

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

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<b><i>In re:</i></b>	:	<b>Chapter 11</b>
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<b>ENDEAVOUR OPERATING CORPORATION, <i>et al.</i>,<sup>1</sup></b>	:	<b>Case No. 14- _____ ( )</b>
	:	
<b>Debtors.</b>	:	<b>(Joint Administration Requested)</b>
	:	
	X	

**DECLARATION OF WILLIAM L. TRANSIER IN SUPPORT OF THE  
DEBTORS' CHAPTER 11 PETITIONS AND REQUEST FOR FIRST DAY RELIEF**

I, William L. Transier, hereby declare pursuant to section 1746 of title 28 of the United States Code, as follows:

1. I am the Chairman, Chief Executive Officer ("**CEO**"), President and co-founder of Endeavour International Corporation ("**EIC**") the publicly-traded parent company of Endeavour Operating Corporation ("**EOC**," collectively with the other above-captioned debtors, the "**Debtors**," and together with their non-Debtor subsidiaries, "**Endeavour**" or the "**Company**"). I am familiar with Endeavour's day-to-day operations, books and records, and business and financial affairs and have served as EIC's Chairman, CEO and President since 2006. Prior to that, I served as EIC's co-CEO and Director since its founding in 2004.

2. I have extensive experience and background in the oil and gas industry, having served as an officer or director for several other oil and gas-related companies. From 2003 to 2004, I founded and served as Co-Chief Executive Officer of NSNV, Inc., the

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<sup>1</sup> The Debtors in these chapter 11 cases and the last four digits of each Debtor's taxpayer identification number are as follows: Endeavour Operating Corporation (6552); Endeavour International Corporation (8389); Endeavour Colorado Corporation (0067); END Management Company (7578); Endeavour Energy New Ventures Inc. (7563); Endeavour Energy Luxembourg S.à r.l. (2113). The Debtors' principal offices are located at 811 Main Street, Suite 2100, Houston, Texas 77002.

predecessor to EIC, which was subsequently taken public on the American Stock Exchange through a reverse merger transaction. From 1996 to 2003, I served as Executive Vice President and Chief Financial Officer for Ocean Energy, Inc. (and its predecessor Seagull Energy Corporation), an oil and gas exploration and production company, prior to its merger with Devon Energy Corporation. From 1986 to 1996, I was a partner in the international accounting firm, KPMG LLP, and for most of that period I was in charge of the international energy practice. I have also served as a director of Helix Energy Solutions Group, Inc. since October 2000; of Paragon Offshore Limited since August 2014; of Cal Dive International, Inc. from 2006 to 2012; and of Reliant Resources Inc. (now GenOn Energy, Inc.) from 2002 to 2009 and was formerly the Chairman of the Natural Gas Supply Association and of the Texas Department of Information Resources (an appointment by the Texas Governor).

3. Concurrently with the filing of this declaration (the “***Declaration***”) on the date hereof (the “***Petition Date***”), the Debtors have filed voluntary petitions in this Court for relief under chapter 11 of title 11 of the United States Code (the “***Bankruptcy Code***”). To enable Endeavour to operate effectively and minimize the potential adverse effects of the commencement of these reorganization cases, the Debtors have requested certain relief in “first day” applications and motions filed with the Court (collectively, the “***First Day Pleadings***”). The First Day Pleadings, described in detail below, seek, among other things, to ensure the continuation of Endeavour’s cash management system and other business operations without interruption, the preservation of valuable relationships with joint operating partners and royalty interest holders, maintenance of employee morale and confidence and establishment of certain other administrative procedures to promote a seamless transition into chapter 11. This relief will be critical to the Debtors’ restructuring efforts.

4. This Declaration is submitted to assist the Court and other parties in interest in understanding the circumstances that compelled the commencement of these chapter 11 cases and in support of (i) the petitions for relief under the Bankruptcy Code filed on the Petition Date and (ii) the First Day Pleadings. Any capitalized term not defined herein shall have the meaning ascribed to that term in the relevant First Day Pleading. Except as otherwise indicated herein, the facts set forth in this Declaration are based upon my personal knowledge, my review of relevant documents, information provided to me by employees working under my supervision or my opinion based upon experience, knowledge and information concerning the operations of Endeavour and the oil and gas industry. If called upon to testify, I would testify competently to the facts set forth in this Declaration.

5. This Declaration is intended to provide a summary overview of Endeavour and the Debtors' chapter 11 cases and is organized as follows: **Part I** provides an overview of these chapter 11 cases and the goals that the Debtors seek to accomplish in these proceedings; **Part II** describes the Debtors' businesses; **Part III** describes the Debtors' corporate structure; **Part IV** describes the Debtors' prepetition capital structure; **Part V** describes the key events that led to the commencement of these chapter 11 cases, including unforeseen production delays and cost overruns outside of the Debtors' control, the challenging environment facing oil and gas producers in the United Kingdom ("**U.K.**") North Sea and depressed natural gas prices in the United States ("**U.S.**"), the Debtors' prepetition restructuring negotiations with key creditors within its capital structure; and **Part VI** provides the evidentiary support for the First Day Pleadings filed concurrently herewith.

6. Unless otherwise indicated, the financial information contained herein is provided on a consolidated basis, which includes certain of the Debtors' non-debtor affiliates (collectively, the "*Non-Debtor Affiliates*").

## **I. OVERVIEW**

7. Endeavour, a small, independent oil and gas exploration and production company, can no longer sustain the weight of its capital structure and devote the capital needed to grow its businesses. It is abundantly clear that to successfully reposition itself for long-term viability, the Company must undergo a comprehensive delevering and reduce its interest burden. Endeavour's goal is to unfetter itself from the weight of its debt obligations as quickly and as cost-effectively as possible through a consensual restructuring, enabling it to focus its efforts on preserving and developing its businesses.

8. Today, the Company is one step closer to achieving that goal. The commencement of these chapter 11 cases provides the forum through which the Company can implement an orderly and sweeping balance sheet restructuring with the overwhelming support of over two-thirds in amount of each of its four principal classes of debtholders through a consensual transaction (the "*Consensual Restructuring*").

9. Unanticipated events outside of its control forced Endeavour over the last three years to borrow funds at a high cost of capital and divert cash from its businesses to satisfy ongoing obligations. Unfavorable changes in the economic and political climate for the oil and gas industry, natural disasters, volatile commodity prices and unexpected delays in new oil and gas production due to operating difficulties in the U.K. North Sea all contributed to Endeavour's thin liquidity and the swift increase of its debt by over \$500 million to approximately \$1.2 billion.

10. The Company's management has spent over a year exploring restructuring alternatives. It conducted a strategic review, implemented cost-cutting initiatives, restructured its organization, explored the potential sale of some or all of its assets to a third-party and attempted to negotiate an out-of-court restructuring with its creditors. None of these options materialized as a remedy capable of addressing the breadth of the Company's financial troubles. What the Company needed was a meaningful debt reduction, which was only possible through a chapter 11 process.

11. The Consensual Restructuring is the culmination of intensive negotiations spanning several months between the Company, its major creditors and their restructuring advisors and represents the Company's best possible path to a healthier balance sheet at this time. The Debtors have executed a restructuring support agreement ("**RSA**") under which the Debtors and over two-thirds in amount of the March 2018 Notes, June 2018 Notes, the Convertible Notes and the 7.5% Convertible Bonds (each, as defined below) have agreed to support the Consensual Restructuring. The key terms of the Consensual Restructuring are memorialized in the term sheet annexed to the Restructuring Support Agreement attached hereto as **Exhibit A**.<sup>2</sup>

12. The Consensual Restructuring will reduce the Company's existing debt by approximately \$568 million, reduce the Company's annual interest burden by approximately 43%, and free approximately \$50 million in cash flow for reinvestment into its businesses. Under the Consensual Restructuring, Endeavour will cancel all its existing U.S. debt and equity

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<sup>2</sup> Although the term sheet states that the Series A preferred stock to be issued pursuant to the plan shall be subject to "Mandatory Redemption," that feature might have been better defined as subject to a "5-Year Redemption," as the actual terms of the Series A preferred stock will provide that it is redeemable starting five years after the effective date of the plan and the sole remedy of the preferred stockholders, if such stock is not redeemed at such date, is for the dividend rate to increase from 3.5% per annum to 5.5% per annum and such preferred stockholders shall be entitled to elect one (1) additional director.

and leave its U.K. debt untouched. Further, the Company will issue \$262.5 million in new notes bearing an interest rate lower than its currently outstanding notes, new Series A convertible preferred equity and new shares of common equity in satisfaction of the claims of, among others, the 2018 Noteholders, the Convertible Noteholders and the 7.5% Bondholders (each, as defined below).

13. The Debtors intend to quickly move to implement the Consensual Restructuring. To that end, the RSA provides for certain milestones to consummation and implementation of the Consensual Restructuring, including:

- Approval of a motion seeking assumption of the RSA no later than thirty-five (35) days after the Petition Date;
- Filing of the plan and disclosure statement with the Bankruptcy Court no later than forty-five (45) days after the Petition Date;
- Approval of the disclosure statement by the Bankruptcy Court no later than ninety (90) days after the Petition Date;
- Approval of the plan by the Bankruptcy Court no later than 170 days after the Petition Date; and
- Effectuation of the confirmed plan no later than 200 days after the Petition Date.

14. The Debtors believe that the Consensual Restructuring agreed to and memorialized in the RSA presents the most expedient and cost-effective path forward to delevering their capital structure and preserving and maximizing Endeavour's value for all its creditors. The Consensual Restructuring eliminates the potential risk of costly and lingering multi-party litigation and paves the way to a timely emergence from chapter 11 that will allow the Company to better invest its time and resources in its businesses to create additional value for stakeholders.

## **II. ENDEAVOUR'S BUSINESSES**

15. Based in Houston, Texas, Endeavour is engaged in the acquisition, exploration and development of oil and gas resources onshore in the U.S. and offshore in the U.K. North Sea. Endeavour holds working interests in oil and gas leases in the U.S. and oil and gas licenses in the U.K. These working interests provide Endeavour with the right to receive its portion of revenues generated by producing oil and gas wells, but obligates it to pay for its share of costs associated with the development and operation of those wells. Although in limited instances Endeavour serves as an operator (or the party that actually assumes control of operations on the license or lease), the vast majority of Endeavour's revenue is generated through sales of its pro rata share of oil and gas produced from fields operated by third parties.

16. To manage its global businesses, Endeavour employs approximately 77 full-time employees and independent consultants across three offices. From its Houston headquarters, Endeavour conducts its domestic and overseas businesses with a staff of approximately 22 employees and independent contractors, including accountants, human resources managers, and legal and investor relations professionals. Many of these employees and independent contractors have extensive background and experience with the oil and gas industry and international business.

17. In addition to its Houston-based employees and independent contractors, Endeavour employs geologists, geophysicists, engineers, information technologists and energy financial analysts who provide key technical support for its operations and work primarily out of Endeavour's Denver, Colorado and Aberdeen, Scotland, accompanying offices. The Denver professional team, in addition to working on the U.S. assets, has also assisted in the technical work required for the U.K. oil and gas developments. Endeavour's employees use their highly-specialized skills to help the Company identify potential new fields for acquisition and

development and coordinate with regulatory authorities in the U.S. and U.K. to satisfy the Company's licensing, permitting, tax and financial reporting obligations.

18. Currently, Endeavour's U.S. operations are largely focused on strategic positioning for future growth and development of oil and gas opportunities. With minimal spending, the Company has maintained its natural gas acreage in Pennsylvania and Louisiana and expanded its liquids-rich acreage positions in Colorado. In the Central U.K. North Sea, Endeavour's primary operations the last three years, have focused on the development of oil and gas-producing assets.

19. In total, Endeavour's U.S. assets comprise approximately 8% of its total production and 8% of its proven reserves. Endeavour's U.K. assets comprise approximately 92% of Endeavour's total production and 92% of its proven reserves. Accordingly, its businesses are overwhelmingly supported by the revenues generated by the U.K. assets, and the bulk of Endeavour's value as an enterprise derives from the value of its U.K. assets.

**A. Endeavour's U.S. History and Operations**

20. In 2010, Endeavour began pursuing opportunities in the U.S. to complement its U.K. businesses. Its goal was to acquire assets that would require a shorter length of time to bring on production (*i.e.*, assets with a shorter "production cycle") and lower initial capital investment to balance its North Sea assets. Its U.S. acquisitions have focused on reserve and production growth in more proven shale gas areas, such as Louisiana's Haynesville shale and Pennsylvania's Marcellus shale areas, as well as emerging oil and liquids-rich areas, such as Montana's Heath oil play and Colorado's Piceance basin oil and gas play.

21. Endeavour's primary U.S.-based assets are comprised of onshore exploration licenses and producing oil and gas properties (each, an "***Oil and Gas Lease***") located in Colorado, Louisiana, Montana, New Mexico, Pennsylvania and Texas. All of the Company's



domestic Oil and Gas Leases are held by the Debtors. As of year-end 2013, the Company had established working interests in approximately 442,600 gross acres and 109,000 net acres in the U.S. with exposure to both oil and gas.

22. Production in the U.S. is down from its high of 68% and 45% of total Endeavour production and proven reserves, respectively, because of the capital constraints facing the U.S businesses while the Company was attempting to complete offshore development projects in the U.K. As of December 31, 2013, Endeavour held proved, developed reserves totaling 1,634 Million Barrels of Oil Equivalent (“**MBOE**”),<sup>3</sup> and 331 MBOE of proven, undeveloped reserves, for total proven reserves of 1,965 MBOE in the U.S. Oil and Gas Leases. Currently, these proven reserves are comprised substantially of natural gas.

23. Physical production in the U.S. for the 2013 fiscal year was approximately 1,257 Barrels of Oil Equivalent (“**BOE**”) per day. Endeavour’s total consolidated revenue in the U.S. for the fiscal year 2013, which consisted of the entirety of Endeavour’s U.S. gas production, was approximately \$8.4 million, against consolidated expenses related to operations of \$16.1 million, for a net loss from U.S. operations of approximately \$7.7 million. Endeavour’s revenue for the first six months of 2014, based solely on production from U.S. Oil and Gas Leases, was \$3.7 million. For the first six months of 2014, expenses related to Endeavour’s operations were \$10.6 million, for a net loss from U.S. operations of \$6.9 million. As of the Petition Date, the Debtors held cash and cash equivalents of approximately \$37 million.

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<sup>3</sup> The term “barrels of oil equivalent” is an industry term of art used to convert quantities of hydrocarbons, including crude oil, natural gas and natural gas liquids, into a standard metric based on energetic output that provides a basis for comparing the production or reserves of different oil and gas companies with different types of reserves.

**B. Endeavour's North Sea History and Operations**

24. The bulk of Endeavour's business involves the exploration, appraisal, development and production of oil and gas reserves in the North Sea. Endeavour holds working interests in a variety of oil and gas properties (each, an "*Oil and Gas License*") in the North Sea through its wholly-owned Non-Debtor Affiliate, Endeavour Energy UK Limited, an English/Welsh corporation ("*EEUK*"). None of the Debtors directly hold any interest in the Oil and Gas Licenses located in the North Sea.

25. Endeavour was originally founded in 2004 to find and develop oil and gas resources in the North Sea, one of the most prolific energy basins in the world. Its focus included offshore of the U.K. and Norway, but it later reduced its focus to the U.K. Central North Sea region, where it is one of only a very select group of small independents to find, develop and produce new oil and gas reserves in the region. Since its founding, Endeavour has developed a solid portfolio of assets in that area and, today, owns working interests in five producing oil and gas assets in the North Sea: Alba, Bacchus, Rochelle, Bittern and Enoch (the "*U.K. Producing Fields*"). Its interests in three of the U.K. Producing Fields, specifically, Alba, Rochelle and Bacchus, comprise its core assets. Endeavour is not the operator at any of these U.K. Producing Fields.

26. EEUK's working interest in each of these Oil and Gas Licenses is derived from the Department of Energy and Climate Change (the "*DECC*"), a department of the British government that oversees the licenses whereby companies have the right to explore, develop and produce oil and gas from specific fields in the U.K. North Sea. During its history in the U.K. North Sea, EEUK has held both operated and non-operated positions in various producing and non-producing licenses. EEUK's working interests entitle it to its share of the proceeds of each U.K. Producing Field's wells pursuant to the terms of various joint operating agreements (each, a

“*JOA*”) among itself and the other working interest holders for each particular field. The terms of the *JOA*’s also require EEUK to pay its portion of ordinary course operating expenditures and capital expenditures to maintain its rights to the field’s proceeds and underlying oil and gas reserves.

*i. Alba*

27. The Alba field, which first produced oil in 1994, is one of the most significant generators of revenue for EEUK. The field includes 35 total platform and subsea wells, which are operated by Chevron. Following the acquisition of an additional 23.43% interest in the Alba field in 2012, EEUK now owns a 25.68% working interest in the field, the largest percentage of any Alba working interest owner.

28. In 2013, the average daily production at Alba attributable to EEUK’s working interest was 4,163 BOE, representing 48.0% of the total daily physical production from all of EEUK’s North Sea Oil and Gas Licenses. As of December 31, 2013, Alba had estimated proved reserves attributable to EEUK’s interest of approximately 9,200 MBOE, of which approximately 97% is oil. Further, it is estimated that only 40% of the oil and gas in place in the Alba field has been produced.

*ii. Bacchus*

29. The Bacchus field, which first produced oil in April 2012, is another significant revenue-generating field for EEUK. Apache is the operator and owns a 50% working interest in Bacchus, while EEUK owns a 30% working interest. In 2013, the average daily production at Bacchus attributable to EEUK’s working interest was 3,527 BOE, representing 40.7% of the total daily physical production from all of EEUK’s North Sea Oil and Gas

Licenses. As of December 31, 2013, Bacchus had estimated proved reserves attributable to EEUK's interest of approximately 1,100 MBOE, of which 94% is oil.

iii. *Rochelle*

30. The Rochelle field, which recently came online in October 2013, is a new source of significant revenue for EEUK. Nexen operates the Scott Platform that the Rochelle field production flows through to be sold into international markets and also owns a 41% working interest in the field. EEUK owns a 44% working interest. As of December 31, 2013, Rochelle had estimated proved reserves attributable to EEUK's interest of approximately 8,900 MBOE, of which 17% is oil.

iv. *Bittern and Enoch*

31. EEUK holds smaller working interests in the Bittern (2.4%) and Enoch (8.0%) fields. Shell is the operator at Bittern, while Talisman is the operator at Enoch. In 2013, the average daily production at the two fields attributable to EEUK's working interests was 220 BOE. As of December 31, 2013, the two fields had estimated proved reserves attributable to EEUK's interest of approximately 562 MBOE, of which 86% is oil. It is estimated that 100% of the proved oil and gas in the Bittern and Enoch fields have been developed.

v. *Other North Sea Assets*

32. EEUK also owns a 25% working interest in the Columbus field, which as of the Petition Date is preparing the next version of a draft Field Development Plan ("**FDP**") for submission to the DECC for its approval. Third-party Serica is the operator of the field and has a 50% working interest.

33. EEUK is also focused on building a portfolio of exploration opportunities around its core area in the U.K. Central North Sea. Presently, EEUK has ownership interests in 28 licenses (12 of which it operates) with net unrisksed contingent resources of 376 MBOE.

34. Physical production in the U.K. for the 2013 fiscal year was approximately 8,665 BOE per day, up significantly from 5,494 BOE per day in 2012. EEUK's revenue in 2013 was \$329.3 million against expenses related to operations of \$245.6 million, for a net gain from U.K. operations of \$83.7 million. Endeavour's U.K.-based revenue for the first six months of 2014 was \$135.3 million, against expenses related to operations of \$110.8 million, for a net gain from U.K. operations of \$24.6 million. Revenues in 2014 were down primarily because of unexpected downtime at certain of the U.K. Producing Fields, as discussed further in Part V below.

### **III. THE DEBTORS' CORPORATE STRUCTURE**

35. As indicated in the corporate structure chart attached hereto as **Exhibit B**, EIC is the ultimate parent of the Endeavour enterprise. EIC's wholly-owned subsidiaries include the Debtors and certain non-debtor entities, which are described below.

a. **EIC:** EIC is a Nevada corporation. As of the Petition Date, EIC was a publicly traded company on the New York Stock Exchange under the ticker symbol "END" and on the London Stock Exchange under the ticker symbol "ENDV." It has no operations and owns no material assets other than its direct and indirect interests in its subsidiaries.

b. **EOC:** EOC is a Delaware corporation. It is the domestic, wholly-owned direct subsidiary of EIC and provides almost all the operational support needed by Endeavour's domestic and overseas enterprises. It employs all of the Debtors' U.S. employees and independent contractors and owns all the U.S. assets, except those based in Colorado. In addition to EOC's oil and gas assets is an intercompany note issued pursuant to an Inter-Company Loan Agreement, dated May, 31, 2012 between EOC and EEUK (the "***EOC-EEUK Intercompany Note***"). Under the EEOC-EEUK Intercompany Note, EOC provided a loan facility to Non-Debtor Affiliate EEUK, under which EEUK may borrow up to \$550 million from

EOC at an interest rate calculated as the weighted average cost of funds of EIC and its subsidiaries. As of the Petition Date, approximately \$500 million in principal was outstanding on the facility and due and payable to EOC.<sup>4</sup> All of EOC's rights, title, benefits, interests and claims in the EOC-EEUK Intercompany Note are pledged to the 2018 Noteholders (as defined below) to secure EOC's guaranty of the 2018 Notes.

c. **Endeavour Colorado Corporation (“*END Colorado*”)**: END Colorado is a Delaware corporation and is the domestic, wholly-owned direct subsidiary of EIC. END Colorado owns the Company's Colorado-based oil and gas leases.

d. **Other Debtors**: END Management Company, a Delaware company (“*END Management*”), Endeavour Energy New Ventures Inc., a Delaware corporation (“*EENV*”), and indirect subsidiary Endeavour Energy Luxembourg, S.à r.l. (“*END LuxCo*”), are all non-operating companies with no significant assets other than END LuxCo's ownership of an intercompany note issued pursuant to that certain Revolving Loan Facility agreement, dated January 23, 2008, between END LuxCo and EIHBV (as defined below) (the “*END LuxCo-EIHBV Intercompany Note*”). The END LuxCo-EIHBV Intercompany Note provides that EIHBV may borrow up to \$100 million from END LuxCo at an interest rate calculated at 7.59%, which interest accrues quarterly and is capitalized and added to the outstanding principal from time to time. As of the Petition Date, approximately \$83.6 million in principal is outstanding under the END LuxCo-EIHBV Intercompany Note.

e. **Non-Debtor Affiliates**: EIC is also the ultimate parent of certain domestic and foreign Non-Debtor Affiliates that are not debtors in these chapter 11 cases. These entities include Endeavour International Holding B.V. (“*EIHBV*”), a besloten vennootschap

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<sup>4</sup> In addition, as of August 2014, EOC owed approximately \$40.2 million to EEUK as a result of ordinary course intercompany transactions.

organized under the laws of the Netherlands, and a direct, wholly-owned subsidiary of EOC; Endeavour Energy Netherlands B.V. a besloten vennootschap organized under the laws of the Netherlands; Endeavour Energy North Sea LLC and End Finco LLC, both Delaware limited liability companies; Endeavour Energy North Sea, L.P., a Delaware limited partnership; EEUK; and Endeavour North Sea Limited, an English/Welsh company and the direct, wholly-owned subsidiary of EEUK. Among the Non-Debtor Affiliates, only EEUK is an operating company with significant assets.

#### **IV. THE DEBTORS' PREPETITION CAPITAL STRUCTURE**

36. As of the Petition Date, Endeavour has approximately \$1.2 billion in debt outstanding. This amount excludes accrued interest, fees and other amounts through the Petition Date that may be triggered as a result of these filings, as well as open but undrawn letters of credit and hedging obligations.

##### **A. The 2018 Notes**

37. On February 23, 2012, EIC closed on the private placement of \$350 million in aggregate principal amount of 12% notes due March 2018 (collectively, the “**March 2018 Notes**”). The March 2018 Notes are governed by an indenture (the “**March 2018 Indenture**”), under which EIC is the primary obligor, EOC, END Management and EENV are guarantors (collectively, the “**2018 Notes Guarantors**”), and Wells Fargo Bank, N.A. (“**Wells Fargo**”) is trustee on behalf of certain noteholders (the “**March 2018 Noteholders**”).

38. Concurrently, on February 23, 2012, EIC closed on the private placement of \$150 million in aggregate principal amount of 12% notes due June 2018 (the “**June 2018 Notes**,” and, together with the March 2018 Notes, the “**2018 Notes**”). The June 2018 Notes are governed by an indenture (the “**June 2018 Indenture**” and together with the March 2018 Indenture, the “**2018 Indentures**”), under which EIC is the primary obligor, the 2018 Notes

Guarantors are guarantors, and Wilmington Trust, N.A., is trustee on behalf of certain noteholders (the “**June 2018 Noteholders**” and together with the March 2018 Noteholders, the “**2018 Noteholders**”). EIC’s obligations are guaranteed by the 2018 Notes Guarantors on a joint and several senior basis. The 2018 Notes are secured by a pledge of 65% of the stock of EIHBV and all indebtedness owed to EOC by any foreign subsidiary, including the EOC-EEUK Intercompany Note.

39. On May 31, 2012, the net proceeds obtained from the placement of the 2018 Notes were used to fund the acquisition of an additional working interest in the Alba field and repay all outstanding amounts under a senior term loan.

40. On October 15, 2012, Endeavour completed the private placement of an additional \$54 million aggregate principle amount of March 2018 Notes. The March 2018 Notes issued in October 2012 and the March 2018 Notes issued in February 2012 are treated as a single class of debt securities under the March 2018 Indenture. Net proceeds from this additional placement were used to: (i) repay certain indebtedness of EIC, (ii) pay certain general and administrative expenses and other operating expenses of EIC and its U.S. subsidiaries, (iii) pay certain payroll expenses of EIC and its U.S. subsidiaries, and (iv) fund certain capital expenditures at EEUK.

41. Interest on the 2018 Notes is payable semiannually, on March 1 and September 1. As of the Petition Date, \$404.0 million in principal was outstanding under the March 2018 Notes, plus accrued interest of approximately \$29.2 million (including interest related to the Missed Interest Payment, as defined below). Additionally, as of the Petition Date, approximately \$150.0 million in principal is outstanding under the June 2018 Notes, plus



accrued interest of approximately \$10.8 million (including interest related to the Missed Interest Payment, as defined below).

**B. The 5.5% Convertible Notes**

42. On July 22, 2011, EIC issued \$135 million of unsecured 5.5% Convertible Senior Notes due July 15, 2016 (the “**5.5% Convertible Notes**”). The 5.5% Convertible Notes are governed by an indenture under which EIC is primary obligor, EOC, END Management and EENV are guarantors (collectively, the “**5.5% Convertible Notes Guarantors**”), and Wilmington Savings Fund Society, FSB, is successor trustee on behalf of certain noteholders (the “**5.5% Convertible Noteholders**”). The 5.5% Convertible Notes are guaranteed on a joint and several senior basis.

43. Interest on the unsecured 5.5% Convertible Notes is payable semiannually on January 1 and July 1. As of the Petition Date, \$135.0 million in principal is outstanding under the 5.5% Convertible Notes, plus accrued interest of approximately \$1.7 million.

**C. The 6.5% Convertible Notes**

44. On March 3, 2014, EIC issued \$17.5 million in aggregate principal amount of unsecured 6.5% Convertible Notes due December 1, 2017 (the “**6.5% Convertible Notes**”). The 6.5% Convertible Notes are governed by an indenture under which EIC is primary obligor, EOC, END Management and EENV are guarantors (collectively, the “**6.5% Convertible Notes Guarantors**”), and Wilmington Savings Fund Society, FSB, is trustee on behalf of certain noteholders (the “**6.5% Convertible Noteholders**,” together with the 5.5% Convertible Noteholders, the “**Convertible Noteholders**”). The 6.5% Convertible Notes are guaranteed on a joint and several senior basis.

45. Proceeds from the issuance of the 6.5% Convertible Notes were used to pay a portion of the March 2014 interest payment due with respect to the 2018 Notes. Interest on

the unsecured 6.5% Convertible Notes is payable quarterly, beginning June 1, 2014. As of the Petition Date, \$17.5 million in principal is outstanding under the 6.5% Convertible Notes, plus accrued interest of approximately \$0.4 million.

**D. The 7.5% Convertible Bonds**

46. On January 25, 2008, END LuxCo issued \$40.0 million in aggregate principal amount of unsecured convertible bonds due March 31, 2014 (the “**7.5% Convertible Bonds**”). The 7.5% Convertible Bonds are governed by that certain Trust Deed, dated as of January 25, 2008, (the “**7.5% Convertible Bonds Trust Deed**”), under which END LuxCo is primary obligor, EIC is guarantor and BNY Corporate Trustee Services Limited is trustee on behalf of the bondholder (the “**7.5% Convertible Bondholder**”). The 7.5% Convertible Bonds initially bore an interest rate of 11.5% per annum until the 7.5% Convertible Bonds Trust Deed was amended on March 11, 2011 to reduce its interest rate to 7.5% and extend its maturity date to January 24, 2016. As of the Petition Date, 99.75% of the 7.5% Convertible Bonds are held by Smedvig Funds Plc, and the remaining 0.25% are held by John Hewitt. The 7.5% Convertible Bonds are convertible into shares of Common Stock (as defined below).

47. Interest on the unsecured 7.5% Convertible Bonds accrues quarterly but is capitalized and added to the outstanding principal amount of the 7.5% Convertible Bonds. As of the Petition Date, approximately \$83.7 million in principal is outstanding under the 7.5% Convertible Bonds.

**E. The Old EEUK Term Loan, LC Procurement Guarantees and MPP Guarantees, and the Subsequent Refinancing Transaction**

*i. The Old EEUK Term Loan and LC Procurement Guarantees*

48. On January 24, 2014, the Company entered into a \$125 million Term Loan Facility (the “**Old EEUK Term Loan**”), under which EIHBV and End Finco LLC were

borrowers, EEUK, EIC and EOC were secured guarantors, and Credit Suisse was collateral agent on behalf of certain lenders (the “*Old EEUK Lenders*”). On that same date, EEUK, an unaffiliated third party, LC Finco S.à r.l., and Credit Suisse AG entered into an LC Procurement Agreement (“*LC Procurement Agreement*”) whereby the Company secured letters of credit of approximately \$130 million (later reduced to \$90 million) and agreed to reimburse the unaffiliated third party any expense incurred with posted cash collateral. The letters of credit secured Endeavour’s decommissioning obligations arising from certain of its U.K. Oil and Gas Licenses.

49. EIC and EOC guaranteed certain obligations of EIHBV and its other foreign subsidiaries under the Old EEUK Term Loan with a pledge of the equity of EOC, END Management, EENV and END Colorado. The Old EEUK Term Loan and LC Procurement Agreement were also secured by the assets and equity holdings of several Non-Debtor Affiliates, including EEUK.

50. Prior to the closing of the Refinancing Transaction (as defined below), approximately \$124.5 million in principal was outstanding under the EEUK Term Loan, plus accrued interest and \$89.5 million in principal was outstanding under the LC Procurement Agreement.

*iii. The MPP Guarantees*

51. In 2013, EEUK entered into various monetary production payment arrangements, whereby EEUK sold the proceeds of its entitlements to production from its interests in certain U.K. Producing Fields to Cidoval S.à r.l. (“*Cidoval*”) on March 5, 2013 (the “*Cidoval MPP*”) and to Sand Waves, S.A. (“*Sand Waves*”) on December 12, 2013 (the “*Sand Waves MPP*,” together with the Cidoval MPP, the “*MPP’s*”). The obligations arising under the Cidoval MPP were guaranteed by EIC, EENV, END Management and certain Non-Debtor

Affiliates with a pledge of substantially all of their personal property, as well as EIC's equity interest in EOC. The obligations arising under the Sand Waves MPP were guaranteed by EIC, EOC, EENV, END Management and certain Non-Debtor Affiliates with a pledge of substantially all of their personal property, as well as EIC's equity interests in EOC and END Colorado, and EOC's equity interests in EENV and END Management.

52. Prior to the closing of the Refinancing Transaction (as defined below), approximately \$135.2 million was outstanding under the terms of the Cidoval MPP, and approximately \$26.3 million was outstanding under the terms of the Sand Waves MPP.

**F. The Refinancing Transaction and the New EEUK Term Loan**

53. On September 30, 2014, EIC, EIHBV and End Finco LLC entered into that certain amended and restated credit agreement (the "***New EEUK Term Loan***") providing for a senior secured term loan facility for the benefit of EEUK, with Credit Suisse as Administrative Agent on behalf of certain lenders thereto (collectively, the "***New EEUK Secured Lenders***"). Under the terms of the New EEUK Term Loan, the New EEUK Secured Lenders provided approximately \$440.0 million in proceeds (the "***EEUK Term Loan Proceeds***") (i) to repay in full the Old EEUK Term Loan, the MPP's and all reimbursement obligations outstanding relating to the LC Procurement Agreement, (ii) to provide cash collateral to support a new letter of credit issuance agreement and pay related fees and expenses, and (iii) for general corporate purposes (the "***Refinancing Transaction***").

54. The New EEUK Term Loan's primary purpose was to aid Endeavour in its restructuring efforts and protect its U.K. assets through the replacement of the Old EEUK Term Loan. Under the Old EEUK Term Loan, either the commencement of these chapter 11 cases or a payment default under the Debtors' other primary debt obligations would have constituted an event of default, threatening the loss of Endeavour's valuable portfolio of Oil and Gas Licenses

in the North Sea. Under the New EEUK Term Loan, the Debtors' chapter 11 filings do not result in a default or cross-default. The New EEUK Term Loan also provided approximately \$36 million in additional liquidity.

55. As of the Petition Date, approximately \$440.0 million in principal is outstanding under the EEUK Term Loan. EOC, EIC and certain Non-Debtor Affiliates granted secured guarantees of the EEUK Term Loan obligations, pledging substantially all of the assets of EIC and EOC, other than certain excluded assets (the “*Excluded Assets*”). The Excluded Assets include, among other things, the collateral of the 2018 Noteholders and the U.S. Debtors' cash, cash equivalents and deposit accounts. The EEUK Term Loan is also secured by the assets and equity holdings of certain Non-Debtor Affiliates, including the assets and equity holdings of EEUK.

#### **G. Series B Preferred Stock**

56. EIC authorized and designated 500,000 shares of its 10,000,000 shares of preferred stock as Series B preferred stock (as amended or otherwise modified from time to time, the “*Series B Preferred Stock*”). As of the Petition Date, there were 19,714 shares of Series B Preferred Stock outstanding with an aggregate liquidation preference of approximately \$3.9 million, inclusive of accrued and unpaid dividends.

57. The Series B Preferred Stock is entitled to dividends of 8.0% of the original issuing price per share per annum. The holders of each share of Series B Preferred Stock are entitled to be paid out of available funds prior to any distributions to holders of Common Stock (as defined below) in the amount of \$100.00 per outstanding share plus all accrued dividends. As of the Petition Date, approximately \$1.9 million in accrued dividends are due and owing to holders of Series B Preferred Stock.

**I. Series C Convertible Preferred Stock**

58. EIC authorized and designated 125,000 shares of its 10,000,000 shares of preferred stock as Series C convertible preferred stock (as amended or otherwise modified from time to time, the “*Series C Convertible Preferred Stock*”). As of the Petition Date, there were 14,800 shares of Series C Convertible Preferred Stock outstanding with an aggregate liquidation preference of \$14.8 million, inclusive of accrued and unpaid dividends.

59. The Series C Convertible Preferred Stock is entitled to dividends payable in cash or common stock, at 4.5% or 4.722%, respectively. The holders of each share of Series C Preferred Stock are entitled to be paid out of available funds prior to any distributions to holders of Common Stock (as defined below) in the amount of \$1,000.00 per outstanding share plus all accrued dividends. Further, the shares of Series C Convertible Preferred Stock are convertible into Common Stock (as defined below) at any time at the option of the holders of the Series C Convertible Preferred Stock, at a conversion price of \$8.75, with accrued and unpaid dividends paid in cash or, in certain circumstances, common stock. As of the Petition Date, \$0.01 million of accrued dividends are due and owing to holders of Series C Convertible Preferred Stock.

**J. Common Stock**

60. EIC authorized 125,000,000 shares of \$0.001 par value common stock (the “*Common Stock*”) and, as of the Petition Date, had approximately 53.0 million shares outstanding.

## **V. KEY EVENTS LEADING TO THE CHAPTER 11 CASES**

### **A. Unforeseen Negative Events Cause a Liquidity Crisis at Endeavour**

61. After the Refinancing Transaction, which closed shortly before the Petition Date, Endeavour's businesses now support approximately \$1.2 billion in debt. As a small, independent oil and gas company, it cannot continue to bear the weight of these debt obligations, and the attendant interest burden, while attempting to meet its ongoing business needs. The survival of its businesses compels Endeavour to address its capital structure through these chapter 11 cases.

62. Endeavour has not always been this overlevered. Over \$500 million of its current debt obligations are the result of unexpected events that occurred in the last three years. Natural disasters, adverse and unforeseen operating issues, delays in new production coming online and operating difficulties particular to the North Sea all gave rise to unanticipated costs and delayed cash flows that directly contributed to the Debtors' current capital structure and liquidity constraints.

63. A series of events, during a period of time when the Company was heavily involved in the development of the offshore oil and gas fields Bacchus and Rochelle, combined with less-than-expected operating performance at the Alba field, and economic and geopolitical issues in the U.K. North Sea oil and gas industry, contributed to a rapid increase in debt levels and the cost of capital from 2012 to 2014.

#### *i. Endeavour's Cost of Capital Increases Due to Unfavorable Changes in the Economic and Political Climate*

64. Since Endeavour's inception, certain economic events and government actions have contributed to Endeavour's increased leverage and cost of capital. New technical regulations, significantly higher oilfield services costs and the ripple effect on regulations

worldwide as a result of the Macondo well disaster in the Gulf of Mexico all resulted in a steep increase in Endeavour's decommissioning costs. For example, Endeavour's IVRR fields were originally estimated in 2006 to cost approximately \$30 million to decommission. The most recent estimates place the actual costs to decommission at approximately \$150 million, which costs will be, or have been, largely incurred during the period of 2012 to 2015.

65. Moreover, the U.K. government's reduction in the tax deductions available to oil and gas companies for decommissioning costs likewise contributed to Endeavour's increased cost of capital. After unsuccessfully attempting to disallow corporate tax deductions associated with decommissioning, the U.K. government eventually settled for an absolute deduction of 50%, down from 62%, thus reducing the deductibility of decommissioning costs by one-fifth. As a result, industry standards have evolved to require companies without an "A" credit rating, like Endeavour, to post a letter of credit for decommissioning security as calculated by formulas under decommissioning security agreements. Unfortunately, after the credit crisis of 2008-2009, letters of credit were not as readily available, and when available, the cost of capital to obtain a letter of credit increased dramatically. For Endeavour, it was now required to source capital and post letters of credit or lose its ownership interest in its assets.

ii. *Endeavour's Expenses Increase and Revenues Decrease Due to Unexpected and Costly Delays in Production*

66. The nature of the offshore oil and gas business requires large, up-front commitments of capital and resources, usually many years before the costs of a development project can be fully quantified and many more years before revenues can be realized from the oil and gas field. In the U.K., oil and gas development projects are generally determined by a joint venture operating group (comprised of joint interest partners) to be commercially viable after many years of geological and geophysical technical analysis and, usually, some level of appraisal



drilling. Upon this determination, the operator, on behalf of the joint interest partners, will submit an FDP to the DECC for approval. Once the FDP is approved, each of the joint interest partners will “sanction” the project, or, in other words, commit to pay their share of the estimated costs under the FDP.

67. As a project is developed, actual costs and timing can vary significantly from original projections. But this does not relieve each joint interest partner from paying its committed share of the development expenditures. In fact, nonpayment could result in the joint interest partner losing its ownership interest in the asset. This means that between the time capital is expended and cash flow is generated, many factors, including changes in commodity prices and the cost and timeline of the development project, can radically change the timing of cash flow from the oil and gas field. A delay in cash flow from the field could then negatively impact a joint interest owner’s financial condition.

68. Endeavour has experienced firsthand just how expensive unexpected delays and cost overruns can be for the committed development projects in which it holds non-operating working interests. For example, at Bacchus, Endeavour committed to an FDP that estimated first production would occur in mid-2011. First production occurred eight months late due to mechanical issues and a crane incident on the rig drilling the development well. The delay in production cost Endeavour approximately \$125 million in additional costs and delayed oil and gas revenue. Similarly, at Rochelle, Endeavour committed to an FDP that estimated first production would occur in 2010, which estimate was later amended to the first quarter of 2013. As the first development well was nearing completion in January 2013, a severe storm damaged the well, forcing the well to be abandoned because of health and safety concerns. The abandonment and replacement of the well cost approximately \$50 million. The delay in

production delayed expected oil and gas revenues another \$126 million. At Alba, recurring water handling, water injection and emulsions issues caused lower overall production than estimated by the operator and increased operating costs, resulting in an aggregate loss to Endeavour of approximately \$40 million. Lastly, at Alba, a damaged water injection pipeline has caused property damage and loss of revenues estimated in the range of \$50 million to \$80 million.

69. Furthermore, as a consequence of the unanticipated downtime and maintenance required by Endeavour's U.K. Producing Fields, the Company failed to generate sufficient cash flow to support the entire enterprise, including its U.S. businesses. Thus, Endeavour was forced to intentionally slow or stop investing in its U.S.-based operations, resulting in a steep decline in U.S. production.

70. As the holder of non-operating working interests, Endeavour could not control the operation of the U.K. Producing Fields and, therefore, could not avoid the recurring issues. These recurring issues, however, exacerbated risks faced by a small, independent exploration and production company like Endeavour—risks such as natural disasters, operational matters, poor reservoir performance, volatile commodity prices and an unfavorable regulatory or geopolitical climate, which risks were also outside of Endeavour's control.

71. In an effort to protect the entire business enterprise, Endeavour's management implemented strategies to address the unanticipated cost hurdles caused by each of these risks. Those strategies, however, required incurring additional obligations and spending cash flow that would otherwise have been used to maintain its businesses. For example, in 2013, Endeavour entered into two MPP's to generate approximately \$175 million in incremental liquidity and, in early 2014, issued approximately \$17.5 million in 6.5% Convertible Notes.

**B. Endeavour's Prepetition Restructuring Efforts**

i. *Endeavour Decreases Expenses and Conducts a Strategic Review*

72. Management responded early to the delays and cost overruns by attempting to reduce the Company's risk through the sale of assets and strategic reviews. In May of 2013, Endeavour conducted a strategic review to consider the potential sale of a single asset, its U.K. business, or the entire Company in an attempt to reduce its exposure to uncontrollable events in the U.K. North Sea and to capture the value it had created in its business. Endeavour engaged financial and legal advisors to analyze a broad range of options relating to the Company's capital structure, and later engaged financial advisors to further assist in its exploration of possible restructuring alternatives.

73. In October 2013, upon the conclusion of the strategic review, Endeavour determined to retain and exploit its existing asset base while implementing several cost-cutting initiatives and organizational restructurings to help reduce overhead. Endeavour consolidated its U.K. offices and reduced headcount, successfully lowering its general and administrative expenses by approximately \$15 million annually.

74. Notwithstanding these cost-cutting efforts, Endeavour's cash position has continued to rapidly deteriorate. It continues to encounter unforeseen production delays and suffer cost overruns related to its Rochelle field, in which Endeavour owns a 44% working interest. For example, a recent seal leak in an export compressor on the Scott Platform at Rochelle has, as of the Petition Date, resulted in a full month of lost production and cash flow from one of the Company's most significant revenue sources.

ii. *Endeavour Engages Key Creditors in Restructuring Negotiations*

75. In late June 2014, Endeavour and its advisors began to engage with the Company's major creditors in an attempt to broker a proposed restructuring transaction that would significantly delever the Company and reduce its debt obligations. Endeavour and its advisors first engaged certain of the 2018 Noteholders (collectively, the "***Ad Hoc Noteholder Group***") and its legal and financial advisors in discussions. The discussions stalled when the parties failed to reach agreement on several key issues that would determine the foundation of a proposed restructuring transaction. Around that time, Endeavour contacted other creditor groups in an effort to canvass the full range of restructuring options available to them. The Company next initiated discussions with certain of the Convertible Noteholders and the 7.5% Convertible Bondholder and their legal and financial advisors.

76. As an upcoming interest payment for approximately \$33.5 million on the 2018 Notes and the 6.5% Convertible Notes loomed on September 2, 2014, Endeavour's restructuring efforts took on greater urgency. Failure to make the interest payment on September 2 resulted in Endeavour entering a 30-day grace-period before an event of default would be triggered under the 2018 Notes. If Endeavour failed to make the interest payment after the expiration of the 30-day grace period, the default under the 2018 Notes would trigger a cascade of cross-defaults on its U.K. debt and their 7.5% Convertible Bonds. It would also trigger a default under their 6.5% Convertible Notes. An event of default under the U.K. debt would have permitted the Old EEUK Lenders to exercise remedies against Endeavour's U.K. assets, which comprised the bulk of the Company's value.

iii. *Endeavour Acts to Protect its U.K. Businesses*

77. While it actively sought ways to constructively re-engage the Ad Hoc Noteholder Group and move forward in discussions with certain of the Convertible Noteholders, Endeavour prepared for the very possible contingency that no consensual restructuring transaction would be reached before its liquidity or the 30-day grace period would end.

78. The Company determined that its primary strategy would be to first preserve the value of its core businesses. This required protecting its U.K. assets from the effects of a payment default on its U.S. debt and a bankruptcy default resulting from a chapter 11 filing of its U.S. entities. Throughout late summer and early fall of 2014, Endeavour and its advisors aggressively pursued a waiver of the U.K. cross-defaults from its Old EEUK Lenders while simultaneously exploring the possibility of refinancing the existing U.K. debt with new debt that would eliminate the specter of the U.K. cross-defaults. Concurrently, Endeavour prepared for the chapter 11 filing of its U.S. businesses to accomplish a comprehensive debt reduction.

79. On September 2, Endeavour's Board of Directors determined not to pay the approximately \$33.5 million interest payment due on its 2018 Notes and its 6.5% Convertible Notes (the "***Missed Interest Payment***"), and to conserve its cash and take advantage of the permitted 30-day grace period to continue earnest negotiations with its key creditors.

80. In connection with a possible refinancing transaction, Endeavour's advisors contacted more than 25 potential lenders. Over the course of a few short weeks, Endeavour's management and advisors engaged in intensive discussions and negotiations with multiple parties concurrently. These discussions yielded the Refinancing Transaction, which closed on September 30, 2014. Under the Refinancing Transaction, the newly issued New EEUK Term Loan proceeds were used to repay the outstanding Old EEUK Term Loan, thus

diffusing the possibility that the Missed Interest Payment would lead to a cross-default on Endeavour's U.K. debt and cause it to lose its most valuable oil and gas licenses. The New EEUK Term Loan also provided approximately \$36 million in additional incremental liquidity to help fund a comprehensive restructuring of the rest of Endeavour's capital structure and a known requirement to fund an additional letter of credit for the Alba field before the end of 2014.

81. Now, having successfully isolated Endeavour's U.K. businesses from risks associated with a chapter 11 restructuring of its U.S. businesses, Endeavour is prepared to implement the second part of its strategy: accomplishing a much-needed debt restructuring in a controlled and comprehensive manner through a chapter 11 proceeding supervised by the Court.

82. In an attempt to maximize value for all parties in interest, Endeavour and its four principal creditor groups have negotiated the Consensual Restructuring to significantly reduce its obligations and provide for continued operations following emergence from chapter 11. Through the Consensual Restructuring, the Debtors intend to reduce their debt obligations by approximately \$568 million and their annual interest burden by approximately 43%, freeing approximately \$50 million in cash flow for reinvestment into its businesses. Under the Consensual Restructuring, Endeavour will cancel all its existing U.S. debt and equity and issue \$262.5 million in new 9.75% notes, new Series A convertible preferred equity with an aggregate liquidation preference of \$237.5 million, which accrues cumulative dividends at the rate of 3.5%, and new shares of common equity in satisfaction of the claims of, among others, the 2018 Noteholders, the Convertible Noteholders and the 7.5% Convertible Bondholders.

83. Endeavour's ultimate goal in these cases is to reduce its debt burden to a sustainable capacity, thus allowing the cash generated by its businesses to be reinvested in the future growth and success of the Company to the benefit of all stakeholders. The Consensual

Restructuring and RSA provides the best possible opportunity at this time for Endeavour to achieve this goal in a cost-effective and expedient manner.

## **VI. EVIDENTIARY SUPPORT FOR FIRST DAY PLEADINGS**

84. Concurrent with the filing of their chapter 11 petitions, the Debtors have filed the First Day Pleadings, which I believe are necessary to enable them to operate in chapter 11 with minimum disruption. I am familiar with the contents of each First Day Pleading, including the exhibits thereto, and I believe that the relief sought in each First Day Pleading: (i) is necessary to enable Endeavour to operate in chapter 11 with minimal disruption or loss of value to its assets; (ii) is necessary to provide Endeavour with a reasonable opportunity for a successful reorganization; and (iii) best serves the interests of the Debtors' stakeholders. The following paragraphs set forth the relief requested and supporting facts:

### **A. Motion of Debtors for Entry of Order Authorizing Joint Administration of Chapter 11 Cases Pursuant to Rule 1015(b) of the Federal Rules of Bankruptcy Procedure (the "*Joint Administration Motion*")**

85. By the Joint Administration Motion, the Debtors request the Court enter an order directing joint administration of the Debtors' chapter 11 cases for procedural purposes only. Specifically, I understand that the Debtors request that the Court maintain one file and one docket for all of these chapter 11 cases under the case of lead Debtor EOC. Further, the Debtors request that an entry be made on the docket of each of the cases of the Debtors to indicate the joint administration of these chapter 11 cases.

86. I understand that a court can order the joint administration of multiple chapter 11 cases where the debtors are "affiliates" as defined in section 101(2) of the Bankruptcy Code. Debtor EIC owns or controls, either directly or indirectly, 100 percent of the outstanding voting securities of each of the other Debtors. Accordingly, I understand that Debtors are "affiliates" and this court is authorized to order joint administration of their estates. Joint

administration will save the Debtors and their estates substantial time and expense by removing the need to prepare, replicate, file and serve duplicative notices, applications and orders. Further, I understand that joint administration will relieve the Court of entering duplicative orders and maintaining duplicative files and dockets and the United States Trustee for the District of Delaware (the “*U.S. Trustee*”) and other parties in interest the time and effort of reviewing duplicative pleadings and papers. Each creditor retains the ability to file its claim against a particular estate. Accordingly, I believe that joint administration of the Debtors’ chapter 11 cases is in the best interests of the Debtors, their estates and all parties in interest and should be granted in all respects.

**B. Motion of Debtors for Entry of Order (I) Authorizing Debtors to File (A) a Consolidated Matrix of Creditors in Lieu of Submitting a Separate Mailing Matrix for Each Debtor and (B) a Consolidated List of Debtors’ 30 Largest Unsecured Creditors and (II) Approving Form and Manner of Notice of Commencement of Debtors’ Chapter 11 Cases (the “*Consolidated Lists Motion*”)**

87. By the Consolidated Lists Motion, the Debtors request authorization to file (i) a consolidated creditor matrix (a “*Consolidated Matrix*”) and (ii) a consolidated list of the Debtors’ thirty (30) largest unsecured creditors (the “*Consolidated Top 30 Creditors List*”).

88. I believe that the Debtors should be permitted to maintain a Consolidated Matrix in lieu of filing a separate Creditor Matrix for each Debtor. The Debtors do not maintain entity specific lists of the names and addresses of their respective creditors that are entitled to receive notices and other documents in the Debtors’ chapter 11 cases. Rather, they maintain a centralized list of creditors’ names and addresses. Additionally, given the hundreds of creditors in the Debtors’ cases, segregating the Debtors’ records into a Debtor-specific creditor matrix format would be a time-consuming exercise. I believe that the Debtors’ efforts and attention are



better focused on ensuring the smooth transition into chapter 11 with minimal disruptions to their businesses.

89. To provide the U.S. Trustee with a clearer picture of the Debtors' creditor constituency, the Debtors have chosen to provide the Consolidated Top 30 Creditors List as opposed to a list of the statutorily-required twenty (20) largest unsecured creditors. It is my understanding that one of the primary purposes of filing a list of a debtor's twenty (20) largest unsecured creditors is to assist the U.S. Trustee in evaluating the types and amounts of unsecured claims asserted against a debtor so that they are able to make an informed decision when identifying potential candidates to serve on an official committee of unsecured creditors. Because many of the Debtors' significant unsecured creditors are already captured on the Consolidated Top 30 Creditors List, I believe that the Consolidated Top 30 Creditors List will provide the U.S. Trustee with a sufficiently clear picture of the Debtors' unsecured creditor constituency and that the Debtors' time and resources are better directed towards ensuring a successful reorganization.

90. Based on the foregoing, I believe that the relief requested in the Consolidated Lists Motion is in the best interests of the Debtors, their estates, and all parties in interest and should be granted in all respects.

**C. Motion of Debtors for Entry of Interim and Final Orders  
(I) Authorizing Debtors to Pay Certain Prepetition Taxes and  
(II) Directing Financial Institutions to Honor and Process Related  
Checks and Transfers Pursuant to Sections 105(a), 363(b),  
507(a)(8) and 541(d) of the Bankruptcy Code (the "Tax Motion")**

91. By the Tax Motion, the Debtors seek authority to pay prepetition Taxes (as hereinafter defined) that will become due and owing postpetition to various local, state and foreign taxing authorities (collectively, the "*Taxing Authorities*") and request that the Court authorize and direct applicable banks and financial institutions to receive, honor, process and pay

checks and transfer related thereto. I understand that, as of the Petition Date, the Debtors estimate that they will have accrued approximately \$158,500 in Taxes relating to the prepetition period that will become due and owing to the Taxing Authorities postpetition.

92. Use Taxes. I understand that the Debtors incur and collect use taxes (the “*Use Taxes*”) in connection with the purchase of certain tangible personal property or services from vendors that have no nexus to the resident state of the particular Debtor purchasing property or services. The Use Taxes arise either (i) when the Debtors purchase items or services from a vendor who is not registered to collect sales tax for the state in which the property is delivered or the services are provided, or (ii) when the Debtors provide an exemption certificate to the vendor declaring that such property or services are to be acquired tax free but subsequently use the property or services in a taxable manner. The Debtors incur Use Taxes in Colorado’s Rio Blanco County on a project-dependent or monthly basis. I understand that the Debtors estimate that they will owe approximately \$30,000 in Use Taxes relating to periods prior to the Petition Date.

93. Property Taxes. The Debtors own certain personal property in Denver, Colorado and Harris County, Texas that is subject to local property taxes (the “*Property Taxes*”). The Property Taxes are assessed in estimated amounts at the beginning of the year, and the Debtors remit payments on such estimated amounts to (i) Texas’ Harris County Appraisal District on an annual basis in January and (ii) the City & County of Denver on a semi-annual basis in February and June for the previous year. The Debtors estimate that they will owe approximately \$23,500 in Property Taxes for calendar year 2014.

94. Severance Taxes. In the normal course of business, the Debtors incur severance taxes (the “*Severance Taxes*”), which are levied on the production of natural

resources, such as oil and gas, taken from land or water bottoms within the territorial boundaries of the applicable state. The Debtors incur Severance Taxes in the state of Louisiana on a monthly basis and remit payments to the Louisiana Department of Revenue on the 20th day of each month for the production that occurred two months prior to that month. Each month, the Debtors remit approximately \$11,000 in Severance Taxes. The Debtors estimate that they will owe approximately \$25,000 in Severance Taxes relating to periods prior to the Petition Date.

95. Franchise Taxes. The Debtors are required to pay certain taxes assessed for the privilege of doing business within a particular jurisdiction (the “**Franchise Taxes**”). The Franchise Taxes are typically paid annually, in May, June or July, to the applicable Taxing Authorities. The Debtors estimate that each year they pay approximately \$151,000 in Franchise Taxes. The Debtors submit that all Franchise Taxes for the prepetition period have been fully paid.

96. Foreign Income Taxes. END LuxCo, a non-operating foreign Debtor in these chapter 11 cases, withholds and incurs certain business income taxes (the “**Foreign Income Taxes**,” and together with the Use Taxes, Property Taxes, Severance Taxes and Franchise Taxes, the “**Taxes**”). END LuxCo is obligated to timely collect, withhold, incur and remit the Foreign Income Taxes to the Administration des Contributions Directes. END LuxCo pays that Taxing Authority upon assessment, which generally occurs every two years, and each assessment determines the amounts owed for the previous two years. END LuxCo estimates that it pays approximately \$30,000 in Foreign Income Taxes for each taxable year and will owe amounts for taxable years 2012, 2013 and 2014. The Debtors estimate that they will owe approximately \$80,000 in Foreign Income Taxes relating to periods prior to the Petition Date.

97. I understand that failure to pay the aforementioned Taxes may cause the Taxing Authorities to take precipitous action, including, but not limited to, filing liens, preventing the Debtors from conducting business in the applicable jurisdictions and holding the Debtors' officers and directors personally liable, all of which would disrupt the Debtors' day-to-day operations, potentially impose significant costs on the Debtors' estates and their creditors and threaten to irreparably impair the Debtors' ability to conduct a successful reorganization process.

98. Pursuant to the Interim Order, the Debtors seek authorization, but not direction, to satisfy all Taxes due and owing to the Taxing Authorities that arose prior to the Petition Date, including all Taxes subsequently determined upon audit or otherwise to be owed for periods prior to the Petition Date, in an interim amount not to exceed \$105,000. At the Final Hearing, the Debtors will seek authority, but not direction, to satisfy the remaining Taxes due and owing to the Taxing Authorities that arose prior to the Petition Date, in an amount not to exceed \$185,000.

99. Based on the foregoing, I believe that the relief requested in the Tax Motion is in the best interests of the Debtors, their estates and all parties in interest and should be granted.

**D. Motion of Debtors for Entry of Interim and Final Orders  
(I) Approving Debtors' Proposed Form of Adequate Assurance of  
Payment to Utility Companies, (II) Establishing Procedures for Resolving  
Objections by Utility Companies and (III) Prohibiting Utility Companies  
From Altering, Refusing or Discontinuing Service Pursuant to Sections  
105(a) and 366 of the Bankruptcy Code (the "Utilities Motion")**

100. By the Utilities Motion, the Debtors request (i) approval of their proposed form of adequate assurance of payment for postpetition Utility Services (as hereinafter defined); (ii) the establishment of procedures for resolving objections by Utility Companies (as hereinafter

defined) relating to the adequacy of the proposed adequate assurance; and (iii) a prohibition against the Utility Companies from altering, refusing or discontinuing service to, or discriminating against, the Debtors because of the commencement of these chapter 11 cases or any debt that is owed by the Debtors for Utility Services rendered prior to the Petition Date.

101. To operate their businesses and manage their properties, the Debtors obtain telephone, internet and other utility services (collectively, the “*Utility Services*”) from a number of utility companies (collectively, the “*Utility Companies*”). Historically, the Debtors have a good payment record with the Utility Companies and to the best of the Debtors’ knowledge, there are no defaults or arrearages of any significance for the Debtors’ undisputed invoices for prepetition Utility Services, other than payment interruptions that may be caused by the commencement of these chapter 11 cases. I understand that, based on their monthly average for the twelve (12) months prior to the Petition Date, the Debtors estimate that their cost of Utility Services for the next thirty (30) days will be approximately \$17,000.

102. Uninterrupted Utility Services are essential to the Debtors’ ongoing operations, and, therefore, the success of the Debtors’ reorganization. I understand that should any Utility Company alter, refuse or discontinue service, even briefly, the Debtors’ business operations could be severely disrupted, which would negatively impact the Debtors’ reorganization efforts and all parties in interest.

103. The Debtors intend to timely pay all postpetition obligations owed to the Utility Companies and have sufficient funds to do so. Nevertheless, to provide adequate assurance to the Debtors’ Utility Companies, the Debtors propose to deposit cash in an amount equal to one (1) month’s payment for Utility Services, calculated as the historical monthly

average during the past twelve (12) months (the “*Adequate Assurance Deposit*”)<sup>5</sup> into a newly-created segregated account for the benefit of the Utility Companies (the “*Utility Deposit Account*”). The Adequate Assurance Deposit will be placed in the Utility Deposit Account within twenty (20) days after the Petition Date. A Utility Company will be eligible to receive payment from the Adequate Assurance Deposit in an amount equal to one (1) month of its Utility Services. I understand that the Debtors estimate that the total amount of Adequate Assurance Deposit will be approximately \$17,000. The Adequate Assurance Deposit will be held by the Debtors in the Utility Deposit Account for the benefit of the Utility Companies during the pendency of these chapter 11 cases.

104. The relief requested will ensure the continuation of the Debtors’ businesses at this critical juncture as the Debtors transition into chapter 11 and also provides the Utility Companies with a fair and orderly procedure for determining requests for additional adequate assurance.

105. Based upon the foregoing, I believe that the relief requested in the Utilities Motion is in the best interests of the Debtors, their estates, and all parties in interest and should be granted.

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<sup>5</sup> The Adequate Assurance Deposit may be adjusted by the Debtors if the Debtors terminate any of the Utility Services provided by a Utility Company, make other arrangements with certain Utility Companies with respect to adequate assurance of payment, determine that an entity listed on the Utility Services List is not a utility company as defined by section 366 of the Bankruptcy Code or supplement the Utility Services List to include additional Utility Companies.

**E. Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing Debtors to Pay (A) Certain Employee Obligations and (B) Prepetition Claims of Independent Contractors and (II) Directing Financial Institutions to Honor and Process Checks and Transfers Related to Such Obligations Pursuant to Sections 105(a), 363(b) and 507(a) of the Bankruptcy Code (the “Wages Motion”)**

106. By the Wages Motion, the Debtors request (i) authorization to (a) pay, in their sole discretion, all obligations incurred under or related to Wage Obligations, Payroll Taxes, Expense Reimbursements and Employee Benefits (each as defined below, and collectively, the “*Employee Obligations*”) and all costs incident to the foregoing, and (b) maintain and continue to honor their practices, programs and policies in place for their employees as they were in effect as of the Petition Date, as such may be modified, amended or supplemented from time to time in the ordinary course of business, and (ii) authorization to pay, in their sole discretion, all prepetition claims of Independent Contractors (as hereinafter defined) (the “*Independent Contractor Obligations*”).

107. **Employee Obligations.** For purposes of the Wages Motion, the term “*Employees*” includes all persons, as of the Petition Date, entitled to compensation, benefits, reimbursement or any other similar payment as a consequence of being employed by the Debtors and does not include independent contractors. The Employees are all co-employed by ADP TotalSource (“*ADP*”) and EOC. As of the Petition Date, the Debtors employ thirty (30) full-time Employees for their U.S. operations. The Debtors have spent considerable time and energy building this team of experienced, motivated and invaluable Employees – a good portion of whom are engineers, geophysicists or geologists, accountants and financial personnel with highly specialized knowledge – who understand the Debtors’ specific business practices and policies, many of whom are experts in their fields, and are familiar with industry regulations.

108. I understand that the Debtors require authority to pay Employee Obligations, whether incurred prepetition or postpetition, including Wage Obligations, Payroll Taxes, Expense Reimbursements and Employee Benefits (each, as defined below), and all costs incident to the foregoing. The Debtors estimate that, as of the Petition Date, the aggregate amount of outstanding, due and payable Employee Obligations is approximately \$50,000. I understand that this estimate does not include obligations that are not cash pay obligations of the Debtors as of the Petition Date, such as paid vacation.

109. Professional Employer Organization – ADP. The Debtors have engaged a professional employer organization, ADP, to administer many of their human resources functions. ADP provides a broad range of human resources and benefits administration services through a co-employment model whereby the Debtors and ADP share employer responsibilities. The Debtors maintain day-to-day control over, dictate the roles and responsibilities of and manage the Employees, and ADP manages human resources management and benefits administration responsibilities. For instance, ADP provides the Debtors with payroll, tax and employee benefits administration and helps ensure the Debtors are compliant with regulatory and legal requirements with regard to the Employee Obligations.

110. To facilitate payment of many of the Employee Obligations (including, Wage Obligations, Tax Obligations and certain payments, such as insurance premiums, required to maintain many of the Employee Benefits offered by the Debtors), the Debtors advance funds from the Banks to ADP at least forty eight (48) hours prior to the Debtors' regularly scheduled payroll (the "**ADP Advance**"), and ADP then makes payments to (i) the Employees in connection with the Wage Obligations, (ii) the Taxing Authorities in connection with the Tax Obligations and (ii) to certain providers of the Employee Benefits on behalf of the Debtors. The



Debtors pay ADP fees of approximately \$7,300 on a monthly basis (the “**ADP Service Fees**”) in connection with their co-employment agreement. Payment of these modest fees is crucial for the Debtors’ seamless entry into chapter 11 and to ensure that there is no disruption in payment of the Wage Obligation or Tax Obligations or the administration of the Employee Benefits.

111. Wage Obligations. The Debtors typically pay obligations relating to Employee wages, salary, and compensation (the “**Wage Obligations**”) on a semi-monthly basis by providing the ADP Advance to ADP, and ADP then provides direct deposits into the Employees’ private bank accounts. I understand that the Debtors estimate that their gross semi-monthly payroll for the Wage Obligations is approximately \$230,000. The Debtors’ last payroll was made on October 7, 2014, which includes payment of Wage Obligations through October 15, 2014 (the end of the semi-monthly pay period). The Debtors estimate that as of the Petition Date, the Debtors do not have any Wage Obligations that are accrued and outstanding. However, compensation may be due and owing as of the Petition Date because of, among other things, potential discrepancies between amounts paid and the amounts that certain Employees believe should have been paid, which, upon resolution, may reveal that additional amounts are owed to such Employees.

112. In addition to the regular Wage Obligations, the Debtors maintain a discretionary performance-based bonus program (the “**Bonus Program**”). All Employees are eligible to participate in the Bonus Program. Under the Bonus Program, if certain performance targets are met, the Debtors pay Employees bonuses ranging from 20% to 100% of their base salary depending on seniority, and, if certain maximum performance targets are met, the Debtors pay Employees bonuses ranging from 40% to 200% of their base salary depending on seniority. The Debtors typically pay bonuses, if any, under the Bonus Program in December or January.

Due to the discretionary nature of the Bonus Program, the Debtors have no accrued and outstanding obligations under the Bonus Program as of the Petition Date.<sup>6</sup>

113. Payroll Taxes/Garnishment. ADP, in its co-employer role, is required by law to withhold amounts related to federal, state and local income taxes, as well as social security and Medicare taxes (collectively, the “***Withholding Taxes***”) from the Wage Obligations and to remit the same to the appropriate taxing authorities (collectively, the “***Taxing Authorities***”). ADP is also required to make matching payments from their own funds on account of social security and Medicare taxes and to pay, based on a percentage of gross payroll and subject to state-imposed limits, additional amounts to the Taxing Authorities for, among other things, state and federal unemployment insurance (collectively, the “***Employer Payroll Taxes***” and, together with the Withholding Taxes, the “***Payroll Taxes***”). The Debtors include the amounts required by ADP to pay the Payroll Taxes in the ADP Advance. The Debtors do not believe that any prepetition Payroll Taxes are due and payable to the Taxing Authorities as of the Petition Date. The Debtors, through their co-employment relationship with ADP, also withhold certain amounts for various writs of garnishment (such as tax levies, child support, payments to bankruptcy trustees and student loans).

114. Expense Reimbursements. The Debtors’ Employees incur various expenses in connection with their employment duties, such as travel and meal expenses. Such expenses incurred in the course of their employment and in furtherance of the Debtors’ businesses are reimbursed (the “***Expense Reimbursements***”) on a periodic basis after submission of appropriate approval and documentation to the Debtors’ accounting department. Because of

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<sup>6</sup> Additionally, the Debtors had a long term incentive plan under which all Employees are eligible, pursuant to which the Debtors grant eligible Employees the right to receive shares of common stock of EOC that vest over a three year period from the date of such grant. The Debtors currently do not intend to make any additional grants under such long term incentive plan during the pendency of these chapter 11 cases.

the irregular nature of requests for reimbursements, it is difficult to determine the amount of Expense Reimbursements outstanding at any given time. The Debtors, however, estimate that the amount of outstanding Expense Reimbursements, as of the Petition Date, is approximately \$50,000.

115. Employee Benefit Plans. The Debtors, through their co-employment relationship with ADP, have established certain benefits plans and policies for their Employees that provide, among other benefits, medical, dental and vision plans, worker's compensation insurance, life insurance, short and long term disability insurance, a 401(k) plan, reimbursement of moving expenses and paid time off (collectively, the "***Employee Benefits***"). The Debtors deduct specified amounts from the Employees' wages in connection with certain of the Employee Benefits. Virtually all of the Employee Benefits are administered by ADP. All of the Debtors' Employees are eligible for the Employee Benefits, but not every Employee chooses to participate in every Employee Benefit.

116. Medical, Dental and Vision Plans. The Debtors, through their co-employment relationship with ADP, currently offer medical, dental and vision plans for Employees. Employees can choose between two medical insurance plans provided by ADP through United Healthcare: (i) a high deductible health plan ("***HDHP***"); or (ii) a preferred provider organization medical plan. The Debtors, through ADP, pay 80% of the premium amounts under such medical insurance plans and deduct the remaining premium amounts from the Employees' wages. I understand that the Debtors' average monthly cost with regard to medical insurance premiums is approximately \$27,000. As of the Petition Date, the Debtors believe that no payments for the Employees medical insurance premiums are accrued and outstanding. Additionally, in connection with the HDHP plan, the Debtors, through ADP,

contribute 85% of the plan's in-network deductible to each participating Employee's individual health savings account on an annual basis. The Debtors, through ADP, typically fund the HSA contributions in January of each year, and thus, as of the Petition Date, have no current obligations in connection therewith. The Debtors, through their co-employment relationship with ADP, participate in a dental plan through Aetna Dental and a vision plan through VSP. The Debtors, through ADP, pay 50% of the monthly premium for the dental plan and the remaining 50% is deducted from the Employees' wages. The entire premium for the vision plan is deducted from the Employees' wages. The Debtors' average monthly cost with regard to the dental plan is approximately \$600. As of the Petition Date, the Debtors believe that no payments are accrued and outstanding in connection with the dental plan premiums.

117. Long and Short-Term Disability Benefits. The Debtors, through their co-employment relationship with ADP, offer short-term and long-term disability insurance for all Employees through Aetna. The Debtors, through ADP, pay 100% of the premium amounts due for all participating Employees under both programs on a monthly basis. I understand that the aggregate monthly premium for all participating Employees across both programs is approximately \$600. The long-term disability program is the same for all Employees and participating Employees are eligible to receive 60% of their base salary up to a maximum of \$10,000 a month. Short-term disability offers all participating Employees 60% of their base salary up to a maximum of \$2,500 a week for up to thirteen (13) weeks. As of the Petition Date, the Debtors believe that they are current on the payment of the short-term and long-term disability insurance premiums and have no payments accrued and outstanding.

118. Workers' Compensation Insurance. Under the laws of various states and, in certain foreign countries, local laws and regulations where the Debtors operate, the Debtors'

are required to maintain workers' compensation policies and programs to provide their Employees with workers' compensation coverage for claims arising from or related to their employment with the Debtors. The Debtors, through their co-employment relationship with ADP maintain a workers' compensation program through Aon Risk Services (the "***Workers' Compensation Program***") for that purpose. ADP administers the Workers' Compensation Program for the Debtors and processes any Workers' Compensation Claims that may arise. The Debtors pay ADP for this service as part of the ADP Service Fee. The Debtors also pay an additional sum of approximately \$940 a month to ADP in connection with the annual premium for the Workers' Compensation Program. ADP pays Aon Risk Services an annual premium in July of each year that is calculated based on the Debtors' projected payroll and historic loss rates. ADP fully paid the premium for the policy year running from July 1, 2014 through July 1, 2015. The Debtors do not have any premium payments accrued and outstanding as of the Petition Date.

119. 401(k) Plan. The Debtors, through their co-employment relationship with ADP, also provide Employees the option of contributing to a 401(k) Plan set up by the Debtors. The Debtors match 100% of an Employee's contribution to the 401(k) up to 4% of the Employee's total eligible compensation up to the statutory cap.

120. Group Life Insurance. The Debtors, through their co-employment relationship with ADP, offer Employees the option to participate in a group life insurance program through Aetna that provides a death benefit equal to two (2) times the Employee's base salary not to exceed \$750,000. The Debtors, through ADP, pay an aggregate monthly premium of \$1,136 to provide group life insurance to all participating Employees. As of the Petition Date, the Debtors believe that there are no payments in connection with the group life insurance premiums accrued and outstanding.

121. Other Benefits. The Debtors provide their Employees a number of other benefits through their co-employment relationship with ADP, including, but not limited to, an employee discount program, an employee assistance program, paid vacation and a flexible spending account. These additional Employee Benefits are all administered by ADP and included in the ADP Service Fee.

122. **Independent Contractor Obligations.** In addition to retaining Employees, the Debtors use third-party contractors (the “***Independent Contractors***”) to perform services necessary for the operation of their businesses. As of the Petition Date, the Debtors have contracted with eight (8) Independent Contractors. Certain of the Independent Contractors are contracted directly and certain of the Independent Contracts are contracted through a third-party service provider. The Debtors contract Independent Contractors when they determine it is more efficient and/or cost-effective to have Independent Contractors, rather than Employees, perform certain jobs and/or services. The Independent Contractors are an integral component of the Debtors’ businesses. Indeed, the Independent Contractors currently engaged by the Debtors include individuals with highly-specialized skills, including, a geophysicist, a geological consultant, a land administration consultant, an IT consultant and an engineering consultant.

123. The Debtors seek to make payments to those Independent Contractors or the applicable third-party provider that they believe are necessary to assure the continuation of the critical services the Independent Contractors provide (collectively, the “***Independent Contractor Obligations***”). All but one of the Independent Contractors submit invoices monthly and are paid one (1) month in arrears. The Debtors estimate that their total accrued and outstanding Independent Contactor Obligations as of the Petition Date are approximately \$52,000. As noted above, the Debtors heavily depend on the expertise of the Independent

Contractors to, among other things, provide professional services related to geotechnical mapping and data management, geophysical interpretation, land administration, land project work, engineering and commercial analysis, natural gas marketing and transportation and general IT consulting.

124. I understand that it would be difficult for the Debtors to replace their Independent Contractors. The Debtors, as with their Employees, have spent considerable time and energy searching for Independent Contractors who understand the Debtors' business practices and policies and who are familiar with oil and gas reserve exploration and industry regulations.

125. Paying the Wage Obligations will ensure that the Debtors' Employees are able to focus on their immediate tasks during this critical period as the Debtors enter chapter 11 administration. Indeed, any delay or failure to pay the Wage Obligations would irreparably impair the Employees' morale, dedication, confidence and cooperation, and would adversely impact the Debtors' relationship with their Employees at a time when the Employees' support is critical to the Debtors' success in chapter 11.

126. At this juncture, the Debtors cannot afford the risk of substantial damage to their businesses that would inevitably result from a decline in their Employees' morale, or worse, a decline in their Employee ranks as Employees seek other opportunities they believe will provide better assurances of regular payment of wages, salaries and benefits. It is my belief that, due to the specialized nature of the Debtors' businesses and its small but highly-skilled workforce, Employees of an equivalent level of skill and knowledge would be difficult and costly for the Debtors to find and integrate into their operations in an efficient manner.

127. Likewise, the Debtors submit that the uninterrupted and continued performance of the Independent Contractors is critical to the Debtors' ability to conduct the geotechnical mapping and data management, geophysical interpretation, land administration, land project work, engineering and commercial analysis, natural gas marketing and transportation and general IT consulting that are critical to the Debtors' operations. The Debtors enjoy long-standing, positive relationships with many of the Independent Contractors, and are confident in their abilities to perform with the highest level of skills. Additionally, similar to the case with the Debtors' Employees, new workers with an equivalent level of skill and knowledge as the Debtors' Independent Contractors would, in many cases, be difficult and costly for the Debtors to find and integrate into their operations.

128. Additionally, the Debtors believe it is necessary to continue payment of ADP Service Fees to ADP as co-employer to the Employees and administrators of many of the Debtors' Employee Obligations and to the administrators of programs related to Employee Benefits such as Aetna. Without the continued services of these administrators (including, but not limited to ADP) the Debtors will be unable to continue to honor their Employee Obligations in an efficient and cost-effective manner.

129. Based upon the foregoing, the Debtors request authority to make payments on account of prepetition Employee Obligations and Independent Obligations on an interim basis up to \$118,000 and on a final basis up to \$118,000. I believe that the relief requested in the Wages Motion is in the best interests of the Debtors, their estates and all parties in interest and should be granted.

**F. Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing Payment of Funds Attributable to Royalty Interests in the Ordinary Course of Business and (II) Directing Financial Institutions to Honor and Process**



**Checks and Transfers Related to Such Royalty Interests Pursuant to Sections 105(a) and 541 of the Bankruptcy Code (the “Royalties Motion”)**

130. By the Royalties Motion, the Debtors request authorization to continue to make undisputed royalty payments in the ordinary course of business. It is my understanding that each Oil and Gas Lease in which the Debtors hold working interests, whether a Producing Lease or not, is subject to royalty interests (the “*Royalty Interests*”) held by various third parties (the “*Royalty Interest Holders*”). The Royalty Interests entitle the Royalty Interest Holders to payments (each, a “*Royalty Payment*”) whenever an Oil and Gas Lease produces oil and gas.

131. A mineral interest in oil and gas consists of the ownership of the oil and gas in place under a parcel of property, typically in fee simple, and the exclusive right to explore, drill and produce that oil and gas from the land. In my experience, it is common in the oil and gas industry for owners of mineral rights—who may be individual landowners without the resources to exploit the minerals they hold rights in—to sell their exclusive right to explore, drill, and produce oil or gas from their mineral interest to third parties, such as the Debtors, that are capable of exploring for and producing oil and gas. It is my understanding that by doing so, the mineral interest owner typically does not grant its mineral interest to the third party. Instead, the mineral interest owner conveys *only* its exclusive right to extract oil and gas from the land while retaining a real property interest that entitles it to share in a stated portion of gross production. In the oil and gas industry this retained real property right is referred to as a “landowner’s royalty interest,” while the newly-created right to exploit the minerals is referred to as a “working interest.”

132. The Debtors hold working interests in various oil and gas leases in Colorado, Louisiana, Montana, New Mexico, Pennsylvania and Texas. On average, the Debtors generate approximately \$700,000 of revenue from their operating U.S. Oil and Gas Leases each

month. As of the Petition Date, the Debtors are producing oil and gas at certain of their Oil and Gas Leases (collectively, the “*Producing Leases*”) in Texas, Louisiana and Pennsylvania.

Currently, the Debtors are not producing any oil and gas on their Oil and Gas Leases in Colorado, Montana or New Mexico, though it is possible they could begin oil and gas production in these locations during the pendency of these chapter 11 cases.

133. It is my understanding that the Royalty Interest Holders are only entitled to receive Royalty Payments when oil and gas is produced from the Oil and Gas Lease in which they hold an interest. As such, the Debtors are not currently making Royalty Payments on account of every Royalty Interest that their working interests are subject to. Additionally, the Debtors only make Royalty Payments to holders of Royalty Interests at Oil and Gas Leases where they serve as the operator—the party responsible for the day-to-day operation of the well. In Oil and Gas Leases where the Debtors hold only a non-operating working interest, Royalty Payments are paid by the third-party operators before the Debtors receive their periodic *pro rata* distribution of revenue.

134. The Debtors’ Monthly Royalty Payments. It is my understanding that the Debtors generally make between 150-200 Royalty Payments per month to the Royalty Interests Holders around the middle of the month. Though the Royalty Payments are subject to variation in any given month based on actual production, the Debtors generally pay approximately \$80,000 in Royalty Payments per month, mostly from their operations in Pennsylvania and Louisiana. Because of the time required to market and sell the oil and gas produced and the significant accounting process that must occur each month to ensure the accuracy of the Royalty Payments, Royalty Interest Holders are generally paid sixty (60) days in arrears. It is my belief that, as of the Petition Date, there are approximately \$160,000 in as-yet unpaid Royalty

Payments that are scheduled to be paid to Royalty Interest Holders over the next 60 days, including approximately \$80,000 in such payments due in the next two weeks.

135. It is my understanding that in the states where the Debtors' have Working Interests, Royalty Interests are interests in real property and that the Debtors have no equitable interest in such property. It is my understanding that the Debtors only take possession of proceeds from the sale of the Royalty Interest Holders' share of oil and gas production because they market and sell all oil and gas production on behalf of the Royalty Interest Holders before remitting the Royalty Payments to them. I have been informed that such an arrangement establishes a resulting trust on behalf of the Royalty Interest Holders. I have been further informed that property held on account of another (such as in a resulting trust) is not property of the Debtors' estates and must be remitted to the rightful owner. Thus, the Debtors seek, pursuant to the Royalties Motion, to pay Royalty Interest holders in the ordinary course of business the Royalty Payments, whether such obligations were incurred prepetition or postpetition in an interim amount not to exceed \$100,000 pending a final order determining that the Royalty Interests are not property of the estate.

136. Based on the foregoing, I believe that the relief requested in the Royalties Motion is in the best interests of the Debtors, their estates, and all parties in interest and should be granted in all respects.

**G. Motion of Debtors for Entry of Interim and Final Orders  
(I) Authorizing Payment of (A) Joint Interest Billings and (B) Lien Claimants in the Ordinary Course of Business and (II) Directing Financial Institutions to Honor and Process Checks and Transfers Related to Such Obligations Pursuant to Sections 105(a) and 363(b) of the Bankruptcy Code (the "*JOA Motion*")**

137. By the JOA Motion, the Debtors request (i) authority, but not direction, to pay in the ordinary course of business all undisputed, liquidated, prepetition amounts owing with

respect to (a) operators for unpaid joint interest billings (the “***Joint Interest Billings***”) and similar claims and (b) third parties, including vendors, contractors, drillers, haulers and suppliers of oil and gas related services (the “***Lien Claimants***”) who may have, or may be entitled to, liens under applicable state law (the “***Lien Obligations***,” and collectively with the Joint Interest Billings, the “***Obligations***”) and (ii) that the Court authorize and direct applicable banks and financial institutions (collectively, the “***Banks***”) to receive, honor, process and pay all checks issued or to be issued and electronic funds transfers requested or to be requested relating to the Obligations.

138. I understand that payment of the Obligations is necessary to preserve operations and successfully reorganize. The need for flexibility to pay the Obligations is particularly acute during the initial stages of the cases during which Operators may withhold the Debtors’ revenues or Lien Claimants may attempt to assert their leverage and deny services going forward, suddenly and without notice, to cripple operations and coerce payment.

139. Working Interests and Payments for Joint Interest Billings. The Debtors hold “working interests” in various oil and gas fields throughout the United States. Such working interests entitle them to the exclusive right to export the minerals on the land, but the working interest owner bears the cost of exploration, development and operation of the property. However, because oil and gas exploration is by its nature a speculative business, holders of working interests often buy, sell and trade portions of their working interests in any one oil and gas lease to other exploration and production companies. By this process, oil and gas exploration and production companies, like the Debtors, become joint interest holders of the larger working interest in an oil and gas lease (each, an “***Oil and Gas Lease***”)—sharing *pro rata* in both the revenues and costs associated with all production from that lease.

140. To govern the relationship between the joint interest holders in a particular oil and gas lease, the parties enter into joint operating agreements (each, an “***Operating Agreement***”), which memorialize the terms under which the revenues and costs from the lease will be split. Typically, an Operating Agreement will also designate one working interest holder as the oil and gas lease’s operator (an “***Operator***”)—*i.e.* the party that assumes responsibility for the physical operation and control of a well and conducts the day-to-day business of producing oil and gas at the site. The Operator also initially covers the expenses incurred on the Oil and Gas Lease, on account of its own working interest as well as the holders of the Non-Operating Working Interests (as defined below), from whom the Operator then seeks repayment.

141. The other parties to the Operating Agreements each hold a non-operating working interest (a “***Non-Operating Working Interest***”) in the Oil and Gas Lease. The Non-Operating Working Interest Holders’ primary obligation with respect to the Oil and Gas Lease is to pay their *pro rata* portion of the operating expenses to the Operator. The Non-Operating Working Interest Holders are billed for these Joint Interest Billings on terms contained in the Operating Agreement.

142. The Debtors serve as the Operator under only a small number of U.S.-based Oil and Gas Leases where they do not own an undivided working interest in the lease. In the vast majority of their U.S.-based Oil and Gas Leases where they share working interests with third parties, the Debtors primarily hold Non-Operating Working Interests, while third parties serve as Operator.

143. I understand that where the Debtors hold a Non-Operating Working Interest, the Operating Agreements and/or applicable law often grant the Operator the right to a contractual or statutory lien to secure the obligations owed to the Operator upon the Debtors’

interest in the lease. I also understand that these liens may include (i) all equipment installed on the lease; (ii) all hydrocarbons or other minerals severed and extracted from or attributable to the lease; (iii) all accounts and proceeds of sale, contract rights, and general intangibles arising in connection with the sale; (iv) fixtures; and (v) any and all accessions, additions and attachments thereto and the proceeds and products therefrom.

144. As such, I believe that the failure to timely pay Joint Interest Billings owing by the Debtors is likely to result in Operators asserting lien rights under applicable state laws on the Debtors' working interests in the Oil and Gas Leases or the production therefrom. I also understand that granting the requested relief will merely affect the timing of payments to the Operators.

145. From time-to-time, on account of their Non-Operating Working Interests, the Debtors receive invoices from the Operator for the Debtors' proportionate share of Joint Interest Billings for expenses like drilling and completion costs, as well as operating costs. I understand that in the twelve months preceding the Petition Date, the Debtors paid approximately \$915,000.00 in such expenses. Many of these Joint Interest Billings are not uniform and are not entirely predictable on a month-to-month basis. Nonetheless, I understand that failure to timely pay the Joint Interest Billings may provide grounds for a contractual lien rights or statutory lien rights in favor of the Operator against the Debtors' interest in the associated Oil and Gas Lease or their *pro rata* portion of the production therefrom.

146. The Debtors seek only to pay undisputed, prepetition Joint Interest Billing amounts owed to Operators in the Debtors' ordinary course of business. I understand that as of the Petition Date, the Debtors estimate that they have approximately \$108,000 outstanding under the terms of one of their Operating Agreements. Pursuant to the Interim Order, the Debtors seek

authorization, but not direction to pay up to \$110,000 of these prepetition Joint Interest Billings (the “*Interim Joint Interest Billings Cap*”). At the Final Hearing, the Debtors will seek authority, but not direction, to satisfy the remaining amounts due and owing under the Joint Interest Billings relating to the prepetition period, up to \$130,000.

147. Payments to Lien Claimants. In the ordinary course of operations at Oil and Gas Leases where the Debtors act as the Operator, the Debtors rely upon, and routinely contract with, a number of third parties. I understand that under applicable law, these third parties may be entitled to assert claims against the Debtors’ property (or even the property of other third parties with working interests under the Operating Agreements) to secure payment for prepetition goods and services provided to the Debtors.

148. If the Lien Claimants were able to assert liens against the Debtors in the course of these chapter 11 cases, the results would be detrimental to the Debtors and their creditors. I understand that it is possible that the Lien Claimants could place liens on the oil and gas wells, the production therefrom, or the Debtors’ working interests (which are real property rights). I also understand that in certain of the states where the Debtors have Oil and Gas Leases (such as Louisiana, where the Debtors have significant Oil and Gas Leases), a lien can attach to any of the gas proceeds, property interests or other property described in the state’s lien statute—including property actually owned by third party Non-Operating Working Interests with whom the Debtors must work cooperatively with during and after these chapter 11 cases. As such, I believe the Debtors’ U.S.-based revenues and its relationships with co-working interest owners could be placed in jeopardy absent the relief requested herein. I understand that granting the requested relief will merely affect the timing of the payment and Lien Claimants will not receive more than they are otherwise entitled to under state laws and the Bankruptcy Code.

149. As of the Petition Date, it is my understanding that the Debtors estimate that they have approximately \$500,000 in Lien Obligations outstanding to various Lien Claimants. Pursuant to the Interim Order, the Debtors seek authorization, but not direction to pay up to \$500,000 of these prepetition Lien Obligations (the “*Interim Lien Claimants Cap*”). At the Final Hearing, the Debtors will seek authority, but not direction, to satisfy the remaining unpaid Lien Obligations relating to the prepetition period, up to \$575,000.

150. In sum, I believe the need to pay Operators owed for Joint Interest Billings and Lien Claimants for the Lien Obligations on the terms and conditions described herein is compelling and that the relief requested in the JOA Motion is in the best interests of the Debtors, their estates and all parties in interest and should be granted.

**H. Motion of Debtors For Interim and Final Orders (I) Authorizing Debtors to (A) Continue Their Existing Cash Management System, (B) Maintain Existing Bank Accounts and Business Forms and (C) Continuing Existing Intercompany Transactions and (II) Granting Extension of Time to Comply With, and Waiver of, Requirements of Section 345(b) of the Bankruptcy Code Pursuant To Sections 105(a), 363(c) and 345(b) of the Bankruptcy Code (the “*Cash Management Motion*”)**

151. By the Cash Management Motion, the Debtors request: (i) authorization to (a) continue their existing cash management system (the “*Cash Management System*”), (b) maintain control over the administration of their bank accounts (collectively, the “*Bank Accounts*”) located at various banks (collectively, the “*Banks*”), (c) maintain control over their existing business forms and (d) continue certain Intercompany Transactions (as defined below); (ii) an extension of time to comply with section 345(b) of the Bankruptcy Code; and (iii) a waiver of section 345(b) of the Bankruptcy Code with respect to the Luxembourg Deposit Account (as defined below). I understand that the Cash Management System facilitates the Debtors’ cash monitoring, forecasting and reporting, and enables the Debtors to maintain control over the administration of their Bank Accounts. Without the requested relief, the Debtors would



be unable to maintain their financial operations effectively and efficiently, which would cause significant harm to the Debtors and to their estates.

152. In the ordinary course of business, the Debtors use the Cash Management System, which is similar to those used by other large companies that operate in numerous locations, to collect, transfer and disburse funds generated by the Debtors' business operations efficiently. The Debtors record such collections, transfers, and disbursements as they are made. The Cash Management System is organized around the Debtors' asset locations and is primarily managed by Catherine Stubbs, Senior Vice President and Chief Financial Officer for the Debtors.

153. The Cash Management System has four main components: (i) cash collection, including the collection of payments made to the Debtors from revenue generated at their oil and gas fields, (ii) cash concentration, (iii) cash transfers among the Debtors and certain Non-Debtor Affiliates and (iv) cash disbursements to fund the Debtors' operations, primarily consisting of payroll and payments to vendors and service providers that supply goods and services the Debtors use to assist with the exploration for and production of oil, gas and liquids. In addition, the Cash Management System is comprised of certain stand-alone accounts used for the purposes specified below.

154. The Debtors' Domestic Bank Accounts. The Debtors maintain two primary Bank Accounts, both at JP Morgan Chase Bank, N.A. ("**Chase**"). The Debtors' primary operating account, ending in -6265 (the "**Operating Account**"), is used to pay the Debtors' general and administrative expenses, make payments to third-party holders of royalty interests and fund some of the operating expenses and capital expenditures associated with the Debtors' U.S. oil and gas projects. The Operating Account is only used to make disbursements. No

revenues are deposited directly into the Operating Account. As of the Petition Date, I understand that the Debtors held approximately \$36.8 million in the Operating Account.

155. In addition to the Operating Account, the Debtors have three additional domestic accounts at Chase, a general operating account ending in -5082 (the “*U.S. Revenue Account*”), the depository account set up to hold the Debtors’ proposed adequate assurance deposit on behalf of its utility providers, ending in -0539 (the “*Adequate Assurance Account*”) and a deposit account ending in -1267 (the “*END LuxCo Domestic Account*”) owned by END LuxCo. As of the Petition Date, I understand that the Debtors held approximately \$114,100 in the U.S. Revenue Account, \$10,000 in the END LuxCo Domestic Account, and \$10,000 in the Adequate Assurance Account.

156. The Luxembourg Deposit Account. Debtor END LuxCo maintains a Bank Account ending in -0000 (the “*Luxembourg Deposit Account*”) with Fortis Banque Luxembourg S.à r.l. The Debtors established this Bank Account to meet END LuxCo’s requirements for incorporation in Luxembourg and for the purpose of paying taxes to the Duchy of Luxembourg. The Debtors also use this Bank Account to pay small amounts of administrative expenses of END LuxCo.

157. Because END LuxCo has no operations or sources of revenue, the entity receives funding to cover these expenses from Non-Debtor Affiliate EEUK. EEUK transfers money via electronic funds transfer to the Luxembourg Deposit Account to pay the required foreign taxes every two years.<sup>7</sup> I understand that the taxes and associated fees amount to approximately \$31,500 per year. As of the Petition Date, END LuxCo has approximately

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<sup>7</sup> Pursuant to that certain Domiciliation and Services Agreement, dated February 15, 2010, Orangefield Trust (Luxembourg) S.A. (“*Orangefield*”) performs several services on behalf of the Debtors at END LuxCo including operating the Luxembourg Deposit Account and making the tax payments of END LuxCo to the Luxembourg government from that Bank Account.

\$80,000 in accrued and outstanding taxes owed to the Duchy of Luxembourg. In the next 30 days, I understand that approximately \$63,000 of accrued and outstanding taxes for the 2012 and 2013 fiscal years will become due and owing. END LuxCo will remit the required \$63,000 in taxes with money that will be deposited directly into its Luxembourg Deposit Account by EEUK. I understand that as of the Petition Date, the Debtors did not have significant monies in the Luxembourg Deposit Account.

158. The Non-Debtor Affiliate Bank Accounts. The Non-Debtor Affiliates also maintain a variety of Bank Accounts, some of which (subject to certain restrictions imposed by the various debt instruments to which the Debtors and Non-Debtor Affiliates are parties) are used in the ordinary course to transfer funds to the Operating Account for purposes of meeting certain of the Debtors' debt obligations or other general and administrative expenses. These accounts are maintained at either JPMorgan Chase & Co. in the United Kingdom ("**Chase-U.K.**") or JPMorgan Chase Bank, N.A. in the Netherlands ("**Chase-Netherlands**").<sup>8</sup>

159. Non-Debtor Affiliate EEUK, which is the Company's primary revenue producer, maintains two operating accounts at Chase-U.K.—a dollar-denominated operating account (the "**EEUK USD Operating Account**") and a British pound-denominated operating account (the "**EEUK GBP Operating Account**") and together with the EEUK USD Operating Account, the "**EEUK Operating Accounts**"). Whether revenue generated from a particular field is paid in pounds or dollars determines which of the EEUK Operating Accounts the money flows into. Similarly, whether payments made to vendors or for other general and administrative

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<sup>8</sup> Two Non-Debtor Affiliates also maintain domestic accounts at Chase—one a deposit account ending in -7638 (the "**EIHBV Domestic Account**") owned by EIHBV and a deposit account ending in -5678 (the "**EEUK Domestic Account**") and together with the EIHBV Domestic Account, the "**Non-Debtor Subsidiary Domestic Accounts**") owned by EEUK. The Debtors neither make disbursements from nor accept payments to the Non-Debtor Subsidiary Domestic Accounts. As of the Petition Date, the Debtors held approximately \$10,000 in each of the Non-Debtor Subsidiary Domestic Accounts.

expenses are to be paid in pounds or dollars determines which of the EEUK Operating Accounts is used to make that payment. From time-to-time, pursuant to the Intercompany Transactions (as defined below), money is transferred between the EEUK USD Operating Account and the Operating Account.

160. Cash Collection. The Debtors generate approximately \$700,000 of revenue from their operating gas fields in the U.S. each month. Each operating gas field generates a separate payment, which is generally received around the 25th of each month. Roughly \$600,000 of the \$700,000 in payments is wired by purchasers of the Debtors' gas directly into the U.S. Revenue Account. I understand that the Debtors' other payments are sent via check directly to the Debtors' principal offices in Houston, Texas and deposited into the U.S. Revenue Account.

161. Because the majority of disbursements in the U.S. are from the Operating Account, the Debtors initiate wire transfers between the U.S. Revenue Account and the Operating Account. These Debtor-initiated transfers have the effect of sweeping the revenue out of the U.S. Revenue Account as needed and concentrating the majority of the Debtors' cash into the Operating Account. When the Debtors make disbursements directly from the U.S. Revenue Account for operating expenses or capital expenditures, the Debtors transfer funds from the Operating Account into the U.S. Revenue Account to satisfy those payments.

162. None of the Debtors' other Bank Accounts—the Operating Account, the END LuxCo Domestic Account, the Adequate Assurance Account, or the Luxembourg Deposit Account—receive payments from outside sources. Further, the Debtors do not routinely deposit or transfer funds into the END LuxCo Domestic Account or the Luxembourg Deposit Account.

163. Cash Disbursement. To fund the Debtors' general and administrative expenses, cash in the Operating Account is disbursed by the Debtors via check or electronic funds transfer. Such disbursements from the Operating Account cover a wide variety of obligations, including payroll and other employee obligations, certain taxes, payment of certain benefits, payments to utilities, rent, legal and professional expenses, debt servicing and other expenses related to the general operation of the Debtors' U.S.-based operations and Houston headquarters. In addition, the Debtors use the Operating Account to pay third-party holders of royalty interests, fund capital expenditures related to oil and gas exploration and development, satisfy maintenance or related expenses at the fields and fund other expenses as required by the various joint operating agreements governing the Debtors' requirements as working interest holders on their oil and gas leases.

164. As discussed below, the Debtors also share certain Shared Services (as defined below) with their Non-Debtor Affiliates that require intercompany disbursements for certain general and administrative expenses from the EEUK USD Operating Account to the Operating Account. Because generated revenue from the Debtors' operations does not flow directly into the Operating Account, and because the general and administrative expenses paid from the Operating Account benefit both the Debtors and their Non-Debtor Affiliates, the Debtors rely on intercompany transfers from the U.S. Revenue Account or from the EEUK USD Operating Account to cover these disbursements.

165. Additionally, the Debtors make disbursements from their U.S. Revenue Account for activity related to their domestic oil and gas operations. These include disbursements for capital expenditures and operational expenditures at their U.S. oil and gas fields. When possible, the Debtors make these payments directly from the U.S. Revenue

Account. The Debtors cover the shortfall by wiring money from their Operating Account to the U.S. Revenue Account.

166. Intercompany Transactions. In the ordinary course of business, the Debtors engage in a variety of intercompany transactions (the “*Intercompany Transactions*”) that give rise to certain intercompany claims (the “*Intercompany Claims*”). Though the Debtors maintain strictly separate corporate identities from the Non-Debtor Affiliates, the Debtors do share certain services (the “*Shared Services*”) with EEUK. The terms under which the Debtors share most services with EEUK and the other Non-Debtor Affiliates are encompassed in certain services agreements (each, a “*Shared Services Agreement*”). As of the Petition Date, the Debtors and EEUK had entered into Shared Services Agreements between (i) EOC and EEUK and (ii) EIC and EEUK.

167. Under the terms of each of the Shared Services Agreements, Debtor EOC receives a payment from EEUK via electronic funds transfer for the portion of the Shared Services attributable to the Non-Debtor Affiliates, calculated as: (i) the total costs of the Company’s Houston office prorated according to the actual production volumes of EEUK as compared to the sum of actual production volumes of EIC and any of its U.S. affiliates, plus (ii) a 5% surcharge. Upon receipt of a payment for such Shared Services, EOC makes disbursements from the Operating Account to cover both its portion and the Non-Debtor Affiliates’ portion of the Shared Services. In total, these two Shared Services Agreements resulted in an average monthly transfer of \$1.3 million from the Non-Debtor Affiliates to the Operating Account.

168. The Debtors’ U.S.-based operations’ revenues do not offset all of their expenses. The Company’s primary revenue-generating oil and gas leases continue to be held by

Non-Debtor Affiliate EEUK. Nonetheless, the majority of debt in the Company's capital structure is held by Debtor EIC, the ultimate corporate parent. As such, the Company has historically facilitated its operations by permitting EEUK and EOC to transfer needed capital between one another in the ordinary course of business pursuant to intercompany loans and intercompany advances. These ordinary course Intercompany Transactions enable the Debtors and their Non-Debtor Affiliates to efficiently settle internal and external obligations. It is my understanding that if the Intercompany Transactions were to be discontinued, the Cash Management System and related administrative controls would be disrupted to the Debtors' (and the Non-Debtor Affiliates') detriment.

169. On September 30, 2014, EIHBV and End Finco LLC entered into the EEUK Term Loan for the benefit of EEUK, with Credit Suisse as Administrative Agent on behalf of certain lenders thereto (collectively, the "***EEUK Secured Lenders***").

170. The EEUK Term Loan provides for certain monetary thresholds that restrict the amount of cash, assets or property that may be transferred by the Non-Debtor Affiliates to the Debtors (the "***Intercompany Limitations***"). Pursuant to the EEUK Term Loan, the Non-Debtor Affiliates may transfer to the Debtors (i) up to \$24,000,000 through September 30, 2015, which amount may be used solely for the payment of expenses incurred in connection with the Debtors' chapter 11 cases; (ii) up to \$10,000,000 during the term of the EEUK Term Loan, which amount may be used solely to fund certain capital expenditures of the Debtors; (iii) up to \$17,000,000 through September 30, 2015, which amount may be used solely to fund the selling, general and administrative expenses of EIC and its subsidiaries, *provided, however*, that to the extent any such amount has not been used as of September 30, 2015, such amount may then be used during the term of the EEUK Term Loan solely for the payment of expenses

incurred in connection with the Debtors' chapter 11 cases; (iv) up to \$15,000,000 from October 1, 2015 through September 30, 2016, which amount may be used solely to fund the selling, general and administrative expenses of Endeavour International Corporation and its subsidiaries; (v) up to \$3,750,000 from October 1, 2016 through January 2, 2017, which amount may be used solely to fund the selling, general and administrative expenses of Endeavour International Corporation and its subsidiaries; and (vi) up to \$4,000,000, in each case, (x) through September 30, 2015, (y) from October 1, 2015 through September 30, 2016, and (z) from October 1, 2016 through January 2, 2017, respectively, solely for the purpose of funding insurance premiums and related expenses.

171. In addition, such transfers of cash, assets or property to the Debtors are subject to additional restrictions, including (i) a minimum liquidity condition with respect to certain Non-Debtor Affiliates, requiring not less than \$10,000,000 in cash and cash equivalents be held by the Non-Debtor Affiliates; (ii) a requirement that funds transferred for the foregoing purposes are used no later than 30 days following their receipt by the Debtors; and (iii) a limitation on the use of proceeds in excess \$3,500,000 for capital expenditures on assets other than the assets of Endeavour Colorado Corporation. These Intercompany Limitations were negotiated at arm's length and set in place to ensure the Debtors' Intercompany Transactions are limited to certain specific purposes.

172. The Intercompany Limitations do not place limitations on the transfers of assets, cash or cash equivalents from the Debtors to EEUK. Nonetheless, subject to the entry of a Final Order, the Debtors shall only transfer assets, cash or cash equivalents, *if any*, to the Non-Debtor Affiliates up to \$2,000,000. To ensure that each individual Debtor will not fund, at the expense of its creditors, the operations of another entity, the Debtors request that all



Intercompany Claims that arise after the Petition Date as a result of the ordinary course Intercompany Transactions be accorded administrative priority expense status. I understand that if Intercompany Claims are accorded administrative expense priority status, each entity using funds that flow through the Cash Management System should continue to bear the ultimate payment responsibility for those ordinary course transactions.

173. The Debtors' Anticipated Postpetition Controls on the Bank Accounts.

The Debtors have taken steps to implement appropriate mechanisms to ensure that no payments will be made on any debts incurred by them before the Petition Date except as provided in the Interim Order, Final Order or another order of the Court. The procedures the Debtors have implemented, or will implement after the Petition Date, include: (i) notifying the Banks of all prepetition payments that should not be honored; (ii) segregating the Debtors' accounts payable into prepetition and postpetition amounts; (iii) training the Debtors' accounting and accounts payable staff regarding procedures for identifying and segregating prepetition obligations; and (iv) developing specific authorization procedures required for the Debtors' accounting and accounts payable staff to issue a payment for any prepetition liability that is authorized pursuant to an order of the Court.

174. Bank Fees. In the ordinary course of business, it is my understanding that the Banks debit the Bank Accounts for a number of fees related to the cost of administering the Bank Accounts, wire transfers and other fees, costs and expenses standard for a typical corporate bank account (collectively, the "**Bank Fees**"). These Bank Fees are either debited directly from the Debtors' Bank Accounts or are paid in connection with the wire transfers. In total, the Debtors pay approximately \$1,500 in Bank Fees per month.

175. It is my understanding that the Cash Management System depends on the ability of the Banks to maintain and administer the Bank Accounts and to honor and process the Debtors' banking transactions. As such, the Debtors request that the Court authorize the Banks to make payments from and debit the Bank Accounts, in the ordinary course of business, on account of undisputed and outstanding Bank Fees, if any, owed to Banks as of the Petition Date on account of the maintenance of the Cash Management System.

176. Based on the forgoing, I believe that the relief requested in the Cash Management Motion is in the best interests of the Debtors, their estates and all parties in interest and should be granted.

**I. Motion of Debtors Pursuant to Sections 105(a) and 362 of the Bankruptcy Code for Entry of Interim and Final Orders (I) Establishing Notification Procedures and Approving Restrictions on Certain Transfers of Claims against and Interests in the Debtors and (II) Scheduling a Final Hearing (the "NOL Motion")**

177. By the NOL Motion, the Debtors request, pursuant to sections 105(a) and 362 of the Bankruptcy Code, entry of an interim order (the "***Interim Order***") and a final order (the "***Final Order***" and, together with the Interim Order, the "***Order***" or the "***Orders***") authorizing the Debtors to establish procedures as set forth herein to protect the potential value of the Debtors' net operating loss carryforwards ("***NOLs***") and certain other tax attributes (together with the NOLs, the "***Tax Attributes***"). The proposed procedures (the "***Procedures***") would apply with respect to (i) the common stock and preferred stock of EIC and any options or similar interests to acquire such stock and (ii) Claims (as defined in the NOL Motion) against the Debtors. The Procedures would impose restrictions and notification requirements, to be effective *nunc pro tunc* to the date of the filing of the NOL Motion. Parties would be notified of the Procedures through publication of (i) a notice (the "***Interim Procedures Notice***"), which describes the trading restrictions and notification requirements established in the Interim Order

and sets forth a hearing date to determine whether the procedures described herein will be approved on a final basis, and (ii) a form of notice of the Procedures (the “***Final Procedures Notice***”), which describes the trading restrictions and notification requirements established in the Final Order.

178. The Debtors estimate that, as of the date hereof, the Debtors have incurred, for U.S. federal income tax purposes, at least \$300 million of consolidated NOLs in addition to certain other Tax Attributes, including built-in (unrecognized) losses.

179. The Tax Attributes may be valuable assets of the Debtors’ estates because the Internal Revenue Code of 1986, as amended (the “***Tax Code***”), generally permits corporations to carry over their losses and tax credits to offset future income, thereby reducing such corporations’ tax liability in future periods. *See* 26 U.S.C. §§ 172 and 904(c). The Debtors’ Tax Attributes potentially allow the Debtors to significantly reduce future U.S. federal income tax liability, depending upon future operating results of the Debtors and repatriation of future earnings from foreign subsidiaries, and absent any intervening limitations prior to the effective date of a chapter 11 plan. These savings could substantially enhance the Debtors’ cash position for the benefit of all parties in interest and contribute to the Debtors’ efforts toward a successful reorganization.

180. The Debtors’ ability to use their Tax Attributes to reduce future tax liability is subject to certain statutory limitations. Sections 382 and 383 of the Tax Code limit a corporation’s use of its NOLs, tax credits and certain other tax attributes to offset future income or tax after the corporation experiences an “ownership change.” For purposes of section 382, an ownership change generally occurs when the percentage of a loss corporation’s equity held by one or more “5-percent shareholders” (as such term is defined in section 382) increases by more

than 50 percentage points over the lowest percentage of stock owned by such shareholder(s) at any time during the relevant testing period (usually three years). A section 382 ownership change *prior to* the effective date of a chapter 11 plan would effectively eliminate the Debtors' ability to use their Tax Attributes, thereby resulting in a significant loss of potential value to the Debtors' estates. Endeavour believes it has experienced an increase in "5-percent shareholders" within the current testing period of upwards of around 35 percentage points, based on known changes in stock ownership as of prior to the filing of the NOL Motion. However, the limitations imposed by section 382 in the context of an ownership change pursuant to a confirmed chapter 11 plan or applicable bankruptcy court order are significantly more relaxed than those applicable outside chapter 11. *See* 26 U.S.C. §§ 382(l)(5), (6). Although the application of section 382(l)(5) to an ownership change occurring in connection with the consummation of a chapter 11 plan or applicable court order may be favorable, qualifying for the benefits of section 382(l)(5) does not undo any annual limitation imposed in connection with an ownership change occurring prior to the effective date of the chapter 11 plan or applicable court order.

181. It is likely that any chapter 11 plan that contemplates a reorganization of the Debtors will involve the issuance of new common stock in the Debtors (or any successor to the Debtors) and the distribution of such stock to certain creditors in satisfaction, in whole or in part, of their respective Claims against the Debtors. This issuance and distribution likely would result in an "ownership change" under section 382 of the Tax Code. In such event, the Debtors may be able to avail themselves of the special relief afforded by section 382(l)(5) of the Tax Code for ownership changes pursuant to a confirmed chapter 11 or applicable court order. Such

relief, however, may not be available if the trading and accumulation of Claims prior to the effective date of a chapter 11 plan is left unrestricted.

182. The Debtors believe that a section 382 ownership change has not already occurred with respect to the Tax Attributes prior to the date of the NOL Motion and that there remains available a significant NOL and other Tax Attributes that would be adversely affected and could be effectively eliminated by a subsequent ownership change thereby resulting in a potential loss of value to the Debtors' estates.

183. In furtherance of the automatic stay provisions of section 362 of the Bankruptcy Code and pursuant to section 105 of the Bankruptcy Code, the Debtors seek authority to monitor and approve certain changes in the ownership of Endeavour Stock (as defined in the NOL Motion) and Claims, and to require the potential sell down of Claims acquired during the bankruptcy cases, to protect against the occurrence of an ownership change during the pendency of these bankruptcy cases and to try to ensure that the Debtors will have the opportunity to avail themselves of relief under section 382(l)(5), if desirable, and thus preserve the potential value of the Tax Attributes.

184. Based upon the foregoing, I believe that the relief requested in the NOL Motion is in the best interests of the Debtors, their estates, and all parties in interest and should be granted.

**J. Application of Debtors for an Order Authorizing the Retention and Appointment of Kurtzman Carson Consultants LLC as Claims and Noticing Agent *Nunc Pro Tunc* to the Petition Date (the "Claims & Noticing Agent Motion")**

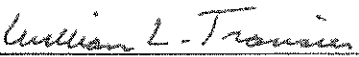
185. By the Claims & Noticing Agent Motion, the Debtors seek to retain Kurtzman Carson Consultants LLC ("**KCC**") as their claims and noticing agent. I believe that the Debtors' estates, and particularly their creditors, will benefit from KCC's services. Although

the Debtors have not yet filed their schedules of assets and liabilities, the Debtors believe that they have approximately 2,000 potential creditors. I understand that KCC has extensive experience with claims and noticing services in numerous large cases in this district and has developed efficient and cost-effective methods in its area of expertise. I also understand that KCC is fully equipped to handle the volume of mailing involved in properly sending the required notices to creditors and other interested parties in the chapter 11 cases. Finally, I understand, as reflected in the *Declaration of Evan J. Gershbein in Support of the Debtors' Application for an Order Authorizing the Retention and Appointment of Kurtzman Carson Consultants LLC as Claims and Noticing Agent Nunc Pro Tunc to the Petition Date*, that KCC holds no interest adverse to the Debtors or their estates and, other than the services currently being provided for the Debtors, KCC has no connection with the Debtors, their creditors, the U.S. Trustee or other parties in interest in the chapter 11 cases. Based upon the foregoing, I believe that the relief requested in the Claims & Noticing Agent Motion is in the best interests of the Debtors, their estates, and all parties in interest and should be granted.

*[Signature page follows]*

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information and belief.

Dated: October 11, 2014  
Wilmington, Delaware

  
\_\_\_\_\_  
William L. Transier  
Chairman, Chief Executive Officer and President  
Endeavour International Corporation

**EXHIBIT A**

**Consensual Restructuring Term Sheet**



**EXECUTION VERSION****RESTRUCTURING SUPPORT AGREEMENT**

This RESTRUCTURING SUPPORT AGREEMENT (as amended, supplemented or otherwise modified from time to time, this “Agreement”), dated as of October 10, 2014, is entered into by and among (i) Endeavour International Corporation (the “Company”), (ii) Endeavour Operating Corporation, Endeavour Colorado Corporation, END Management Company, Endeavour Energy New Ventures Inc. and Endeavour Energy Luxembourg S.à.r.l., each such entity a subsidiary of the Company (such entities, together with the Company, the “Endeavour Parties”), (iii) the undersigned beneficial holders, or investment advisors or managers for the account of beneficial holders (the “First Priority Noteholders” and, together with their respective successors and permitted assigns and any subsequent First Priority Noteholder that becomes party hereto in accordance with the terms hereof, the “Consenting First Priority Noteholders”) of the 12% First Priority Notes due 2018 (the “First Priority Notes”) issued by the Company, (iv) the undersigned beneficial holders, or investment advisors or managers for the account of beneficial holders (the “Second Priority Noteholders” and, together with their respective successors and permitted assigns and any subsequent Second Priority Noteholder that becomes party hereto in accordance with the terms hereof, the “Consenting Second Priority Noteholders”) of the 12% Second Priority Notes due 2018 (the “Second Priority Notes”) issued by the Company, (v) the undersigned beneficial holders, or investment advisors or managers for the account of beneficial holders (the “5.5% Convertible Noteholders” and, together with their respective successors and permitted assigns and any subsequent 5.5% Convertible Noteholder that becomes party hereto in accordance with the terms hereof, the “Consenting 5.5% Convertible Noteholders”) of the 5.5% Convertible Senior Notes due 2016 (the “5.5% Convertible Notes”) issued by the Company, (vi) the undersigned beneficial holders, or investment advisors or managers for the account of beneficial holders (the “6.5% Convertible Noteholders” and, together with their respective successors and permitted assigns and any subsequent 6.5% Convertible Noteholder that becomes party hereto in accordance with the terms hereof, the “Consenting 6.5% Convertible Noteholders”) of the 6.5% Convertible Senior Notes due 2017 (the “6.5% Convertible Senior Notes”) issued by the Company, and (vii) the undersigned beneficial holders, or investment advisors or managers for the account of beneficial holders (the “7.5% Convertible Bondholders” and, together with their respective successors and permitted assigns and any subsequent 7.5% Convertible Bondholder that becomes party hereto in accordance with the terms hereof, the “Consenting 7.5% Convertible Bondholders”) of the 7.5% Guaranteed Convertible Bonds due 2016 (the “7.5% Convertible Bonds”) issued by the Company (the Consenting 7.5% Convertible Bondholders, together with the Consenting First Priority Noteholders, the Consenting Second Priority Noteholders, the Consenting 5.5% Convertible Noteholders and the Consenting 6.5% Convertible Noteholders, the “Consenting Creditors”). The Endeavour Parties, each Consenting Creditor and any subsequent person or entity that becomes a party hereto in accordance with the terms hereof are referred herein as the “Parties” and individually as a “Party.”

**WHEREAS**, the Parties have agreed to undertake a financial restructuring and recapitalization of the Company (the “Restructuring”) which is anticipated to be effected on terms materially consistent with the terms and conditions set forth in the term sheet attached hereto as Exhibit A (the “Term Sheet,” including any schedules and exhibits attached thereto) through a solicitation of votes for a plan of reorganization by each Endeavour Party pursuant to the Bankruptcy Code (as defined below) (the solicitations for each such plan, collectively, the

“Solicitations”) and the commencement by each Endeavour Party of a voluntary case (collectively, the “Endeavour Cases”) under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101-1532 (the “Bankruptcy Code”), in the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”).

**WHEREAS**, as of the date hereof, the Consenting First Priority Noteholders hold, in the aggregate, approximately 75.4% of the aggregate outstanding principal amount of the First Priority Notes issued by the Company under that certain Indenture, dated as of February 23, 2012, by and among the Company, as issuer, each of the guarantors named therein and Wells Fargo Bank, National Association, as trustee and collateral agent (as amended, modified or otherwise supplemented from time to time prior to the date hereof, the “First Priority Indenture”).

**WHEREAS**, as of the date hereof, the Consenting Second Priority Noteholders hold, in the aggregate, approximately 69.88% of the aggregate outstanding principal amount of the Second Priority Notes issued by the Company under that certain Indenture, dated as of February 23, 2012, by and among the Company, as issuer, each of the guarantors named therein, Wilmington Trust, National Association, as trustee and Wells Fargo Bank, National Association, as collateral agent (as amended, modified or otherwise supplemented from time to time prior to the date hereof, the “Second Priority Indenture”).

**WHEREAS**, as of the date hereof, the Consenting 5.5% Convertible Noteholders hold, in the aggregate, approximately 62.15% of the aggregate outstanding principal amount of the 5.5% Convertible Notes issued by the Company under that certain Indenture, dated as of July 22, 2011, by and among the Company, as issuer, each of the guarantors named therein, and Wilmington Fund for Savings Fund, FSB, as trustee (the “5.5% Trustee”) (as amended, modified or otherwise supplemented from time to time prior to the date hereof, the “5.5% Convertible Indenture”).

**WHEREAS**, as of the date hereof, the Consenting 6.5% Convertible Senior Noteholders hold, in the aggregate, approximately 100% of the aggregate outstanding principal amount of the 6.5% Convertible Senior Notes issued by the Company pursuant to that certain Indenture, dated as of March 3, 2014, by and among the Company, as issuer, each of the guarantors named therein, and Wilmington Savings Fund Society, FSB, as trustee (“6.5% Trustee”) (as amended, modified or otherwise supplemented from time to time prior to the date hereof, the “6.5% Convertible Indenture”).

**WHEREAS**, as of the date hereof, the Consenting 7.5% Convertible Bondholders hold, in the aggregate, approximately 99.75% of the aggregate outstanding principal amount of the 7.5% Convertible Bonds issued by the Company pursuant to that certain Trust Deed, dated January 24, 2008, (as amended, modified or otherwise supplemented from time to time prior to the date hereof, the “Trust Deed”).

**WHEREAS**, the Parties desire to express to each other their mutual support and commitment in respect of the matters discussed in the Term Sheet and hereunder.

**NOW, THEREFORE**, in consideration of the premises and the mutual covenants and agreements set forth herein, and for other good and valuable consideration, the receipt and

sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, agree as follows:

**1. Certain Definitions.**

As used in this Agreement, the following terms have the following meanings:

(a) “Class” means any of (i) the Consenting First Priority Noteholders, (ii) the Consenting Second Priority Noteholders and (iii) the Consenting Convertible Noteholders, and (iv) the Consenting 7.5% Convertible Bondholders, as applicable.

(b) “Consenting Class” means any of (i) the Consenting First Priority Holders, (ii) the Consenting Second Priority Holders, (iii) the Consenting Convertible Holders and (iv) the Consenting 7.5% Convertible Bondholders, as applicable.

(c) “Consenting Convertible Noteholders” means, collectively, the Consenting 5.5% Convertible Noteholders and the Consenting 6.5% Convertible Noteholders.

(d) “Convertible Notes” means, collectively, the 5.5% Convertible Notes and the 6.5% Convertible Senior Notes.

(e) “Definitive Documents” means the documents (including any related agreements, instruments, schedules or exhibits) that are contemplated by the Term Sheet and that are otherwise necessary or desirable to implement, or otherwise relate to, the Restructuring and the Term Sheet, including this Agreement, which are in a reasonably satisfactory form to the Requisite Creditors.

(f) “Indentures” means each of the First Priority Indenture, the Second Priority Indenture, the 5.5% Convertible Indenture, the 6.5% Convertible Indenture and the Trust Deed, as applicable.

(g) “Noteholder Claims” means any and all claims arising under the Indentures or the Notes.

(h) “Notes” means the First Priority Notes, the Second Priority Notes, the 5.5% Convertible Notes, the 6.5% Convertible Senior Notes and the 7.5% Convertible Bonds.

(i) “Requisite Convertible Noteholders” means, as of the date of determination, Consenting 5.5% Convertible Noteholders and Consenting 6.5% Convertible Noteholders holding at least a majority of the outstanding principal amount of the Convertible Notes held by such holders, in the aggregate, as of such date.

(j) “Requisite 7.5% Convertible Bondholders” means Consenting 7.5% Convertible Bondholders holding at least a majority of the outstanding principal amount of the 7.5% Convertible Bonds.

(k) “Requisite Creditors” means (i) the Requisite First Priority Noteholders, (ii) the Requisite Second Priority Noteholders, (iii) the Requisite Convertible Noteholders and (iv) the Requisite 7.5% Convertible Bondholders, as applicable.

(l) “Requisite First Priority Noteholders” means, as of the date of determination, Consenting First Priority Noteholders holding at least a majority of the outstanding principal amount of the First Priority Notes held by the Consenting First Priority Holders, in the aggregate, as of such date.

(m) “Requisite Second Priority Noteholders” means, as of the date of determination, Consenting Second Priority Noteholders holding at least a majority of the outstanding principal amount of the Second Priority Notes held by the Consenting Second Priority Noteholders, in the aggregate, as of such date.

(n) “SEC” means the U.S. Securities and Exchange Commission.

(o) “Support Effective Date” means the date on which counterpart signature pages to this Agreement shall have been executed and delivered by: (i) the Endeavour Parties; and (ii) Consenting Creditors holding at least (A) 66.7% in aggregate principal amount outstanding of the First Priority Notes, (B) 66.7% in aggregate principal amount outstanding of the Second Priority Notes, (C) 60% in aggregate principal amount outstanding of the 5.5% Convertible Notes, (D) 66.7% in aggregate principal amount outstanding of the 6.5% Convertible Senior Notes and (E) 66.7% in aggregate principal amount outstanding of the 7.5% Convertible Bonds.

**2. Term Sheet.** The Term Sheet is expressly incorporated herein and made a part of this Agreement. The general terms and conditions of the Restructuring are set forth in the Term Sheet; provided that the Term Sheet is supplemented by the terms and conditions of this Agreement. In the event of any inconsistencies between the terms of this Agreement and the Term Sheet, this Agreement shall govern.

### **3. Bankruptcy Process; Plan of Reorganization**

(a) Commencement of the Endeavour Cases. Each Endeavour Party hereby agrees that, as soon as reasonably practicable, but in no event later than October 10, 2014 (the date on which such filing occurs, the “Commencement Date”), such Endeavour Party shall file with the Bankruptcy Court a voluntary petition for relief under chapter 11 of the Bankruptcy Code and any and all other documents necessary to commence the Endeavour Case of such Endeavour Party.

(b) Filing of the Endeavour Plan. As soon as reasonably practicable after the Commencement Date, the Endeavour Parties shall file the Endeavour Plan and the related Endeavour Disclosure Statement with the Bankruptcy Court. For purposes of this Agreement, with respect to each Endeavour Party, (i) “Endeavour Plan” shall mean a plan of reorganization of Endeavour Parties containing the terms and conditions set forth in the Term Sheet, with such additional terms and conditions, and in a form and substance, reasonably satisfactory to the Requisite Creditors and (ii) “Endeavour Disclosure Statement” shall mean a disclosure statement

of the Endeavour Parties in respect to the Endeavour Plan in a form and substance, reasonably satisfactory to the Requisite Creditors.

(c) Confirmation of the Endeavour Plan. The Endeavour Party shall use its commercially reasonable efforts to obtain confirmation of the Endeavour Plan as soon as reasonably practicable following the Commencement Date in accordance with the Bankruptcy Code and on terms consistent with this Agreement, and each Consenting Creditor shall use its commercially reasonable efforts to cooperate fully in connection therewith.

(d) Amendments and Modifications of the Endeavour Plan. The Endeavour Plan may be amended from time to time following the date hereof by written approval of the Endeavour Parties and the Requisite Creditors. Each of the Parties agrees to negotiate in good faith all amendments and modifications to the Endeavour Plan as reasonably necessary and appropriate to obtain Bankruptcy Court confirmation of the Endeavour Plans pursuant to a final order of the Bankruptcy Court; provided that the Parties shall have no obligation to agree to any modification that (i) is inconsistent with the Endeavour Plan (ii) creates any material new obligation on any Party, or (iii) changes or otherwise adversely affects the economic treatment of such Party (it being agreed that, for the avoidance of doubt, any change to the Endeavour Plan that results in a diminution of the value of the property to be received by a Consenting Class of Creditors under the Endeavour Plan or the proportion of the aggregate assets of all Endeavour Parties which a Class of Consenting Creditors will receive under the Endeavour Plan shall be deemed to materially adversely affect such Class) whether such change is made directly to the treatment of a Consenting Class or to the treatment of another Consenting Class or otherwise. Notwithstanding the foregoing, the Endeavour Parties may amend, modify or supplement the Endeavour Plan, from time to time, (x) without the consent of any Consenting Creditor, in order to cure any ambiguity, defect (including any technical defect) or inconsistency, provided that any such amendments, modifications or supplements do not adversely affect the rights, interests or treatment of such Consenting Creditors under such Endeavour Plan or (y) to the extent permitted under Section 11; provided, that, any such amendments, modifications or supplements are provided to the Consenting Creditors upon at least three (3) business days prior written notice, and if no objection is received from any Consenting Class within two (2) business days following receipt, the Consenting Creditors shall be deemed to have consented to such amendments, modifications or supplements.

(e) Endeavour Luxembourg. So long as this Agreement remains in effect, the Endeavour Parties shall not permit any claims entitled to administrative or priority status under section 364 of the Bankruptcy Code to be incurred by Endeavour Luxembourg during its chapter 11 case. So long as this Agreement remains in effect, the Endeavour Parties shall not encumber, pledge, transfer, release, or abandon any assets of Endeavour Luxembourg during its chapter 11 case; provided, without limiting the foregoing, the Endeavour Parties agree during such time period not to (directly or indirectly) pledge, assign, amend, modify or release any intercompany notes or receivables owed to Endeavour Luxembourg by any of its affiliates. The Parties hereto reserve all rights with respect to the incurrence of, or liability for, other administrative or priority claims, including the right to object before the Bankruptcy Court to any relief that would give rise to such claims, regardless of the date of incurrence.

(f) Reporting. The Endeavour Parties shall provide the Consenting Creditors with copies of all reports delivered pursuant to Section 5.01(k) of the Term Loan (as defined in Section 6(a)(xiv)).

#### 4. **Agreements of the Consenting Creditors.**

(a) Agreement to Vote. So long as this Agreement has not been terminated in accordance with the terms hereof, each Consenting Creditor agrees that it shall, subject to the receipt by such Consenting Creditor of a disclosure statement and other solicitation materials in respect of the applicable Endeavour Plan:

(i) vote its claims against the Endeavour Parties to accept the Endeavour Plans, by delivering its duly executed and completed ballots accepting the Endeavour Plans on a timely basis following the commencement of the Solicitations; provided that such vote shall be immediately revoked and deemed void *ab initio* upon termination of this Agreement pursuant to the terms hereof;

(ii) not change or withdraw (or cause to be changed or withdrawn) any such vote; and

(iii) not (x) object to, delay, impede or take any other action to interfere with acceptance or implementation of any Endeavour Plan, (y) directly or indirectly solicit, encourage, propose, file, support, participate in the formulation of or vote for, any restructuring, sale of assets, merger, workout or plan of reorganization for any of the Endeavour Parties other than the Endeavour Plans or (z) otherwise take any action that would in any material respect interfere with, delay or postpone the consummation of the Restructuring.

#### (b) Transfers.

(i) Each Consenting Creditor agrees that, for the duration of the period commencing on the date hereof and ending on the date on which this Agreement is terminated in accordance with Section 6, such Consenting Creditor shall not sell, transfer, loan, issue, pledge, hypothecate, assign or otherwise dispose of (each, a “Transfer”), directly or indirectly, in whole or in part, any of the Noteholder Claims or any option thereon or any right or interest therein or any other claims against or interests in any Endeavour Party (collectively, “Claims”) (including grant any proxies, deposit any Notes or any other claims against or interests in the Company or any other Endeavour Party into a voting trust or entry into a voting agreement with respect to any such Notes or such other claims against or interests), unless the transferee thereof either (i) is a Consenting Creditor or (ii) prior to such Transfer, agrees in writing for the benefit of the Parties to become a Consenting Creditor and to be bound by all of the terms of this Agreement applicable to Consenting Creditors (including with respect to any and all Claims it already may hold against or in the Company or any other Endeavour Party prior to such Transfer) by executing a joinder agreement substantially in the form attached hereto as Exhibit B (a “Joinder Agreement”), and delivering an executed copy thereof within two (2) business days following such execution, to (i) Weil, Gotshal & Manges LLP (“Weil”),

counsel to the Company, (ii) Milbank, Tweed, Hadley & McCloy LLP (“Milbank”), counsel to the ad hoc committee of First Priority Noteholders and Second Priority Noteholders (the “Ad Hoc Committee”), (iii) Brown Rudnick LLP (“Brown Rudnick”), counsel to certain of the 5.5% Convertible Noteholders and the 6.5% Convertible Noteholders and (iv) Ropes & Gray LLP (“Ropes & Gray” and with Milbank and Brown Rudnick, the “Consenting Creditors’ Counsel”), counsel to the 7.5% Convertible Bondholders, in which event (A) the transferee (including the Consenting Creditor transferee, if applicable) shall be deemed to be a Consenting Creditor hereunder to the extent of such transferred rights and obligations and (B) the transferor shall be deemed to relinquish its rights (and be released from its obligations) under this Agreement to the extent of such transferred rights and obligations; provided, that this Section 4(b)(i) shall not apply to the grant of any liens or encumbrances in favor of a bank or broker-dealer holding custody of securities in the ordinary course of business and which lien or encumbrance is released upon the Transfer of such securities. Each Consenting Creditor agrees that any Transfer of any Claims that does not comply with the terms and procedures set forth herein shall be deemed void *ab initio*, and the applicable Endeavour Party and each other Consenting Creditor shall have the right to enforce the voiding of such Transfer.

(ii) Notwithstanding Section 4(b)(i): (A) a Consenting Creditor may Transfer its Notes to an entity that is acting in its capacity as a Qualified Marketmaker without the requirement that the Qualified Marketmaker become a Party; provided that (1) such Qualified Marketmaker must Transfer such right, title or interest within five (5) business days following its receipt thereof, (2) any subsequent Transfer by such Qualified Marketmaker of the right, title or interest in such Notes is to a transferee that is or becomes a Consenting Creditor at the time of such transfer and (3) such Consenting Creditor shall be solely responsible for the Qualified Marketmaker’s failure to comply with the requirements of this Section 4; and (B) to the extent that a Consenting Creditor is acting in its capacity as a Qualified Marketmaker, it may Transfer any right, title or interest in Notes that the Qualified Marketmaker acquires from a holder of the Notes who is not a Consenting Creditor without the requirement that the transferee be or become a Consenting Creditor. For these purposes, a “Qualified Marketmaker” means an entity that (x) holds itself out to the market as standing ready in the ordinary course of its business to purchase from customers and sell to customers claims against the Company (including debt securities or other debt) or enter with customers into long and short positions in claims against the Company (including debt securities or other debt), in its capacity as a dealer or market maker in such claims against the Company, and (y) is in fact regularly in the business of making a market in claims against issuers or borrowers (including debt securities or other debt).

(c) Additional Claims. Each Consenting Creditor agrees that if any Consenting Creditor acquires additional Claims, then (i) such Claims shall be subject to this Agreement (including the obligations of the Consenting Creditors under this Section 4) and (ii) following such acquisition, such Consenting Creditor shall notify Weil of the amount and types of claims it has acquired (A) on no less than a monthly basis and (B) additionally, upon the reasonable request of Weil.

(d) Forbearance. During the period commencing on the date hereof and ending on the termination of this Agreement in accordance with its terms, each Consenting Creditor hereby agrees to forbear from the exercise of any rights or remedies it may have under the Indentures (including any collateral documents referenced therein), and under applicable United States or foreign law or otherwise, in each case, with respect to any defaults or events of default which may arise under the Indentures at any time on or before the termination of this Agreement. For the avoidance of doubt, the forbearance set forth in this Section 4(d) shall not constitute a waiver with respect to any defaults or any events of default under the Indentures (including the Notes) and shall not bar any Consenting Creditor from filing a proof of claim or taking action to establish the amount of such claim. Except as expressly provided in this Agreement, nothing herein is intended to, or does, in any manner waive, limit, impair, or restrict any right of any Consenting Creditor or the ability of each of the Consenting Creditors to protect and preserve its rights, remedies and interests, including its claims against the Endeavour Parties. If the transactions contemplated hereby are not consummated, or if this Agreement is terminated for any reason, the Parties fully reserve any and all of their rights. The Company hereby confirms that the only Defaults or Events of Default (as such terms are defined in the Indentures) under the Indentures as of the date hereof are those specified in certain forbearance agreements among the Endeavour Parties and certain of the Consenting Creditors.

(e) The agreements of the Consenting Creditors in this Section 4 shall be solely on such Consenting Creditor's own behalf and not on behalf of any other Consenting Creditors and shall be several and not joint.

## **5. Agreements of the Endeavour Parties.**

(a) Solicitation and Confirmation. Each Endeavour Party agrees to (i) act in good faith and use reasonable best efforts to support and complete successfully the Solicitations in accordance with the terms of this Agreement and (ii) do all things reasonably necessary and appropriate in furtherance of confirming the Endeavour Plans and consummating the Restructuring in accordance with, and within the time frames contemplated by, this Agreement (including within the deadlines set forth in Section 6), in each case to the extent consistent with, upon the advice of counsel, the fiduciary duties of the boards of directors, managers, members or partners, as applicable, of each Endeavour Party; provided that no Endeavour Party shall be obligated to agree to any modification of any document that is inconsistent with the Endeavour Plan.

(b) Certain Additional Chapter 11 Related Matters. Each Endeavour Party, as the case may be, shall provide draft copies of all material motions or applications and other documents (including the Endeavour Plan and Endeavour Disclosure Statement, any proposed amended version of such plan or disclosure statement and all first day pleadings, or any other plan) any Endeavour Party intends to file with the Bankruptcy Court to counsel designated by each of the Requisite First Priority Noteholders, Requisite Second Priority Noteholders, Requisite Convertible Noteholders and the Requisite 7.5% Convertible Bondholders, if reasonably practicable, at least three (3) days prior to the date when the applicable Endeavour Party intends to file any such pleading or other document (and, if not reasonably practicable, as soon as reasonably practicable prior to filing) and shall consult in good faith with such counsel regarding the form and substance of any such proposed filing with the Bankruptcy Court.



Subject to Section 4(a), nothing in this Agreement shall restrict, limit, prohibit or preclude, in any manner not inconsistent with its obligations under this Agreement, any of the Consenting Creditors from appearing in the Bankruptcy Court with respect to any motion, application or other documents filed by the Endeavour Parties and objecting to, or commenting upon, the relief requested therein; provided, that any of the Consenting Creditors retains the right to object to any intercompany transfers or payments of the Endeavour Parties and/or their affiliates, which right shall not be limited in any way by Section 4(a) hereof.

(c) Financial Reporting and Other Diligence. The Endeavour Parties shall comply in all material respects with the reporting requirements contained in the First Priority Indenture and the Second Priority Indenture during the chapter 11 cases. The Endeavour Parties shall deliver, as soon as reasonably practical, such other financial or other diligence as a Consenting Class reasonably requests.

(d) Consenting Classes. In the event the Company becomes aware that any Class is no longer a Consenting Class for purposes of this Agreement because Consenting Creditors in such Class no longer own at least 66.7% of the relevant debt of such Class, the Company shall promptly provide notice thereof to the Consenting Creditors.

## **6. Termination of Agreement.**

This Agreement shall automatically terminate three (3) business days following the delivery of written notice to the other Parties (in accordance with Section 22) from any of the Requisite First Priority Noteholders, the Requisite Second Priority Noteholders, the Requisite Convertible Noteholders or the Requisite 7.5% Convertible Bondholders, as applicable at any time after and during the continuance of any Noteholder Termination Event; provided that termination by any of the Requisite First Priority Noteholders, the Requisite Second Priority Noteholders the Requisite Convertible Noteholders or the Requisite 7.5% Convertible Bondholders shall only be effective as to the applicable Consenting Class. In addition, this Agreement shall automatically terminate in respect to the applicable Consenting Class three (3) business days following delivery of notice from the Company to such Consenting Creditors (in accordance with Section 22) at any time after the occurrence and during the continuance of any Company Termination Event. This Agreement shall terminate automatically without any further required action or notice on the date that the Endeavour Plan becomes effective.

(a) A “Noteholder Termination Event” shall mean any of the following:

(i) The breach in any material respect by any Endeavour Party of any of the undertakings, representations, warranties or covenants of the Endeavour Parties set forth herein which remains uncured for a period of five (5) business days after the receipt of written notice of such breach from the Requisite First, Priority Noteholders, Requisite Second Priority Noteholders, Requisite 7.5% Convertible Bondholders or Requisite Convertible Noteholders pursuant to Section 6 and in accordance with Section 22 (as applicable).

(ii) On October 10, 2014, unless the Endeavour Parties have commenced the chapter 11 cases.

(iii) On the date that is forty-five (45) days after the Commencement Date, if the Debtors have not filed the Endeavour Plan and Endeavour Disclosure Statement with the Bankruptcy Court.

(iv) On the date that is ninety (90) days after the Commencement Date, if the Bankruptcy Court shall not have entered an order approving the Endeavour Disclosure Statement for the Endeavour Plan.

(v) The Endeavour Parties withdraw the Endeavour Plan or Endeavour Disclosure Statement, file any motion or pleading with the Bankruptcy Court that is not consistent with this Agreement or the Term Sheet and such motion or pleading has not been withdrawn prior to the earlier of (i) two (2) business days after the Endeavour Parties receive written notice from the applicable Class of Requisite Creditors (in accordance with Section 22) that such motion or pleading is inconsistent with this Agreement or the Term Sheet and (ii) entry of an order of the Bankruptcy Court approving such motion or pleading.

(vi) One hundred seventy (170) days after the Commencement Date, if the Bankruptcy Court fails to enter an order confirming the Endeavour Plan in form and substance reasonably satisfactory to the Endeavour Parties and the Requisite Creditors.

(vii) Two hundred (200) days after the Commencement Date, (the “Outside Date”) if the Effective Date for the Endeavour Plan has not occurred.

(viii) Thirty-five (35) days after the Commencement Date, if an order (the “Approval Order”) has not been entered by the Bankruptcy Court approving the assumption of this Agreement by the Endeavour Parties; provided, that this Agreement shall terminate automatically without further notice if the Approval Order has not been entered within forty-five (45) days after the Commencement Date.

(ix) An examiner with expanded powers or a trustee shall have been appointed in the Endeavour Cases.

(x) An order is entered by the Bankruptcy Court invalidating or disallowing, as applicable, either the enforceability, priority or validity of the liens securing the obligations owed under the First Priority Notes and/or the Second Priority Notes or the claims in respect of such notes.

(xi) The Endeavour Parties lose the exclusive right to file and solicit acceptances of a chapter 11 plan.

(xii) The Bankruptcy Court grants relief that is inconsistent with this Agreement or the Term Sheet in any materially adverse respect.

(xiii) The Endeavour Parties file, propound or otherwise support any plan of reorganization other than the Endeavour Plan.

(xiv) The acceleration or exercise of remedies of a party due to the occurrence of an “Event of Default” under that certain Amendment Agreement dated September 30, 2014 amending and restating that certain Credit Agreement (as amended or otherwise modified from time to time, the “Term Loan”) dated as of January 24, 2014, by and among (a) Endeavour International Holding B.V. and End Finco LLC, as borrowers, (b) Endeavour International Corporation, Endeavour Operating Corporation, Endeavour Energy New Ventures, Inc. and END Management Company, Endeavour Energy UK Limited, Endeavour Energy Netherlands B.V., Endeavour North Sea LLC, Endeavour North Sea, L.P., as guarantors, (c) Credit Suisse AG, Cayman Islands Branch, as administrative agent, and (d) certain lenders thereto, as such term is defined in the Term Loan.

(xv) Any Class is no longer a Consenting Class for purposes of this Agreement because Consenting Creditors in such Class no longer own at least 66.7% of the relevant debt of such Class; provided, that such Class shall not have the right to terminate pursuant to this clause (xv).

(xvi) The occurrence of an Other Termination Event (as defined in Section 6(c)).

(b) A “Company Termination Event” shall mean any of the following:

(i) The breach in any material respect by one or more of the Consenting Creditors in any Class, of any of the undertakings, representations, warranties or covenants of the Consenting Creditors set forth herein in any material respect which remains uncured for a period of five (5) business days after the receipt of written notice of such breach pursuant to Section 6(a) and Section 21 (as applicable), but only if the non-breaching Consenting Creditors in such Class own less than 66.7% of such Class.

(ii) The board of directors of the Company or another Endeavour Party reasonably determines in good faith based upon the advice of outside counsel that continued performance under this Agreement would be inconsistent with the exercise of its fiduciary duties under applicable law; provided, that the Company or another Endeavour Party provides notice of such determination to the Consenting Creditors within five (5) business days after the date thereof.

(iii) The occurrence of the Outside Date or an Other Termination Event.

(c) Other Termination Events. An “Other Termination Event” shall mean the following:

(i) The issuance by any governmental authority, including any regulatory authority or court of competent jurisdiction, of any ruling, judgment or order enjoining the consummation of or rendering illegal the Restructuring, which ruling, judgment or order has not been not stayed, reversed or vacated within twenty (20) business days after such issuance.

(ii) On the date that the chapter 11 case for the Company or Endeavour Operating Corporation shall have been converted to a case under chapter 7 of the Bankruptcy Code, or such cases shall have been dismissed by order of the Bankruptcy Court (unless caused by a default by any Consenting Creditor of its obligations hereunder, in which event the Consenting Creditors shall not have the right to terminate under this clause (iv).

(iii) On the date that an order is entered by the Bankruptcy Court or a Court of competent jurisdiction denying confirmation of the Endeavour Plan for any of the Endeavour Parties (unless caused by a default by any Consenting Creditor of its obligations hereunder, in which event the Consenting Creditors shall not have the right to terminate under this subsection) or refusing to approve the Endeavour Disclosure Statement, provided, that neither the Endeavour Parties nor any Class of Consenting Creditor shall have the right to terminate this Agreement pursuant to this clause (c)(iii) if the Bankruptcy Court declines to approve the Endeavour Disclosure Statement or denies confirmation of the Endeavour Plan subject only to modifications to the Endeavour Plan or Endeavour Disclosure Statement that would not have a material adverse effect on the recovery or treatment that a Consenting Class of Creditors would receive as compared to the recovery they would have otherwise received pursuant to the Term Sheet attached hereto as of the date hereof.

(iv) On October 10, 2014 at 11:59 p.m. (New York time), if the Support Effective Date shall not have occurred.

Notwithstanding the foregoing, any of the dates set forth in this Section 6(c) may be extended by agreement among the Endeavour Parties and the Requisite Creditors.

(d) Mutual Termination. This Agreement may be terminated by mutual agreement of the Company and the Requisite Creditors upon the receipt of written notice delivered in accordance with Section 22.

(e) Effect of Termination. Subject to the provisions contained in Section 6(a) and to Section 15, upon the termination of this Agreement in accordance with this Section 6, this Agreement shall become void and of no further force or effect in respect to the Class of Consenting Creditors whose rights and obligations have been terminated hereunder and such Class of Consenting Creditors shall, except as otherwise provided in this Agreement, be immediately released from its respective liabilities, obligations, commitments, undertakings and agreements under or related to this Agreement, shall have no further rights, benefits or privileges hereunder, and shall have all the rights and remedies that it would have had and shall be entitled to take all actions, whether with respect to the Restructuring or otherwise, that it would have been entitled to take had it not entered into this Agreement and no such rights or remedies shall be deemed waived pursuant to a claim of laches or estoppel; provided that in no event shall any such termination relieve a Party from liability for its breach or non-performance of its obligations hereunder prior to the date of such termination.

(f) Automatic Stay. The Endeavour Parties acknowledge that after the commencement of the Endeavour Cases, the giving of notice of termination by any Party

pursuant to this Agreement shall not be a violation of the automatic stay of section 362 of the Bankruptcy Code; provided that nothing herein shall prejudice any Party's rights to argue that the giving of notice of termination was not proper under the terms of this Agreement.

**7. Definitive Documents; Good Faith Cooperation; Further Assurances.**

Each Party hereby covenants and agrees to cooperate with each other in good faith in connection with, and shall exercise reasonable best efforts with respect to the pursuit, approval, implementation and consummation of the Restructuring, as well as the negotiation, drafting, execution and delivery of the Definitive Documents. Furthermore, subject to the terms hereof, each of the Parties shall take such action as may be reasonably necessary or reasonably requested by the other Parties to carry out the purposes and intent of this Agreement, and shall refrain from taking any action that would frustrate the purposes and intent of this Agreement.

**8. Representations and Warranties.**

(a) Each Party, severally (and not jointly), represents and warrants to the other Parties that the following statements are true, correct and complete as of the date hereof (or as of the date a Consenting Creditor becomes a party hereto):

(i) Such Party is validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, and has all requisite corporate, partnership, limited liability company or similar authority to enter into this Agreement and carry out the transactions contemplated hereby and perform its obligations contemplated hereunder. The execution and delivery of this Agreement and the performance of such Party's obligations hereunder have been duly authorized by all necessary corporate, limited liability company, partnership or other similar action on its part.

(ii) The execution, delivery and performance by such Party of this Agreement does not and will not (A) violate any material provision of law, rule or regulation applicable to it or any of its subsidiaries or its charter or bylaws (or other similar governing documents), or (B) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any material contractual obligation to which it is a party.

(iii) The execution, delivery and performance by such Party of this Agreement does not and will not require any material registration or filing with, consent or approval of, or notice to, or other action, with or by, any federal, state or governmental authority or regulatory body, except such filings as may be necessary or required by the SEC.

(iv) This Agreement is the legally valid and binding obligation of such Party, enforceable against it in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

(b) Each Consenting Creditor severally (and not jointly) represents and warrants to the Endeavour Parties that, as of the date hereof (or as of the date such Consenting Creditor becomes a party hereto), such Consenting Creditor (i) is the beneficial owner of the aggregate principal amount of Notes set forth below its name on the signature page hereto (or below its name on the signature page of a Joinder Agreement for any Consenting Creditor that becomes a party hereto after the date hereof), and/or (ii) has, with respect to the beneficial owners of such Notes, (A) sole investment or voting discretion with respect to such Notes, (B) full power and authority to vote on and consent to matters concerning such Notes or to exchange, assign and Transfer such Notes, and (C) full power and authority to bind or act on the behalf of, such beneficial owners.

**9. Disclosure; Publicity.** The Company shall submit drafts to each Consenting Creditors' Counsel of any press releases, public documents and any and all filings with the SEC that constitute disclosure of the existence or terms of this Agreement or any amendment to the terms of this Agreement at least two (2) business days prior to making any such disclosure. Except as required by applicable law or otherwise permitted under the terms of any other agreement between the Company and any Consenting Creditor, no Party or its advisors shall disclose to any person or entity (including, for the avoidance of doubt, any other Consenting Creditor), other than advisors to the Company, the principal amount or percentage of any Notes held by any Consenting Creditor, in each case, without such Consenting Creditor's prior written consent; provided that (a) if such disclosure is required by law, subpoena, or other legal process or regulation, the disclosing Party shall afford the relevant Consenting Creditor a reasonable opportunity to review and comment in advance of such disclosure and shall take all reasonable measures to limit such disclosure (the expense of which, if any, shall be borne by the Company), (b) the foregoing shall not prohibit the disclosure of the aggregate percentage or aggregate principal amount of Notes (including any series of Notes) held by all the Consenting Creditors collectively and (c) any Party may disclose information requested by a regulatory authority with jurisdiction over its operations to such authority without limitation or notice to any Party or other person. Notwithstanding the provisions in this Section 9, any Party may disclose, to the extent consented to in writing by a Consenting Creditor, such Consenting Creditor's individual holdings. Any public filing of this Agreement, with the Bankruptcy Court or otherwise, which includes executed signature pages to this Agreement shall include such signature pages only in redacted form with respect to the holdings of each Consenting Creditor (provided, that the holdings disclosed in such signature pages may be filed in unredacted form with the Bankruptcy Court under seal).

**10. Creditors' Committee.** Notwithstanding anything herein to the contrary, if any Consenting Creditor is appointed to and serves on an official committee of creditors in the Endeavour Cases, the terms of this Agreement shall not be construed so as to limit such Consenting Creditor's exercise of its fiduciary duties to any person arising from its service on such committee, and any such exercise of such fiduciary duties shall not be deemed to constitute a breach of the terms of this Agreement; provided that nothing in this Agreement shall be construed as requiring any Consenting Creditor to serve on any official committee in any such chapter 11 case. All Parties agree they shall not oppose the participation of any of the Consenting Creditors or the trustees under their respective indentures, on any official committee of unsecured creditors formed in the Endeavour Cases, and (i) the Consenting Convertible Noteholders further agree to support the participation of the 7.5% Convertible Bondholders or

the trustee for the 7.5% Convertible Bonds on such committee and (ii) the Consenting 7.5% Convertible Bondholders further agree to support the participation of the Convertible Noteholders or the trustee for the Convertible Noteholders on such committee.

**11. Amendments and Waivers.** Except as otherwise expressly set forth herein, this Agreement, including any exhibits or schedules hereto, may not be waived, modified, amended or supplemented except in a writing signed by the Company and the Requisite Creditors; provided that (a) any modification, amendment or change to the definition of Consenting Class Requisite Creditors, Requisite First Priority Noteholders, Requisite Second Priority Noteholders, Requisite Convertible Noteholders or Requisite 7.5% Convertible Bondholders shall require the written consent of each Consenting Creditor affected thereby, and (b) any waiver, change, modification or amendment to this Agreement that adversely affects the economic recoveries or treatment of any Consenting Creditor compared to the recoveries set forth in the Term Sheet attached hereto as of the date hereof (it being agreed that, for the avoidance of doubt, any change to this Agreement that results in a diminution of the value of the property to be received by a Consenting Class under the Endeavour Plan or a Consenting Class's proportionate share of the aggregate value to be distributed to all creditors under the Endeavour Plan shall be deemed to materially adversely affect such Class, whether such change is made directly to the treatment of a Consenting Class or to the treatment of another class or otherwise), may not be made without the written consent of each such adversely affected Consenting Creditor. In the event that an adversely affected Consenting Creditor ("Non-Consenting Creditor") does not consent to a waiver, change, modification or amendment to this Agreement requiring the consent of each Consenting Creditor, but such waiver, change, modification or amendment receives the consent of Consenting Creditors owning at least 66.7% of the outstanding relevant debt of the affected Class of which such Non-Consenting Creditor is a member, this Agreement shall be deemed to have been terminated only as to such Non-Consenting Creditors, but this Agreement shall continue in full force and effect in respect to all other members of the Consenting Class who have so consented.

**12. Effectiveness.** This Agreement shall become effective and binding upon each Party upon the execution and delivery by such Party of an executed signature page hereto; provided that signature pages executed by Consenting Creditors shall be delivered to (a) other Consenting Creditors in a redacted form that removes such Consenting Creditors' holdings of the Notes and (b) the Company, Weil and the Company's other advisors in an unredacted form (to be held by Weil and such other advisors on a professionals' eyes only basis).

**13. Governing Law; Jurisdiction; Waiver of Jury Trial.**

(a) This Agreement shall be construed and enforced in accordance with, and the rights of the Parties shall be governed by, the laws of the State of New York, without giving effect to the conflict of laws principles thereof. Each of the Parties irrevocably agrees that any legal action, suit or proceeding arising out of or relating to this Agreement brought by any Party or its successors or assigns shall be brought and determined in any federal or state court in the Borough of Manhattan, the City of New York (the "New York Courts"), and each of the Parties hereby irrevocably submits to the exclusive jurisdiction of the New York Courts for itself and with respect to its property, generally and unconditionally, with regard to any such proceeding arising out of or relating to this Agreement and the Restructuring. Each of the Parties agrees not

to commence any proceeding relating hereto or thereto except in the New York Courts, other than proceedings in any court of competent jurisdiction to enforce any judgment, decree or award rendered by any New York Court. Each of the Parties further agrees that notice as provided in Section 22 shall constitute sufficient service of process and the Parties further waive any argument that such service is insufficient. Each of the Parties hereby irrevocably and unconditionally waives, and agrees not to assert, by way of motion or as a defense, counterclaim or otherwise, in any proceeding arising out of or relating to this Agreement or the Restructuring, (i) that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in the New York Courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise) and (ii) that (A) the proceeding in any New York Court is brought in an inconvenient forum, (B) the venue of such proceeding is improper or (C) this Agreement, or the subject matter hereof, may not be enforced in or by such courts. Notwithstanding the foregoing, during the pendency of the Endeavour Cases, all proceedings contemplated by this Section 13(a) shall be brought in the Bankruptcy Court.

(b) Each Party hereby waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in any legal proceeding directly or indirectly arising out of or relating to this Agreement or the transactions contemplated hereby (whether based on contract, tort or any other theory). Each Party (i) certifies that no representative, agent or attorney of any other Party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (ii) acknowledges that it and the other Parties have been induced to enter into this Agreement by, among other things, the mutual waivers and certifications in this section.

**14. Specific Performance/Remedies.** It is understood and agreed by the Parties that money damages would not be a sufficient remedy for any breach of this Agreement by any Party and each non-breaching Party shall be entitled to specific performance and injunctive or other equitable relief (including attorneys' fees and costs) as a remedy of any such breach, without the necessity of proving the inadequacy of money damages as a remedy. Each Party hereby waives any requirement for the security or posting of any bond in connection with such remedies.

**15. Survival.** Notwithstanding the termination of this Agreement pursuant to Section 6, 9, 10 and Sections 13-22 and Section 25 (and any defined terms used therein, as applied to such Sections) shall survive such termination and shall continue in full force and effect in accordance with the terms hereof; provided that any liability of a Party for failure to comply with the terms of this Agreement shall survive such termination.

**16. Headings.** The headings of the sections, paragraphs and subsections of this Agreement are inserted for convenience only and shall not affect the interpretation hereof or, for any purpose, be deemed a part of this Agreement.

**17. Successors and Assigns; Severability.** This Agreement is intended to bind and inure to the benefit of the Parties and their respective successors, permitted assigns, heirs, executors, administrators and representatives; provided, that nothing contained in this Section 17 shall be deemed to permit Transfers of the Notes or any Claims other than in



accordance with the express terms of this Agreement. If any provision of this Agreement, or the application of any such provision to any person or entity or circumstance, shall be held invalid or unenforceable, in whole or in part, such invalidity or unenforceability shall attach only to such provision or part thereof and the remaining part of such provision hereof and this Agreement shall continue in full force and effect. Upon any such determination of invalidity, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in a reasonably acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

**18. Several, Not Joint, Obligations.** The agreements, representations and obligations of the Parties under this Agreement are, in all respects, several and not joint.

**19. Relationship Among Parties.** Unless expressly stated herein, this Agreement shall be solely for the benefit of the Parties and no other person or entity shall be a third-party beneficiary hereof. No Party shall have any responsibility for any trading by any other entity by virtue of this Agreement. No prior history, pattern or practice of sharing confidences among or between the Parties shall in any way affect or negate this understanding and agreement. The Parties have no agreement, arrangement, or understanding with respect to acting together for the purpose of acquiring, holding, voting or disposing of any equity securities of the Company and do not constitute a “group” within the meaning of Rule 13d-5 under the Securities Exchange Act of 1934, as amended.

**20. Prior Negotiations; Entire Agreement.** This Agreement, including the exhibits and schedules hereto (including the Term Sheet), constitutes the entire agreement of the Parties, and supersedes all other prior negotiations, with respect to the subject matter hereof and thereof, except that the Parties acknowledge that any confidentiality agreements (if any) executed between the Company and each Consenting Creditor prior to the execution of this Agreement shall continue in full force and effect.

**21. Counterparts.** This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, and all of which together shall be deemed to be one and the same agreement. Execution copies of this Agreement delivered by facsimile or PDF shall be deemed to be an original for the purposes of this paragraph.

**22. Notices.** All notices hereunder shall be deemed given if in writing and delivered, if contemporaneously sent by electronic mail, facsimile, courier or by registered or certified mail (return receipt requested) to the following addresses and facsimile numbers:

(a) If to any Endeavour Party, to:

Endeavour International Corporation  
811 Main Street, Suite 2100  
Houston, TX 77002  
Attention: David Baggett, Chief Restructuring Officer  
Email: dbaggett@opportune.com

With a copy (which shall not constitute notice) to:

Weil, Gotshal & Manges LLP (as counsel to the Company)  
767 Fifth Avenue  
New York, NY 10153  
Facsimile: (212) 310-8007  
Attention: Gary T. Holtzer and Ted S. Waksman  
Email: gary.holtzer@weil.com and ted.waksman@weil.com

(b) If to the Ad Hoc Committee, to:

Milbank Tweed Hadley & McCloy LLP  
1 Chase Manhattan Plaza  
New York, NY 10005  
Facsimile: (212) 530-5219  
Attention: Dennis F. Dunne and Matthew S. Barr  
Email: ddunne@milbank.com and mbarr@milbank.com

(c) If to the Consenting 7.5% Convertible Bondholders, to:

Ropes & Gray LLP  
1211 Avenue of the Americas  
New York, NY 10036  
Facsimile: (212) 596-9090  
Attention: Keith H. Wofford  
Email: [keith.wofford@ropesgray.com](mailto:keith.wofford@ropesgray.com)

-and-

Ropes & Gray International LLP  
5 New Street Square  
London, EC4A 3BF  
United Kingdom  
Facsimile: +44-20-3122-1335  
Attention: Tony Horspool  
Email: [tony.horspool@ropesgray.com](mailto:tony.horspool@ropesgray.com)

(d) If to the Consenting 5.5% Convertible Noteholders or the 6.5% Convertible Noteholders, to:

Brown Rudnick LLP  
Seven Times Square  
New York, NY 10036  
Facsimile: (212) 209-4801  
Attention: Robert J. Stark  
Email: rstark@brownrudnick.com

and

Brown Rudnick LLP  
One Financial Center  
Boston, MA 02111  
Attention: Steven B. Levine  
Email: [slevine@brownrudnick.com](mailto:slevine@brownrudnick.com)

Any notice given by delivery, mail or courier shall be effective when received. Any notice given by facsimile or electronic mail shall be effective upon oral, machine or electronic mail (as applicable) confirmation of transmission.

**23. Settlement Discussions.** This Agreement and the Term Sheet are part of a proposed settlement of matters that could otherwise be the subject of litigation among the Parties. Pursuant to Rule 408 of the Federal Rule of Evidence, any applicable state rules of evidence and any other applicable law, foreign or domestic, this Agreement and all negotiations relating thereto shall not be admissible into evidence in any proceeding other than a proceeding to enforce its terms.

**24. No Solicitation; Adequate Information.** This Agreement is not and shall not be deemed to be a solicitation for consents to the Endeavour Plan. The votes of the holders of claims against the Endeavour Parties will not be solicited until such holders who are entitled to vote on the Endeavour Plans have received such Endeavour Plans, the disclosure statements and related ballots, and other required solicitation materials. In addition, this Agreement does not constitute an offer to issue or sell securities to any person or entity, or the solicitation of an offer to acquire or buy securities, in any jurisdiction where such offer or solicitation would be unlawful.

**25. Fees.** As soon as practicable after entry of the Approval Order and thereafter when due and payable, the Endeavour Parties shall pay all reasonable documented prepetition and postpetition costs and expenses of the advisors to the Ad Hoc Committee, the 7.5% Convertible Bondholders and the Convertible Noteholders, including, without limitation, the costs and expenses of (i) Milbank, (ii) Delaware counsel for the Ad Hoc Committee, and (iii) Houlihan Lokey Capital, Inc, in accordance with the terms of its engagement letter with the Company, (iv) Ropes & Gray LLP, (v) Delaware counsel for the Consenting 7.5% Convertible Bondholders, (vi) the successor trustee for the 7.5% Convertible Bonds (provided, that, if the 7.5% Trustee selects legal counsel other than Ropes & Gray LLP, for so long as this Agreement remains in effect, such fees payable by the Endeavour Parties shall be limited to current pay of up to \$200,000 plus out-of-pocket expenses, including, without limitation reasonable fees and expenses of attorneys or other professionals, without prejudice to the rights to seek reimbursement of any additional fees and costs in connection with confirmation of any plan of reorganization or pursuant to any other mechanism for payment under the applicable indenture), (vii) Miller Buckfire & Co., (viii) Brown Rudnick, (ix) Delaware counsel for either (A) the 5.5% Trustee and 6.5% Trustee or (B) the 5.5% Convertible Noteholders and the 6.5% Convertible Noteholders, (x) Hogan Lovells (provided, that for so long as this Agreement remains in effect, such fees payable by the Endeavour Parties shall be limited to current pay of up to \$200,000 plus out-of-pocket expenses, including, without limitation reasonable fees and expenses of attorneys or other professionals, without prejudice to the rights to seek reimbursement of any additional

fees and costs in connection with confirmation of any plan of reorganization or pursuant to any other mechanism for payment under the applicable indenture), and (xi) Mesirow Financial Holdings, Inc. The Endeavour Parties agree to cause a non-debtor subsidiary to pay the reasonable documented prepetition costs and expenses of the foregoing advisors within three (3) business days after the date hereof.

**26. Change of Trustee for 7.5% Convertible Bonds.** Notwithstanding any contrary provision of the Trust Deed, the Endeavour Parties hereby agree to the replacement of BNY Corporate Trustee Services Limited as trustee under the Trust Deed with such replacement trustee as the Requisite 7.5% Convertible Bondholders shall notify to the Company in writing and the Endeavour Parties shall promptly enter into such documentation as the Requisite 7.5% Convertible Bondholders shall reasonably request in order to give effect to such replacement; provided, that such replacement trustee shall be reasonably acceptable to the Company.

**27. Interpretation; Rules of Construction; Representation by Counsel.** When a reference is made in this Agreement to a Section, Exhibit or Schedule, such reference shall be to a Section, Exhibit or Schedule, respectively, of or attached to this Agreement unless otherwise indicated. Unless the context of this Agreement otherwise requires, (a) words using the singular or plural number also include the plural or singular number, respectively, (b) the terms “hereof,” “herein,” “hereby” and derivative or similar words refer to this entire Agreement, (c) the words “include,” “includes” and “including” when used herein shall be deemed in each case to be followed by the words “without limitation,” and (d) the word “or” shall not be exclusive and shall be read to mean “and/or.” The Parties agree that they have been represented by legal counsel during the negotiation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document shall be construed against the party drafting such agreement or document.

**28. Acknowledgements.** THIS AGREEMENT, THE ENDEAVOUR PLAN, AND THE TRANSACTIONS CONTEMPLATED HEREIN AND THEREIN, ARE THE PRODUCT OF NEGOTIATIONS BETWEEN THE PARTIES AND THEIR RESPECTIVE REPRESENTATIVES. EACH PARTY HEREBY ACKNOWLEDGES THAT THIS AGREEMENT IS NOT AND SHALL NOT BE DEEMED TO BE A SOLICITATION OF VOTES FOR THE ACCEPTANCE OF THE PLAN OR REJECTION OF ANY OTHER CHAPTER 11 PLAN FOR PURPOSES OF SECTIONS 1125 AND 1126 OF THE BANKRUPTCY CODE OR OTHERWISE. THE DEBTORS WILL NOT SOLICIT ACCEPTANCES OF THE ENDEAVOUR PLAN FROM ANY PERSON OR ENTITY UNTIL THE PERSON OR ENTITY HAS BEEN PROVIDED WITH A COPY OF THE ENDEAVOUR DISCLOSURE STATEMENT APPROVED BY THE BANKRUPTCY COURT. NOTHING IN THIS AGREEMENT SHALL REQUIRE ANY PARTY TO TAKE ANY ACTION PROHIBITED BY THE BANKRUPTCY CODE, THE SECURITIES ACT OF 1933 (AS AMENDED), THE SECURITIES EXCHANGE ACT OF 1934 (AS AMENDED), ANY RULE OR REGULATIONS PROMULGATED THEREUNDER, OR BY ANY OTHER APPLICABLE LAW OR REGULATION OR BY AN ORDER OR DIRECTION OF ANY COURT OR ANY STATE OR FEDERAL GOVERNMENTAL AUTHORITY.

[Signature Page Follows]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed and delivered by their respective duly authorized officers, solely in their respective capacity as officers of the undersigned and not in any other capacity, as of the date first set forth above.

**ENDEAVOUR PARTIES**

ENDEAVOUR INTERNATIONAL  
CORPORATION

By: /s/ William L. Transier  
Name: William L. Transier  
Title: Chief Executive Officer & President

ENDEAVOUR OPERATING CORPORATION

By: /s/ William L. Transier  
Name: William L. Transier  
Title: Chief Executive Officer & President

ENDEAVOUR COLORADO CORPORATION

By: /s/ William L. Transier  
Name: William L. Transier  
Title: Chief Executive Officer & President

END MANAGEMENT COMPANY

By: /s/ William L. Transier  
Name: William L. Transier  
Title: Chief Executive Officer & President

ENDEAVOUR ENERGY NEW VENTURES INC.

By: /s/ William L. Transier  
Name: William L. Transier  
Title: Chief Executive Officer & President

ENDEAVOUR ENERGY LUXEMBOURG  
S.À R.L.

By: /s/ Andrew Sheu  
Name: Andrew Sheu  
Title: Category A Manager

**EXHIBIT A**

**Term Sheet**

**THIS TERM SHEET IS NOT AN OFFER WITH RESPECT TO ANY SECURITIES OF ENDEAVOUR INTERNATIONAL CORPORATION OR A SOLICITATION OF ACCEPTANCES OF A CHAPTER 11 PLAN WITHIN THE MEANING OF SECTION 1125 OF THE BANKRUPTCY CODE. NOTHING CONTAINED IN THIS TERM SHEET IS AN ADMISSION OF FACT OR LIABILITY OR SHALL BE DEEMED BINDING ON ANY OF THE DEBTORS OR THE RSA CREDITOR PARTIES. THIS TERM SHEET CONTAINS MATERIAL NONPUBLIC INFORMATION AND, THEREFORE, IS SUBJECT TO FEDERAL SECURITIES LAWS.**

**ENDEAVOUR INTERNATIONAL CORPORATION, ET AL.**  
**CHAPTER 11 PLAN TERM SHEET**

*This non-binding term sheet (the “Term Sheet”) describes the material terms of a proposed chapter 11 plan of reorganization (the “Plan”) for Endeavour International Corporation (“EIC”) and certain of its subsidiaries (collectively, the “Company”). This Term Sheet does not constitute a contractual commitment of any party but merely represents the proposed terms for a restructuring of the Company’s capital structure and is subject in all respects to the negotiation, execution and delivery of definitive documentation, including entry into an acceptable restructuring support agreement (the “RSA”) between the Company and certain of its creditors (collectively, the “RSA Creditor Parties”). This Term Sheet does not include a description of all the relevant terms and conditions of the restructuring contemplated herein.*

*This Term Sheet shall not constitute an offer to buy, sell or exchange for any of the securities or instruments described herein. It also shall not constitute a solicitation of the same. Further, nothing herein constitutes a commitment to exchange any debt, lend funds to any of the Debtors, vote in a certain way or otherwise negotiate or engage in the transactions contemplated herein.*

*This Term Sheet is strictly confidential and may not be shared with anyone other than its intended recipients. It is proffered in the nature of a settlement proposal in furtherance of settlement discussions and is intended to be entitled to the protections of Rule 408 of the Federal Rules of Evidence and all other applicable statutes or doctrines protecting the use or disclosure of confidential information and information exchanged in the context of settlement discussions.*

**SUMMARY OF PRINCIPAL TERMS AND CONDITIONS**

**Transaction Overview**

*Debtors:*

Endeavour International Corporation, Endeavour Operating Corporation (“EOC”), Endeavour Colorado Corporation (“END Colorado”), END Management Company, Endeavour Energy New Ventures Inc. and Endeavour Energy Luxembourg S.à r.l. (“END LuxCo”) (collectively, the “Debtors”).

Endeavour International Holding B.V. (“BV”) and its subsidiaries (other than END LuxCo) will not file for chapter 11 protection (collectively, the “Non-Debtors”).

*Chapter 11 Plan:*

The Debtors will propose a chapter 11 plan that implements all of the terms set forth in this Term Sheet.



*Debt to be  
Restructured:*

\$404 million in principal plus all other amounts outstanding under the 12% First Priority Notes due March 1, 2018 issued pursuant to that certain Indenture dated February 23, 2012 (the “March 2018 Notes Indenture”) between EIC, as issuer, and Wells Fargo, National Association, as trustee (the “March 2018 Notes”; all holders of such March 2018 Notes, the “March 2018 Noteholders”).

\$150 million in principal plus all other amounts outstanding under the 12% Second Priority Notes due June 1, 2018 issued pursuant to that certain Indenture dated February 23, 2012 (the “June 2018 Notes Indenture”) between EIC, as issuer, and Wilmington Trust, National Association, as trustee (the “June 2018 Notes,” together with the March 2018 Notes, the “2018 Notes”); all holders of such June 2018 Notes, the “June 2018 Noteholders,” and together with the March 2018 Noteholders, the “2018 Noteholders”).

\$83.7 million in principal plus all other amounts outstanding under the Bonds issued pursuant to that certain Trust Deed (the “7.5% Convertible Bonds Trust Deed”) dated January 24, 2008 for the issuance of \$40 million of 11.5% (later reduced to 7.5%) Guaranteed Convertible Bonds due 2014 (later extended to 2016) between END LuxCo, as issuer, and BNY Corporate Trustee Services Limited, as trustee (the “7.5% Convertible Bonds”; all holders of such 7.5% Convertible Bonds, the “7.5% Convertible Bondholders”).

\$135 million in principal plus all other amounts outstanding under the Notes issued pursuant to that certain Indenture (the “5.5% Convertible Notes Indenture”) dated July 22, 2011 for the issuance of 5.5% Convertible Senior Notes due 2016 between EIC, as issuer, and Wilmington Savings Fund Society, FSB, as indenture trustee (the “5.5% Convertible Notes”; all holders of such 5.5% Convertible Notes, the “5.5% Convertible Noteholders”).

\$17.5 million in principal plus all other amounts outstanding under the Notes issued pursuant to that certain Indenture (the “6.5% Convertible Notes Indenture”) dated March 2, 2014 for the issuance of 6.5% Convertible Senior Notes due 2016 between EIC, as issuer, and Wilmington Savings Fund Society, FSB, as indenture trustee (the “6.5% Convertible Notes”; all holders of such 6.5% Convertible Notes, the “6.5% Convertible Noteholders”).

None of the indebtedness or other obligations of the Non-Debtors will be affected by the restructuring, including the \$440 million in principal plus interest and any other amounts

outstanding under the amended and restated term loan facility entered into by and between certain of the Non-Debtors and Credit Suisse AG dated September 30, 2014 (the “EEUK Term Loan”).

### **Treatment of Claims**

*Administrative Expense  
Claims (including  
503(b)(9) Claims):*

Payable in full in cash on the effective date of a chapter 11 plan of reorganization (the “Effective Date”) or on such other terms as agreed between the Debtors and the holder thereof, subject to the reasonable consent of the requisite majority of each class of RSA Creditor Parties (collectively, the “Requisite Creditors”).

Unclassified – Non-Voting

*Priority Tax Claims:*

Payable in deferred cash payments over a period not longer than five (5) years after the Petition Date or on such other terms as agreed between the Debtors and the holder thereof, subject to the reasonable consent of the Requisite Creditors.

Unclassified – Non-Voting

*Other Priority Claims:*

Payable in full in cash on the Effective Date or on such other terms as agreed between the Debtors and the holder thereof, subject to the reasonable consent of the Requisite Creditors.

Unimpaired – Deemed to Accept

*Other Secured Claims:*

On the Effective Date, all allowed secured claims (“Other Secured Claims”) shall be paid in full in cash, receive delivery of collateral securing any such claim and payment of any interest requested under section 506(b) of the Bankruptcy Code, or be treated on such other terms as agreed between the Debtors and the holder thereof, subject to the reasonable consent of the Requisite Creditors. The aggregate amount of Other Secured Claims shall not exceed an amount to be reasonably agreed upon by the Debtors and the Requisite Creditors.

Impaired – Entitled to Vote. The Debtors reserve the right to argue at confirmation that the Other Secured Claims are unimpaired.

*March 2018 Notes:*

On the Effective Date, all of the March 2018 Notes shall be canceled, and each March 2018 Noteholder shall receive, on account of its allowed claim in respect of such March 2018 Notes, such March 2018 Noteholder’s *pro rata* share of:

(i) \$262.5 million in new notes (the “Reorganized EIC Notes”) due March 31, 2020. The Reorganized EIC Notes shall have the

following terms:

(A) The Reorganized EIC Notes shall be redeemable at par at any time without premium or penalty.

(B) The Reorganized EIC Notes shall bear interest at the rate of 9.75%, to be paid semi-annually, which interest shall be payable, at the reorganized Debtors' option, in cash or payment-in-kind and in cash from and after the time the EEUK Term Loan is refinanced.

(C) The Reorganized EIC Notes shall be guaranteed by (1) the same guarantors that guarantee the March 2018 Notes, (2) any future domestic subsidiary of reorganized EIC and (3) any other subsidiary of reorganized EIC that is not already a guarantor of the Reorganized EIC Notes and which guarantees any other indebtedness of reorganized EIC or any guarantor of the Reorganized EIC Notes.

(D) The Reorganized EIC Notes shall be secured to the same extent as the March 2018 Notes, including, without limitation, by (1) 65% of the equity interests of any first tier foreign subsidiary and (2) promissory notes or other indebtedness owed by any foreign subsidiary to reorganized EIC or any domestic subsidiary thereof, provided that as to that certain intercompany note dated May 31, 2012, between Endeavour Energy U.K. Limited and EOC (the "Intercompany Note"), the Company may (i) reduce the principal amount of the Intercompany Note to match the principal amount of the Reorganized EIC Notes, (ii) change the interest rate of the Intercompany Note to not less than the interest rate of the Reorganized EIC Notes and/or (iii) change the maturity date of the Intercompany Note to not later than the maturity date of the Reorganized EIC Notes.

(E) The Reorganized EIC Notes shall (1) prohibit the sale of production payments and incurrence of additional indebtedness by reorganized EIC and its subsidiaries, subject to such exceptions as may be agreed to by the ad hoc committee of 2018 Noteholders (the "Ad Hoc Prepetition Noteholders Group"), and (2) limit forward sales of hydrocarbons to not more than \$25 million of forward sales outstanding at any time.

(F) The Reorganized EIC Notes shall be governed by an indenture and form of note that is substantially similar to the indenture and note governing the March 2018 Notes except as expressly provided in this term sheet and with such other changes (i) as may be agreed by the Ad Hoc Prepetition Noteholders Group and the Company, and (ii) as may be reasonably acceptable to the other Requisite Creditors collateral securing the Reorganized EIC Notes shall be substantially

similar to the collateral documents with respect to the March 2018 Notes.

–and–

(ii) Such March 2018 Noteholders' *pro rata* share of the Series A convertible preferred equity of reorganized EIC and having an aggregate liquidation preference of \$196.1 million (the "Series A Convertible Preferred").

The Series A Convertible Preferred to be issued to the March 2018 Noteholders shall (i) pay dividends quarterly at a rate of 3.5% per annum in cash or additional Series A Preferred at the option of the Company, (ii) initially be convertible into 66.30% of the common equity of reorganized EIC at the holders' option within (5) years of the Effective Date, and thereafter if not mandatorily redeemed (in each case without regard to the then current stock price) and (iii) be mandatorily redeemable five (5) years after the Effective Date in cash for an amount equal to the aggregate liquidation preference plus the amount of any accrued and unpaid dividends. If the Company does not mandatorily redeem the Series A Convertible Preferred on the fifth (5) anniversary of the Effective Date, from and after such date, (a) the cumulative dividends shall accrue and be paid (in the manner provided above) at the rate of 5.5% per annum and (b) the holders of the Series A Convertible Preferred shall at all times have the right to appoint an additional member to the Board of Directors.

For the avoidance of doubt, the distribution to March 2018 Noteholders will be in full satisfaction of all of the March 2018 Noteholders' claims.

For the further avoidance of doubt, in the event that additional EIC common equity is issued following the Effective Date that reduces the percentage of common equity held by the June 2018 Noteholders, the 7.5% Convertible Bondholders or the Convertible Noteholders, the percentage of common stock into which the Series A Convertible Preferred shall be converted or by which it can be redeemed shall be proportionately reduced.

Impaired – Entitled to Vote

*June 2018 Notes:*

On the Effective Date, all of the June 2018 Notes shall be canceled, and each June 2018 Noteholder shall receive, on account of its allowed claim in respect of such June 2018 Notes:

(i) such June 2018 Noteholder's *pro rata* share of the Series A Convertible Preferred Equity of reorganized EIC having

an aggregate liquidation preference of \$41.4 million.

The Series A Convertible Preferred to be issued to the March 2018 Noteholders shall (i) pay dividends quarterly at a rate of 3.5% per annum in cash or additional Series A Preferred at the option of the Company, (ii) initially be convertible into 14.00% of the common equity of reorganized EIC at the holders' option within (5) years of the Effective Date, and thereafter if not mandatorily redeemed (in each case without regard to the then current stock price) and (iii) be mandatorily redeemable five (5) years after the Effective Date in cash for an amount equal to the aggregate liquidation preference plus the amount of any accrued and unpaid dividends. If the Company does not mandatorily redeem the Series A Convertible Preferred on the fifth (5) anniversary of the Effective Date, from and after such date, (a) the cumulative dividends shall accrue and be paid (in the manner provided above) at the rate of 5.5% per annum and (b) the holders of the Series A Convertible Preferred shall at all times have the right to appoint an additional member to the Board of Directors.

–and–

(ii) such June 2018 Noteholder's *pro rata* share of 2.74% of the common equity of reorganized EIC.

For the avoidance of doubt, the distribution to June 2018 Noteholders will be in full satisfaction of all of the June 2018 Noteholders' claims.

For the further avoidance of doubt, in the event that additional EIC common equity is issued following the Effective Date that reduces the percentage of common equity held by the June 2018 Noteholders, the 7.5% Convertible Bondholders or the Convertible Noteholders, the percentage of common stock into which the Series A Convertible Preferred shall be converted or by which it can be redeemed shall be proportionately reduced.

Impaired – Entitled to Vote

*7.5% Convertible Bonds:*

On the Effective Date, all of the 7.5% Convertible Bonds shall be canceled, and each 7.5% Convertible Bondholder shall receive, on account of its allowed claim in respect of such 7.5% Convertible Bonds, such 7.5% Convertible Bondholder's *pro rata* share of 8.72% of the common equity of reorganized EIC on a fully-diluted basis assuming full conversion of the Series A Convertible Preferred into common equity.

The 7.5% Convertible Bondholders shall also receive customary

minority stockholder protections as reasonably agreed to among the RSA Creditor Parties and the right to appoint one (1) director of reorganized EIC. All remaining directors of reorganized EIC will be appointed by the holders of Series A Convertible Preferred.

For the avoidance of doubt, the distribution to 7.5% Convertible Bondholders will be in full satisfaction of all of the 7.5% Convertible Bondholders' claims.

Impaired – Entitled to Vote

*Convertible Notes:*

On the Effective Date, all of the 5.5% Convertible Notes and the 6.5% Convertible Notes (collectively, the “Convertible Notes”; all holders of such Convertible Notes, the “Convertible Noteholders”) shall be canceled.

Each holder of the Convertible Notes shall receive, on account of its allowed unsecured claim in respect of such Convertible Notes (each, a “Convertible Notes Claim”), its *pro rata* share of 8.24% of the common equity of reorganized EIC on a fully-diluted basis assuming full conversion of the Series A Convertible Preferred.

The holders of Convertible Notes Claims shall also receive customary minority stockholder protections as reasonably agreed to among the RSA Creditor Parties.

For the avoidance of doubt, the distribution to Convertible Noteholders will be in full satisfaction of all of the Convertible Noteholders' claims.

Impaired – Entitled to Vote

*General  
Unsecured Claims  
(excluding  
Convenience Claims):*

On the Effective Date, each holder of a general unsecured claim not otherwise specifically classified herein shall receive, on account of its allowed unsecured claim (each, a “General Unsecured Claim”), its *pro rata* share of a *de minimis* amount of the common equity of reorganized EIC or such other treatment as may be agreed upon. The aggregate amount of General Unsecured Claims shall not exceed \$12,000,000.

Impaired – Entitled to Vote

*Convenience Claims:*

On account of their claims, the holders of all non-priority, general unsecured claims allowed in the amount of \$[●] or less that are not otherwise classified herein (the “Convenience Claims”) shall receive cash in the amount of their allowed Convenience Claims on the Effective Date.

Unimpaired – Deemed to Accept

*Intercompany Claims:*

All intercompany claims between and among EIC and its direct and indirect subsidiary Debtors shall be reinstated or compromised by EIC, as the case may be, consistent with its business plan; provided that each intercompany claim held by a non-debtor shall receive no less favorable treatment than other holders of general unsecured claims.

Impaired – Entitled to Vote

*Preferred Equity Interests:*

All existing shares of preferred equity interests in EIC shall be extinguished as of the Effective Date, and owners thereof shall receive no distribution on account of such equity interests.

Impaired – Deemed to Reject

*Equity Interests:*

All existing shares of stock, options, warrants and common equity interests in EIC shall be extinguished as of the Effective Date, and owners thereof shall receive no distribution on account of such stock, options, warrants and equity interests.

Impaired – Deemed to Reject

## **Corporate Governance**

### *Shareholder Agreement and Other Corporate Organizational Documents:*

The 7.5% Convertible Bondholders and the Convertible Noteholders shall also receive customary minority stockholder protections as reasonably agreed to among the RSA Creditor Parties. These minority protections do not represent a concession or agreement that the reorganized debtors will become or remain a private company for any substantial period of time, and the parties will continue to discuss in good faith to create and/or maintain shares registered with the Securities and Exchange Commission (“SEC”) under the Securities Act of 1933 (as amended) and the Securities Exchange Act of 1934 (as amended) on terms to be agreed, with an aspiration toward a public listing of such shares within a period of time to be agreed. The RSA Creditor Parties agree to discuss in the negotiations the following minority stockholder protections:

- (a) Information Rights.
- (b) Tag-Along, Drag-Along, Preemptive and Registration Rights.
- (c) Affiliate transaction protections.
- (d) Independent Director requirement and the right of the holders of the common equity to participate in the selection thereof.

### *Board of Directors of Reorganized EIC:*

The 7.5% Convertible Bondholders shall receive the right to appoint one (1) director of reorganized EIC, and all remaining directors of reorganized EIC will be appointed by the holders of Series A Convertible Preferred.

### *Indemnification of Directors:*

The documents describing corporate governance shall provide for the indemnification of the reorganized Company’s directors to the fullest extent permitted by law.

## **General Provisions**

### *Allowance of Claims:*

The Debtors stipulate to the allowance of claims under (i) the March 2018 Notes Indenture in the principal amount of \$404.0 million, plus interest, fees and charges provided for under the March 2018 Notes Indenture, (ii) the June 2018 Notes Indentures in the principal amount of \$150.0 million, plus interest, fees and charges provided for under the June 2018



Notes Indenture, (iii) the 7.5% Convertible Bonds Trust Deed in the principal amount of \$83.7 million, plus interest, fees and charges provided for under the 7.5% Convertible Bonds Trust Deed, (iv) the 5.5% Convertible Notes Indenture in the principal amount of \$135.0 million, plus interest, fees and charges provided for under the 5.5% Convertible Notes Indenture and (v) the 6.5% Convertible Notes Indenture in the principal amount of \$17.5 million, plus interest, fees and charges provided for under the 6.5% Convertible Notes Indenture.

*Merger or Liquidation:*

END Management Company and Endeavour Energy New Ventures Inc. shall be merged or liquidated into EOC, subject to confirming the tax implications of such merger or liquidation.

*Management Incentive Plan:*

To be decided by the board of directors of reorganized EIC and to be implemented after the Effective Date, a management incentive plan that provides some combination of cash, options, and/or other equity-based compensation to the management of the reorganized EIC of up to [●]% of the common equity of reorganized EIC, which shall dilute all of the equity otherwise contemplated to be issued by this Term Sheet.

*Tax Issues:*

The Company shall seek to implement the restructuring in a tax efficient manner.

*Reincorporation:*

EIC shall be reincorporated in Delaware.

**Release and Related Provisions**

*Exculpations:*

The Debtors and the RSA Creditor Parties and each of their respective current and former officers and directors, professionals, advisors, accountants, attorneys, investment bankers, consultants, employees, agents and other representatives (each solely in its capacity as such), shall be exculpated from liability for their actions in connection with these chapter 11 cases, with customary carve-outs for gross negligence and willful misconduct.

*Releases:*

The Debtors and the RSA Creditor Parties and each of their respective current and former officers and directors, professionals, advisors, accountants, attorneys, investment bankers, consultants, employees, agents and other representatives (each solely in its capacity as such), shall be released from liability for all claims or causes of action, known or unknown, relating to any prepetition date acts or omissions.

*Director and Officer Indemnification:*

Any obligations of the Debtors pursuant to their organizational documents to indemnify current and former officers, directors, agents, and/or employees (i) shall not be discharged or impaired by confirmation of the Plan and (ii) shall be deemed and treated

as executory contracts to be assumed by the Debtors under the Plan.

Director and officer insurance will continue in place for the directors and officers of all of the Debtors during these chapter 11 cases on existing terms. After the Effective Date, the reorganized Debtors shall not terminate or otherwise reduce the coverage under any director and officer insurance policies (including any “tail policy”) then in effect. To the extent permitted under applicable law, current directors and officers are to receive first access to available insurance. Directors and officers shall be indemnified by reorganized EIC to the extent of such insurance.

*Discharge:*

A full and complete discharge shall be provided in the Plan.

*Injunction:*

Ordinary and customary injunction provisions shall be included in the Plan.

### **Conditions**

*Closing Conditions:*

This restructuring shall be subject to (i) the execution of definitive documentation mutually acceptable to the parties to the RSA, (ii) the entry of an order confirming the Plan, which order is not subject to a stay of execution, (iii) all actions, documents and agreements necessary to implement the Plan shall have been effected or executed and, to the extent required, filed with the applicable governmental units in accordance with applicable laws, and (iv) the Debtors shall have received all authorizations, consents, regulatory approvals, rulings, letters, no-action letters, opinions or documents that are determined by the Debtors or the RSA Creditor Parties to be necessary to implement the Plan and that are required by law, regulation or order.

**EXHIBIT B**

**Endeavour Corporate Structure Chart**



## Corporate Structure

