IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	:	Chapter 11
CHAPARRAL ENERGY, INC., et al.,	:	Case No. 16-_____ (_____)
Debtors. [1]	:	Joint Administration Pending

MOTION OF DEBTORS FOR ORDER UNDER 11 U.S.C. §§ 105(a), 363(b), 541, 1107(a), AND 1108 AND FED. R. BANKR. P. 6003 AUTHORIZING PAYMENT OF (I) ROYALTY PAYMENTS, (II) WORKING INTEREST DISBURSEMENTS AND (III) LEASE OBLIGATIONS

The debtors and debtors in possession in the above-captioned cases (collectively, the "**Debtors**") hereby move (the "**Motion**") for entry of interim and final orders substantially in the forms attached hereto as Exhibit A and Exhibit B (respectively, the "**Interim Order**" and the "**Final Order**") under Sections 105(a), 363(b), 541, 1107(a) and 1108 of title 11 of the United States Code (the "**Bankruptcy Code**") and Rule 6003 of the Federal Rules of Bankruptcy Procedure (the "**Bankruptcy Rules**"), authorizing, but not directing, the Debtors to pay in the ordinary course of business, whether such obligations were incurred prepetition or will be incurred postpetition, (i) Royalty Payments, (ii) Working Interest Disbursements and (iii) Lease Obligations (each as defined herein). In support of the Motion, the Debtors rely upon and incorporate by reference the *Declaration of Mark A. Fischer, Chief Executive Officer of Chaparral Energy, Inc., in Support of Chapter 11 Petitions and First Day Pleadings*, filed with

[1] The Debtors in these cases, along with the last four digits (or five digits, in cases in which multiple Debtors have the same last four digits) of each Debtor's federal tax identification number, are: CEI Acquisition, L.L.C. (1817); CEI Pipeline, L.L.C. (6877); Chaparral Biofuels, L.L.C. (1066); Chaparral CO2, L.L.C. (1656); Chaparral Energy, Inc. (90941); Chaparral Energy, L.L.C. (20941); Chaparral Exploration, L.L.C. (1968); Chaparral Real Estate, L.L.C. (1655); Chaparral Resources, L.L.C. (1710); Green Country Supply, Inc. (2723); and Roadrunner Drilling, L.L.C. (2399). The Debtors' address is 701 Cedar Lake Blvd., Oklahoma City, OK 73114.

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the Court concurrently herewith (the "**Fischer Declaration**"). In further support of the Motion, the Debtors, by and through their undersigned counsel, respectfully represent:

JURISDICTION AND VENUE

1. This Court has jurisdiction to consider this Motion under 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 as of February 29, 2012. This is a core proceeding under 28 U.S.C. § 157(b). Venue of these cases and this Motion in this district is proper under 28 U.S.C. §§ 1408 and 1409. The predicates for the relief requested herein are Bankruptcy Code Sections 105(a), 363(b), 541, 1107(a) and 1108. Such relief is warranted under Bankruptcy Rule 6003.

BACKGROUND

2. On the date hereof (the "**Petition Date**"), the Debtors filed voluntary petitions in this Court commencing cases for relief under chapter 11 of the Bankruptcy Code (the "**Chapter 11 Cases**"). The factual background regarding the Debtors, including their business operations, their capital and debt structures and the events leading to the filing of the Chapter 11 Cases, is set forth in detail in the Fischer Declaration.

3. The Debtors continue to manage and operate their businesses as debtors in possession pursuant to Bankruptcy Code Sections 1107 and 1108. No trustee or examiner has been requested in the Chapter 11 Cases and no committees have yet been appointed.

RELIEF REQUESTED

4. By this Motion, the Debtors seek entry of the Interim and Final Orders, substantially in the forms of Exhibit A and Exhibit B attached hereto, respectively, (a) authorizing the Debtors to pay in the ordinary course of business, whether such obligations were incurred prepetition or will be incurred postpetition, (i) Royalty Payments, (ii) Working Interest Disbursements and (iii) Lease Obligations, and (b) granting related relief.

5. In support of the Motion, the Debtors request that the Court authorize and direct all banks and financial institutions to receive, process, honor, pay and, if necessary, reissue all prepetition and postpetition checks and electronic payment and transfer requests, including prepetition checks and electronic payment and transfer requests that the Debtors reissue or re-request postpetiton, drawn on the bank accounts used by the Debtors to satisfy their obligations in connection with Royalty Payments, Working Interest Disbursements and Lease Obligations, and whether presented before, on or after the Petition Date, upon receipt by each bank or financial institution of notice of such authorization, provided that sufficient funds are on deposit in the applicable accounts to cover such payments. The Debtors additionally request that the Court authorize them to issue new postpetition checks to replace any checks that may nevertheless be dishonored and to reimburse any expenses that holders of claims in connection with Royalty Payments, Working Interest Disbursements or Lease Obligations may incur as a result of any bank's failure to honor a prepetition check.

BASIS FOR RELIEF

6. The Debtors are a privately held onshore oil and gas exploration and production company with headquarters in Oklahoma City, Oklahoma and operations in Oklahoma, Texas and Kansas. As more particularly described below, in the ordinary course of their business, the Debtors operate certain wells for the production and sale of oil and gas on their own behalf and on behalf of certain Royalty Interest Owners (as defined herein), Working Interest Owners (as defined herein) and other parties pursuant to Joint Operating Agreements (as defined herein). Where the Debtors operate wells pursuant to a Joint Operating Agreement, the Debtors are obligated to make certain payments to Royalty Interest Owners, Working Interest Owners and other parties. Under applicable state law and the Bankruptcy Code, Royalty Interests (as defined herein) and Working Interests (as defined herein) may not be considered to

be property of the Debtors' estate, and, therefore, the Debtors believe that they hold payments on account of such interests in trust for the benefit of Royalty Interest Owners and Working Interest Owners. Accordingly, such payments may not be distributable to the Debtors' creditors. For the same reasons, it is unclear whether the automatic stay would prevent Royalty Interest Owners and Working Interest Owners from bringing actions against the Debtors or asserting liens against the Debtors' assets to recover or protect amounts owed on account of such owners' interests. As such, the Debtors believe that the relief sought herein will not prejudice the rights of any creditor, and will allow the Debtors to continue their operations in the ordinary course without interruption.

A. Royalty Interests

7. A mineral interest generally consists of an interest in the oil and gas in place under a parcel of property and the exclusive right to explore, drill, produce and otherwise capture such oil and gas from the land. Through a written agreement (an "**Oil and Gas Lease**"), owners of mineral interests ("**Mineral Interest Owners**") lease or otherwise convey the exclusive right to capture oil and gas (a "**Working Interest**") to a third party (a "**Working Interest Owner**") in exchange for either a share of production or payments in lieu of a share of production.

8. The nature of the interest retained by the Mineral Interest Owners creating a Royalty Payment obligation can take many forms, including landowner's royalty interests,[2] overriding royalty interests,[3] net profits interests,[4] non-participating royalty interests[5] and

[2] "Landowner's royalty interests" are a landowner's share of the gross production of minerals free of the costs of production. Patrick H. Martin & Bruce M. Kramer, Williams & Meyers Manual of Oil and Gas Terms, 540 (15th ed. 2012) ("**Williams & Meyers**").

[3] "Overriding royalty interests" are non-possessory interests in oil and gas produced at the surface, free of the expense of production. Williams & Meyers, at 726.

production payments[6] (collectively, the "**Royalty Interests**"). Each of the Royalty Interests represents a share of the oil and gas produced from the property, or the revenue derived from the sale of such production, subject to the corresponding Oil and Gas Lease. Through the Oil and Gas Lease, the Mineral Owner receives an upfront payment per acre ("**Lease Bonus**"), and also reserves either a share of production or payments in lieu of a share of production ("**Royalty Payments**"). In addition to the Royalty Payments and Lease Bonuses, Oil and Gas Leases often provide for the payment of delay rental payments, shut-in payment, lease extension payments, minimum royalty payments and similar payments ("**Non-Royalty Lease Payments**"). In each case, owners of Royalty Interests ("**Royalty Interest Owners**") are not obligated to pay any of the costs associated with exploration or production of oil and gas. Royalty Interest Owners are only entitled to receive Royalty Payments, either in cash or in kind, on account of their Royalty Interests after the production of oil, gas or both has begun. However, the Royalty Interest Owner may be entitled to Lease Bonus payments or Non-Royalty Lease Payments prior to production of oil or gas.

9. Royalty Payments are commonly governed by state statutory frameworks that set strict payment deadlines and contain enforcement mechanisms including interest, fines, recovery of costs and attorneys' fees and treble damages. Failure to make such payments can also result in actions seeking the forfeiture, cancellation or termination of the Oil and Gas Leases under the terms of the Oil and Gas Lease.

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[4] "Net profits interests" are shares of gross production from a property, measured by net profits from operation of a property. Williams & Meyers, at 64.

[5] "Non-participating royalty interests" are non-possessory interests created directly out of the mineral estate that include a right to share in a percentage of production, free of the production costs, but affords no rights to develop or participate in any bonuses or rentals received by the landowner or Mineral Interest Owner. Williams & Meyers, at 670.

[6] "Production payments" are shares of the minerals, up to a specified quantum of production or dollar amount, produced from the described premises, free of the costs of production at the surface. Williams & Meyers, at 827.

10. The Debtors are parties to approximately 13,700 Oil and Gas Leases located primarily in Oklahoma, Texas and Kansas,[7] each of which is subject to one or more Royalty Interests. The Debtors primarily make Royalty Payments on account of Oil and Gas Leases in which the Debtors serve as the Operator. In Oil and Gas Leases where the Debtors hold only a Non-Operating Working Interest (as defined herein), Royalty Payments generally are paid by a third-party Operator before the Debtors receive their periodic *pro rata* Working Interest Disbursements.[8]

11. Over the last 12 months, the Debtors made approximately 6,000 Royalty Payments each month. Although the average monthly amount of Royalty Payments paid by the Debtors varies based on actual production, over the last 12 months, the Debtors paid approximately $4,400,000 in Royalty Payments each month. The Debtors are required to make Working Interest Disbursements to Royalty Interests Owners by the end of the month following the month during which the first purchaser remitted payment.[9] As such, the Debtors estimate that, as of the Petition Date, there are approximately $11,700,000 in unpaid prepetition Royalty Payments.[10] Accordingly, the Debtors request authority to remit (i) up to $6,800,000 of such

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[7] The Debtors' Working Interests relate to Oil and Gas Leases primarily in the states of Oklahoma and Texas.

[8] In certain instances, the Debtors as Non-Operating Working Interest Owners do not elect to have the Operator of the well market Debtor's production, instead receiving payment "in-kind" (i.e., in the form of oil or gas) In these instances, the Debtors market the oil and gas for their own account and make the appropriate Royalty Payments to the Royalty Interest Owners.

[9] For example, when oil or gas is produced and sold in January, the first purchaser would make payment to the Operator for the oil or gas sold by the end of February, and the Operator would distribute the revenues to Royalty Interest Owners by the end of March. Debtors typically make Royalty Interest Payments on the 12th day of the month in which payment is due.

[10] Of this amount, approximately $5,000,000 relates to the Debtors' obligation in suspense (e.g. disputed amounts,) (the "**Suspended Royalty Funds**"). The Suspended Royalty Funds represent amounts that are due and owing to certain Royalty Interest Owners but are otherwise unpayable for a variety of reasons, including on-going disputes over ownership of the underlying interest, incorrect contact information, and the delay that accompanies entering ownership interest decks for newly drilled wells into the Debtors' accounting system. Further, certain Royalty Interest Owners perform periodic audits ("**Royalty Audits**") to determine whether the amounts owed by the Debtors should be recalculated based upon the production from the relevant Leases. In the ordinary course of

prepetition Royalty Payments on an interim basis, and (ii) any and all prepetition Royalty Payments upon entry of the Final Order granting the relief requested herein, and to continue making such Royalty Payments in the ordinary course of business on a postpetition basis. The Debtors believe that granting the requested relief will merely affect the timing of Royalty Payments and that Royalty Interest Owners will not receive more than they would otherwise be entitled to receive under applicable state law or the Bankruptcy Code.

B. Working Interests and Working Interest Disbursements

12. As discussed above, Working Interests are created when a Mineral Interest Owner conveys its rights to extract minerals from its land to a third party. Unlike Royalty Interest Owners, Working Interest Owners "bear the cost of exploration, development and operation of the property." Kan. City Royalty Co. v. Thoroughbred Assocs., L.L.C., 215 F.R.D. 628, 631 n.1 (D. Kan. 2003). Each state in which the Debtors operate oil and gas wells has a state agency which governs oil and gas exploration and production (an "**Agency**").[11] Each Agency establishes rules governing the number of acres which can be embraced by an oil or gas well (a "**Unit**"). If a Working Interest Owner does not have an Oil and Gas Lease covering all of the acres in a Unit, the Working Interest Owner becomes a co-tenant with other Working Interest Owners in the Unit with regard to the oil and gas to be produced. Each Working Interest Owner in the Unit therefore owns a *pro rata* share of the Unit based on the proportion of leased acres such owner contributes to the Unit. Working Interest Owners also buy, sell and trade portions of their Working Interests in Oil and Gas Leases to other exploration and production companies as a method of mitigating risk and sharing the high costs associated with drilling and operating

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business, the Debtors provide additional payments to Royalty Interest Owners if a Royalty Audit determines that the Debtors have underpaid a Royalty Interest Holder.

[11] The regulatory agency in Oklahoma is the Oklahoma Corporation Commission. The regulatory agency in Texas is the Texas Railroad Commission. The regulatory agency in Kansas is the Kansas Corporation Commission.

wells. Working Interest Owners may also sell and trade portions of their Working Interests to finance capital expenditures associated with the exploration or operation of Oil and Gas Leases or to compensate landmen, geologists and other individuals or entities for goods or services provided to the Working Interest Holder.

13. To govern the relationship between them, the Working Interest Owners in a Unit often enter into joint operating agreements, pooling agreements, unitization agreements or similar agreements. Similarly, Agencies charged with regulating oil and gas operations may establish terms under which Working Interest Owners jointly develop the Unit through forced pooling orders, which function similarly to joint operating agreements[12] (collectively, such joint operating agreements, pooling agreements, unitization agreements or similar agreements and pooling orders are referred to as "**Joint Operating Agreements**"). Joint Operating Agreements memorialize the terms under which the revenues and costs from the Oil and Gas Leases covered by the Joint Operating Agreement will be split. Typically, a Joint Operating Agreement will designate one Working Interest Owner as the operator (an "**Operator**") for the Oil and Gas Leases covered by the Joint Operating Agreement—i.e., the party that is "engaged in the severance of oil or gas for that person alone, for other persons only, or for that person and others." See 52 Okl. Stat. § 549.2 (2015). The Operator conducts the day-to-day business of producing oil and gas at the site. The Operator also covers the expenses incurred in the drilling and operation of the wells (the "**Operating Expenses**") on behalf of itself and the other parties to

[12] Like joint operating agreements, forced pooling orders can govern the relationship among joint owners in certain states. Under these agreements, Mineral Owners or Working Interest Owners covered by a "pooling order" may be forced to allow joint production of their mineral interest to commence pursuant to state law. After entry of a pooling order, an unleased mineral owner or Working Interest Owner can elect to either participate in the pooling order, in which case such Working Interest Owner will be charged its proportionate share of the well costs and receive its proportionate share of revenue from production, much like under a Joint Operating Agreement. A Working Interest Owner may elect not to participate in the costs of the well, and is then typically treated as a Mineral Owner which had leased his or her interest and is therefore entitled to a Lease Bonus and Royalty Payments.

the Joint Operating Agreement holding non-operating Working Interests (each a "**Non-Operating Working Interest**" and, the owners thereof, "**Non-Operating Working Interest Owners**"). The Non-Operating Working Interest Owners are responsible for reimbursing the Operator for their *pro rata* portion of the Operating Expenses.

14. The Operator is often responsible for marketing and selling the oil and gas produced on a well governed by a Joint Operating Agreement. After selling the oil and gas, the Operator typically distributes the proceeds (the "**Working Interest Disbursements**") from the oil and gas to the corresponding Non-Operating Working Interest Owners in accordance with each party's interest therein.[13]

15. The Debtors hold Working Interests in various Oil and Gas Leases in Oklahoma, Texas, Kansas, Louisiana and New Mexico,[14] which entitle the Debtors to exploit the oil and gas on the lands associated with each particular Working Interest. In some cases, the Debtors serve as the Operator pursuant to Joint Operating Agreements covering both the Debtors' Working Interests and the Working Interests of third-parties. As the Debtors extract oil and gas from the ground, they sell their production to "first purchasers." Typically, first purchasers remit payment to the Debtors for purchased oil and gas on the last day of the month following production. The Debtors are required to make Working Interest Disbursements to Non-Operating Working Interests Owners by the end of the month following the month during which the first purchaser remitted payment.[15] Over the last twelve (12) months, the Debtors

[13] The majority of Working Interest Disbursements are made in cash; however, occasionally Working Interest Owners may take their share of production in kind.

[14] The Debtors hold Working Interests primarily in the states of Oklahoma and Texas. The Company operates one shut-in well in Louisiana and two plugged wells in New Mexico where the Company is completing remediation the surrounding site.

[15] For example, when oil or gas is produced and sold in January, the first purchaser would make payment to the Operator for the oil or gas sold by the end of February, and the Operator would distribute the revenues to

generated approximately $27,000,000 in revenue each month from operations on Oil and Gas Leases for which the Debtors serve as the Operator. These revenues were then divided among the Debtors, Working Interest Owners and Royalty Interest Owners in the Unit through the payment of Working Interest Disbursements.

16. As an Operator, the Debtors are responsible for making Working Interest Disbursements. Pursuant to state law, the Working Interest Disbursements held by the Debtors prior to remittance to the appropriate Working Interest Owners may not be property of the Debtors' estates. Failure to make Working Interest Disbursements could expose the Debtors to the statutory enforcement mechanisms discussed above. Additionally, Non-Operating Working Interest Owners often have contractual remedies under the applicable Joint Operating Agreement, including the grant of a security interest in production, the right to remove the Debtor as Operator, and the right to interest payments on the amount owed.[16]

17. In the twelve (12) months preceding the Petition Date, the Debtors remitted approximately $38,100,000 in Working Interest Disbursements. Working Interest Disbursements are not uniform or entirely predictable on a month-to-month basis.

18. The Debtors request authorization from the Court to remit undisputed, prepetition Working Interest Disbursements in the Debtors' ordinary course of business. As of the Petition Date, the Debtors estimate that they have generated and currently hold prepetition Working Interest Disbursements owed to Working Interest Owners in the approximate amount of $6,600,000.[17] The Debtors request authority to remit (i) up to $5,500,000 of such prepetition

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Working Interest Owners by the end of March. Debtors typically make Working Interest Distributions to Working Interest Owners on the 12th day of the month in which payment is due.

[16] The Debtors express no opinion as to whether any failure to pay any particular Working Interest Disbursement would constitute grounds for removal under the terms of any particular Joint Operating Agreement.

[17] Of this amount, approximately $1,100,000 relates to the Debtors' obligation in suspense (e.g. disputed amounts,) (the "**Suspended Working Interest Funds**"). The Suspended Working Interest Funds represent amounts

Working Interest Disbursements on an interim basis and (ii) any and all prepetition Working Interest Disbursements upon entry of the Final Order granting the relief requested herein, and to continue making such Working Interest Disbursements in the ordinary course of business on a postpetition basis. The Debtors believe that granting the requested relief will merely affect the timing of Working Interest Disbursements and that Working Interest Owners will not receive more than they would otherwise be entitled to receive under applicable state law or the Bankruptcy Code.

C. Lease Obligations

19. As described in greater detail below, in circumstances in which the Debtors receive revenues from first purchasers and remit and distribute revenues, the Debtors are required to pay certain taxes and make certain payments on behalf of Royalty Interest Owners and Working Interest Owners.

20. The Debtors are required to pay certain withholding taxes imposed on royalty proceeds (the "**Withholding Taxes**"). The Withholding Taxes are a form of income tax, and are paid to the Internal Revenue Service, the applicable taxing authority, or both by the Debtors on behalf of Royalty Interest Owners and Working Interest Owners.

21. The Debtors are also required to pay taxes imposed in connection with the removal of nonrenewable resources such as crude oil and natural gas (the "**Severance Taxes**") to certain taxing authorities each month. Typically, the Operator is responsible for the payment of all Severance Taxes on behalf of all Royalty Interest Owners and Working Interest Owners the *pro rata* portion of such taxes that was withheld from the Royalty Interest Owners and Working Interest Owners in the revenue distribution process. Failure to pay the Severance Taxes when

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that are due and owing to certain Working Interest Owners but are otherwise unpayable for a variety of reasons, including on-going disputes over ownership of the underlying interest, incorrect contact information, and the delay that accompanies entering newly drilled wells into the Debtors' accounting system.

due could result in penalties, liens to secure payment of outstanding Severance Taxes, and disruption of the Operator's operations.

22. In certain circumstances, an Operator may be entitled to a refund of a portion of the Severance Taxes (the "**Severance Tax Refunds**"). For example, an Operator may be entitled to a Severance Tax Refund upon review and approval of the applicable taxing authority for certain qualifying producing wells including but not limited to horizontally drilled wells, enhanced oil recovery projects, high-cost gas wells, and economically at-risk wells. If an Operator receives a Severance Tax Refund, the Operator must remit the *pro rata* share of the refund to each respective Royalty Interest Owner or Working Interest Owner in the well or Unit.

23. Working Interest Owners may also be required to make payments to Oil and Gas Lease lessors in addition to Royalty Payments, including but not limited to Non-Royalty Lease Payments such as delay rental payments,[18] lease extension payments,[19] shut-in royalty payments,[20] minimum royalty payments[21] (such Non-Royalty Lease Payments, collectively with the Withholding Taxes, the Severance Taxes and the Severance Tax Refunds, the "**Lease Obligations**"; and the Lease Obligations, collectively with the Royalty Payments and the Working Interest Disbursements, the "**Obligations**"). The payment of the Delay Rentals effectively postpones the Working Interest Holder's obligation to explore and develop the leased property for the period for which the Delay Rentals are paid. Thus, if the Delay Rentals are paid

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[18] Some Oil and Gas Leases require the Working Interest Owner to make an annual payment where a well is not drilled on the leased property (a "**Delay Rental**").

[19] Some Oil and Gas Leases require the Working Interest Owner to make a payment to the mineral owner to extend a lease where a well is not drilled on the leased property in the primary term.

[20] Some Oil and Gas Leases require the Working Interest Owner to make monthly payments as a substitute for Royalty Payments to hold a lease in the secondary term where a well has been drilled on the leased property and is capable of production, but is not actually producing.

[21] Some Oil and Gas Leases require the Working Interest Owner to make a minimum royalty payment where the value of the royalty revenue is below a certain level.

on or before the anniversary date for each year during the primary term of a particular Oil and Gas Lease, then such Oil and Gas Lease will remain in full force and effect and the Working Interest Holder will not be required to engage in exploration and development. If the Delay Rentals are not paid and the Working Interest Owner does not engage in initial exploration and development, the Oil and Gas Lease may terminate. Accordingly, failure to pay the Delay Rentals could similarly have a material adverse effect upon all Working Interest Owners, including, inter alia, the loss of the underlying Oil and Gas Lease.

24. Likewise, failure to make shut-in payments could cause the Oil and Gas Lease to terminate. The term of an Oil and Gas Lease is typically for a period of years (the primary term), and as long thereafter as oil and gas are produced. Where a well in a Unit is capable of producing oil or gas, but an Operator does not actually produce oil or gas from the Unit, the Oil and Gas Lease terminates by its own terms. By making a shut-in payment, a Working Interest Owner can fulfill production obligations under the Oil and Gas Lease and avoid termination. Accordingly, failure to pay the shut-in payments could have a material adverse effect upon all Working Interest Owners, including, inter alia, the loss of the underlying Oil and Gas Lease.

25. Where the Debtors serve as Operator, the Debtors are obligated to pay the Lease Obligations on behalf of itself and Non-Operating Working Interest Owners pursuant to the terms of the applicable Oil and Gas Leases and Joint Operating Agreements, respectively. As of the Petition Date, the Debtors estimate that they owe approximately $1,000,000 on account of prepetition Lease Obligations.[22] Accordingly, the Debtors request authority to remit (i) up to $750,000 of such prepetition Lease Obligations, on an interim basis and (ii) any and all

[22] The Debtors estimate that they owe approximately $110,000 on account of Withholding Taxes, $140,000 on account of Severance Taxes, $540,000 on account of Severance Refunds and $0 on account of Delay Rentals.

prepetition Lease Obligations upon entry of the Final Order granting the relief requested herein, and to continue making such Lease Obligations payments in the ordinary course of business on a postpetition basis. The Debtors believe that granting the requested relief will merely affect the timing of Lease Obligations and that parties receiving such Lease Obligation payments will not receive more than they would otherwise be entitled to receive under applicable state law or the Bankruptcy Code.

APPLICABLE AUTHORITY

A. To the Extent Funds in the Debtors' Possession Are Related to Royalty Interests or Working Interest Disbursements, such Funds May Not Property of the Debtors' Estates

26. With certain exceptions, Bankruptcy Code Section 541 provides that all property to which a debtor has legal or equitable interest becomes property of the estate upon the commencement of a chapter 11 case. See 11 U.S.C. § 541(a)(1). This includes any interest in property that the estate acquires after commencement of the chapter 11 cases. See 11 U.S.C. § 541(a)(7). However, Section 541 does not by itself create new legal or equitable interests in property; instead, "[p]roperty interests are created and defined by state law." Butner v. United States, 440 U.S. 48, 54-55 (1979) (noting that "Congress has generally left the determination of property rights in the assets of a bankrupt's estate to state law"). Further, Congress was clear that Bankruptcy Code Section 541(a)(1) "is not intended to expand the debtor's rights against others more than they existed at the commencement of the case." H.R. Rep. No. 95-595, 95th Cong., 1st Sess. 367-68 (1977); see also Moody v. Amoco Oil Co., 734 F.2d 1200, 1213 (7th Cir. 1984) (holding that the "rights a debtor has in property at the commencement of the case continue in bankruptcy—no more, no less"). Thus, if a debtor holds no legal or equitable interest in property as of the commencement of the case, such property does not become property of the debtor's estate under Section 541 and the debtor is prohibited from distributing such property to

its creditors. Pearlman v. Reliance Ins. Co., 371 U.S. 132, 135-36 (1962) ("The Bankruptcy Act simply does not authorize a [debtor] to distribute other people's property among a bankrupt's creditors. . . .[S]uch property rights existing before bankruptcy in persons other than the bankrupt must be recognized and respected in bankruptcy."); see also Boyd v. Martin Exploration Co. (In re Martin Exploration Co.), 56 B.R. 776, 779 (E.D. La. 1986) (holding that debtor had neither legal nor equitable title to the royalty interests it had conveyed).

27. Further, Bankruptcy Code Section 541(d) provides that a debtor who holds only bare legal title to property but not equitable interest in such property as of the commencement of the case does not obtain equitable interest in such property pursuant to Bankruptcy Section 541. Specifically, it states:

> Property in which the debtor holds, as of the commencement date of the case, only legal title and not an equitable interest . . . becomes property of the estate under subsection (a)(1) or (2) of this section only to the extent of the debtor's legal title to such property, but not to the extent of any equitable interest in such property that the debtor does not hold.

11 U.S.C. § 541(d).

28. Courts in this district have interpreted Section 541(d) to "expressly" provide that when a debtor holds only bare legal title in property, such property is not property of the estate. In re Lenox Healthcare, Inc., 343 B.R. 96, 100 (Bankr. D. Del. 2006). When a debtor holds legal title but not an equitable interest in property, the debtor must turn such property over to the owners of such property. See In re MCZ, Inc., 82 B.R. 40, 42 (Bankr. S.D. Tex. 1987) ("Where Debtor merely holds bare legal title to property as agent or bailee for another, Debtor's bare legal title is of no value to the estate, and Debtor should convey the property to its rightful owner."). A debtor who holds proceeds attributable to real property owned by another holds only bare legal title to such property. See, e.g., In re Columbia Pac. Mortg., Inc., 20 B.R. 259,

262-64 (Bankr. W.D. Wash. 1981) (holder of participation ownership interest brought successful action against bankruptcy trustee for proceeds of a sale of real property because holder was beneficial owner and debtor having only legal title held the proceeds in trust).

29. In Oklahoma, Texas and Kansas, Oil and Gas Leases are not considered to be "leases" within the traditional use of the term. In Oklahoma and Kansas, the Working Interests conveyed thereby are considered conveyances of a profit à prendre. See, e.g., In re Heston Oil Co., 69 B.R. 34, 36 (N.D. Okla. 1986) (stating that "the interests arising from an oil and gas lease are more akin to a profit a prendre and are generally considered as estates in real property having the nature of a fee") (citing Shields v. Moffitt, 683 P.2d 530, 532-33 (Okla. 1984)); Rich v. Doneghey, 177 P. 86, 89 (Okla. 1918) (holding an oil and gas lease grants "an 'incorporeal hereditament,' or, more specifically, a profit à prendre"); In re Wolfe, 181 B.R. 90, 92 (Bankr. D. Kan. 1995) (stating "like the landowner's royalty, the working interest is classified as personal property, an incorporeal hereditament, a profit à prendre"). Under Texas state law, the Working Interests conveyed by an Oil and Gas Lease are considered a determinable fee. See, e.g. Terry Oilfield Supply Co. v. Am. Sec. Bank, N.A., 195 B.R. 66, 70 (S.D. Tex. 1996) (stating that "a mineral lease in Texas is a determinable fee. It is not a lease or other form of executory contract that a debtor may accept or reject.") Accordingly, many of the Royalty Interests may be considered property of the Royalty Interest Owners and outside the scope of property of the Debtors' estate.

30. To the extent applicable nonbankruptcy law does not treat Royalty Interests as real property interests, Section 541 expressly excludes certain Royalty Interests, such as overriding royalty interests, from the definition of property of the estate. Section 541(b)(4)(B)(i) states that:

> Property of the estate does not include any interest of the debtor in liquid or gaseous hydrocarbons to the extent that the debtor has transferred such interest pursuant to a written conveyance of a production payment[23] to an entity that does not participate in the operation of the property from which such production payment is transferred.

11 U.S.C. § 541(b)(4)(B)(i).

31. Because the Royalty Interests and Working Interest Disbursements may not be property of the estate either by application of state law or pursuant to Bankruptcy Code Section 541(b), any proceeds or profits that the Debtors may take possession of during the pendency of these Chapter 11 Cases earned on account of the Royalty Interests or Working Interest Disbursements may not be property of the estate under Bankruptcy Code Section 541(a)(6). See 11 U.S.C. § 541(a)(6) (providing that only proceeds, product, offspring, rents or profits *of or from property of the estate* constitutes property of the estate under Bankruptcy Code Section 541) (emphasis added).

32. Additionally, to the extent the Debtors have proceeds of the Royalty Interests in their possession, the Debtors may at most hold bare legal title to such funds and hold *no* legal title to the percentage of the oil and gas production attributable to the Royalty Interest Owners. Similarly, the Debtors may hold no legal or equitable interests in the funds held by the Debtors on account of the Working Interest Disbursements. The Debtors only take possession of proceeds from the sale of the Royalty Interest Owners' and Working Interest Owners' share of oil and gas production because they market and sell the oil and gas production on behalf of the Royalty Interest Owners and Working Interest Owners before remitting the Working Interest Disbursements and Royalty Payments to them. This Court has held that in such situations, a

[23] Production payment means "a term overriding royalty satisfiable in cash or in kind contingent on the production of a liquid or gaseous hydrocarbon from particular real property . . . determined without regard to production costs." 11 U.S.C. § 101(42A).

resulting trust is established on behalf of the Royalty Interest Owners. See Hess Oil Corp. v. SemCrude, L.P. (In re SemCrude, L.P.), 418 B.R. 98, 106 (Bankr. D. Del. 2009) (holding that funds in debtors' possession held on behalf of royalty interest owners were held in a resulting trust for such parties, debtors only held bare legal title to such property, and thus, such funds were not property of the estate). The Supreme Court has held that property held by debtors for a third party (such as funds held on account of a resulting trust) is not property of the estate. Begier v. I.R.S., 496 U.S. 53, 59 (1990) ("Because the debtor does not own an equitable interest in property he holds in trust for another, that interest is not 'property of the estate."); United States v. Whiting Pools, Inc., 462 U.S. 198, 205 n.10 (1983) (noting that "Congress plainly excluded property of others held by the debtor in trust at the time of the filing of the petition" from the bankruptcy estate). Thus, any property held by the Debtors on account of the Royalty Interests or Working Interest Disbursements may not be property of the Debtors' estates within the meaning of Bankruptcy Code Section 541.

33. Further, because the Royalty Payments and Working Interest Disbursements may not be property of the estate, it is unclear whether the automatic stay would prevent any action by a Royalty Interest Holder or Working Interest Holder to obtain possession or exercise control over the Royalty Payments or Working Interest Disbursements. See 11 U.S.C. § 362(a)(3) (providing that the automatic stay is applicable to all entities for "any act to obtain possession of *property of the estate or of property from the estate or to exercise control over property of the estate*") (emphasis added). Failure to grant the relief requested by this Motion could subject the Debtors to unnecessary litigation, either in or outside of Court, at a time when their resources are already subject to enormous strain. As such, the Debtors believe payment of the Royalty Payments and Working Interest Disbursements in the ordinary course of

business is in the best interests of the Debtors and their creditors, and should be authorized by the Court.

34. Moreover, the Debtors believe that no creditors are prejudiced by this Motion. The Debtors believe that they have no right to distribute any funds on account of the Royalty Interests or Working Interest Disbursements to their creditors because the Royalty Interests and Working Interest Disbursements may not be property of the estate.

35. As such, for the reasons set forth above, the Debtors respectfully request that the Court authorize the Debtors to make the Royalty Payments and Working Interest Disbursements to the Royalty Interest Owners and Working Interest Owners, respectively, in the ordinary course of business, for obligations incurred both prepetition and postpetition on account of the Royalty Interests and Working Interests.

36. Courts have routinely authorized payments to royalty interest owners and non-operating working interest owners under similar circumstances. See, e.g., In re Samson Resources Corp., Case No. 15-11934 (CSS) (Bankr. D. Del. Oct. 29, 2015); In re Quicksilver Res. Inc., Case No. 15-10585 (LSS) (Bankr. D. Del. Apr. 14, 2015); In re Dune Energy, Inc., Case No. 15-10336 (HCM) (Bankr. W.D. Tex. Mar. 10, 2015); In re WBHEnergy, LP, Case No. 15-10003 (HCM) (W.D. Tex. Jan. 26, 2015); In re Endeavour Operating Corp., Case No. 14-12308 (KJC) (Bankr. D. Del, Nov. 6, 2014); In re Goldking Holdings, LLC, Case No. 13-12820 (BLS) (Bankr. D. Del. Oct. 31, 2013).

B. Payment of the Debtors' Obligations Is Necessary to Prevent Perfection of Liens Against the Debtors' Assets

37. Absent payment of the Obligations, the Debtors' assets may be subject to perfection of liens by Royalty Interest Owners and Working Interest Owners.

38. Oklahoma law grants a statutory lien to "interest owners" "[t]o secure the obligations of a "first purchaser to pay the sale price." 52 Okl. Stat. 549.3, 549.4 (2015). An "interest owner" is any person "owning an interest of any kind or nature in oil and gas rights before the acquisition thereof by a first purchaser." 52 Okl. Stat. 549.2(6) (2015). The lien attaches immediately to the oil and gas rights, including not only the physical oil and gas, but the proceeds thereof. 52 Okl. Stat. 549.2(9) (2015). Moreover, the lien is perfected automatically without the need for the interest owners to file a financing statement or any other type of documents and takes priority over all other liens. 52 Okl. Stat. 549.5, 549.7 (2015).

39. Kansas law similarly grants a statutory lien to "interest owners" "to secure the obligations of the "first purchaser of oil and gas production (as debtor) to pay the purchase price." Kan. Stat. Ann. § 84-9-339a (West). In Kansas, an "interest owner" is any person "owning an entire or fractional interest of any kind or nature in oil or gas production at the time of severance, or a person who has an express, implied or constructive right to receive a monetary payment determined by the value of oil or gas production or by the amount of production." Kan. Stat. Ann. § 84-9-339a. The lien attaches to the oil and gas proceeds. Kan. Stat. Ann. § 84-9-339a. Perfecting a lien requires the filing of an "affidavit of production" and, once perfected, such liens are treated as "purchase money security interests" in determining priority over all other liens. Kan. Stat. Ann. § 84-9-339f.

40. Texas law grants an automatically perfected statutory lien to "interest owners" to secure the obligations of the "first purchaser of oil and gas production, as debtor, to pay the purchase price." Tex. Bus. & Comm. Code § 9.343(a), (r). The Debtors, as an Operator, may qualify as the "first purchaser" under the statute where the "operator . . . receives production proceeds from a third-party purchaser who acts in good faith under a division order or other

agreement authenticated by the operator under which the operator collects proceeds of production on behalf of other interest owners." Id. § 9.343(r)(3); see also In re Tri-Union Dev. Corp., 253 B.R. 808, 812 (Bankr. S.D. Tex. 2000) (holding that the debtor/operator was the "first purchaser" because it "receive[d] the income attributable to 100% of the production, with the concomitant duty to disburse to its working interest and royalty interest holders").

41. Further, the State of Texas is the lessor for several of the Debtors' Oil and Gas Leases. Texas law grants the state a first lien on and security interest in "all oil and gas in and extracted from the area covered by the lease, all proceeds which may accrue to the lessee from the sale of the oil and gas . . . to secure the payment of royalties and other amounts due or to become due under the lease . . . and to secure payment of damages or loss that the state may suffer by reason of the lessee's breach of a covenant or condition of the lease." Tex. Nat. Res. Code Ann. § 52.136(a)-(b).

42. Pursuant to Bankruptcy Code Section 362(b)(3), the act of perfecting statutory liens, to the extent consistent with the Bankruptcy Code Section 546(b), is expressly excluded from the automatic stay. See 11 U.S.C. § 362(b)(3). As a result, Working Interest Owners and Royalty Interest Owners may be able to perfect liens against the Debtors' assets notwithstanding the automatic stay.

43. The Debtors may avoid the potential expenses and burdens associated with these rights and associated issues only by paying outstanding prepetition Obligations and continuing to pay the Obligations to the Working Interest Owners, the Royalty Interest Owners and parties owed Lease Obligations in the ordinary course of business. Otherwise, under applicable nonbankruptcy law, these parties may encumber the Debtors' assets with statutory

liens. Because payment of such claims is not a question of if, but only when, these controversies can and should be avoided to preserve value for the Debtors' stakeholders.

C. Payment is Authorized by Bankruptcy Code Sections 105(a) and 363(b)

44. Bankruptcy Code Section 363 provides, in relevant part, that "[t]he [debtor], after notice and a hearing, may use, sell or lease, other than in the ordinary course of business, property of the estate." 11 U.S.C. § 363(b)(1). Under Section 363(b), courts in this jurisdiction require only that the debtor "show that a sound business purpose" justifies the proposed use of property. In re Montgomery Ward Holding Corp., 242 B.R. 147, 153 (D. Del. 1999); see also In re Phx. Steel Corp., 82 B.R. 334, 335-36 (Bankr. D. Del. 1987) (requiring "good business reason" for use under Bankruptcy Code Section 363(b)). Moreover, "[w]here the debtor articulates a reasonable basis for its business decisions (as distinct from a decision made arbitrarily or capriciously), courts will generally not entertain objections to the debtor's conduct. In re Johns-Manville Corp., 60 B.R. 612, 616 (Bankr. S.D.N.Y. 1986); see also In re Tower Air, Inc., 416 F.3d 229, 238 (3d Cir. 2005) ("Overcoming the presumptions of the business judgment rule on the merits is a near-Herculean task."). Bankruptcy Code Section 105(a) further provides that a court "may issue any order, process or judgment that is necessary or appropriate to carry out the provisions of" the Bankruptcy Code, pursuant to the "doctrine of necessity." 11 U.S.C. § 105(a).

45. The "doctrine of necessity" functions in a chapter 11 case as a mechanism by which the bankruptcy court can exercise its equitable power to allow payment of critical prepetition claims not explicitly authorized by the Bankruptcy Code and further supports the relief requested herein. See In re Lehigh & New Eng. Ry., 657 F.2d 570, 581 (3d Cir. 1981) (holding that a court may authorize payment of prepetition claims if such payment is essential to debtor's continued operation); see also In re Just for Feet, Inc., 242 B.R. 821, 824-25 (D. Del.

1999) (holding that Bankruptcy Code Section 105(a) "provides a statutory basis for payment of pre-petition claims" under the doctrine of necessity); In re Columbia Gas Sys., Inc., 171 B.R. 189, 191-92 (Bankr. D. Del. 1994) (explaining that the doctrine of necessity is the standard in the Third Circuit for enabling a court to authorize the payment of prepetition claims prior to confirmation of a reorganization plan).

46. Certain of the Working Interest Owners may allege, among other things, that making payment of the Obligations is a condition to the continued effectiveness of the Oil and Gas Leases and the related agreements. At least one court has held that the failure to make payments required under a lease could allow a royalty interest owner to terminate the lease and that such termination would not violate the automatic stay. See Trigg v. United States (In re Trigg), 630 F.2d 1370, 1372-75 (10th Cir. 1980). In Trigg, a case decided under the former Bankruptcy Act and former Bankruptcy Rule 11-44,[24] the debtor was obligated to make certain annual rental payments to state and federal authorities under oil and gas leases. The contractual consequence of nonpayment was automatic termination of the debtor's interest as lessee. Before the dates on which the rental payments would be due, the debtor commenced a case under chapter 11 of the Bankruptcy Act and sought to prevent the state and federal authorities from terminating the leases for nonpayment. The Trigg court rejected the argument that such termination was stayed by virtue of the chapter 11 case; since the leases terminated automatically by their own terms, the court explained, no action was being taken by the authorities in contravention of the automatic stay. 630 F.2d at 1373; see also Good Hope Refineries, Inc. v.

[24] The relevant holding in Trigg has been upheld in the context of the Bankruptcy Code by numerous courts. See, e.g., In re Margulis, 323 B.R. 130, 134 (Bankr. S.D.N.Y. 2005) ("Trigg remains good law under the Bankruptcy Code."); In re Tudor Motor Lodge Assocs., Ltd. P'ship, 102 B.R. 936, 949 (Bankr. D.N.J. 1989) (agreeing with a collection of cases applying Trigg in a Bankruptcy Code setting); Hertzberg v. Loyal Am. Life Ins. Co. (In re B & K Hydraulic Co.), 106 B.R. 131, 134 (Bankr. E.D. Mich. 1989); In re W. Pine Const. Co., 80 B.R. 315, 320 (Bankr. E.D. Pa. 1987).

Benavides, 602 F.2d 998, 1002 (1st Cir. 1979) (automatic termination of an oil and gas lease for nonpayment of delay rental does not constitute a "proceeding" within the meaning of the Bankruptcy Act's automatic stay provisions).

47. The leases at issue in Trigg expressly provided for automatic termination in the event of non-payment of annual rent. Such automatic termination provisions are present in the vast majority of the Debtors' Leases. In addition, the Debtors' failure to make payments on account of Obligations could jeopardize the Debtors' ownership of the Oil and Gas Leases. By paying the undisputed Obligations (following any setoff to which the Debtors may be entitled to assert), the Debtors seek, out of an abundance of caution, to avoid such time-consuming and costly disputes and to ensure the continued existence of the underlying Leases, thereby preserving and maximizing estate value for the benefit of all stakeholders.

48. Courts have consistently permitted postpetition payment of prepetition obligations where necessary to preserve or enhance the value of a debtor's estate for the benefit of all creditors. See, e.g., Miltenberger v. Logansport, C&S W.R. Co., 106 U.S. 286, 312 (1882) (payment of pre-receivership claim prior to reorganization permitted to prevent "stoppage of [crucial] business relations"); Dudley v. Mealey, 147 F.2d 268, 271 (2d Cir. 1945) (extending doctrine for payment of prepetition claims beyond railroad reorganization cases), cert denied 325 U.S. 873 (1945); Mich. Bureau of Workers' Disability Comp. v. Chateaugay Corp. (In re Chateaugay Corp.), 80 B.R. 279, 285-86 (S.D.N.Y. 1987) (approving lower court order authorizing payment of prepetition wages, salaries, expenses and benefits).

49. The relief requested herein is appropriate and warranted under both Bankruptcy Code Sections 363(b) and 105(a). The authority to satisfy the Obligations in the initial days of these Chapter 11 Cases without disrupting the Debtors' operations will send a

clear signal to the marketplace, including Royalty Interest Owners and Working Interest Owners, that the Debtors are willing and able to conduct business as usual during these Chapter 11 Cases.

50. If the relationships established by the Debtors with the Royalty Interest Owners and Working Interest Owners are harmed, whether through non-payment or perceived difficulties of working with a chapter 11 debtor, the Debtors may be unable to secure future opportunities with those parties and other third parties may be unwilling to engage in new business with the Debtors going forward. If that were to occur, the negative impact on the Debtors' business, their estates and creditors would be substantial.

51. Based on the consequences that could result if the Debtors fail to honor the Royalty Payments and the Working Interest Disbursements, 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 Bankruptcy Code Sections 105(a) and 363(b).

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

52. Pursuant to Bankruptcy Code Sections 1107(a) and 1108, debtors in possession are fiduciaries "holding the bankruptcy estate[s] and operating the businesses for the benefit of [their] creditors and (if the value justifies) equity owners." In re CoServ, L.L.C., 273 B.R. 487, 497 (Bankr. N.D. Tex. 2002). Implicit in the fiduciary duties of any debtor in possession is the obligation to "protect and preserve the estate, including an operating business's going-concern value." Id. Some courts have noted that there are instances in which a debtor can fulfill this fiduciary duty "only . . . by the preplan satisfaction of a prepetition claim." Id. The court in CoServ specifically noted that the preplan satisfaction of prepetition claims would be a valid exercise of the debtor's fiduciary duty when the payment "is the only means to effect a

substantial enhancement of the estate." 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.

53. Payment of Obligations meets each element of the CoServ court's standard. First, as described above, each of the Royalty Interest Owners and Working Interest Owners arguably hold real property interests in the Debtors' oil and gas interests. Second, failing to make any of the Obligations when due could result in liens being placed on the Debtors' oil and gas interests, including proceeds therefrom. The time and cost attendant to multiple liens being perfected on the Debtors' assets could significantly 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 result from failure to pay any of the prepetition Obligations is grossly disproportionate to the amount of prepetition claims that would have to be paid. Third, with respect to each of the Royalty Interest Owners and the Working Interest Owners, the Debtors have determined that, to avoid significant disruption of the Debtors' business operations, there exists no practical or legal alternative to payment of the prepetition Obligations. Therefore, the Debtors can only meet their fiduciary duties as debtors in possession under Bankruptcy Code Sections 1107(a) and 1108 through payment of the prepetition Obligations.

RESERVATION OF RIGHTS

54. Nothing contained herein is or should be construed as: (a) an admission as to the validity of any claim against the Debtors or the existence of any lien against the Debtors' properties; (b) a waiver of the Debtors' rights to dispute any claim or lien on any grounds; (c) a promise to pay any claim; (d) an assumption or rejection of any executory contract or unexpired lease pursuant to Bankruptcy Code Section 365; or (e) otherwise affecting the Debtors' rights under Bankruptcy Code Section 365 to assume or reject any executory contract with any party subject to the proposed Interim or Final Order, once entered. Nothing contained in this Motion shall be deemed to increase, reclassify, elevate to an administrative expense status or otherwise affect any claim on account of an Obligation to the extent it is not paid.

BANKRUPTCY RULE 6003 HAS BEEN SATISFIED AND BANKRUPTCY RULE 6004 SHOULD BE WAIVED

55. Pursuant to Bankruptcy Rule 6003, the Court may grant relief regarding a motion to pay all or part of a prepetition claim within twenty one (21) days after the Petition Date if the relief is necessary to avoid immediate and irreparable harm. See Fed. R. Bankr. P. 6003(b). Based on the foregoing, the Debtors submit that they have satisfied the requirements of Bankruptcy Rule 6003(b) because the relief set forth in Exhibit A and Exhibit B is necessary to avoid immediate and irreparable harm.

56. To the extent that any aspect of the relief sought herein constitutes a use of property under Bankruptcy Code Section 363(b), the Debtors request a waiver of the notice requirements under Bankruptcy Rule 6004(a) and the fourteen (14) day stay under Bankruptcy Rule 6004(h). As described above, the relief that the Debtors request in this Motion is immediately necessary in order for the Debtors to be able to continue to operate their businesses and preserve the value of their estates. The Debtors respectfully request that the Court waive the

notice requirements imposed by Bankruptcy Rule 6004(a) and the fourteen (14) day stay imposed by Bankruptcy Rule 6004(h), as the exigent nature of the relief sought herein justifies immediate relief.

CONSENT TO JURISDICTION

57. Pursuant to Rule 9013-1(f) of the Local Rules for the United States Bankruptcy Court for the District of Delaware (the "**Local Rules**"), the Debtors consent to the entry of a final judgment or order with respect to this Motion if it is determined that the Court would lack Article III jurisdiction to enter such final judgment or order absent consent of the parties.

NOTICE

58. Notice of this Motion will be given to: (a) the Office of the United States Trustee for the District of Delaware; (b) the administrative agent for the Debtors' prepetition secured financing; (c) counsel to the administrative agent for the Debtors' prepetition secured financing; (d) the indenture trustee under the Debtors' 9.875% senior notes due 2020; (e) the indenture trustee under the Debtors' 8.25% senior notes due 2021; (f) the indenture trustee under the Debtors' 7.625% senior notes due 2022; (g) Milbank, Tweed, Hadley & McCloy LLP, counsel to the counsel to the ad hoc committee of the holders of the Debtors' prepetition unsecured notes; (h) the parties included on the Debtors' consolidated list of 30 largest unsecured creditors; (i) the United States Attorney's Office for the District of Delaware; (j) the Internal Revenue Service; (k) the attorneys general for Oklahoma, Texas and Kansas; (l) the Environmental Protection Agency and similar state environmental agencies for states in which the Debtors conduct business; and (m) all parties entitled to notice pursuant to Local Rule 9013-1(m) (collectively, the "**Initial Notice Parties**"). As this Motion is seeking "first day" relief, this

Motion and any order entered hereon will be served in accordance with Local Rule 9013-1(m). The Debtors submit that, under the circumstances, no other or further notice is required.

59. If the Court enters the Interim Order granting this Motion, within 48 hours thereafter, the Debtors propose to serve notice of such entry on the Initial Notice Parties and all parties that have filed prior to such service date requests for notice pursuant to Bankruptcy Rule 2002. The notice will provide that any objections to the relief granted in the Interim Order must be filed with the Court and served upon counsel for the Debtors no later than seven (7) days prior to the final hearing to be held on the Motion (the "**Objection Deadline**"). If an objection is timely filed and served prior to the Objection Deadline, such objection will be heard at the final hearing on the Motion. If no objections are timely filed and served, the Debtors' counsel will file a certification of counsel to that effect attaching a final form of order.

WHEREFORE, the Debtors respectfully request that the Court enter proposed Interim and Final Orders substantially in the forms attached hereto as Exhibits A and B, respectively, granting the relief requested in the Motion and such other and further relief as may be just and proper.

Dated: May 9, 2016
Wilmington, Delaware

/s/ John H. Knight
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Proposed Counsel for Debtors and Debtors in Possession

EXHIBIT A

Proposed Interim Order

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	:	Chapter 11
CHAPARRAL ENERGY, INC., et al.,	:	Case No. 16-_____ (_____)
Debtors. [1]	:	Joint Administration Pending

INTERIM ORDER UNDER 11 U.S.C. §§ 105(a), 363(b), 541, 1107(a), AND 1108 AND Fed. R. Bankr. P. 6003 AUTHORIZING PAYMENT OF (I) ROYALTY PAYMENTS, (II) WORKING INTEREST DISBURSEMENTS AND (III) LEASE OBLIGATIONS

Upon the motion (the "**Motion**")[2] of the Debtors for entry of an Interim Order, under Bankruptcy Code Sections 105(a), 363(b), 506(b), 1107(a), and 1108 and Bankruptcy Rule 6003 authorizing the Debtors to pay (i) Royalty Payments, (ii) Working Interest Disbursements and (iii) Lease Obligations; and the Court having reviewed the Motion and the Fischer Declaration; and the Court having determined that the relief requested in the Motion is in the best interests of the Debtors, their estates, their creditors, and other parties in interest and should be granted on an interim basis to the extent set forth herein; and the Court having jurisdiction to consider the Motion and the relief requested therein in accordance with 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 as of February 29, 2012; and it appearing that proper and adequate notice of the Motion has been given and that no other or further notice is necessary; and upon the record

[1] The Debtors in these cases, along with the last four digits (or five digits, in cases in which multiple Debtors have the same last four digits) of each Debtor's federal tax identification number, are: CEI Acquisition, L.L.C. (1817); CEI Pipeline, L.L.C. (6877); Chaparral Biofuels, L.L.C. (1066); Chaparral CO2, L.L.C. (1656); Chaparral Energy, Inc. (90941); Chaparral Energy, L.L.C. (20941); Chaparral Exploration, L.L.C. (1968); Chaparral Real Estate, L.L.C. (1655); Chaparral Resources, L.L.C. (1710); Green Country Supply, Inc. (2723); and Roadrunner Drilling, L.L.C. (2399). The Debtors' address is 701 Cedar Lake Blvd., Oklahoma City, OK 73114.

[2] Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Motion.

herein; and after due deliberation thereon; and good and sufficient cause appearing therefor, it is hereby

ORDERED, ADJUDGED, AND DECREED THAT:

1. The Motion is GRANTED on an interim basis as set forth herein.

2. The Debtors are authorized, but not directed, in their sole discretion to pay the Royalty Interest Owners, in the ordinary course of business, the Royalty Payments, and to take and apply such setoff rights as the Debtors are entitled to take against such Royalty Payments prior to paying such amounts; *provided* that payments on account of prepetition Royalty Payments shall not exceed $6,800,000 pursuant to this Interim Order.

3. The Debtors are authorized, in their sole discretion to make Working Interest Disbursements to Non-Operating Working Interest Owners in accordance with such parties' respective interests in the Oil and Gas Leases covered by Joint Operating Agreements, and to take and apply such set-off rights as the Debtors are entitled to take against such Working Interest Disbursements prior to paying such amounts; *provided* that payments on account of prepetition Working Interest Disbursements shall not exceed $5,500,000 pursuant to this Interim Order.

4. The Debtors are authorized, but not directed, in their sole discretion to make Lease Obligations payments, on behalf of each holder of a Non-Operating Working Interest in accordance with such parties' respective interests in the Oil and Gas Leases covered by Joint Operating Agreements and to take and apply such set-off rights as the Debtors are entitled to take against such Lease Obligations prior to paying such amounts; *provided* that payments on account of prepetition Lease Obligations shall not exceed $750,000 pursuant to this Interim Order.

5. The banks and financial institutions on which checks were drawn or electronic payment requests were made in payment of the prepetition obligations approved herein are authorized to receive, process, honor, pay and, if necessary, reissue all such checks and electronic payment requests, including prepetition checks and electronic payment and transfer requests that the Debtors reissue or re-request postpetition, 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.

6. Notwithstanding the relief granted herein and any actions taken hereunder, nothing contained in the Motion or this Interim Order or any payment made pursuant to this Interim Order shall constitute, nor is it intended to constitute, an admission as to the validity or priority of any claim against the Debtors or any lien on any of the Debtors' properties, a waiver of the Debtors' rights to subsequently dispute such claim or lien or the assumption or adoption of any agreement, contract or lease under Bankruptcy Code Section 365.

7. The Debtors are authorized to issue postpetition checks or to affect 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 of the Obligations.

8. Nothing contained in this Interim Order shall be deemed to increase, reclassify, elevate to an administrative expense status, or otherwise affect a claim to the extent it is not paid.

9. Nothing in the Motion or this Interim Order, nor as a result of any payment made pursuant to this Interim Order, shall be deemed or construed as (a) an admission as to the validity or priority of any claim or lien against the Debtors or an approval or assumption

of any agreement, contract, or lease pursuant to Bankruptcy Code Section 365, or (b) a waiver of the rights of the Debtors, or shall impair the ability of the Debtors, to contest the validity and amount of any payment made pursuant to this Interim Order.

10. Notwithstanding anything to the contrary contained herein, any payment to be made, or authorization contained, hereunder shall be subject to the requirements imposed on the Debtors under any order regarding the use of cash collateral, or budget in connection therewith, approved by this Court in these Chapter 11 Cases.

11. Notwithstanding anything to the contrary contained in this Interim Order or in the Motion, any payment, obligation, or other relief authorized by this Interim Order shall be subject to and limited by the requirements imposed on the Debtors under the terms of any interim and/or final orders regarding the use of cash collateral.

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

13. The requirements set forth in Bankruptcy Rule 6004(a) are hereby waived.

14. The requirements set forth in Bankruptcy Rule 6003(b) are satisfied because the relief set forth in this Interim Order is necessary to avoid immediate and irreparable harm.

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

16. The final hearing (the "**Final Hearing**") on the Motion shall be held on _____, 2016, 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 _____, 2016, and shall be served on: (a) Chaparral Energy, Inc., 701 Cedar Lake

Blvd., Oklahoma City, OK 73114 (Attn: Linda Byford), (b) Latham & Watkins LLP, 885 Third Avenue, New York, New York 10022 (Attn: David F. McElhoe), (c) Richards, Layton & Finger, One Rodney Square 920 North King St., Wilmington, Delaware 19801 (Attn: John H. Knight), (d) counsel to the administrative agent for the Debtors' prepetition secured financing, Vinson & Elkins LLP, Trammell Crow Center, 2001 Ross Avenue, Suite 3700, Dallas, Texas 75201(Attn:Chris Dewar, Esq.); (e) counsel to the ad hoc committee of the holders of the Debtors' prepetition unsecured notes, Milbank, Tweed, Hadley & McCloy LLP, 28 Liberty Street, New York, NY 10005 (Attn: Evan Fleck, Esq. and Michael Price, Esq.); (f) counsel to the official committee of unsecured creditors, if one is appointed, and (g) the United States Trustee for the District of Delaware, 844 King Street, Suite 2207, Wilmington, DE 19801 (Attn: David Buchbinder), no later than _____, 2016, at _:00 _.m. Prevailing Eastern Time. 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.

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

Wilmington, Delaware

Dated:_____, 2016

_____

UNITED STATES BANKRUPTCY JUDGE

EXHIBIT B

Proposed Final Order

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	:	Chapter 11
CHAPARRAL ENERGY, INC., et al.,	:	Case No. 16-_____ (_____)
Debtors. [1]	:	Jointly Administered

FINAL ORDER AUTHORIZING PAYMENT OF (I) ROYALTY PAYMENTS, (II) WORKING INTEREST DISBURSEMENTS AND (III) LEASE OBLIGATIONS IN THE ORDINARY COURSE OF BUSINESS

Upon the motion (the "**Motion**")[2] the "Debtors for entry of the Final Order, under Bankruptcy Code Sections 105(a), 363(b), 506(b), 1107(a), and 1108 and Bankruptcy Rule 6003 authorizing, but not directing, the payment of (i) Royalty Payments, (ii) Working Interest Disbursements and (iii) Lease Obligations; and the Court having reviewed the Motion, the Fischer Declaration, and the Interim Order entered on _____, 2016; and the Court having determined that the relief requested in the Motion is in the best interests of the Debtors, their estates, their creditors, and other parties in interest; and the Court having jurisdiction to consider the Motion and the relief requested therein in accordance with 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 as of February 29, 2012; and it appearing that proper and adequate notice of the Motion has been given and that no other or further notice is necessary; and upon the

[1] The Debtors in these cases, along with the last four digits (or five digits, in cases in which multiple Debtors have the same last four digits) of each Debtor's federal tax identification number, are: CEI Acquisition, L.L.C. (1817); CEI Pipeline, L.L.C. (6877); Chaparral Biofuels, L.L.C. (1066); Chaparral CO2, L.L.C. (1656); Chaparral Energy, Inc. (90941); Chaparral Energy, L.L.C. (20941); Chaparral Exploration, L.L.C. (1968); Chaparral Real Estate, L.L.C. (1655); Chaparral Resources, L.L.C. (1710); Green Country Supply, Inc. (2723); and Roadrunner Drilling, L.L.C. (2399). The Debtors' address is 701 Cedar Lake Blvd., Oklahoma City, OK 73114.

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

record herein; and after due deliberation thereon; and good and sufficient cause appearing therefor, it is hereby:

ORDERED, ADJUDGED, AND DECREED THAT:

1. The Motion is GRANTED on a final basis as set forth herein.

2. The Debtors are authorized, but not directed, in their sole discretion to pay the Royalty Interest Owners, in the ordinary course of business, the Royalty Payments, and to take and apply such setoff rights as the Debtors are entitled to take against such Royalty Payments prior to paying such amounts.

3. The Debtors are authorized, but not directed, in their sole discretion to make Working Interest Disbursements to Non-Operating Working Interest Owners in accordance with such parties' respective interests in the Oil and Gas Leases covered by Joint Operating Agreements, and to take and apply such set-off rights as the Debtors are entitled to take against such Working Interest Disbursements prior to paying such amounts.

4. The Debtors are authorized, but not directed, in their sole discretion to make Lease Obligations payments, on behalf of each holder of a Non-Operating Working Interest in accordance with such parties' respective interests in the Oil and Gas Leases covered by Joint Operating Agreements, and to take and apply such set-off rights as the Debtors are entitled to take against such Lease Obligations prior to paying such amounts.

5. The Debtors are authorized, but not directed, in their sole discretion to issue new postpetition checks to replace any checks that may nevertheless be dishonored and to reimburse any expenses that holders of claims in connection with Royalty Payments, Working Interest Disbursements or Lease Obligations may incur as a result of any bank's failure to honor a prepetition check.

6. The banks and financial institutions on which checks were drawn or electronic payment requests were made in payment of the prepetition obligations approved herein are authorized to receive, process, honor, pay and, if necessary, reissue all such checks and electronic payment requests, including prepetition checks and electronic payment and transfer requests that the Debtors reissue or re-request postpetition, 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.

7. Notwithstanding the relief granted herein and any actions taken hereunder, nothing contained in the Motion or this Final Order or any payment made pursuant to this Final Order shall constitute, nor is it intended to constitute, an admission as to the validity or priority of any claim against the Debtors or any lien on any of the Debtors' properties, a waiver of the Debtors' rights to subsequently dispute such claim or lien or the assumption or adoption of any agreement, contract or lease under Bankruptcy Code Section 365.

8. The Debtors are authorized to issue postpetition checks or to affect 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 of the Obligations.

9. Neither the provisions contained herein, nor any actions or payments made by the Debtors pursuant to this Final Order, shall be deemed an admission as to the validity of any underlying obligation or a waiver of any rights the Debtors may have to dispute such obligation on any ground that applicable law permits.

10. Notwithstanding anything to the contrary in this Final Order or in the Motion, any payment, obligation, or other relief authorized by this Final Order shall be subject to

and limited by the requirements imposed on the Debtors under the terms of any interim and/or final orders approving the use of cash collateral.

11. Notwithstanding Bankruptcy Rule 6004(h), to the extent applicable, this Final Order shall be effective and enforceable immediately upon entry hereof.

12. The requirements set forth in Bankruptcy Rule 6004(a) are hereby waived.

13. The requirements set forth in Bankruptcy Rule 6003(b) are satisfied because the relief set forth in this Final Order is necessary to avoid immediate and irreparable harm.

14. The Debtors are hereby authorized to take such actions and to execute such documents as may be necessary to implement the relief granted by this Final Order.

15. This Court shall retain jurisdiction with respect to all matters arising from or related to the implementation and/or interpretation of this Final Order.

Wilmington, Delaware

Dated:_____, 2016

_____

UNITED STATES BANKRUPTCY JUDGE