinary course of business. Additionally, to the extent that Dark Rock makes
11 an unsecured loan to Debtor during the pendency of the case for the purposes of paying attorneys
12 fees owed to WFBM, LLC, for Gardner Lease litigation costs, Dark Rock shall be entitled to
13 repayment of such loans at the same time the Class 2 through 5 Claimants receive their payment as
14 long as those claims are paid in full before Dark Rock is paid.

15 **5.9 Class 9 – Insider Claims of Patricia and Dwayne Roach.**

16 **5.9.1 Impairment and Voting.**

17 Class 9 Claims consist of the Allowed Claims of Patricia and Dwayne Roach. Class 9
18 Claims are impaired and are entitled to vote on the Plan.

19 **5.9.2 Treatment.**

20 Class 9 Claims shall be subordinated to all Class 1 through 8 claims and shall not receive
21 distributions until such claims are paid in full. Commencing after the satisfaction of all Class 1
22 through 8 Claims, payments may be made to the Class 9 claimants from available cash; provided,
23 however, that the Reorganized Debtor is otherwise paying its debts in the ordinary course of
24 business.

25 **5.10 Class 10 – Interests.**

26 **5.10.1 Impairment and Voting.**

27 Class 10 consists of the Interests in Debtor. Class 10 is unimpaired under the Plan.
28 Treatment.

1 Holders of Interests in the Debtor shall retain their interests. However, they will not be
2 entitled to receive any Distributions on account of such Interests until such time as the Class 1
3 through 9 claims are paid in full or the Class 8 and 9 claimants consent in writing.

4 **5.11 Nonconsensual Confirmation.**

5 The Debtor hereby requests Confirmation of the Plan pursuant to section 1129(b) of the
6 Bankruptcy Code in the event that not all impaired classes of Claims vote to accept the Plan in
7 accordance with section 1126 of the Bankruptcy Code.

8 **ARTICLE VI**

9 **EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

10 **6.1 Assumption.**

11 On the Effective Date, pursuant to section 1123(b)(2) of the Bankruptcy Code, the
12 Reorganized Debtor will assume all of its executory contracts and unexpired leases of the Debtor,
13 except as specifically listed as rejected in a Plan Supplement filed concurrently with the Plan. Each
14 executory contract and unexpired lease listed in the Plan Supplement shall include any
15 modifications, amendments and supplements to such agreement, whether or not listed in the Plan
16 Supplement. The Plan Supplement shall identify the amount, if any, the Debtor propose to pay to
17 satisfy the Assumption Obligations for each executory contract and unexpired lease to be assumed.

18 **6.2 Rejection.**

19 Except as set forth in the Plan, on the Effective Date, pursuant to section 1123(b)(2) of the
20 Bankruptcy Code, the Debtor will reject any and all executory contracts and unexpired leases
21 identified in the Plan Supplement or in the Plan, including, without limitation, any executory
22 contracts and unexpired leases expressly identified for rejection in the Plan Supplement (together
23 with any additions, deletions, modifications or other revisions to such exhibit as may be made prior
24 to the Effective Date). Any Person asserting any Claim for damages arising from the rejection of an
25 executory contract or unexpired lease of a Debtor under the Plan shall file such Claim on or before
26 the Rejection Claim Bar Date, or be forever barred from: (a) asserting such Claim against the
27 Reorganized Debtor, the Debtor or the Estate Assets, and (b) sharing in any Distribution under the
28 Plan.

1 **6.3 Assumption Obligations.**

2 The Reorganized Debtor shall satisfy all Assumption Obligations, if any, by making a Cash
3 payment or as otherwise permitted by section 365(b)(1)(B) of the Bankruptcy Code, equal to the
4 amount specified in the Plan Supplement, unless an objection to the amount identified in the Plan
5 Supplement is filed with the Bankruptcy Court and served on counsel to the Debtor on or prior to the
6 date set by the Bankruptcy Court for filing objections to Confirmation of the Plan and the
7 Bankruptcy Court, after notice and hearing, determines that the Reorganized Debtor is obligated to
8 pay a different amount under section 365 of the Bankruptcy Code, in which case, the Reorganized
9 Debtor shall have the right within ten (10) days after such determination to seek an order of the
10 Bankruptcy Court rejecting such executory contract or unexpired lease. Any Person that fails to
11 object to the Assumption Obligation amount specified in the Plan Supplement on or prior to the date
12 set by the Bankruptcy Court for filing objections to Confirmation of the Plan and/or other
13 subsequent date(s) set by the Bankruptcy Court, as applicable, shall be forever barred from: (a)
14 asserting any other, additional or different amount on account of such obligation against the
15 Reorganized Debtor, the Debtor or the Estate Assets, and (b) sharing in any other, additional or
16 different Distribution under the Plan on account of such obligation. At this time, Debtor does not
17 believe that its assumption obligations will be significant and are already reflected in the amounts
18 listed as General Unsecured Claims.

19 **6.4 Effect of Confirmation Order.**

20 The Confirmation Order shall constitute an order of the Bankruptcy Court approving, as of
21 the Effective Date, the assumption or rejection by the Debtor pursuant to sections 365(a) and
22 1123(b)(2) of the Bankruptcy Code, of all executory contracts and unexpired leases identified in the
23 Plan or Plan Supplement. The contracts and leases identified in the Plan or Plan Supplement will be
24 assumed or rejected, respectively, only to the extent that such contracts or leases constitute pre-
25 petition executory contracts or unexpired leases of the Debtor, and the identification of such
26 agreements does not constitute an admission with respect to the characterization of such agreements
27 or the existence of any unperformed obligations, defaults, or damages thereunder. The Plan does not
28 affect any executory contracts or unexpired leases that: (a) have been assumed, rejected or

1 terminated prior to the Confirmation Date, or (b) are the subject of a pending motion to assume,
2 reject or terminate as of the Confirmation Date.

3 **ARTICLE VII**

4 **IMPLEMENTATION OF THE PLAN**

5 In addition to the provisions set forth elsewhere in the Plan regarding means of execution, the
6 following shall constitute the principal means for the implementation of the Plan.

7 **7.1 Continuing Operations.**

8 Debtor intends to continue operation. Debtor has prepared a two year budget attached hereto
9 as Exhibit "A". These projections are based upon an oil price of \$43.50 per barrel, which Debtor
10 believes is achievable and may be exceeded in this period. Debtor's budgets show generation of an
11 excess of \$529,419.06 to make plan payments and also to provide a cushion in the event sales are
12 less than expected.

13 **7.2 Insurance Proceeds**

14 As noted above, a workover rig owned by Debtor has been destroyed. This rig had a value of
15 \$765,000.00 and was fully insured at the time of the incident. There is a retention amount of
16 \$50,000.00. On September 20, 2017, Debtor received about \$498,000.00 from Traveler's in full
17 satisfaction of the insurance claim. Debtor anticipated retaining up to \$150,000.00 of the proceeds
18 to purchase a new basic remedial well repair rig. Debtor plans to upgrade and retrofit the rig to its
19 previous workover and drilling capabilities at a later date. An additional \$160,000.00 has been paid
20 to United Security Bank on account of its lien. This payment has satisfied the Class 2 claims.

21 The remaining proceeds will be used to fund payment of administrative claims, Priority Tax
22 Claims, and non-insider general unsecured creditors as provided under the Plan.

23 **7.3 Sale of Assets or Refinance.**

24 In addition to the workover rig, Debtor possesses other equipment and assets that are more
25 than sufficient to pay off the claims of non-insiders. To the extent that the foregoing is insufficient
26 to pay non-insider claims, sufficient assets will be sold to satisfy claims of non-insiders that are
27 required to be paid under the Plan within one year of the Effective Date. In the event Debtor is not
28 able to do so through the sale of equipment, Dark Rock will refinance its assets to pay off any

1 remaining claims that are required to be paid on or before one year of the Effective Date of the Plan.
2 Dark Rock Assets are valued at \$1,334,423.00, including the facility rented by the Debtor, and
3 presently has no secured debt. Dark Rock has executed an agreement to refinance to pay these
4 claims and this confirmation is contained in the Plan.

5 **7.4 Olcese Section 17 Litigation Proceeds.**

6 On November 24, 2015, Pace filed suit against MOC to recover for losses it sustained from
7 the illegal injection wells in the Round Mountain Oilfield at the Olcese lease, based upon the
8 information Pace learned about during the expert discovery in the original lawsuit. The case went
9 through multiple pleading challenges, and with the Fourth Amended Complaint, Pace is seeking
10 recovery for trespass and unfair business practices.

11 MOC drilled two injection wells (subject to strict regulation to prevent water contamination
12 and damage to natural resources) in the Olcese lease. Pace believes that these wells did not go
13 through the proper review by DOGGR. Given the questionable nature of these injection wells, it
14 was not surprising that on October 1, 2015, MOC agreed to stop injecting into both wells.

15 At a two day mediation held on July 18 and July 20, 2017, Debtor, MOC and NPA have
16 reached an overall settlement of the series of claims described above. The essential terms of the
17 Settlement are:

- 18 a. Payment of \$500,000 by MOC's insurance carrier on account of Section 17
19 litigation.
- 20 b. Waivers of various claims including all claims arising in the Gardner Lease
21 Litigation and the Section 17 litigation, including a Section 1542 waiver.
- 22 c. MOC is to quitclaim interests in the Gardner property and reserve a 12.5%
23 override.
- 24 d. MOC is to waive its rights to unpaid royalties on the Gardner Lease, but retain
25 all royalties previously paid by Debtor.
- 26 e. MOC to plug and abandon certain wells on Section 17.
- 27 f. There shall be no modification of ownership interests of the Debtor or MOC as
28 to Section 17.
- g. Parties are to bear own fees and expenses.

- 1 h. Before any further suits between Debtor, MOC and NPA are commenced, pre-
2 litigation mediation is required.
- 3 i. The Superior Court is to retain jurisdiction to enforce the settlement.
- 4 j. A formal settlement agreement is to be drafted and executed.

5 By Order dated August 11, 2017, the Settlement was approved. The Settlement has been
6 partially effectuated; however, the parties dispute the requirements of the Quitclaim Deed identified
7 in (d) above. That issue is set for arbitration in December 2017.

8 The Settlement resolved the Gardner Lease Litigation and Section 17 Litigation through
9 September 1, 2017. However, Debtor continues to dispute whether MOC has an interest in Section
10 17. Based upon information exchanged between the parties, the open Section 17 issue appears to
11 involve about \$4,300.00 in potential royalties. All other issues have been resolved and payment will
12 be made prior to the Effective Date of the \$500,000.00 settlement proceeds.

13 **7.5 The Debtor After the Effective Date**

14 **7.5.1 Continued Existence of the Reorganized Debtor**

15 As of the Effective Date, the Reorganized Debtor shall maintain its legal existence for all
16 purposes under the Plan, retaining all the powers of a legal entity under applicable law.

17 **7.5.2 Revesting of Estate Assets**

18 Upon the Effective Date, the Reorganized Debtor shall be vested with all rights, title and
19 interest in the Estate Assets and such property shall become the property of the Reorganized Debtor
20 free and clear of all Claims, Liens, charges, other encumbrances and Interests, except as set forth in
21 the Plan.

22 **7.5.3 Retained Causes of Action and/or Defenses**

23 Debtor has listed in its Schedules of Assets and Liabilities, all known Claims, Causes of
24 Action, and Defenses possessed by Debtor on the Petition Date. Nonetheless, unless any Cause of
25 Action and/or Defense is expressly waived, relinquished, released, compromised, or settled in the
26 Plan or any Final Order (including, without limitation, the Confirmation Order), the Debtor and the
27 Reorganized Debtor expressly reserve such Causes of Action and/or Defenses for later adjudication
28 or other use by the Reorganized Debtor. The reservation set forth in this section shall include,

1 without limitation, a reservation by the Debtor and the Reorganized Debtor of any Causes of Action
2 and/or Defenses not specifically identified in the Plan or Disclosure Statement, or of which the
3 Debtor may presently be unaware, or which may arise or exist by reason of additional facts or
4 circumstances unknown to the Debtor at this time or facts or circumstances that may change or be
5 different from those the Debtor now believes to exist and, therefore, no preclusion doctrine,
6 including, without limitation, the doctrines of res judicata, collateral estoppel, issue preclusion, claim
7 preclusion, waiver, estoppel (judicial, equitable or otherwise), or laches will apply to such Causes of
8 Action and/or Defenses upon or after the Confirmation of the Plan based on the Disclosure
9 Statement, the Plan or the Confirmation Order, except where such claims and/or defenses have been
10 expressly waived, relinquished, released, compromised, or settled in the Plan or a Final Order.
11 Following the Effective Date, the Reorganized Debtor may assert, compromise or dispose of the
12 Causes of Action and/or Defenses without further notice to Creditors or authorization of the
13 Bankruptcy Court.

14 **7.5.4 Post-Effective Date Matters**

15 (a) Continued Business of the Reorganized Debtor

16 From and after the Effective Date, the Reorganized Debtor shall continue to engage in
17 business with the goal of maximizing the value of the Estate Assets and, subject to the Provisions
18 Governing Distributions and Retention of Jurisdiction provisions hereof, the Reorganized Debtor
19 shall continue such business without supervision by the Bankruptcy Court and free of any
20 restrictions under the Bankruptcy Code or the Bankruptcy Rules. The Reorganized Debtor shall be
21 authorized, without limitation, to use and dispose of the Estate Assets, to insure the Estate Assets, to
22 borrow money, to employ and compensate Agents, to reconcile and object to Claims, and, in its
23 capacity as Distribution Agent, to make Distributions to Creditors in accordance with the Plan.

24 (b) Funding of the Reorganized Debtor

25 Funding for the Reorganized Debtor from and after the Effective Date shall be provided from
26 a combination of Cash on hand, insurance proceeds, equipment sale proceeds, refinance by Dark
27 Rock, and proceeds of ongoing operations.
28

1 (c) Management of the Reorganized Debtor

2 It is anticipated that the Reorganized Debtor's management will be substantially the same as
3 its current management. Each of the managers and officers of the Reorganized Debtor shall serve in
4 accordance with applicable nonbankruptcy law and the Reorganized Debtor's Charter, as the same
5 may be amended from time to time. From and after the Effective Date, the managers, directors and
6 officers of the Reorganized Debtor shall be selected and determined in accordance with the
7 provisions of applicable law and the Reorganized Debtor's Charter.

8 **7.5.5 Final Decree**

9 At any time following the Effective Date, the Reorganized Debtor shall be authorized to file
10 a motion for the entry of a final decree closing the Chapter 11 Case pursuant to section 350 of the
11 Bankruptcy Code.

12 **ARTICLE VIII**

13 **EFFECTS OF CONFIRMATION**

14 **8.1 Binding Effect**

15 The rights afforded under the Plan and the treatment of all Claims and Interests under the
16 Plan shall be the sole and exclusive remedy on account of such Claims against, and Interests in the
17 Debtor, the Reorganized Debtor and the Estate Assets, including any interest accrued on such Claims
18 from and after the Petition Date or interest which would have accrued but for the commencement of
19 the Chapter 11 Case. The Distributions made pursuant to the Plan shall be in full and final
20 satisfaction, settlement, release and discharge of the Allowed Claims on account of which such
21 Distributions are made. Confirmation of the Plan shall bind and govern the acts of the Reorganized
22 Debtor, and all holders of all Claims against, and Interests in the Debtor, whether or not: (a) a proof
23 of Claim or proof of Interest is filed or deemed filed pursuant to section 501 of the Bankruptcy
24 Code; (b) a Claim or Interest is allowed pursuant to section 502 of the Bankruptcy Code, or (c) the
25 holder of a Claim or Interest has accepted the Plan.

26 **8.2 Property Reverts Free and Clear**

27 Upon the Effective Date, title to all remaining Estate Assets of the Debtor shall vest in the
28 Reorganized Debtor for the purposes contemplated under the Plan and shall no longer constitute

1 property of the Estate. Except as otherwise provided in the Plan, upon the Effective Date, all Estate
2 Assets of the Debtor shall be free and clear of all Claims and Interests, including Liens, charges or
3 other encumbrances of Creditors of the Debtor.

4 **8.3 Discharge and Permanent Injunction**

5 Except as otherwise set forth in the Plan, Confirmation of the Plan shall discharge the
6 Debtor, the Estate, the Estate Assets and the Reorganized Debtor from all Claims or other debts that
7 arose at any time before the Effective Date, and all debts of the kind specified in sections 502(g),
8 502(h) or 502(i) of the Bankruptcy Code, whether or not: (a) a proof of claim based on such debt is
9 filed or deemed filed under section 501 of the Bankruptcy Code; (b) a Claim based on such debt is
10 Allowed under section 502 of the Bankruptcy Code; or (c) the holder of a Claim has accepted the
11 Plan. As of the Effective Date, all entities that have held, currently hold or may hold a Claim or
12 other debt or liability that is discharged or any other right that is terminated under the Bankruptcy
13 Code or the Plan are permanently enjoined, to the full extent provided under section 524(a) of the
14 Bankruptcy Code, from “the commencement or continuation of an action, the employment of
15 process, or an act, to collect, recover or offset any such debt as a personal liability” of the Debtor,
16 the Estate, the Estate Assets or the Reorganized Debtor, except as otherwise set forth in the Plan.
17 Nothing contained in the foregoing discharge shall, to the full extent provided under section 524(e)
18 of the Bankruptcy Code, affect the liability of any other entity on, or the property of any other entity
19 for, any debt of the Debtor that is discharged under the Plan.

20 **8.4 Limitation of Liability**

21 The Debtor, the Reorganized Debtor, and Agents shall have all of the benefits and
22 protections afforded under section 1125(e) of the Bankruptcy Code and applicable law.

23 **8.5 Release**

24 As of the Effective Date, for good and valuable consideration, the adequacy of which is
25 hereby confirmed, the Debtor, in its individual capacity and as debtor in possession, and the
26 Reorganized Debtor, will be deemed to have (a) forever released, waived, and discharged all claims,
27 obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities (other
28 than the rights of the Debtor or the Reorganized Debtor to enforce the Plan and the contracts,

1 instruments, releases, and other agreements or documents delivered thereunder, and liabilities arising
2 after the Effective Date in the ordinary course of business), whether liquidated or unliquidated, fixed
3 or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or
4 thereafter arising, in law, equity, or otherwise that are based in whole or part on any act, omission,
5 condition, transaction, event, or other occurrences, taking place or existing on or prior to the
6 Effective Date since the beginning of time, in any way directly, indirectly or derivatively arising
7 from or related to the Debtor, the Reorganized Debtor, its operations or securities, any act or
8 omission related to service with or for or on behalf of Debtor, the Chapter 11 Case, the Plan or any
9 act taken pursuant thereto, or the Disclosure Statement (collectively, the “**Released Liabilities**”),
10 and that could have been asserted by or on behalf of the Debtor or its Estate or the Reorganized
11 Debtor, against any of the Releasees, and (b) forever covenanted with each of the Releasees not to
12 sue, assert any claim or claims against or otherwise seek recovery from any Releasee, whether based
13 on tort, contract or otherwise in connection with any of the foregoing Released Liabilities.

14 **8.6 Exculpation**

15 Except as otherwise provided in the Plan, the Debtor, the Estate, the Reorganized Debtor, the
16 Releasees, and any of the foregoing parties’ respective present or former members, officers,
17 directors, employees, advisors, attorneys, representatives, financial advisors, investment bankers,
18 Agents or other Professionals and any of such parties’ successors and assigns, solely in their
19 capacities as such, shall not have or incur any liability for any claim, action, proceeding, cause of
20 action, suit, account, controversy, agreement, promise, right to legal remedies, right to equitable
21 remedies, right to payment, or Claim, whether known, unknown, reduced to judgment, not reduced
22 to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed,
23 secured, or unsecured and whether asserted or assertable directly or derivatively, in law, equity, or
24 otherwise to one another or to any Claim holder or Interest holder, or any other party in interest, or
25 any of their respective Agents, employees, representatives, advisors, attorneys, or affiliates, or any of
26 their successors or assigns, for any act or omission originating or occurring on or after the Petition
27 Date through and including the Effective Date in connection with, relating to, or arising out of the
28 Debtor, the Chapter 11 Case, the negotiation and filing of the Plan, the Disclosure Statement or any

1 prior plans of reorganization, the filing of the Chapter 11 Case, the pursuit of Confirmation of the
2 Plan or any prior plans of reorganization, and in all respects shall be entitled to rely reasonably upon
3 the advice of counsel with respect to their duties and responsibilities under the Plan, provided,
4 however, that the foregoing provisions shall have no effect on the liabilities of any Person that
5 resulted from any such act or omission that is determined in a Final Order of the Bankruptcy Court
6 or other court of competent jurisdiction to have constituted gross negligence or willful misconduct.

7 **ARTICLE IX**

8 **MISCELLANEOUS**

9 **9.1 Effectuating Documents; Further Transactions; Timing**

10 The Debtor and the Reorganized Debtor shall be authorized and directed to execute, deliver,
11 file, or record such contracts, instruments, releases, and other agreements or documents, and to take
12 such actions as may be necessary or appropriate to effectuate and further evidence the terms and
13 conditions of the Plan.

14 **9.2 Exemption from Transfer Taxes**

15 In accordance with section 1146(c) of the Bankruptcy Code, the making, delivery, or
16 recording of a deed or other instrument of transfer under the Plan shall not be subject to any stamp
17 tax or similar tax and the appropriate state or local government officials or agents shall be directed to
18 forego the collection of any such tax and to accept for filing or recordation any of the foregoing
19 instruments or other documents without the payment of any such tax.

20 **9.3 Governing Law**

21 Except to the extent that the Bankruptcy Code or other federal law is controlling, the rights,
22 duties and obligations of the Debtor, Reorganized Debtor and any other Person arising only under
23 the Plan, the Confirmation Order or any Order interpreting, clarifying or modifying the Plan or
24 Confirmation Order shall be governed by, and construed and enforced in accordance with, the
25 internal laws of the State of California, without giving effect to California's choice of law
26 provisions.

27
28

1 **9.4 Modification of Payment Terms**

2 The Debtor or Reorganized Debtor may modify the treatment of any Allowed Claim or
3 Interest in any manner adverse only to the holder of such Claim or Interest at any time after the
4 Effective Date upon the prior written consent of the Person whose Allowed Claim or Interest
5 treatment is being adversely affected.

6 **9.5 Provisions Enforceable**

7 The Confirmation Order shall constitute a judicial determination that the applicable terms of
8 11 U.S.C. § 1129 have been met.

9 **9.6 Quarterly Fees to the United States Trustee**

10 All fees payable under 28 U.S.C. § 1930(a)(6) shall be paid by the Debtor in the amounts and
11 at the times such fees may become due up to and including the Effective Date. Thereafter, the
12 Reorganized Debtor shall pay all fees payable under 28 U.S.C. § 1930(a)(6) until the Chapter 11
13 Case is closed, dismissed or converted. Upon the Effective Date, the Debtor shall be relieved from
14 the duty to make the reports and summaries required under Bankruptcy Rule 2015(a).
15 Notwithstanding the foregoing, the Reorganized Debtor shall file and serve the status reports at such
16 times and for such period as may be set forth in the Confirmation Order.

17 **ARTICLE X**

18 **OTHER IMPORTANT INFORMATION REGARDING THE PLAN**

19 **10.1 Potential Litigation**

20 **10.1.1 Potential Litigation Recoveries**

21 The Debtor has been reviewing available information regarding potential causes of action
22 against third parties, which review is ongoing and which will continue to be conducted by the Debtor
23 and/or its successors or representatives after the Effective Date. The potential net proceeds from the
24 potential causes of action identified herein or that may subsequently arise or be pursued are
25 speculative and uncertain.

26 Existing or potential causes of action that may be pursued by the Debtor and/or its
27 successors or representatives (as applicable) include, without implied limitation, the following: (a)
28 any and all causes of action relating to the matters listed on the Debtor's Schedules and in this

1 Disclosure Statement; (b) all Causes of Action and/or Defenses (except those released pursuant to
2 the Released Liabilities); (c) any other litigation, whether legal, equitable or statutory in nature,
3 arising out of, or in connection with the Debtor's businesses or operations, including, without
4 limitation: disputes with suppliers and customers, overpayments, any amounts owed by any
5 Creditor, vendor or other entity, employee, management, or operational matters, disputes with
6 current or former employees, financial reporting, environmental matters, insurance matters, accounts
7 receivable, warranties, contractual obligations, or tort claims that may exist or subsequently arise;
8 and (d) any causes of action not expressly identified herein.

9 **10.1.2 Estimation of Claims**

10 The Debtor and/or its successors or representatives under the Plan may, at any time, request
11 that the Bankruptcy Court Estimate any Disputed, contingent or unliquidated Claim pursuant to
12 502(c) of the Bankruptcy Code regardless of whether the Debtor, the Reorganized Debtor and/or its
13 successors have previously objected to such Claim or whether the Bankruptcy Court has ruled on
14 any such objection, and the Bankruptcy Court will retain jurisdiction to estimate any Claim at any
15 time during litigation concerning any objection to any Claim, including during the pendency of any
16 appeal relating to any such objection. If the Estimated amount constitutes a maximum limitation on
17 such Claim, the Debtor and/or its successors or representatives under the Plan may elect to pursue
18 any supplemental proceedings to object to any ultimate payment on such Claim.

19 **10.2 Risk Factors**

20 Although the Debtor believes that the Plan is confirmable, there are some risks to the
21 performance of the Plan. Certain specific risks to performance of the Plan are described below.
22 However, the same risks relating to contested Claims described herein are also present in chapter 7
23 cases.

24 **10.2.1 The Plan Projections Are Based on Estimates and Numerous** 25 **Assumptions**

26 Underlying the Plan projections are a number of estimates and assumptions that, although
27 developed and considered reasonable by the Debtor, are inherently subject to economic, business
28 and competitive uncertainties and contingencies beyond the Debtor's control.

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2 **10.2.2 The Debtor May Not Be Successful With Respect to Contested**

3 **Claims**

4 If the Debtor, the Reorganized Debtor and/or its successors or representatives under the Plan
5 are unsuccessful in any objections to Claims, the Estate's total liabilities will be greater than
6 expected, and there may be less Cash available for distribution to holders of Claims. The Debtor and
7 its successors intend to vigorously oppose the allowance of all Claims that they believe are either
8 entirely or in part without merit and prosecute other actions and intends to pay 100% of Allowed
9 Claims.

10 **ARTICLE XI**

11 **REQUIREMENTS FOR CONFIRMATION**

12 Section 1129 of the Bankruptcy Code sets forth the requirements that must be satisfied to
13 confirm a plan of reorganization. A number of the more significant Confirmation requirements are
14 discussed in this section of this Disclosure Statement. Debtor believes it has complied or will
15 comply with each of these requirements.

16 **11.1 Good Faith and Compliance with Law**

17 The Bankruptcy Code requires that a plan of reorganization be proposed in good faith and
18 disclose certain relevant information regarding payments due and the nature of compensation to
19 Insiders. The Debtor believes it has satisfied these requirements and will seek a ruling to that effect
20 from the Bankruptcy Court in connection with Confirmation of the Plan.

21 **11.2 Best Interests**

22 Section 1129(a)(7) of the Bankruptcy Code requires that, with respect to each impaired
23 Class, each member of such Class either (i) has accepted the Plan or (ii) will receive or retain under
24 the Plan on account of its Claim or Interest property of a value, as of the Effective Date, that is at
25 least equal to the amount that such member of the Class would receive or retain if the Debtor was
26 liquidated under chapter 7 of the Bankruptcy Code. The Debtor believes that the Plan meets this test
27 and will seek appropriate findings from the Bankruptcy Court in connection with the Confirmation
28 of the Plan.

1 **11.3 Plan Acceptance**

2 The Bankruptcy Code requires, subject to an exception described in the section below
3 entitled “Confirmation of the Plan Without Acceptance by All Impaired Classes,” that the Plan be
4 accepted by all impaired Classes of Claims and Interests. Classes of Claims that are not impaired
5 (unimpaired) under a plan are deemed to have accepted the plan and are not entitled to vote.

6 The Bankruptcy Code defines acceptance of a plan of reorganization by a Class of Claims as
7 acceptance by holders of at least two-thirds in dollar amount and more than one-half in number of
8 the Allowed Claims in that Class, but for this purpose counts only those Claims that have been voted
9 on the Plan. Holders of Claims who fail to vote or who abstain will not be counted to determine the
10 acceptance or rejection of the Plan by any impaired Class of Claims. Additionally, the vote of any
11 holder will not be counted if the holder is designated by the Bankruptcy Court based on its vote or its
12 solicitation not being in good faith under Bankruptcy Code section 1126(e).

13 **11.4 Confirmation of the Plan Without Acceptance by All Impaired Classes**

14 The Bankruptcy Code provides an exception to the requirement that every Class must accept
15 a plan of reorganization. This exception is commonly known as the “cram down” provision. This
16 provision allows the Debtor to confirm the Plan notwithstanding the rejection by any Class that votes
17 on the Plan. If the Debtor can demonstrate to the Bankruptcy Court that the Plan satisfies the
18 requirements of the “cram down” provision, each impaired Class that voted to reject the Plan or that
19 is deemed to reject the Plan would be bound to the treatment afforded to that Class under the Plan.

20 To obtain Confirmation of the Plan using the “cram down” provision, the Debtor must
21 demonstrate to the Bankruptcy Court that, as to each Class that has rejected the Plan, the treatment
22 afforded to such Class under the Plan “does not discriminate unfairly” and is “fair and equitable.”

23 In general, a plan does not discriminate unfairly if it provides a treatment to the class that is
24 substantially equivalent to the treatment that is provided to other classes that have equal rank. In
25 determining whether a plan discriminates unfairly, courts will take into account a number of factors,
26 including the effect of applicable subordination agreements between parties. Accordingly, two
27 classes of unsecured creditors could be treated differently without unfairly discriminating against
28 either class.

1 In general, the Bankruptcy Code applies a different test to holders of secured claims,
2 unsecured claims, and interests to determine whether the treatment proposed in a plan of
3 reorganization is “fair and equitable.” In general, a plan of reorganization is “fair and equitable” to a
4 holder of –

5 (a) secured claim if the plan provides that the holder (i) will retain the lien or liens
6 securing its claim and (ii) will receive cash payments, normally evidenced by a note, that total at
7 least the amount of its claim, with such payments having a present value at least equal to the value of
8 the collateral securing the claim;

9 (b) unsecured claim if the plan provides that the holder (i) will retain property equal
10 to the amount of its claim or (ii) no holder of a claim or interest that is junior to the creditor receives
11 any value under the plan of reorganization; and

12 (c) equity interest if the plan provides that the holder (i) will retain property equal to
13 the greatest of the allowed amount of any liquidation preference to which such holder is entitled, any
14 redemption price to which such holder is entitled or the value of such interest or (ii) no holder of an
15 interest that is junior to the holder will receive any value under the plan of reorganization.

16 As set forth above, the Plan may be confirmed if certain conditions are met even if the Plan is
17 not accepted by each Class of Claims entitled to vote. The Debtor reserves the right to modify the
18 terms of the Plan as necessary for the Confirmation of the Plan without acceptance by any Impaired
19 Classes. Such modification could result in a less favorable treatment to holders of certain Classes of
20 Claims or Interests than the treatment currently provided in the Plan.

21 **11.5 Feasibility**

22 The Bankruptcy Court must also determine that the Plan is feasible and is not likely to be
23 followed by liquidation or further reorganization of the Debtor. To determine whether the Plan
24 meets this requirement, the Debtor has analyzed its ability to meet its obligations under the Plan.

25 Based on its operational, business and other assumptions identified above, Debtor believes
26 that it will have the financial capability to satisfy its obligations following the Effective Date
27 pursuant to the Plan. The sources of funding of the Plan consist of Cash on hand, insurance
28 proceeds, equipment or asset sales proceeds and/or refinancing by Dark Rock, and proceeds of

1 ongoing operations. The Debtor submits that such sources are more than sufficient to satisfy the
2 payments required to be made under the Plan upon the Effective Date and thereafter. The Debtor
3 will seek a ruling that the Plan is feasible in connection with the Confirmation of the Plan.

4 **ARTICLE XII**

5 **LIQUIDATION ANALYSIS**

6 Pursuant to Bankruptcy Code section 1129(a)(7), unless there is unanimous acceptance of the
7 Plan by an impaired Class, the Debtor must demonstrate, and the Bankruptcy Court must determine
8 that, with respect to such Class, each holder of a Claim will receive property of a value, that is not
9 less than the amount that such holder would receive if the Debtor were liquidated under chapter 7 of
10 the Bankruptcy Code. This requirement is commonly referred to as the "Best Interests Test." For
11 the reasons set forth below, the Debtor believes the Plan satisfies the Best Interests Test.

12 In a chapter 7 case, a trustee would be appointed to liquidate Debtor's Estate Assets. A
13 trustee may de-value the property in order to effectuate an immediate sale of such assets. The going-
14 concern value of Debtor's operations would be lost in a distressed sale scenario, resulting in fewer
15 proceeds available for distribution to Creditors. A trustee may not have sufficient motivation or
16 funds to pursue the liquidation of some of Debtor's main assets, including the unliquidated litigation
17 Claims, and may decide to abandon such assets.

18 Additionally, the chapter 7 trustee is entitled to compensation, generally based on a
19 percentage of the assets liquidated. The chapter 7 trustee would also employ legal counsel and other
20 professionals. If the Debtor's current counsel and advisors were not retained by the chapter 7 trustee
21 or they decided not to take on such engagements, the chapter 7 trustee would employ new
22 Professionals. This layer of chapter 7 administration expenses would be in addition to those
23 administrative expenses and Professional Fees incurred in the Chapter 11 Case, all of which have
24 priority over General Unsecured Claims.

25 It is also anticipated that a chapter 7 liquidation would result in a significant delay in
26 payments to Creditors. Among other things, a chapter 7 case would trigger a new Bar Date for filing
27 Claims that would be more than ninety days following conversion of the Chapter 11 Case to
28 chapter 7. Bankruptcy Rule 3002(c). Hence, a chapter 7 liquidation would not only delay

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Unlike the expected result in a chapter 7 scenario, the Plan provides for payment of Classes of Creditor Claims (except for insider claims and the unliquidated claims of MOC/NPA) either as soon as practicable after the Effective Date (with respect to all such Classes within one year) or through operational revenues over a period of time. The Debtor believes that, in a hypothetical chapter 7 liquidation scenario, such Classes will receive no or substantially less recovery. Under the Plan, the Debtor asserts that holders of all Allowed Claims will receive property of a value that is not less than the amount such Creditors would receive in a chapter 7 case.

The Debtor believes, based on the foregoing, that it is in the best position to bring the greatest return to Creditors under the Plan.

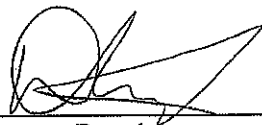
ARTICLE XIII

CONCLUSION


The Debtor believes that the Plan is in the best interests of Creditors and urges such parties to vote to accept the Plan.

Dated: October 6, 2017

PACE DIVERSIFIED CORPORATION

By: 
Dwayne Roach
President

BELDEN BLAINE RAYTIS, LLP

By: 
T. Scott Belden
Attorneys for Debtor

LIST OF EXHIBITS

<u>Exhibit</u>	<u>Description</u>
A Budgets

EXHIBIT A

Budgets

**Pace Diversified Corporation
Expense and Income Budget**

Item	June Budget 2017	July Budget 2017	August Budget 2017	Sept Budget 2017	Oct Budget 2017	Nov Budget 2017	Dec Budget 2017
Income	78,000.00	70,000.00	70,000.00	70,000.00	70,000.00	80,000.00	80,000.00
PG&E *	(15,000.00)	(14,000.00)	(14,000.00)	(14,000.00)	(14,000.00)	(12,000.00)	(12,000.00)
California Water	(15.21)	(15.21)	(15.21)	(15.21)	(15.21)	(15.21)	(15.21)
AT&T	(308.00)	(308.00)	(308.00)	(308.00)	(308.00)	(308.00)	(308.00)
Varner Brothers	(180.19)	(180.19)	(180.19)	(180.19)	(180.19)	(180.19)	(180.19)
Delta Liquid Energy*	(2,900.00)	(2,600.00)	(2,600.00)	(2,600.00)	(2,900.00)	(2,900.00)	(2,900.00)
Telepacific	(796.88)	(796.88)	(796.88)	(796.88)	(796.88)	(796.88)	(796.88)
Rent	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)
Arcc Technology	(1,914.36)	(1,914.36)	(1,914.36)	(1,914.36)	(1,914.36)	(1,914.36)	(1,914.36)
Travelers Ins	(1,300.00)	(1,300.00)	(1,300.00)	(1,300.00)	(1,300.00)	(1,300.00)	(1,300.00)
Travelers Ins	(336.66)	(336.66)	(336.66)	(336.66)	(336.66)	(336.66)	(336.66)
Tire Empire *	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)
KCTTC Reserve	(975.00)	(975.00)	(975.00)	(975.00)	(975.00)	(975.00)	(975.00)
Fuels	(1,250.00)	(1,250.00)	(1,250.00)	(1,250.00)	(1,250.00)	(1,250.00)	(1,250.00)
Payroll	(13,559.32)	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)
Clouser & Son Inc	(5,100.00)	(5,100.00)	(5,100.00)	(5,100.00)	(5,100.00)	(5,100.00)	(5,100.00)
Various *	(250.00)	(250.00)	(250.00)	(250.00)	(250.00)	(250.00)	(250.00)
Various	(1,500.00)	(1,500.00)	(1,500.00)	(1,500.00)	(1,500.00)	(1,500.00)	(1,500.00)
USB	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)
Post Petition Attorneys	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)
Accountant	(600.00)	(600.00)	(600.00)	(600.00)	(600.00)	(600.00)	(600.00)
Gardner Property	(4,300.00)	(4,300.00)	(4,300.00)	(4,300.00)	(4,300.00)	(4,300.00)	(4,300.00)
KC CA Haz Mat (CUPA)							
Litigation Lawyers							
Total Plus or Minus	16,614.38	18,473.70	18,473.70	18,473.70	8,173.70	20,173.70	15,298.70
Royalties	(15,600.00)	(14,000.00)	(14,000.00)	(14,000.00)	(14,000.00)	(16,000.00)	(16,000.00)
Production Tax, CA		(500.00)	(500.00)	(500.00)	(500.00)	(500.00)	(500.00)
Month Cash Flow	1,014.38	3,973.70	3,973.70	3,973.70	(6,326.30)	3,673.70	(1,201.30)
Previous Month Cash	63,043.52	64,057.90	68,031.60	72,005.30	75,979.00	69,652.70	73,326.40
Total Cash	64,057.90	68,031.60	72,005.30	75,979.00	69,652.70	73,326.40	72,125.10
Grand Total Cash							

NOTE: Previous month cash for June is accounts book balances as of end of day May 31, 2017.

BOS Tax/Res Acc DIP 8,716.48
 BOS Business DIP 32,317.26
 WFB Bus Acc Closing 22,009.78
63,043.52

Exhibit A
 Page 1-1

Pace Diversified Corporation
Expense and Income Budget

Item	Purpose	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
		Budget 2018	Budget 2018	Budget 2018	Budget 2018	Budget 2018	Budget 2018	Budget 2018	Budget 2018	Budget 2018	Budget 2018	Budget 2018	Budget 2018
Income		84,000.00	84,000.00	86,000.00	86,000.00	86,000.00	86,000.00	92,000.00	92,000.00	92,000.00	92,000.00	99,000.00	99,000.00
PG&E *		(12,000.00)	(12,000.00)	(12,000.00)	(14,000.00)	(14,000.00)	(14,000.00)	(14,000.00)	(14,000.00)	(14,000.00)	(14,000.00)	(14,000.00)	(14,000.00)
California Water	Power	(15,211)	(15,211)	(15,211)	(15,211)	(15,211)	(15,211)	(15,211)	(15,211)	(15,211)	(15,211)	(15,211)	(15,211)
Water	Water	(308.00)	(308.00)	(308.00)	(308.00)	(308.00)	(308.00)	(308.00)	(308.00)	(308.00)	(308.00)	(308.00)	(308.00)
AT&T	Mobile Phones	(180.19)	(180.19)	(180.19)	(180.19)	(180.19)	(180.19)	(180.19)	(180.19)	(180.19)	(180.19)	(180.19)	(180.19)
Vanner Brothers	Trash Service	(2,900.00)	(2,900.00)	(2,900.00)	(2,900.00)	(2,900.00)	(2,900.00)	(2,900.00)	(2,900.00)	(2,900.00)	(2,900.00)	(2,900.00)	(2,900.00)
Delta Liquid Energy*	Propane	(796.88)	(796.88)	(796.88)	(796.88)	(796.88)	(796.88)	(796.88)	(796.88)	(796.88)	(796.88)	(796.88)	(796.88)
Telepacific	Phone Service	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)
Rent	Office and Yard	(1,914.36)	(1,914.36)	(1,914.36)	(1,914.36)	(1,914.36)	(1,914.36)	(1,914.36)	(1,914.36)	(1,914.36)	(1,914.36)	(1,914.36)	(1,914.36)
Arrc Technology	Computer Service & Equip	(1,300.00)	(1,300.00)	(1,300.00)	(1,300.00)	(1,300.00)	(1,300.00)	(1,300.00)	(1,300.00)	(1,300.00)	(1,300.00)	(1,300.00)	(1,300.00)
Travelers Ins	Liability	(336.66)	(336.66)	(336.66)	(336.66)	(336.66)	(336.66)	(336.66)	(336.66)	(336.66)	(336.66)	(336.66)	(336.66)
Travelers Ins	Work Comp	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)
Tire Empire *	Vehicle Flats Etc	(975.00)	(975.00)	(975.00)	(975.00)	(975.00)	(975.00)	(975.00)	(975.00)	(975.00)	(975.00)	(975.00)	(975.00)
KCTTC Reserve	Property Taxes Reserve	(1,250.00)	(1,250.00)	(1,250.00)	(1,250.00)	(1,250.00)	(1,250.00)	(1,250.00)	(1,250.00)	(1,250.00)	(1,250.00)	(1,250.00)	(1,250.00)
Fuels	Gas-Diesel	(5,000.00)	(11,202.60)	(11,202.60)	(11,202.60)	(11,202.60)	(13,559.32)	(11,202.60)	(11,202.60)	(11,202.60)	(11,202.60)	(13,559.32)	(11,202.60)
Payroll	Employees	(5,100.00)	(5,100.00)	(5,100.00)	(5,100.00)	(5,100.00)	(5,100.00)	(5,100.00)	(5,100.00)	(5,100.00)	(5,100.00)	(5,100.00)	(5,100.00)
Clouser & Son Inc	Pumper Service	(250.00)	(250.00)	(250.00)	(250.00)	(250.00)	(250.00)	(250.00)	(250.00)	(250.00)	(250.00)	(250.00)	(250.00)
Various *	Office, Shop Admin	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)
Various	Opex Contingency	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)
USB	Adequate Protection	(600.00)	(600.00)	(600.00)	(600.00)	(600.00)	(600.00)	(600.00)	(600.00)	(600.00)	(600.00)	(600.00)	(600.00)
Post Petition Attorneys	Chapter 11	(4,300.00)	(4,300.00)	(4,300.00)	(4,300.00)	(4,300.00)	(4,300.00)	(4,300.00)	(4,300.00)	(4,300.00)	(4,300.00)	(4,300.00)	(4,300.00)
Accountant	CPA	(10,000.00)	(10,000.00)	(10,000.00)	(10,000.00)	(10,000.00)	(10,000.00)	(10,000.00)	(10,000.00)	(10,000.00)	(10,000.00)	(10,000.00)	(10,000.00)
Gardner Property	Gardner Res & Add Back	(16,800.00)	(16,800.00)	(17,200.00)	(17,200.00)	(17,200.00)	(17,200.00)	(18,400.00)	(18,400.00)	(18,400.00)	(18,400.00)	(19,800.00)	(19,800.00)
KC CA-Haz Mat (CUPA)	Reserve 50.00	(500.00)	(11,000.00)	(500.00)	(500.00)	(500.00)	(500.00)	(500.00)	(500.00)	(500.00)	(500.00)	(500.00)	(500.00)
Litigation Lawyers	Gardner Case	6,873.70	171.10	12,271.10	5,396.10	10,271.10	7,914.38	15,071.10	93,171.10	24,371.10	24,371.10	27,614.38	29,971.10
Total Plus or Minus		24,173.70	27,971.10	29,971.10	23,096.10	27,971.10	25,614.38	33,971.10	112,071.10	43,271.10	43,271.10	47,914.38	50,271.10
Royalties		(16,800.00)	(16,800.00)	(17,200.00)	(17,200.00)	(17,200.00)	(17,200.00)	(18,400.00)	(18,400.00)	(18,400.00)	(18,400.00)	(19,800.00)	(19,800.00)
Production Tax, CA		(500.00)	(11,000.00)	(500.00)	(500.00)	(500.00)	(500.00)	(500.00)	(500.00)	(500.00)	(500.00)	(500.00)	(500.00)
Month Cash Flow		6,873.70	171.10	12,271.10	5,396.10	10,271.10	7,914.38	15,071.10	93,171.10	24,371.10	24,371.10	27,614.38	29,971.10
Previous Month Cash		72,125.10	78,998.80	79,169.90	91,441.00	96,837.10	107,108.20	115,022.58	130,093.68	223,264.78	247,635.88	272,006.98	299,621.36
Total Cash		78,998.80	79,169.90	91,441.00	96,837.10	107,108.20	115,022.58	130,093.68	223,264.78	247,635.88	272,006.98	299,621.36	329,592.46
Grand Total Cash													

NOTE: Previous month cash for January is estimated book balance as of December 31, 2017.

Exhibit A

Page 1-2

**Pace Diversified Corporation
Expense and Income Budget**

Item	Purpose	Jan Budget 2019	Feb Budget 2019	March Budget 2019	April Budget 2019	May Budget 2019	June Budget 2019
Income		99,000.00	99,000.00	99,000.00	99,000.00	99,000.00	99,000.00
PG&E *	Power	(14,000.00)	(14,000.00)	(14,000.00)	(14,000.00)	(14,000.00)	(14,000.00)
California Water	Water	(15.21)	(15.21)	(15.21)	(15.21)	(15.21)	(15.21)
AT&T	Mobile Phones	(308.00)	(308.00)	(308.00)	(308.00)	(308.00)	(308.00)
Varnier Brothers	Trash Service	(180.19)	(180.19)	(180.19)	(180.19)	(180.19)	(180.19)
Delta Liquid Energy*	Propane	(2,900.00)	(2,900.00)	(2,900.00)	(2,900.00)	(2,900.00)	(2,900.00)
Telepacific	Phone Service	(796.88)	(796.88)	(796.88)	(796.88)	(796.88)	(796.88)
Rent	Office and Yard	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)	(3,000.00)
ArcC Technology	Computer Service & Equip	(1,914.36)	(1,914.36)	(1,914.36)	(1,914.36)	(1,914.36)	(1,914.36)
Travelers Ins	Liability	(1,300.00)	(1,300.00)	(1,300.00)	(1,300.00)	(1,300.00)	(1,300.00)
Travelers Ins	Work Comp	(336.66)	(336.66)	(336.66)	(336.66)	(336.66)	(336.66)
Tire Empire *	Vehicle Flats Etc	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)
KCTTC Reserve	Property Taxes Reserve	(975.00)	(975.00)	(975.00)	(975.00)	(975.00)	(975.00)
Fuels	Gas-Diesel	(1,250.00)	(1,250.00)	(1,250.00)	(1,250.00)	(1,250.00)	(1,250.00)
Payroll	Employees	(11,202.60)	(11,202.60)	(11,202.60)	(11,202.60)	(11,202.60)	(11,202.60)
Clouser & Son Inc	Pumper Service	(5,100.00)	(5,100.00)	(5,100.00)	(5,100.00)	(5,100.00)	(5,100.00)
Various *	Office, Shop Admin	(250.00)	(250.00)	(250.00)	(250.00)	(250.00)	(250.00)
Various	Opex Contingency	(1,500.00)	(1,500.00)	(1,500.00)	(1,500.00)	(1,500.00)	(1,500.00)
USB	Adequate Protection	-	-	-	-	-	-
Post Petition Attorneys	Chapter 11	-	-	-	-	-	-
Accountant	CPA	(600.00)	(600.00)	(600.00)	(600.00)	(600.00)	(600.00)
Gardner Property	Gardner Res & Add Back						
KC CA Haz Mat (CUPA)	Reserve 50.00						
Litigation Lawyers	Gardner Case						
Total Plus or Minus		53,271.10	53,271.10	53,271.10	53,271.10	53,271.10	53,271.10
Royalties		(19,800.00)	(19,800.00)	(19,800.00)	(19,800.00)	(19,800.00)	(19,800.00)
Production Tax, CA		(500.00)	(500.00)	(500.00)	(500.00)	(500.00)	(500.00)
Month Cash Flow		32,971.10	32,971.10	32,971.10	32,971.10	32,971.10	32,971.10
Previous Month Cash		329,592.46	362,563.56	395,534.66	428,505.76	461,476.86	494,447.96
Total Cash		362,563.56	395,534.66	428,505.76	461,476.86	494,447.96	527,419.06
Grand Total Cash							

NOTE: Previous month cash for January is estimated book balance as of December 31, 2018.