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**UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION**

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| IN RE: ARABELLA EXPLORATION, LLC, a Texas limited liability corporation, et al., Debtors.¹ | § Case No. 17-40120-rfn § Chapter 11 § (Jointly Administered) § Honorable Russell F. Nelms § U.S. Bankruptcy Judge § § |
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**MOTION FOR FINAL ORDER (A) AUTHORIZING DEBTORS TO USE CASH
COLLATERAL, AND (B) GRANTING ADEQUATE PROTECTION**

The above-captioned debtors (the “Debtors”), pursuant to 11 U.S.C. §§ 105, 361, 362 and 363, and Rules 2002, 4001, and 9014 of the Federal Rules of Bankruptcy Procedure (“Bankruptcy Rules”), hereby move the Court for entry of an Order (a) authorizing the Debtors to use cash collateral and (b) granting adequate protection to Platinum Partners Credit Opportunities Master Fund, LP (“Platinum”). In support hereof, the Debtors respectfully state as follows:

¹ This case is jointly administered with the case of Arabella Operating, LLC, Case No. 17-41479.

JURISDICTION AND VENUE

1. On January 8, 2017, Arabella Exploration, LLC (“AEX”) filed its voluntary petition for relief under chapter 11 of the Bankruptcy Code (the “AEX Petition Date”). On April 4, 2017, Arabella Operating, LLC (“AO”) filed its voluntary petition for relief under chapter 11 of the Bankruptcy Code. The above-captioned chapter 11 cases are referred to herein collectively as the “Chapter 11 Cases.” The Chapter 11 Cases are being jointly administered.

2. The Debtors continue to manage and operate their estates as debtors-in-possession pursuant to §§ 1107 and 1108 of the Bankruptcy Code. No trustee or examiner has been appointed in the Chapter 11 Cases and no committee has been appointed or designated.

3. This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This matter is a core proceeding pursuant to 28 U.S.C. § 157(b). Venue of this case is proper under 28 U.S.C. §§ 1408 and 1409.

4. The statutory predicates for the relief requested herein are 11 U.S.C. §§ 105, 361, 362 and 363 and Bankruptcy Rules 2002, 4001 and 9014.

FACTUAL BACKGROUND

5. The Debtors are wholly-owned subsidiaries of Arabella Exploration, Inc., a Cayman Islands corporation (“AEI”). AEX is an oil and gas exploration company that owns working interests in a number of oil and gas properties and interests (the “Oil & Gas Assets”) and other related assets. The Oil & Gas Assets include, among other things (i) working interests in six operating wells (the “Operating Wells”), and (ii) working interests in 13 non-operating wells.

6. The Operating Wells are operated by Founders Oil & Gas, LLC (“Founders”) pursuant to two Joint Operating Agreements dated September 5, 2012 and March 1, 2013, respectively (collectively, the “JOAs”). Upon information and belief, Arabella Petroleum

Company, LLC (“APC”) was the original operator under the JOAs, AO was the second operator under the JOAs, and on or around June 1, 2016 Founders became the third and current operator under the JOAs.

7. The largest secured obligation of the Debtors consists of a secured guaranty (the “Platinum Guaranty”) given in connection with a \$16,000,000 loan extended by Platinum to AEI on September 2, 2014 as part of a \$45,000,000 credit facility by among Platinum and AEI (the “Platinum Loan”). The Platinum Guaranty is secured by substantially all of the assets of the Debtors. Platinum has filed a proof of claim in the Chapter 11 Cases asserting a secured claim of \$20,061,589.04.

8. On the AEX Petition Date, AEX’s ownership of the Oil & Gas Assets was subject to claims by APC and the chapter 11 trustee (the “APC Trustee”) appointed in the chapter 11 proceedings of APC pending in the Western District of Texas, Case No. 15-70098 (the “APC Bankruptcy Case”). The APC Trustee asserted that the Oil & Gas Assets were acquired by AEX through a series of fraudulent conveyances from APC (the “Fraudulent Transfer Claims”). The only other known assets of AEX’s estate as of the AEX Petition Date consisted of accounts receivable of unknown value.

9. On the AEX Petition Date, the value of the collateral securing Platinum’s Guaranty was both contingent and unliquidated.

10. By order dated May 5, 2017 [Docket No. 197] (the “AEX Settlement Order”), this Court approved a mediation settlement agreement (the “Settlement Agreement”) by and among (i) the Debtors, (ii) APC and APC Trustee, (iii) the official committee of unsecured creditors appointed in the APC Bankruptcy Case, (iv) Platinum and the receiver (the “SEC Receiver”) appointed to administer the Platinum estate in District Court for the Eastern District of

New York, Case No. 16-cv-6848, and (v) AEI. The Settlement Agreement became fully effective on July 10, 2017.

11. In general, the Settlement Agreement, among other things, resolved the Fraudulent Transfer Claims asserted by the APC Trustee against the Debtors and Platinum in an adversary proceeding pending in the APC Bankruptcy Case [Adv. No. 16-07002], and established a formula for sharing in the proceeds between the Debtors and APC from the sale or other monetization of the Oil & Gas Assets.

12. With respect to the Platinum Loan, and of particular relevance to this Motion, the Settlement Agreement states, in pertinent part:

Notwithstanding anything in this Settlement Agreement to the contrary, AEX and AO hereby affirm that Platinum's note, deed of trust, security agreement and other documents signed in connection therewith ("Loan Documents") are valid and enforceable in accordance with their terms, and all monies due under the Loan Documents are due to Platinum without any claim, or right of offset or defense, of any kind whatsoever, and all liens and security interests under the Loan Documents are valid and enforceable in accordance with their terms. (Underscore added.)

13. Pursuant to the AEX Settlement Order, to the extent that the United States Trustee ("UST") appoints an official statutory committee of unsecured creditors (a "Creditors' Committee"), such Creditors' Committee shall have until the earlier of (i) the date of entry of a final order approving the Debtors' use of cash collateral or authorizing the Debtors to incur post-petition financing pursuant to Sections 363 and/or 364 of the Bankruptcy Code or (ii) fifteen (15) days from the date of such appointment, to file a notice with this Court setting forth the basis of a challenge to the validity or enforceability of Platinum's Loan Documents, any claims of Platinum or the SEC Receiver for monies due by the Debtors thereunder or the liens and security interests

of Platinum or the SEC Receiver under the Loan Documents (a “Notice of Lien Challenge”). To date, no Creditors’ Committee has been appointed in these Chapter 11 Cases.

14. The AEX Settlement Order further provides that any party in interest to these Chapter 11 Cases, other than the Creditors’ Committee or any party to the Settlement Agreement (or any of their successors or assigns), shall have fifteen (15) days from the date Debtors serve a notice on parties in interest of the deadline to file a Notice of Lien Challenge. Such notice was filed and served by Debtors on July 27, 2017 [Docket No. 238], and provided that the deadline to file a Notice of Lien Challenge was August 11, 2017. No party in interest filed a Notice of Lien Challenge.

15. Consequently, as of the date hereof, the stipulations set forth in the Settlement Agreement are binding on all current parties in interest in these Chapter 11 Cases.

16. As a direct result of the Settlement Agreement the Debtors have approximately \$1,900,000 in cash on hand, comprised of proceeds from the (i) exercise of certain tag-along rights by the Debtors, previously approved by this Court², and (ii) settlement of a litigation claim by the APC Trustee, in each case, in which the Debtors were entitled to share in pursuant to the terms of the Settlement Agreement. For purposes of this Motion, Debtors shall refer to all such cash as the “Cash Collateral”.

17. The Debtors also expect to receive additional sums of money in the near term representing proceeds from the exercise of separate tag-along rights by the Debtors, the exercise of which was also approved in the Tag-Along Order. The Order approving the sale of the “Brigham Tag-Along Assets” was entered on October 16, 2017 (see Docket No. 271) (the “Brigham Tag-Along Order”), and the sale closed on October 31, 2017. The APC Trustee has

² See Docket No. 97 (the “Tag-Along Order”).

received the proceeds of the sale – totaling in excess of \$2,500,000 – and the Debtors will receive their portion of the proceeds in the near term. With regards to Platinum’s interest in the proceeds from the Brigham sale, the Brigham Tag-Along Order states, in relevant part, “Platinum holds a valid and enforceable lien and security interest in the Debtors’ interests in the Brigham Tag-Along Rights, which shall attach to the proceeds of the sale with the same validity and priority on the Closing Date.” Therefore, this additional cash shall also constitute Cash Collateral, the use of which the Debtors seek approval from this Court pursuant to this Motion.

18. The approximate \$1,900,000 cash on hand, as well as the anticipated cash from the sale of the Brigham Tag-Along Assets, are funds that would not otherwise exist but for the initiation of this bankruptcy case, and the efforts of the Debtors in resolving the APC Trustee’s claims asserted against the Debtors in the APC Bankruptcy Case and negotiating the Settlement Agreement. Had the bankruptcy case not been filed, and the Settlement Agreement not been agreed to and approved in this case, these funds would not be an asset of the estate, in the possession of Debtors or the Cash Collateral of Platinum.

RELIEF REQUESTED AND BASIS FOR RELIEF

19. By this Motion, the Debtors seek entry of an Order, substantially in the form attached as **Exhibit A**, (a) authorizing and approving the Debtors’ use of Cash Collateral on the terms and conditions set forth in the proposed Order, and pursuant to the budget attached to this Motion as **Exhibit B** (the “Budget”), and (b) granting adequate protection to Platinum for diminution in value of the security interests and liens in and upon the Debtors’ property (including Cash Collateral).

20. Under section 361 of the Bankruptcy Code, when adequate protection is required under sections 362, 363 or 364 of the Bankruptcy Code to protect against any diminution

in value of an interest of an entity in property, a debtor may provide additional or replacement liens to the pre-petition secured creditor. 11 U.S.C. § 361(2).

21. Accordingly, as adequate protection for the Debtors' use of Cash Collateral, the Debtors seek authority to grant Platinum the following adequate protection (collectively, the "Adequate Protection"):

- A one-time payment of \$700,000;
- Post-petition replacement liens in all types and descriptions of collateral, excluding the Debtors' rights under sections 544, 545, 546, 547, 548, 549 and 550 of the Bankruptcy Code, in which Platinum held valid and perfected security interests in, and liens on, as of the AEX Petition Date in the same rank, validity and priority as existed as of the AEX Petition Date to secure any claim for diminution in the value of the Cash Collateral resulting from the Debtors' use thereof; and
- An allowed administrative claim under 11 U.S.C. §§ 503(b)(1), 507(a), and 507(b) in the amount of any diminution of value of the prepetition collateral resulting from Debtors' use of the Cash Collateral from and after the commencement of these Chapter 11 Cases, with such administrative claims being superior to all other administrative claims; provided, however, that the Adequate Protection Claim and the replacement security interests and liens shall be subordinate to the payment of the statutory fees of the United States Trustee pursuant to 28 U.S.C. § 1930(a), the expenses set forth in the Budget, including post-petition professional fees and expenses approved by this Court in accordance with the requirements of the Bankruptcy Code ("Professional Fees"), and fees payable to the Clerk of the Court.

22. The SEC Receiver has consented to the Debtors' use of the Cash Collateral in exchange for the foregoing Adequate Protection. Under the circumstances of this case, the Debtors believe the foregoing adequate protection is sufficient to protect Platinum's interest in the Cash Collateral.

23. The Debtors' use of Cash Collateral is necessary to preserve its assets and business, to fund payment of normal and ordinary post-petition operating expenses (including,

without limitation, the payment of Professional Fees) in accordance with the Budget, and to facilitate the sale of substantially all assets of Debtors for the benefit of Debtors' creditors.

24. Debtors represent that the terms and conditions of the proposed Order are proposed in good faith, were negotiated in good faith by the Debtors and the SEC Receiver, and that Debtors' proposed use of Cash Collateral pursuant to the terms and conditions of the proposed Order and the Budget are in the best interests of the bankruptcy estate and all parties in interest.

25. The Debtors further submit that the Adequate Protection is appropriate under the circumstances of these Chapter 11 Cases. The replacement liens and administrative expense claims the Debtors propose herein are customary terms of adequate protection granted to secured lenders in chapter 11 cases in exchange for use of cash collateral. Moreover, the one-time payment to the SEC Receiver is appropriate given Platinum's first priority secured interest in the Cash Collateral, and, as a consequence, such cash would be distributed to the SEC Receiver on account of Platinum's claims in these Chapter 11 Cases in any event. Finally, the adequate protection payment to the SEC Receiver is appropriate because the Cash Collateral is not "recurring" cash from business operations, but instead comprises cash from non-ordinary course events, which will only be depleted by the Debtors' use through the course of these Chapter 11 Cases. As such, replacement liens and administrative expense claims may not be sufficient to protect Platinum's interest in the Cash Collateral. Based on the foregoing, the Debtors submit that the Adequate Protection is appropriate and should be approved.

NOTICE

26. Notice of the filing of this Motion has been provided to: (a) the Office of the UST for the Northern District of Texas; (b) the Debtors' creditors; and (c) any parties that

appear on the Debtors' creditor matrices. Debtors submit that, under the circumstances, no further notice is necessary and request that any further notice be dispensed with and waived.

WHEREFORE, Debtors respectfully requests the Court enter the proposed Order substantially in the form attached as **Exhibit A**, and grant such other and further as it may deem just, equitable and proper.

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Dated: November 22, 2017

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