UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF TEXAS
SHERMAN DIVISION

IN RE:	§	
	§	CASE NO. 15-41607-11
CONTINENTAL EXPLORATION, LLC	§	
	§	CHAPTER 11
DEBTOR	§	

OBJECTION TO DISCLOSURE STATEMENT OF CONTINENTAL EXPLORATION, LLC PURSUANT TO SECTION 1125 OF THE BANKRUPTCY CODE DATED JUNE 15, 2016

Jason R. Searcy, Chapter 11Trustee (the "Trustee") in the above styled and numbered cause files this Objection (the "Objection") to the Disclosure Statement of Continental Exploration, LLC Pursuant to Section 1125 of the Bankruptcy Code Dated June 15, 2016 (the "Disclosure Statement") as follows:

1. The first paragraph of page 7 of the Disclosure Statements contains allegations that Debtor operates 37 wells "and approximately 1140 non-operated wells, with most of those wells holding 640 acre or larger production units and with potential for 7 to 9 additional wells." This statement is both misleading and not correct. Debtor is the record operator for 24 wells in Texas and 22 wells in Oklahoma for a total of 46 operated wells. Debtor does own very small fractional interests in a large number of other wells which it does not operate. There is no information available to reflect that each of these wells holds 640 acre or larger production units much less potential for 7 to 9 additional wells.

2. On page 8 of the Disclosure Statement, under "Future Income and Expenses Under the Plan", the Debtor states "Continental Exploration has a classification of income that does not show up on the MOR reports." Its following explanation is non-sensical and misleading. At

minimum, it should provide accounting information regarding income from non-operated properties and joint interest billings owed to the operators of non-operated properties. In a high price environment, operators net expenses from income with a net payment to Debtor. In a low price environment, this occurs with a net obligation due from the Debtor. Low prices are the norm and most of the non-operated interests are net negative creating ongoing post-petition obligations of the Debtor. These are not disclosed and the Disclosure Statement attempts to obscure these obligations by its misleading explanation.

3. As set out above, the Debtor is the legal operator of 27 wells in Texas and 36 wells in Oklahoma. This creates on Debtor the obligation and expense to plug any of those wells which are not economical and this plugging obligation is post-petition obligation. Of the 24 wells in Texas, only 3 are producing. Of the 22 wells in Oklahoma, 14 are producing. This means there are 29 wells operated by Debtor which are not producing and have not produced in a substantial length of time. These wells are likely to become, if not already, plugging liabilities of the Debtor. No disclosure is made of this liability nor of any method by which the costs of such plugging obligations, which could well exceed $1 million, would be paid while the Debtor is also paying its plan payments.

4. The Disclosure Statement fails to provide a meaningful evaluation of the Debtor's properties and on Page 9 merely states that "The Debtor believes the value of all its property exceeds the amount of debt. The Debtor basis its valuation on the knowledge of its owner Douglas Harrington." At a minimum, the Debtor should be required to provide a methodology by which the alleged valuations are made.

5. The Disclosure Statement states on page 9 that "The Debtor's valuation of the assets

the Debtor maintains which will be sold as needed to fund the Plan are based upon the amount the Debtor paid for the assets." No description or definition of what assets the Debtor intends to sell is provided. No disclosure is made that the purchase price for Debtor's assets was determined which oil prices were in excess of $100 per barrel and that current valuations will not approach the same values. As such, these assertions are misleading.

6. The Disclosure Statement knowingly understates the amount of likely Class 1 Claims and states they will be paid from available cash although Debtor knows the available cash is grossly inadequate to make such payments.

7. On page 14 of the Disclosure Statement, the Debtor states that "Some of the Class 4 creditors dispute the amounts set forth above and assert that amounts owed to them are greater than contained above." The Disclosure Statement should disclose the amount claimed as owed by Class 4 creditors and describe in detail how they will be paid if their claims exceed the listed amounts.

8. Each of the Class 4 creditors are parties to Joint Operating Agreements ("JOA") with the Debtor. The JOA's are executory contracts which must be assumed by the Debtor if it is to continue to be the operator of those wells. The Debtor admits it is in default under the JOA's yet fails to disclose what steps it will take to provide a cure of those defaults under terms acceptable to either the co-parties or the Court pursuant to 11 U.S.C. § 365.

9. The Debtor states on page 15 under Class 5 Claimants that it believes the total amount of Class 5 Claimants is $1,828,139.60. Debtor provides no support for this calculation and it is contrary to the Debtor's books and records which reflect over $5 million due and owing due to suspense accounts only.

10. The Debtor fails to disclose or account for the fact that it failed to pay certain royalty and/or working interest partners due to designating their interests as being in “suspense”. Such designations, while common due to title issues or other related questions, normally result in the Debtor holding the funds due while the cause of the title issue is cleared and then paying those funds to the rightful owner. However, the Debtor spent the funds and the total reflected on the Debtor’s records for this is over $5 million. The Disclosure Statement fails to explain how this obligation is treated.

11. The Disclosure Statement fails to explain why the proposed Plan has two classes of convenience creditors which have different treatments or even why a convenience class is appropriate.

12. The Disclosure Statement indicates in its description of Class 7 on pages 16 and 17 that unsecured claims will be $1,625,000. However, in a footnote, the Disclosure Statement reflects that a single proof of claim was filed by Logan Beard in the amount of $3,565,000. The Disclosure Statement states the “Debtor believed that it had an agreement with Logan Beard pre-petition for $150,000.” However, it does not explain why if this were true a claim was filed for $3,565,000. Nor does the Disclosure Statement provide any information regarding the treatment of this class of claims if, as it appears, the “agreement” does not exist and the total claims is over $3 million higher than asserted.

13. The Disclosure Statement in footnote 1 page 17 reflects an asserted Debtor due from Chesapeake. Upon inquiry from the Trustee, Debtor’s counsel stated this was in error and Chesapeake owed no such obligation.

14. As set forth in Article VII, page 18, the Disclosure Statements projections are all

based on the price of oil being at least $50 per barrel. There is no explanation as to whether this price is feasible and no disclosure of what will occur under the proposed Plan if the price is not at least $50 per barrel during the life of the Plan. On the day this Objection was prepared WTI Crude Oil (Nymex) is reported as $46.84 per barrel.

15. In Article IX of the Disclosure Statement, page 19, the Debtor asserts "Under this proposed Plan, the creditors of the Debtor will be paid in full." This assertion only appears accurate if the Debtor's assumptions which are in conflict with the Debtor's records are true. The claims against the Debtor appear to be substantially larger than the Disclosure Statement asserts and this assertion is not true under the existing state of claims.

16. The Debtor's projections attached to the Disclosure Statement as Exhibit B are not accurate. They overstate available income and understate obligations. The accurate records are reflected in the monthly operating reports filed with the Court and those numbers should be used rather than allowing the Debtor to mislead creditors with its proposed projections.

17. The Disclosure Statement attaches a Liquidation Analysis as Exhibit F. The Liquidation Analysis assumes a reduction of asset values from $15,245,000 to $5,135,000 if case is converted to Chapter 7. No explanation is given for this drastic claimed reduction in market value.

18. In general, the Disclosure Statement contains misleading information designed to make the Plan appear feasible when using actual numbers makes it appear to be not feasible. It purports to pay creditors in full when this result only occurs if all assumptions made by the Debtor, which are contrary to existing facts, are met. It fails to provide any guidance should any of the assumptions of the Debtor are not met. It fails to disclose significant claims, both current

and contingent, against the Debtor's estate. In short, if fails to provide adequate information as required in 11 U.S.C. § 1125.

Wherefore, the Trustee prays that approval of the Disclosure Statement be denied and for such other and further relief to which he may be entitled.

RESPECTFULLY SUBMITTED,

SEARCY & SEARCY, P.C.

/s/ Jason R. Searcy
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CERTIFICATE OF SERVICE

I, the undersigned, certify that a true and correct copy of the above was served through electronic mail pursuant to the Electronic Case Management system of the United States Bankruptcy Court for the Eastern District of Texas on or before July 6, 2016, 2016.

/s/ Jason R. Searcy
JASON R. SEARCY