

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

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In re:))	Chapter 11	
))		
EXTRACTION OIL & GAS, INC. <i>et al.</i> , ¹))	Case No. 20-11548 ()	
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Debtors.))	(Joint Administration Requested)	
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**DEBTORS’ MOTION FOR ENTRY OF
INTERIM AND FINAL ORDERS (I) AUTHORIZING
THE PAYMENT OF SPECIFIED TRADE CLAIMS,
(II) CONFIRMING ADMINISTRATIVE EXPENSIVE PRIORITY OF
OUTSTANDING ORDERS, AND (III) GRANTING RELATED RELIEF**

The above-captioned debtors and debtors in possession (collectively, the “Debtors”) respectfully state the following in support of this motion (the “Motion”):

Relief Requested

1. The Debtors seek entry of an interim order (the “Interim Order”) and a final order (the “Final Order”), substantially in the forms attached hereto as **Exhibit A** and **Exhibit B**, respectively: (a) authorizing the Debtors to pay the Specified Trade Claims (as defined herein) in the ordinary course of business on a postpetition basis, subject to the terms of this Motion; (b) confirming the administrative expense priority status and allowed administrative treatment of the Debtors’ outstanding orders and undisputed obligations for the postpetition delivery and performance of goods and services and authorizing payment of such obligations in the ordinary course of business; and (c) granting related relief.

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, are: Extraction Oil & Gas, Inc. (3923); 7N, LLC (4912); 8 North, LLC (0904); Axis Exploration, LLC (8170); Extraction Finance Corp. (7117); Mountaintop Minerals, LLC (7256); Northwest Corridor Holdings, LLC (9353); Table Mountain Resources, LLC (5070); XOG Services, LLC (6915); and XTR Midstream, LLC (5624). The location of the Debtors’ principal place of business is 370 17th Street, Suite 5300, Denver, Colorado 80202.



2. Out of an abundance of caution, and in order to successfully implement the relief requested herein and to further their reorganization efforts, the Debtors also request that the orders permit the Debtors to require that (a) a payee maintain or apply, as applicable, terms during the pendency of these chapter 11 cases that are at least as favorable as those terms existing as of the Petition Date, or on terms satisfactory to the Debtors in their sole discretion (“Customary Terms”), as a condition to receiving any payment under the orders and (b) if a payee, after receiving a payment under the orders, ceases to provide Customary Terms, the Debtors may, in their sole discretion, deem such payment to apply instead to any postpetition amount that may be owing to such payee or treat such payment as an avoidable postpetition transfer of property.

3. In addition, the Debtors request that the Court (as defined herein) schedule a final hearing within approximately 25 days of the commencement of these chapter 11 cases to consider approval of this Motion on a final basis.

Jurisdiction and Venue

4. The United States Bankruptcy Court for the District of Delaware (the “Court”) has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334 and the *Amended Standing Order of Reference* from the United States District Court for the District of Delaware, dated February 29, 2012 (the “Amended Standing Order”). The Debtors confirm their consent, pursuant to rule 7008 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) and rule 9013-1(f) of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Local Rules”), to the entry of a final order by the Court in connection with this Motion to the extent that it is later determined that the Court, absent consent of the parties, cannot enter final orders or judgments in connection herewith consistent with Article III of the United States Constitution.

5. Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

6. The bases for the relief requested herein are sections 105(a), 362, 363, and 503(b) of chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”), Bankruptcy Rules 6003 and 6004, and Bankruptcy Local Rule 9013-1(m).

7. On June 14, 2020 (the “Petition Date”), each Debtor filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code. A detailed description surrounding the facts and circumstances of these chapter 11 cases is set forth in the *Declaration of Matthew R. Owens, Co-Founder, President and Chief Executive Officer of the Debtors, in Support of Chapter 11 Petitions and First Day Motions* (the “First Day Declaration”), filed contemporaneously with this Motion and incorporated by reference herein.

8. The Debtors are operating their businesses and managing their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. Concurrently with the filing of this Motion, the Debtors have requested procedural consolidation and joint administration of these chapter 11 cases pursuant to Bankruptcy Rule 1015(b). No request for the appointment of a trustee or examiner has been made in these chapter 11 cases, and no committees have been appointed or designated.

The Specified Trade Claims

9. The following table summarizes the types of claimants that the Debtors request authority to pay pursuant to this motion as well as estimated prepetition amounts outstanding in each category:

Claimholder	Description of Services Provided	Approximate Amount Due Within 25 Days (Interim Order)	Estimated Amount Outstanding as of Petition Date (Final Order)
Foreign Suppliers	Suppliers of goods or services that are based outside the United States (not including Lien Claimants).	\$320,000	\$850,000
Lien Claimants	Suppliers of goods or services utilized by the Debtors for all Operating Expenses on account of their working interests in oil and gas leases.	\$32,140,000	\$141,030,000
Marketing Arrangement Counterparties	Suppliers of services necessary or desirable to get oil and natural gas production to market in a condition ready for sale.	\$110,000	\$3,100,000
Shippers and Warehousemen	Suppliers of services necessary or desirable to transport or store oil and natural gas production.	\$100,000	\$440,000
§ 503(b)(9) Claimants	Suppliers that provided goods to the Debtors that were received within 20 days before the Petition Date.	-	\$10,070,000
HSE and Other Suppliers	Suppliers of goods or services that may be reasonably necessary to ensure the health, safety, regulatory, and environmental compliance and integrity of the Debtors' operations, but which are not Operating Expenses, Marketing Expenses, or 503(b)(9) Claims.	\$270,000	\$720,000
Total amount of claims:		\$32,940,000	\$156,210,000
Total as percentage of total funded debt		2.1%	9.9%
Total as percentage of total vendor claims		14.2%	67.2%

10. By this Motion, the Debtors request approval to pay up to \$32,940,000 of the prepetition Specified Trade Claims (as defined herein) on an interim basis, up to \$156,210,000 upon entry of a final order, and pursuant to both orders, to continue paying the Specified Trade Claims (as defined herein) in the ordinary course of business.

I. Payment of Foreign Claims.

11. A critical component of the Debtors' operation involves transacting with certain foreign suppliers, including the purchasing of goods, materials, equipment, and services from vendors located in Canada, Australia, and the United Kingdom (collectively, the "Foreign Suppliers"). The Foreign Suppliers supply goods, materials, equipment, or services to the Debtors that are crucial to the Debtors' ongoing operations. Thus, in the ordinary course of business, the Debtors incur obligations (the "Foreign Claims") to numerous Foreign Suppliers who are based outside the United States.

12. The majority of the Foreign Suppliers generally manufacture and ship goods, materials, and equipment and provide services to the Debtors on "free on board" terms. Based on the reactions of foreign suppliers in other chapter 11 cases, the Debtors believe that there is a significant risk that the continued nonpayment following the Petition Date could cause a Foreign Supplier to stop shipping goods to the Debtors on a timely basis or to sever its business relationship with the Debtors completely. Foreign suppliers often have skeptical reactions to a United States bankruptcy because many of them are unfamiliar with the chapter 11 process. Short of severing their contractual relations with the Debtors, nonpayment of prepetition claims may cause Foreign Suppliers to take other precipitous actions, including delaying shipments until more certainty develops with respect to the Debtors' reorganization. Timely shipment and/or provision of goods, materials, equipment, and services is critical to the Debtors' operations and cash flows, and the Debtors can ill afford any delays or interruptions of this nature.

13. In light of these consequences, the Debtors have concluded that payment of the Foreign Claims is essential to avoid disruption of the Debtors' operations during these chapter 11 cases. The Debtors' estimated amount of the Foreign Claims pales in comparison to the potential damage to the Debtors' business if the Debtors' operations were to experience significant delays due to the Foreign Suppliers. Thus, the Debtors, their estates, and their stakeholders would ultimately benefit from the Debtors' payments to the Foreign Suppliers. Accordingly, the Debtors propose to pay the Foreign Claims only to the extent necessary and only on terms and conditions that are appropriate in the Debtors' business judgment to avoid disruptions to their business.

14. In the twelve months preceding the Petition Date, the Debtors paid approximately \$11,750,000 in Foreign Claims. As of the Petition Date, the Debtors estimate that they have approximately \$850,000 of Foreign Claims outstanding, approximately \$320,000 of which will come due and owing within the first 25 days of these chapter 11 cases. By this Motion, the Debtors request the authority to pay only undisputed, prepetition Foreign Claims owed in the Debtors' ordinary course of business and to continue to pay Foreign Claims in the ordinary course of business on a postpetition basis.

II. Payment of Operating Expenses.

15. As operators of their oil and gas wells, the Debtors pay all of the operating expenses associated with the day-to-day production of oil and gas from the applicable unit area (the "Operating Expenses").

16. Operating Expenses commonly include payments to third parties (the "Lien Claimants") that perform labor or furnish or transport materials, equipment, or supplies used in the drilling, operating, or maintenance of an oil and gas property. As described herein, applicable state law may permit Lien Claimants to assert liens against the Debtors' property, including working interests and oil and gas produced. Operating Expenses also can include

payments made to third parties who own property interests that are critical to the drilling, completing, operating, maintaining, or production of an oil and gas property and related gathering, processing, and transportation. For example, the Debtors' completion activity alone results in payments to, among others, vendors for compression services, chemicals, contract labor, pressure pumping, coil tubing and water disposal services. Such payments can take the form of lump sum payments, rentals, extensions, and minimum payments.

17. Operating Expenses are not uniform and are not entirely predictable on a month-to-month basis. In the twelve months preceding the Petition Date, the Debtors paid approximately \$809,390,000 in Operating Expenses.

18. As of the Petition Date, the Debtors estimate that they have approximately \$141,030,000 of Operating Expenses outstanding, approximately \$32,140,000 of which will come due and owing within the first 25 days of these chapter 11 cases. By this Motion, the Debtors request the authority to pay only undisputed, prepetition Operating Expenses owed in the Debtors' ordinary course of business and to continue paying Operating Expenses in the ordinary course of business on a postpetition basis.

III. Payment of Marketing Expenses.

19. To effectively market or sell production from the Debtors' operated oil and gas properties, the Debtors, as operator, enter into contractual arrangements (the "Marketing Arrangements") by which third parties (the "Marketing Arrangement Counterparties") charge the Debtors for necessary services associated with the marketing and sale of that production (such charges, collectively, the "Marketing Expenses"), including gathering, transportation, treating, dehydration, compression, processing, fractionation, and other similar services necessary or desirable to bring the oil and natural gas production to market in a condition ready for sale. Similarly, where the Debtors elect to take their production "in-kind" rather than requesting that the

third-party operator market the production associated with the Debtors' non-operating working interests on the Debtors' behalf, the Debtors incur Marketing Expenses.

20. The Debtors' compliance with the Marketing Arrangements and timely payment of the Marketing Expenses is critical to the Debtors' ability to receive revenue from production that they market both on behalf of themselves and third parties (the "Marketed Production"). Failure to receive such revenue would directly threaten the Debtors' ability to make timely payments to third parties holding an interest in production, such as working interest owners and royalty interest owners.²

21. The Marketing Arrangement Counterparties commonly will have possession and, at times, title to the Marketed Production or may have a lien on the Debtors' oil and gas that is in the pipeline. Accordingly, failure to pay Marketing Expenses when due could result in such Marketing Arrangement Counterparties refusing to release production or revenues associated with the Marketed Production in their possession or refusing to accept delivery of additional Marketed Production.

22. In instances where delivery of Marketed Production is refused, the Debtors may be forced to "shut-in" a well. Shutting in a well may have economic consequences to the Debtors beyond temporary cessation of production and revenue therefrom. For instance, once a well is shut-in, it may not be possible to re-establish production from the well in the future. Further, the act of shutting in a well can trigger obligations to other interest owners in that well, including payment obligations or potential forfeiture of the Debtors' interest under the terms of an oil and

² For additional detail regarding payments to royalty interest owners and working interest owners, see the *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing Payment of (A) Mineral Payments, (B) Working Interest Disbursements, and (C) Joint Interest Billings, and (II) Granting Related Relief*, filed contemporaneously herewith.

gas lease. Without seamless compliance with their Marketing Arrangements and the ability to make the Debtors' production marketable for sale, the Debtors' revenue stream and ability to operate their businesses potentially would be severely impaired.

23. In the twelve months preceding the Petition Date, the Debtors paid or were net approximately \$37,690,000 in Marketing Expenses. As of the Petition Date, the Debtors estimate that they have approximately \$3,100,000 of prepetition Marketing Expenses outstanding, approximately \$110,000 of which will come due and owing in the first 25 days of these chapter 11 cases. By this Motion, the Debtors request the authority to pay only undisputed, prepetition Marketing Expenses owed in the Debtors' ordinary course of business and to continue to pay Marketing Expenses in the ordinary course of business on a postpetition basis.

IV. Payment of Shippers and Warehousemen Claims.

24. In the ordinary course of business, the Debtors engage certain vendors (the "Shippers") to transport or deliver goods, materials, or other property, including drilling pipe, casing, wellheads, tanks, separators, and other necessary oil and gas equipment (the "Materials") from a manufacturer to a storage yard, between a storage yard and an oil and gas property, between oil and gas properties, or between storage yards. The Shippers regularly possess Materials belonging to the Debtors and to the owners of non-operating working interests in an oil and gas property of which the Debtors are the operator. The Materials are integral to the exploration and production process. The Debtors require timely, and sometimes immediate, access to the Materials while drilling or operating a well.

25. Additionally, while the Debtors own multiple storage yards, they rely on certain additional vendors (collectively, the "Warehousemen") in the ordinary course of business to store Materials when not being used. If the Debtors were to default on any obligation to the Warehousemen, the Warehousemen may assert a lien, attempt to take possession of the Debtors'

property, or bar the Debtors' access to Materials stored at the Warehousemen's yards. In addition, under most state laws, a Shipper or a Warehouseman may have a lien on the goods in its possession,³ which lien secures the charges or expenses incurred in connection with the transportation or storage of such goods.⁴ As a result, certain Shippers and Warehousemen may refuse to deliver or release Materials or other property in their possession or control, as applicable, before the prepetition amounts owed to them by the Debtors (collectively, the "Shippers and Warehousemen Claims") have been satisfied and their liens redeemed.

26. In the twelve months preceding the Petition Date, the Debtors paid or were net approximately \$2,590,000 in Shippers and Warehousemen Claims. As of the Petition Date, the Debtors estimate that they have approximately \$440,000 of prepetition Shippers and Warehousemen Claims outstanding, approximately \$100,000 of which will come due and owing in the first 25 days of these chapter 11 cases. By this Motion, the Debtors request the authority to pay only undisputed, prepetition Shippers and Warehousemen Claims owed in the Debtors' ordinary course of business and to continue to pay Shippers and Warehousemen Claims in the ordinary course of business on a postpetition basis.

V. Payment of 503(b)(9) Claims.

27. The Debtors may have received certain goods or materials from various vendors (collectively, the "503(b)(9) Claimants") within the 20 days prior to the Petition Date. Certain of

³ See Uniform Commercial Code § 7-209(a) ("A warehouse has a lien against the bailor on the *goods* covered by a warehouse receipt or storage agreement or on the proceeds thereof in its possession for charges for storage or transportation, including demurrage and terminal charges, insurance, labor, or other charges, present or future, in relation to the goods, and for expenses necessary for preservation of the goods or reasonably incurred in their sale pursuant to law.") (emphasis added).

⁴ By this Motion, the Debtors do not concede that any liens (contractual, common law, statutory, or otherwise) described in this Motion are valid, and the Debtors expressly reserve the right to contest the extent, validity, and perfection of any and all such liens, and to seek avoidance thereof.

the Debtors' relationships with the 503(b)(9) Claimants are not governed by enforceable long-term contracts. Rather, the Debtors often obtain supplies on an order-by-order basis. As a result, a 503(b)(9) Claimant may refuse to supply new orders without payment of its prepetition claims.

28. The Debtors also believe certain 503(b)(9) Claimants could reduce the Debtors' existing trade credit—or demand payment in cash on delivery—further exacerbating the Debtors' liquidity. Accordingly, the Debtors request the authority to pay those undisputed claims arising from the goods received by the Debtors within the 20 days prior to the Petition Date that were sold to the Debtors in the ordinary course of business (each, a "503(b)(9) Claim"). The Debtors do not seek to accelerate or modify existing payment terms with respect to the 503(b)(9) Claims. Rather, the Debtors will pay, at their discretion, the 503(b)(9) Claims as they come due in the ordinary course of business. As of the Petition Date, the Debtors estimate that they have approximately \$10,070,000 of 503(b)(9) Claims outstanding, approximately \$0 of which will come due and owing in the first 25 days of these chapter 11 cases.⁵

VI. Payment of HSE and Other Claims.

29. In the ordinary course of business, the Debtors also incur obligations to suppliers (such suppliers, the "HSE and Other Suppliers" and, together with the Foreign Suppliers, Lien Claimants, Marketing Arrangement Counterparties, Shippers and Warehousemen, and 503(b)(9) Claimants, the "Specified Trade Claimants") of goods and services utilized in the Debtors' operations, payment of which may be reasonably necessary to ensure the health, safety, environmental, and regulatory compliance and integrity of the Debtors' operations, but which are not Foreign Claims, Operating Expenses, Marketing Expenses, Shippers and Warehouseman

⁵ The Debtors do not concede that any claims described in this Motion are conclusively entitled to administrative priority under section 503(b)(9) of the Bankruptcy Code, and the Debtors expressly reserve the right to contest the extent or validity of all such claims.

Claims or 503(b)(9) Claims (the “HSE and Other Claims” and, together with the Foreign Claims, Operating Expenses, Marketing Expenses, Shippers and Warehousemen Claims, or 503(b)(9) Claims, collectively, the “Specified Trade Claims”).

30. The HSE and Other Suppliers provide services such as health and safety inspections and evaluations of the exploration and production environment, equipment, and processes in working areas to ensure compliance with government safety regulations and industry standards. Certain health suppliers typically provide goods or services that define, test, measure, and report effects of oil field materials and oil field physical environment on employees. Certain safety suppliers provide goods or services that protect personnel from risk involved during any type of operation and duties, such as providing safety uniforms and defining protocols for onsite hazards. The environmental suppliers provide products, services, and recommendations to promote protection of environments, which may be affected by certain activities associated with the development of petroleum. Finally, certain of the HSE and Other Suppliers also provide back office goods and services, the interruption of which would pose significant safety risks to on-site operations. The Debtors need to satisfy the HSE and Other Suppliers in the ordinary course to ensure the continued health, safety, and environmental compliance of their operations.

31. In the twelve months preceding the Petition Date, the Debtors paid or were net approximately \$8,370,000 in HSE and Other Claims. As of the Petition Date, the Debtors estimate that approximately \$720,000 in HSE and Other Claims are outstanding, and that approximately \$270,000 of that amount will come due and owing in the first 25 days of these chapter 11 cases. Any attempt by the HSE and Other Suppliers to refuse delivery of goods or services on account of nonpayment of prepetition HSE and Other Claims could severely disrupt the Debtors’ operations at great expense to the Debtors’ estates. By this Motion, the Debtors request the authority to pay

only undisputed, prepetition HSE and Other Claims owed in the Debtors' ordinary course of business and to continue to pay HSE and Other Claims in the ordinary course of business on a postpetition basis.

VII. Payment of Outstanding Orders.

32. Prior to the Petition Date and in the ordinary course of business, the Debtors may have ordered goods that will not be delivered until after the Petition Date (the "Outstanding Orders"). To avoid becoming general unsecured creditors of the Debtors' estates with respect to such goods, certain suppliers may refuse to ship or transport such goods (or may recall such shipments) with respect to such Outstanding Orders unless the Debtors issue substitute purchase orders postpetition. To prevent any disruption to the Debtors' business operations, and given that goods delivered after the Petition Date are afforded administrative expense priority under section 503(b) of the Bankruptcy Code, the Debtors seek, out of an abundance of caution, an order (a) granting administrative expense priority under section 503(b) of the Bankruptcy Code to all undisputed obligations of the Debtors arising from the acceptance of goods subject to Outstanding Orders and (b) authorizing the Debtors to satisfy such obligations in the ordinary course of business.

VIII. Proposed Conditions to Payment of Specified Trade Claims.

33. Out of an abundance of caution, and in order to successfully implement the relief requested herein and to further their restructuring efforts, the Debtors also request that the Interim Order and the Final Order authorize the Debtors to require that: (a) a payee maintain or apply, as applicable, terms during the pendency of these chapter 11 cases that are at least as favorable as those terms existing as of the Petition Date, or on terms satisfactory to the Debtors in their sole discretion; and (b) agreement that such Specified Trade Claimant shall not be permitted to cancel on less than 90 days' notice any contract or agreement pursuant to which it provides services to

the Debtors (collectively, the “Customary Terms”), as a condition to receiving any payment under the Interim Order or the Final Order; and (c) if a payee, after receiving a payment under the Interim Order or the Final Order, ceases to provide Customary Terms, then the Debtors may, in their sole discretion, deem such payment to apply instead to any postpetition amount that may be owing to such payee or treat such payment as an avoidable postpetition transfer of property. The Debtors also seek authority to require more favorable trade terms from any Specified Trade Claimant as a condition to payment of any prepetition claim.

34. If any Specified Trade Claimant accepts payment for a prepetition obligation of the Debtors premised on compliance with the above conditions, and thereafter fails to comply with the Customary Terms (or such other terms agreed to by the Debtors), the Debtors request that such payment be deemed an avoidable postpetition transfer under section 549 of the Bankruptcy Code, and that such Specified Trade Claimant be required to immediately repay the Debtors any payment made to such Specified Trade Claimant on account of its asserted claim to the extent the aggregate amount of such payments exceeds the postpetition obligations then outstanding, without the right of any setoffs, claims, provision for payment of reclamation or trust fund claims or otherwise.

Basis for Relief

I. The Debtors Should Be Authorized to Pay the Foreign Claims.

35. Allowing the Debtors to pay the Foreign Claims is especially appropriate where, as here, doing so is consistent with the “two recognized policies” of chapter 11 of the Bankruptcy Code—preserving going concern value and maximizing the value of property available to satisfy creditors. *See Bank of Am. Nat’l Trust & Savs. Ass’n v. 203 N. LaSalle St. P’Ship*, 536 U.S. 434, 453 (1999). As described above, the Debtors’ business depends on the supply of materials, goods, equipment, and services from the Foreign Suppliers. In particular, without the Foreign Suppliers the Debtors would not be able to smoothly operate their business during these chapter 11 cases

and maximize value for the estate and all stakeholders. Furthermore, if the Debtors do not pay the Foreign Claims, certain Foreign Suppliers may simply refuse to do business with the Debtors unless and until they receive payment on account of their prepetition claims. The Foreign Suppliers may take other precipitous action against the Debtors based on the incorrect believe that they are not bound by the automatic stay.

36. For the Debtors to survive as a business during the pendency of these chapter 11 cases and emerge from chapter 11 successfully, they must preserve their relationships with the Foreign Suppliers. Courts in this jurisdiction routinely grant authorization for debtors to pay claims owing to foreign entities against which the automatic stay cannot be enforced readily in the United States and as to which it would be unduly time-consuming and expensive to seek enforcement of an order of the bankruptcy court in the creditor's home country. *See, e.g., In re Destination Maternity Corp.*, No. 19-12256 (BLS) (Bankr. D. Del. Nov. 12, 2019) (authorizing the payment of prepetition foreign vendor claims); *In re Forever 21, Inc.*, No. 19-12122 (KG) (Bankr. D. Del. Oct. 28, 2019) (same); *In re Z Gallerie, LLC*, No. 19-10488 (LSS) (Bankr. D. Del. April 9, 2019) (same); *In re Rockport Co., LLC*, No. 18-11145 (LSS) (Bankr. D. Del. June 12, 2018) (same); *In re Gibson Brands, Inc.*, No. 18-11025 (CSS) (Bankr. D. Del. May 23, 2018) (same).⁶

⁶ Based on the voluminous nature of the orders cited herein, such orders have not been attached to this Motion. Copies of these orders are available upon request to the Debtors' proposed counsel.

II. The Debtors Should Be Authorized to Pay the Operating Expenses, Marketing Expenses, and Shippers and Warehousemen Claims.

A. Failure to Make Timely Payment of the Operating Expenses, Marketing Expenses, and Shippers and Warehousemen Claims Would Threaten the Debtors' Ability to Operate and May Subject the Debtors' Assets to the Perfection of Liens.

37. The relief requested in this Motion is critical to protect the Debtors' business operations. Specifically, failure to pay the Operating Expenses and Marketing Expenses would subject almost every part of the Debtors' business operations to the possibility that creditors would assert liens on the Debtors' assets. State law in the jurisdictions in which the Debtors operate protects the rights of mineral contractors by granting them statutory liens to secure payment for their services. By way of example, the Debtors operate in, among other places, the Wattenberg Field of the Denver-Julesburg Basin of Colorado. Colorado law provides, among other things, that "[e]very person . . . who performs labor upon or furnishes machinery . . . or supplies for operating . . . any gas, oil well or other well . . . by virtue of a contract, express or implied, with the owner or lessee of any interest in real estate . . . shall have a lien to secure the payments thereof upon the properties . . . belonging to the party contracting with the lien claimants, and upon the machinery, materials and supplies so furnished, and upon any well upon and in which such machinery, materials, and supplies have been placed and used, and upon all other wells, buildings, and appurtenances, and the interest, leasehold, or otherwise, of such owner . . . to the extent of the right, title and interest of the owner . . . at the time the work was commenced or . . . materials, and supplies were begun to be furnished by the lien claimant . . . and such lien shall extend to any subsequently acquired interest of any such owner" *See* C.R.S. §§ 38-24-101 & 102. By this Motion, the Debtors do not concede that the assertion of any such liens would constitute a valid basis for removing the Debtors as operator of any well, and the Debtors expressly reserve the right to contest any such lien.

38. Moreover, pursuant to section 362(b)(3) of the Bankruptcy Code, the act of perfecting statutory liens, to the extent consistent with section 546(b) of the Bankruptcy Code, is expressly excluded from the protections afforded by the automatic stay. 11 U.S.C. § 362(b)(3). As a result, the Lien Claimants, Marketing Arrangement Counterparties, and Shippers and Warehousemen may be able to perfect liens against the Debtors' assets notwithstanding the automatic stay.

39. If the Lien Claimants, Marketing Arrangement Counterparties, and Shippers and Warehousemen were able to assert liens against the Debtors' assets, the results would be detrimental to the Debtors and all parties in interest. It is possible that the Lien Claimants, Marketing Arrangement Counterparties, and Shippers and Warehousemen could place liens on, among other things, the Debtors' wells, related machinery, materials, supplies, buildings and appurtenances, interest, and leasehold in the lot or land associated with the oil and gas properties. *See* C.R.S. §§ 38-24-101 & 102. As such, the Debtors' revenues could be placed in jeopardy absent the relief requested herein. Accordingly, the Debtors assert that the payment of the Operating Expenses and Marketing Expenses is necessary to protect the Debtors' businesses and ensure that the Debtors are able to maximize the value of their estates during these chapter 11 cases.

40. Where debtors have shown that the payment of prepetition claims is critical to maximize the value of their estates, courts in this district have routinely authorized payments to Specified Trade Claimants under similar circumstances. *See, e.g., In re Furie Operating Alaska, LLC*, No. 19-11781 (LSS) (Bankr. D. Del. Sept. 16, 2019) (authorizing payment to holders of various lien claims); *In re Emerge Energy Servs. L.P.*, No. 19-11563 (KBO) (Bankr. D. Del. Aug. 13, 2019) (same); *In re Elk Petroleum, Inc.*, No. 19-11157 (LSS) (Bankr. D. Del. July 17, 2019)

(same); *In re Enduro Resource Partners LLC*, No. 18-11174 (KG) (Bankr. D. Del. June 8, 2018) (same); *In re Chapparral Energy Inc.*, No. 16-11144 (LSS) (Bankr. D. Del. June 7, 2016) (same).

41. Similarly, where debtors have shown that the payment of prepetition claims is critical to maximize the value of their estates, courts in this district have routinely authorized payments to counterparties to the Marketing Arrangements under similar circumstances. *See, e.g.*, *In re Enduro Resource Partners LLC*, No. 18-11174 (Bankr. D. Del. June 8, 2018) (authorizing payment to prepetition counterparties under marketing arrangements); *In re Emerald Oil, Inc.*, No. 16-10704 (KG) (Bankr. D. Del. Apr. 19, 2016) (same); *In re Magnum Hunter Res. Corp.*, No. 15-12533 (KG) (Bankr. D. Del. Jan. 11, 2016) (same); *In re Samson Res. Corp.*, No. 15-11934 (CSS) (Bankr. D. Del. Dec. 9, 2015) (same); *In re Quicksilver Res. Inc.*, No. 15-10585 (LSS) (Bankr. D. Del. Apr. 14, 2015) (same).

III. The Court Should Authorize the Payment of Claims Entitled to Priority Pursuant to Section 503(b)(9) of the Bankruptcy Code.

42. Section 503(b)(9) provides administrative priority for the “value of any goods received by the debtor within 20 days before the date of commencement of a case under this title in which goods have been sold to the debtor in the ordinary course of such debtor’s business.” Unless such creditors consent to other treatment, these claims must be paid in full for the Debtors to confirm a chapter 11 plan. *See* 11 U.S.C. § 1129(a)(9)(A). Consequently, payment of such claims now only provides such parties with what they would be entitled to receive under a chapter 11 plan unless they consented otherwise. Additionally, all creditors will benefit from the seamless transition of the Debtors’ operations into bankruptcy.

43. Moreover, the Bankruptcy Code does not prohibit a debtor from paying such claims prior to confirmation. As administrative claims incurred in the ordinary course of business, the Debtors believe they may pay such claims in accordance with their business judgment pursuant to

section 363(c)(1) of the Bankruptcy Code. *See, e.g., In re Dura Auto. Sys. Inc.*, No. 06-11202 (KJC) (Bankr. D. Del. Oct. 31, 2006) Hr'g Tr. 49:21-23 (“I think arguably the debtor could pay its 503(b)(9) claimants without court approval.”). The timing of such payments also lies squarely within the Court’s discretion. *See In re Glob. Home Prods., LLC*, No. 06-10340 (KG), 2006 WL 3791955, at *3 (Bankr. D. Del. Dec. 21, 2006) (agreeing with parties that “the timing of the payment of that administrative expense claim is left to the discretion of the Court”).

44. The Debtors’ ongoing ability to obtain goods as provided herein is key to their survival and necessary to preserve the value of their estates. Absent payment of the 503(b)(9) Claims at the outset of these chapter 11 cases—which merely accelerates the timing of payment and not the ultimate treatment of such claims—the Debtors could be denied access to the equipment and goods necessary to maintain the Debtors’ business operations. Failure to honor these claims in the ordinary course of business may also cause the Debtors’ vendor base to withhold support for the Debtors during the chapter 11 process. Such vendors could accelerate or eliminate favorable trade terms. Needless to say, such costs and distractions could impair the Debtors’ ability to stabilize their operations at this critical juncture to the detriment of all stakeholders.

45. In addition, courts in this district have regularly authorized the payment of claims arising under section 503(b)(9) of the Bankruptcy Code in the ordinary course of business. *See, e.g., In re Bluestem Brands, Inc.*, No. 20-10566 (MFW) (Bankr. D. Del. Mar. 30, 2020) (authorizing debtors to pay claims arising under section 503(b)(9)); *In re Boy Scouts of Am. and Delaware BSA, LLC*, No. 20-10343 (LSS) (Bankr. D. Del. Mar. 23, 2020) (same); *In re Borden Dairy Co.*, 20-10010 (CSS) (Bankr. D. Del. Mar. 4, 2020) (same); *In re Dura Auto. Sys. Inc.*, No.

06-11202 (KJC) (Bankr. D. Del. Oct. 31, 2006) (same); *Forever 21, Inc.*, 19-12122 (KG) (Bankr. D. Del. Oct. 28, 2019) (same).

IV. The Court Should Confirm that Outstanding Orders Are Administrative Expense Priority Claims and that Payment of Such Claims Is Authorized.

46. Pursuant to section 503(b)(1) of the Bankruptcy Code, obligations that arise in connection with the postpetition delivery of goods and services, including goods ordered prepetition, are in fact, administrative expense priority claims because they benefit the estate postpetition. *See* 11 U.S.C. § 503(b)(1)(A) (providing that the “actual [and] necessary costs and expenses of preserving the estate” are administrative expenses); *see also In re John Clay & Co.*, 43 B.R. 797, 809–10 (Bankr. D. Utah 1984) (holding that goods ordered prepetition but delivered postpetition are entitled to administrative priority). Thus, granting the relief sought herein with respect to the Outstanding Orders will not afford such claimants any greater priority than they otherwise would have if the relief requested herein were not granted, and will not prejudice any other party in interest.

47. Absent such relief, however, the Debtors may be required to expend substantial time and effort reissuing the Outstanding Orders to provide certain suppliers with assurance of such administrative priority. The attendant disruption to the continuous and timely flow of critical raw materials and other goods to the Debtors would force the Debtors to potentially halt operations and production, damage the Debtors’ business reputation, erode the Debtors’ customer base, and ultimately lead to a loss of revenue, all to the detriment of the Debtors and their creditors. Accordingly, the Debtors submit that the Court should confirm the administrative expense priority status of the Outstanding Orders and should authorize the Debtors to pay the Outstanding Orders in the ordinary course of business.

V. Payment of the Specified Trade Claims Is Authorized by Sections 105(a) and 363(b) of the Bankruptcy Code.

48. Courts have recognized that it is appropriate to authorize the payment of prepetition obligations where necessary to protect and preserve the estate, including an operating business's going-concern value. *See, e.g., In re Just for Feet, Inc.*, 242 B.R. 821, 825–26 (D. Del. 1999); *see also In re CoServ, L.L.C.*, 273 B.R. 487, 497 (Bankr. N.D. Tex. 2002); *In re Ionosphere Clubs, Inc.*, 98 B.R. 174, 175–76 (Bankr. S.D.N.Y. 1989); *Armstrong World Indus., Inc. v. James A. Phillips, Inc. (In re James A. Phillips, Inc.)*, 29 B.R. 391, 398 (S.D.N.Y. 1983). In so doing, these courts acknowledge that several legal theories rooted in sections 105(a) and 363(b) of the Bankruptcy Code support the payment of prepetition claims.

49. Section 363(b) of the Bankruptcy Code permits a bankruptcy court, after notice and a hearing, to authorize a debtor to “use, sell, or lease, other than in the ordinary course of business, property of the estate.” 11 U.S.C. § 363(b)(1). “In determining whether to authorize the use, sale or lease of property of the estate under this section, courts require the debtor to show that a sound business purpose justifies such actions.” *In re Montgomery Ward Holding Corp.*, 242 B.R. 147, 153 (D. Del. 1999) (collecting cases); *see also James A. Phillips*, 29 B.R. at 397 (relying on section 363 to allow contractor to pay prepetition claims of suppliers who were potential lien claimants because the payments were necessary for general contractors to release funds owed to debtors); *Ionosphere Clubs*, 98 B.R. at 175 (finding that a sound business justification existed to justify payment of certain prepetition wages); *In re Phx. Steel Corp.*, 82 B.R. 334, 335–36 (Bankr. D. Del. 1987) (requiring the debtor to show a “good business reason” for a proposed transaction under section 363(b)).

50. Courts also authorize payment of prepetition claims in appropriate circumstances based on section 105(a) of the Bankruptcy Code. Section 105(a) of the Bankruptcy Code codifies

a bankruptcy court's inherent equitable powers to "issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title." 11 U.S.C. § 105(a). Under section 105(a), courts may authorize pre-plan payments of prepetition obligations when essential to the continued operation of a debtor's businesses. See *Just for Feet*, 242 B.R. at 825–26. Specifically, a court may use its power under section 105(a) of the Bankruptcy Code to authorize payment of prepetition obligations pursuant to the "necessity of payment" rule (also referred to as the "doctrine of necessity"). See, e.g., *Ionosphere Clubs*, 98 B.R. at 176; *In re Lehigh & New England Railway Co.*, 657 F.2d 570 (3d Cir. 1981) (stating that courts may authorize payment of prepetition claims when there "is the possibility that the creditor will employ an immediate economic sanction, failing such payment"); see also *In re Columbia Gas Sys., Inc.*, 171 B.R. 189, 191–92 (Bankr. D. Del. 1994) (noting that, in the Third Circuit, debtors may pay prepetition claims that are essential to the continued operation of the business). A bankruptcy court's use of its equitable powers to "authorize the payment of prepetition debt when such payment is needed to facilitate the rehabilitation of the debtor is not a novel concept." *Ionosphere Clubs*, 98 B.R. at 175-76 (citing *Miltenberger v. Logansport, C. & S.W. Ry. Co.*, 106 U.S. 286 (1882)). Indeed, at least one court has recognized that there are instances when a debtor's fiduciary duty can "only be fulfilled by the preplan satisfaction of a prepetition claim." *In re CoServ*, 273 B.R. at 497.

51. Based on the dire consequences that potentially could arise if the Debtors fail to honor the prepetition Specified Trade Claims, the Debtors submit that the relief requested herein represents a sound exercise of the Debtors' business judgment, is necessary to avoid immediate and irreparable harm to the Debtors' estates, and is therefore justified under sections 105(a) and 363(b) of the Bankruptcy Code.

VI. Payment of the Specified Trade Claims Is in Furtherance of the Debtors' Fiduciary Duties Under Bankruptcy Code Sections 1107(a) and 1108.

52. The Debtors, operating their businesses as debtors in possession under sections 1107(a) and 1108 of the Bankruptcy Code, are fiduciaries “holding the bankruptcy estate and operating the business for the benefit of its creditors and (if the value justifies) equity owners.” *In re CoServ*, 273 B.R. at 497. Implicit in the duties of chapter 11 debtors in possession is the duty “to protect and preserve the estate, including an operating business’s going-concern value.” *Id.*

53. Courts have noted that there are instances in which debtors in possession can fulfill their fiduciary duties “only . . . by the preplan satisfaction of a prepetition claim.” *Id.* The *CoServ* court specifically noted that the preplan satisfaction of prepetition claims would be a valid exercise of a debtor’s fiduciary duty when the payment “is the only means to effect a substantial enhancement of the estate,” *id.*, and also when the payment was to “sole suppliers of a given product.” *Id.* at 498. The court provided a three-pronged test for determining whether a preplan payment on account of a prepetition claim was a valid exercise of a debtor’s fiduciary duty:

First, it must be critical that the debtor deal with the claimant. Second, unless it deals with the claimant, the debtor risks the probability of harm, or alternatively, loss of economic advantage to the estate or the debtor’s going concern value, which is disproportionate to the amount of the claimant’s prepetition claim. Third, there is no practical or legal alternative by which the debtor can deal with the claimant other than by payment of the claim.

Id.

54. Payment of the prepetition Specified Trade Claims meets each element of the *CoServ* standard. **First**, as described above, each of the Specified Trade Claimants is in possession of certain critical goods, products, and related materials, or provides critical services, that the Debtors need to continue operations. **Second**, the cost of replacing such goods, products, materials held by, or the services provided by, the creditors holding prepetition Specified Trade Claimants

would be significantly more than the prepetition claim that the Debtors would have to pay. Additionally, any disruption in the Debtors' network of suppliers, service providers, and vendors would disrupt the Debtors' businesses and restructuring process, which could cost the Debtors' estates a substantial amount in lost revenue. Accordingly, the harm and economic disadvantage that would stem from failure to pay any of the prepetition Specified Trade Claims is disproportionate to the amount of the prepetition claim that would have to be paid. And, *third*, with respect to each of the Specified Trade Claimants, the Debtors have determined that, to avoid disruption of the Debtors' business operations, there exists no practical or legal alternative to payment of the prepetition Specified Trade Claims. Therefore, the Debtors can meet their fiduciary duties as debtors in possession under sections 1107(a) and 1108 of the Bankruptcy Code only through payment of the prepetition Specified Trade Claims.

Processing of Checks and Electronic Fund Transfers Should Be Authorized

55. The Debtors have sufficient funds to pay the amounts described in this Motion in the ordinary course of business by virtue of expected cash flows from ongoing business operations and anticipated access to cash collateral. Under the Debtors' existing cash management system, the Debtors have made arrangements to readily identify checks or wire transfer requests relating to the Specified Trade Claims, as applicable. Accordingly, the Debtors believe that checks or wire transfer requests that are not related to authorized payments will not be honored inadvertently. Therefore, the Debtors respectfully request that the Court authorize all applicable financial institutions, when requested by the Debtors, to receive, process, honor, and pay any and all checks or wire transfer requests in respect of the relief requested in this Motion.

The Requirements of Bankruptcy Rule 6003 Are Satisfied

56. Bankruptcy Rule 6003 empowers a court to grant relief within the first 21 days after the commencement of a chapter 11 case "to the extent that relief is necessary to avoid immediate

and irreparable harm.” Fed. R. Bankr. P. 6003. For the reasons discussed above, authorizing the Debtors to pay the Specified Trade Claims that accrued prior to the Petition Date and granting the other relief requested herein is integral to the Debtors’ ability to transition their operations into these chapter 11 cases smoothly. Failure to receive such authorization and other relief during the first 21 days of these chapter 11 cases would severely disrupt the Debtors’ operations at this critical juncture. Accordingly, the Debtors submit that they have satisfied the “immediate and irreparable harm” standard of Bankruptcy Rule 6003 to support granting the relief requested herein.

Waiver of Bankruptcy Rules 6004(a) and 6004(h)

57. To implement the foregoing successfully, the Debtors request that the Court enter an Order providing that notice of the relief requested herein satisfies Bankruptcy Rule 6004(a) and that the Debtors have established cause to exclude such relief from the 14-day stay period under Bankruptcy Rule 6004(h).

Reservation of Rights

58. Nothing contained in this Motion or any actions taken by the Debtors pursuant to any order granting the relief requested by this Motion is intended or should be construed as: (a) an admission as to the validity, priority, or amount of any particular claim against a Debtor entity; (b) a waiver of the Debtors’ right to dispute any particular claim on any grounds; (c) a promise or requirement to pay any particular claim; (d) an implication or admission that any particular claim is of a type specified or defined in this Motion or any order granting the relief requested by this Motion; (e) a request or authorization to assume any agreement, contract, or lease pursuant to section 365 of the Bankruptcy Code; (f) a waiver or limitation of the Debtors’ rights under the Bankruptcy Code or any other applicable law; or (g) a concession by the Debtors or any other party-in-interest that any liens (contractual, common law, statutory, or otherwise) satisfied pursuant to this Motion are valid and the Debtors and all other parties-in-interest expressly reserve

their rights to contest the extent, validity, or perfection, or to seek avoidance of all such liens. If the Court grants the relief sought herein, any payment made pursuant to the Court's order is not intended and should not be construed as an admission as to the validity, priority, or amount of any particular claim or a waiver of the Debtors' or any other party-in-interest's rights to subsequently dispute such claim.

Notice

59. Notice of the hearing on the relief requested in this Motion will be provided by the Debtors in accordance and compliance with Bankruptcy Rules 4001 and 9014, as well as the Bankruptcy Local Rules, and is sufficient under the circumstances. Without limiting the foregoing, due notice will be afforded, whether by facsimile, electronic mail, overnight courier or hand delivery, to parties-in-interest, including: (a) the U.S. Trustee for the District of Delaware; (b) the holders of the 30 largest unsecured claims against the Debtors (on a consolidated basis); (c) the administrative agent under the Debtors' prepetition senior credit facility or, in lieu thereof, counsel thereto; (d) the lenders under the Debtors' prepetition senior credit facility or, in lieu thereof, counsel thereto; (e) the lenders under the Debtors' debtor-in-possession financing facilities or, in lieu thereof, counsel thereto; (f) the administrative agent under the Debtors' debtor-in-possession financing facilities or, in lieu thereof, counsel thereto; (g) the indenture trustee for the Debtors' prepetition senior notes or, in lieu thereof, counsel thereto; (h) the holders of the Debtors' prepetition senior notes or, in lieu thereof, counsel thereto; (i) the ad hoc group of holders of the Debtors' preferred equity or, in lieu thereof, counsel thereto; (j) the United States Attorney's Office for the District of Delaware; (k) the Internal Revenue Service; (l) the United States Securities and Exchange Commission; (m) the state attorneys general for states in which the Debtors conduct business; (n) the Specified Trade Claimants; and (o) any party that has requested

notice pursuant to Bankruptcy Rule 2002. The Debtors submit that, in light of the nature of the relief requested, no other or further notice need be given.

No Prior Request

60. No prior request for the relief sought in this motion has been made to this or any other court.

[Remainder of page intentionally left blank]

WHEREFORE, the Debtors respectfully request that the Court enter the Interim Order and Final Order, substantially in the forms attached hereto as **Exhibit A** and **Exhibit B**, granting the relief requested in this Motion and granting such other and further relief as is appropriate under the circumstances.

Dated: June 15, 2020
Wilmington, Delaware

/s/ Richard W. Riley

WHITEFORD, TAYLOR & PRESTON LLC¹

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Proposed Co-Counsel to the Debtors and Debtors in Possession

¹ Whiteford, Taylor & Preston LLC operates as Whiteford Taylor & Preston L.L.P. in jurisdictions outside of Delaware.

Exhibit A

Proposed Interim Order

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

)	
In re:)	Chapter 11
)	
EXTRACTION OIL & GAS, INC. <i>et al.</i> , ¹)	Case No. 20-11548 ()
)	
Debtors.)	(Joint Administration Requested)
)	

**INTERIM ORDER
(I) AUTHORIZING THE
PAYMENT OF SPECIFIED TRADE CLAIMS,
(II) CONFIRMING ADMINISTRATIVE EXPENSIVE PRIORITY
OF OUTSTANDING ORDERS, AND (III) GRANTING RELATED RELIEF**

Upon the motion (the “Motion”),² of the above-captioned debtors and debtors in possession (collectively, the “Debtors”), for entry of an interim order (this “Interim Order”), (a) authorizing the Debtors to pay the Specified Trade Claims (as defined herein) in the ordinary course of business on a postpetition basis, subject to the terms of the Motion; (b) confirming the administrative expense priority status and allowed administrative treatment of the Debtors’ outstanding orders and undisputed obligations for the postpetition delivery and performance of goods and services and authorizing payment of such obligations in the ordinary course of business; and (c) granting related relief, all as more fully set forth in the Motion; and upon the First Day Declaration; and this Court having jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334 and the Amended Standing Order; and this Court having found that venue of this proceeding and the

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, are: Extraction Oil & Gas, Inc. (3923); 7N, LLC (4912); 8 North, LLC (0904); Axis Exploration, LLC (8170); Extraction Finance Corp. (7117); Mountaintop Minerals, LLC (7256); Northwest Corridor Holdings, LLC (9353); Table Mountain Resources, LLC (5070); XOG Services, LLC (6915); and XTR Midstream, LLC (5624). The location of the Debtors’ principal place of business is 370 17th Street, Suite 5300, Denver, Colorado 80202.

² Capitalized terms used but not otherwise defined herein have the meanings ascribed to them in the Motion.

Motion in this district is proper pursuant to 28 U.S.C. §§ 1408 and 1409; and this Court having found that the relief requested in the Motion is in the best interests of the Debtors' estates, their creditors, and other parties in interest; and this Court having found that the Debtors' notice of the Motion and opportunity for a hearing on the Motion were appropriate and no other notice need be provided; and this Court having reviewed the Motion and having heard the statements in support of the relief requested therein at a hearing before this Court (the "Hearing"); and this Court having determined that the legal and factual bases set forth in the Motion and at the Hearing establish just cause for the relief granted herein; and upon all of the proceedings had before this Court; and after due deliberation and sufficient cause appearing therefor, it is HEREBY ORDERED THAT:

1. The Motion is granted on an interim basis as set forth herein.
2. The final hearing (the "Final Hearing") on the Motion shall be held on _____, 2020 at __: __ .m., prevailing Eastern Time. Any objections or responses to entry of a final order on the Motion shall be filed on or before 4:00 p.m., prevailing Eastern Time, on _____, 2020, and shall be served on: (a) the Debtors, Extraction Oil & Gas, Inc., 370 17th Street, Suite 5300, Denver, Colorado 80202, Attn: Eric Christ; (b) proposed counsel to the Debtors, (i) Kirkland & Ellis LLP, 601 Lexington Avenue, New York, New York 10022, Attn: Christopher Marcus, P.C., Allyson Smith Weinhouse, and Ciara Foster and (ii) Whiteford, Taylor & Preston LLC, The Renaissance Centre, Suite 500, 405 North King Street, Wilmington, Delaware 19801, Attn: Marc R. Abrams, Richard W. Riley, and Stephen B. Gerald; (c) the United States Trustee, 844 King Street, Suite 2207, Lockbox 35, Wilmington, Delaware 19801, Attn: Richard L. Schepacarter; (d) counsel to the administrative agent under the Debtors' prepetition senior credit facility, Bracewell LLP, 711 Louisiana Street, Suite 2300, Houston, Texas 77002, Attn: Dewey J. Gonsoulin Jr., William A. (Trey) Wood III, and Heather Brown; (e) counsel to the ad hoc group

of lenders under the Debtors' prepetition senior notes, (i) Paul, Weiss, Rifkind, Wharton & Garrison LLP, 1285 Avenue of the Americas, New York, NY 10019, Attn: Andrew Rosenberg, Alice Belisle Eaton, Christopher Hopkins, Douglas Keeton and Omid Rahnama and (ii) Young Conaway Stargatt & Taylor, LLP, 1000 North King Street, Wilmington, Delaware 19801, Attn: Pauline K. Morgan & Sean T. Greecher; (f) counsel to the ad hoc group of holders of the Debtors' preferred equity, Quinn Emanuel Urquhart & Sullivan, LLP, 51 Madison Avenue, 22nd Floor, New York, New York 10010, Attn: Benjamin Finestone; and (g) counsel to any statutory committee appointed in these chapter 11 cases. In the event no objections to entry of the Final Order on the Motion are timely received, this Court may enter such Final Order without need for the Final Hearing.

3. The Debtors are authorized, but not directed, to pay the prepetition Specified Trade Claims on an interim basis in the ordinary course of business in an aggregate amount up to \$32,940,000.

4. If the Debtors intend to make any single payment on account of a prepetition Specified Trade Claim to a Specified Trade Claimant that exceeds \$250,000 (the "Trade Claimant Cap"), the Debtors must provide two (2) business days' advance written notice, and an opportunity to object to the U.S. Trustee, the administrative agent under the Debtors' prepetition senior credit facility, the administrative agent under the Debtors' debtor-in-possession financing facilities, and the ad hoc group of lenders under the Debtors' prepetition senior notes; provided that if the U.S. Trustee, the administrative agent under the Debtors' prepetition senior credit facility, the administrative agent under the Debtors' debtor-in-possession financing facilities, or the ad hoc group of lenders under the Debtors' prepetition senior notes object to the payment, the Debtors shall not make such payment, solely to the extent of any such objection and only to the extent such

disputed payment exceeds the Trade Claimant Cap, without further order of the Court or written consent from the objecting party.

5. Any party that accepts payment from the Debtors on account of a Specified Trade Claim shall be deemed to have agreed to the terms and provisions of this Interim Order.

6. All undisputed obligations related to the Outstanding Orders are granted administrative expense priority in accordance with section 503(b)(1)(A) of the Bankruptcy Code, provided, that such actions are in compliance with, and not prohibited by, the terms of the DIP Order.³

7. The Debtors are authorized to pay all undisputed amounts related to the Outstanding Orders in the ordinary course of business consistent with the parties' customary practices in effect prior to the Petition Date.

8. As a condition to receiving payment on account of Specified Trade Claims, the Debtors at their discretion may require, by written agreement, such parties to continue the Customary Terms, which include (a) continuing to supply goods and services to the Debtors on trade terms that are at least as favorable to the Debtors as those in effect prior to the Petition Date, and (b) agreeing that they shall not be permitted to cancel on less than ninety (90) days' notice any contract or agreement pursuant to which they provide services to the Debtors. The Debtors reserve the right to require more favorable trade terms with any Specified Trade Claimant as a condition to payment of any prepetition claim.

9. If any Specified Trade Claimant accepts payment pursuant to this Interim Order for a prepetition obligation of the Debtors premised on compliance with paragraph 8 above, and

³ Any interim or final orders entered by the Court approving the Debtors' entry into any postpetition debtor-in-possession financing facility and/or authorizing the Debtors' use of cash collateral.

thereafter fails to comply with the Customary Terms, or such other terms agreed to by the Debtors (including, for the avoidance of doubt, any prepetition arrangement), any payments made pursuant to this Interim Order shall be deemed an avoidable postpetition transfer under section 549 of the Bankruptcy Code, and the Specified Trade Claimant shall be required to immediately repay to the Debtors any payment made to it on account of its asserted claim to the extent the aggregate amount of such payments exceeds the postpetition obligations then outstanding, without the right of any setoffs, claims, provision for payment of reclamation or trust fund claims or otherwise. Upon recovery by the Debtors, the Specified Trade Claims shall be reinstated as a prepetition claim in the amount so recovered. The Debtors shall provide a copy of this Interim Order to the applicable party prior to such party's acceptance of any payment hereunder.

10. Nothing in this Interim Order authorizes the Debtors or any other party to accelerate any payments or obligations not otherwise due prior to the date of the Final Hearing.

11. Nothing herein shall impair or prejudice the rights of the U.S. Trustee, the administrative agent under the Debtors' prepetition senior credit facility, the administrative agent under the Debtors' debtor-in-possession financing facilities, or any statutory committee appointed in these chapter 11 cases, which are expressly reserved, to object to any payment to a Specified Trade Claimant that is an Insider (as such term is defined in section 101(31) of the Bankruptcy Code), or an affiliate of an Insider, of the Debtors. To the extent the Debtors intend to make a payment to a Specified Trade Claimant that is an Insider or an affiliate of an Insider of the Debtors, the Debtors shall, to the extent reasonably practicable, provide three (3) business days' advance notice to, and opportunity to object by the U.S. Trustee, the administrative agent under the Debtors' prepetition senior credit facility or, in lieu thereof, counsel thereto, the administrative agent under the Debtors' debtor-in-possession financing facilities or, in lieu thereof, counsel thereto, and any

statutory committee appointed in these chapter 11 cases; provided, that if any party objects to the payment, the Debtors shall not make such payment without further order of the Court.

12. Notwithstanding the relief granted herein and any actions taken pursuant to such relief, nothing contained in the Motion or this Interim Order shall constitute, nor is it intended to constitute: (a) an admission as to the validity, priority, or amount of any particular claim against a Debtor entity; (b) a waiver of the Debtors' right to dispute any particular claim on any grounds; (c) a promise or requirement to pay any particular claim; (d) an implication or admission that any particular claim is of a type specified or defined in this Interim Order or the Motion; (e) a request or authorization to assume any agreement, contract, or lease pursuant to section 365 of the Bankruptcy Code; (f) a waiver or limitation of the Debtors' rights under the Bankruptcy Code or any other applicable law; or (g) a concession by the Debtors or any other party-in-interest that any liens (contractual, common law, statutory, or otherwise) satisfied pursuant to this Interim Order are valid and the Debtors and all other parties-in-interest expressly reserve their rights to contest the extent, validity, or perfection, or to seek avoidance of all such liens. Any payment made pursuant to this Interim Order should not be construed as an admission as to the validity, priority, or amount of any particular claim or a waiver of the Debtors' or any other party-in-interest's rights to subsequently dispute such claim.

13. The banks and financial institutions on which checks were drawn or electronic payment requests made in payment of the prepetition obligations approved herein are authorized to receive, process, honor, and pay all such checks and electronic payment requests when presented for payment, and all such banks and financial institutions are authorized to rely on the Debtors' designation of any particular check or electronic payment request as approved by this Interim Order.

14. The Debtors are authorized to issue postpetition checks, or to effect postpetition fund transfer requests, in replacement of any checks or fund transfer requests that are dishonored as a consequence of these chapter 11 cases with respect to prepetition amounts owed in connection with any Specified Trade Claims.

15. The Debtors shall maintain a matrix/schedule of amounts directly or indirectly paid, subject to the terms and conditions of this Interim Order, including the following information: (a) the names of the payee; (b) the date and amount of the payment; (c) the category or type of payment, as further described and classified in the Motion; and (d) the Debtor or Debtors that made the payment. The Debtors shall provide a copy of such matrix/schedule to the U.S. Trustee, the administrative agent under the Debtors' prepetition senior credit facility or, in lieu thereof, counsel thereto, the administrative agent under the Debtors' debtor-in-possession financing facilities or, in lieu thereof, counsel thereto, and any statutory committee appointed in these chapter 11 cases every thirty (30) days beginning upon entry of this Interim Order.

16. The contents of the Motion satisfy the requirements of Bankruptcy Rule 6003(b).

17. Notice of the Motion as provided therein shall be deemed good and sufficient notice of such Motion and the requirements of Bankruptcy Rule 6004(a) and the Bankruptcy Local Rules are satisfied by such notice.

18. Notwithstanding Bankruptcy Rule 6004(h), the terms and conditions of this Interim Order are immediately effective and enforceable upon its entry.

19. The Debtors are authorized to take all actions necessary to effectuate the relief granted in this Interim Order in accordance with the Motion.

20. This Court retains exclusive jurisdiction with respect to all matters arising from or related to the implementation, interpretation, and enforcement of this Interim Order.

Exhibit B

Proposed Final Order

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:)	
)	Chapter 11
EXTRACTION OIL & GAS, INC. <i>et al.</i> , ¹)	Case No. 20-11548 ()
Debtors.)	(Joint Administration Requested)
)	

**FINAL ORDER
(I) AUTHORIZING THE
PAYMENT OF SPECIFIED TRADE CLAIMS,
(II) CONFIRMING ADMINISTRATIVE EXPENSIVE PRIORITY
OF OUTSTANDING ORDERS, AND (III) GRANTING RELATED RELIEF**

Upon the motion (the “Motion”),² of the above-captioned debtors and debtors in possession (collectively, the “Debtors”), for entry of a final order (this “Final Order”), (a) authorizing the Debtors to pay the Specified Trade Claims (as defined herein) in the ordinary course of business on a postpetition basis, subject to the terms of the Motion; (b) confirming the administrative expense priority status and allowed administrative treatment of the Debtors’ outstanding orders and undisputed obligations for the postpetition delivery and performance of goods and services and authorizing payment of such obligations in the ordinary course of business; and (c) granting related relief, all as more fully set forth in the Motion; and upon the First Day Declaration; and this Court having jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334 and the Amended Standing Order; and this Court having found that this is a core proceeding

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, are: Extraction Oil & Gas, Inc. (3923); 7N, LLC (4912); 8 North, LLC (0904); Axis Exploration, LLC (8170); Extraction Finance Corp. (7117); Mountaintop Minerals, LLC (7256); Northwest Corridor Holdings, LLC (9353); Table Mountain Resources, LLC (5070); XOG Services, LLC (6915); and XTR Midstream, LLC (5624). The location of the Debtors’ principal place of business is 370 17th Street, Suite 5300, Denver, Colorado 80202.

² Capitalized terms used but not otherwise defined herein have the meanings ascribed to them in the Motion.

pursuant to 28 U.S.C. § 157(b)(2); and that this Court may enter a final order consistent with Article III of the United States Constitution; and this Court having found that venue of this proceeding and the Motion in this district is proper pursuant to 28 U.S.C. §§ 1408 and 1409; and this Court having found that the relief requested in the Motion is in the best interests of the Debtors' estates, their creditors, and other parties in interest; and this Court having found that the Debtors' notice of the Motion and opportunity for a hearing on the Motion were appropriate under the circumstances and no other notice need be provided; and this Court having reviewed the Motion and having heard the statements in support of the relief requested therein at a hearing before this Court (the "Hearing"); and this Court having determined that the legal and factual bases set forth in the Motion and at the Hearing establish just cause for the relief granted herein; and upon all of the proceedings had before this Court; and after due deliberation and sufficient cause appearing therefor, it is HEREBY ORDERED THAT:

1. The Motion is granted on a final basis as set forth herein.
2. The Debtors are authorized, but not directed, to pay prepetition Specified Trade Claims.
3. Any party that accepts payment from the Debtors on account of a Specified Trade Claim shall be deemed to have agreed to the terms and provisions of this Final Order.
4. All undisputed obligations related to the Outstanding Orders are granted administrative expense priority in accordance with section 503(b)(1)(A) of the Bankruptcy Code, provided, that such actions are in compliance with, and not prohibited by, the terms of the DIP Order.³

³ Any interim or final orders entered by the Court approving the Debtors' entry into any postpetition debtor-in-possession financing facility and/or authorizing the Debtors' use of cash collateral.

5. If the Debtors intend to make any single payment on account of a prepetition Specified Trade Claim to a Specified Trade Claimant that exceeds \$250,000 (the “Trade Claimant Cap”), the Debtors must provide two (2) business days’ advance written notice, and an opportunity to object to the U.S. Trustee, the administrative agent under the Debtors’ prepetition senior credit facility, the administrative agent under the Debtors’ debtor-in-possession financing facilities, and the ad hoc group of lenders under the Debtors’ prepetition senior notes; provided that if the U.S. Trustee, the administrative agent under the Debtors’ prepetition senior credit facility, the administrative agent under the Debtors’ debtor-in-possession financing facilities, or the ad hoc group of lenders under the Debtors’ prepetition senior notes object to the payment, the Debtors shall not make such payment, solely to the extent of any such objection and only to the extent such disputed payment exceeds the Trade Claimant Cap, without further order of the Court or written consent from the objecting party.

6. The Debtors are authorized to pay all undisputed amounts related to the Outstanding Orders in the ordinary course of business consistent with the parties’ customary practices in effect prior to the Petition Date.

7. As a condition to receiving payment on account of Specified Trade Claims, the Debtors at their discretion may require, by written agreement, such parties to continue the Customary Terms, which include (a) continuing to supply goods and services to the Debtors on trade terms that are at least as favorable to the Debtors as those in effect prior to the Petition Date, and (b) agreeing that they shall not be permitted to cancel on less than ninety (90) days’ notice any contract or agreement pursuant to which they provide services to the Debtors. The Debtors reserve the right to require more favorable trade terms with any Specified Trade Claimant as a condition to payment of any prepetition claim.

8. If any Specified Trade Claimant accepts payment pursuant to this Final Order for a prepetition obligation of the Debtors premised on compliance with paragraph 7 above, and thereafter fails to comply with the Customary Terms, or such other terms agreed to by the Debtors (including, for the avoidance of doubt, any prepetition arrangement), any payments made pursuant to this Final Order shall be deemed an avoidable postpetition transfer under section 549 of the Bankruptcy Code, and the Specified Trade Claimant shall be required to immediately repay to the Debtors any payment made to it on account of its asserted claim to the extent the aggregate amount of such payments exceeds the postpetition obligations then outstanding, without the right of any setoffs, claims, provision for payment of reclamation or trust fund claims or otherwise. Upon recovery by the Debtors, the claim shall be reinstated as a prepetition claim in the amount so recovered. The Debtors shall provide a copy of this Final Order to the applicable party prior to such party's acceptance of any payment hereunder.

9. Nothing herein shall impair or prejudice the rights of the U.S. Trustee, the administrative agent under the Debtors' prepetition senior credit facility, the administrative agent under the Debtors' debtor-in-possession financing facilities, or any statutory committee appointed in these chapter 11 cases, which are expressly reserved, to object to any payment to a Specified Trade Claimant that is an Insider (as such term is defined in section 101(31) of the Bankruptcy Code), or an affiliate of an Insider, of the Debtors. To the extent the Debtors intend to make a payment to a Specified Trade Claimant that is an Insider or an affiliate of an Insider of the Debtors, the Debtors shall, to the extent reasonably practicable, provide three (3) business days' advance notice to, and opportunity to object by the U.S. Trustee, the administrative agent under the Debtors' prepetition senior credit facility or, in lieu thereof, counsel thereto, the administrative agent under the Debtors' debtor-in-possession financing facilities or, in lieu thereof, counsel thereto, and any

statutory committee appointed in these chapter 11 cases; provided, that if any party objects to the payment, the Debtors shall not make such payment without further order of the Court.

10. Notwithstanding the relief granted herein and any actions taken pursuant to such relief, nothing contained in the Motion or this Final Order shall constitute, nor is it intended to constitute: (a) an admission as to the validity, priority, or amount of any particular claim against a Debtor entity; (b) a waiver of the Debtors' right to dispute any particular claim on any grounds; (c) a promise or requirement to pay any particular claim; (d) an implication or admission that any particular claim is of a type specified or defined in this Final Order or the Motion; (e) a request or authorization to assume any agreement, contract, or lease pursuant to section 365 of the Bankruptcy Code; (f) a waiver or limitation of the Debtors' rights under the Bankruptcy Code or any other applicable law; or (g) a concession by the Debtors or any other party-in-interest that any liens (contractual, common law, statutory, or otherwise) satisfied pursuant to Final Order are valid and the Debtors and all other parties-in-interest expressly reserve their rights to contest the extent, validity, or perfection, or to seek avoidance of all such liens. Any payment made pursuant to this Final Order should not be construed as an admission as to the validity, priority, or amount of any particular claim or a waiver of the Debtors' or any other party-in-interest's rights to subsequently dispute such claim.

11. The banks and financial institutions on which checks were drawn or electronic payment requests made in payment of the prepetition obligations approved herein are authorized to receive, process, honor, and pay all such checks and electronic payment requests when presented for payment, and all such banks and financial institutions are authorized to rely on the Debtors' designation of any particular check or electronic payment request as approved by this Final Order without any duty of further inquiry and without liability for following the Debtors' instructions.

11. The Debtors are authorized to issue postpetition checks, or to effect postpetition fund transfer requests, in replacement of any checks or fund transfer requests that are dishonored as a consequence of these chapter 11 cases with respect to prepetition amounts owed in connection with the relief granted herein.

12. The Debtors shall maintain a matrix/schedule of amounts directly or indirectly paid, subject to the terms and conditions of this Final Order, including the following information: (a) the names of the payee; (b) the date and amount of the payment; (c) the category or type of payment, as further described and classified in the Motion; and (d) the Debtor or Debtors that made the payment. The Debtors shall provide a copy of such matrix/schedule to the U.S. Trustee, the administrative agent under the Debtors' prepetition senior credit facility or, in lieu thereof, counsel thereto, the administrative agent under the Debtors' debtor-in-possession financing facilities or, in lieu thereof, counsel thereto, and any statutory committee appointed in these chapter 11 cases every thirty (30) days beginning upon entry of this Final Order.

13. Notice of the Motion as provided therein shall be deemed good and sufficient notice of such Motion and the requirements of Bankruptcy Rule 6004(a) and the Bankruptcy Local Rules are satisfied by such notice.

14. Notwithstanding Bankruptcy Rule 6004(h), the terms and conditions of this Final Order are immediately effective and enforceable upon its entry.

15. The Debtors are authorized to take all actions necessary to effectuate the relief granted in this Final Order in accordance with the Motion.

16. This Court retains exclusive jurisdiction with respect to all matters arising from or related to the implementation, interpretation, and enforcement of this Final Order.