

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

In re:

PetroQuest Energy, Inc., *et al.*,

Debtors.¹

Chapter 11

Case No. 24-12609 (CTG)

(Joint Administration Requested)

**DECLARATION OF ANGELLE PERRET IN SUPPORT
OF CHAPTER 11 PETITIONS AND FIRST DAY PLEADINGS**

I, Angelle Perret, being duly sworn, depose and say:

1. I am the Chief Financial Officer, Treasurer and Corporate Secretary of PetroQuest Energy, Inc. (“PQE Inc.”) and certain of its affiliates, the debtors and debtors in possession in the above-captioned cases (collectively, “PetroQuest” or the “Debtors” or the “Company”). I am over the age of 18, competent to testify, and authorized to submit this declaration (the “Declaration”) on behalf of the Debtors.

2. I joined PetroQuest in 2000 and have served as Chief Financial Officer, Treasurer and Corporate Secretary since 2021. I previously served as a financial analyst, treasury manager, and controller for the Debtors.

3. Prior to joining PetroQuest, I worked as an assistant controller at Transcoastal Marine Services, Inc. for two years. Prior to Transcoastal Marine Services, Inc., I served as an employee receivable supervisor at Albermarle Corporation, a staff accountant at Westlake Petrochemicals Corp., and a staff auditor at Arthur Anderson & Co.

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, are: PetroQuest Energy, Inc. (0714), PetroQuest Energy, L.L.C. (2439), PetroQuest Oil & Gas, L.L.C. (1170), and PQ Holdings LLC, (7576). The Debtors’ corporate headquarters is 400 E. Kaliste Saloom Road, Suite 5200, Lafayette, LA 70508.

4. Except as otherwise noted, all facts set forth in this Declaration are based on my personal knowledge, my discussions with members of the Debtors' senior management, my review of relevant documents or, based on my experience and knowledge of the Debtors' operations and financial conditions, my opinion. In making this Declaration, I have relied, in part, on information and materials that the Debtors' personnel and advisors have gathered, prepared, verified, and provided to me in each case under my ultimate supervision, at my direction and/or for my benefit in preparing this Declaration. If I were called to testify as a witness in this matter, I would testify competently to the facts set forth herein.

5. To minimize any disruption to the Debtors' operations and to ensure a smooth transition into chapter 11, the Debtors intend to request various types of relief in "first day" applications and motions (collectively, the "First Day Pleadings") in connection with the chapter 11 cases (the "Chapter 11 Cases").² I submit this Declaration in support of the Debtors' (a) voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") and (b) First Day Pleadings.

6. This Declaration is divided into two parts. Part I provides background information about the Debtors, their business operations, their corporate and capital structure, and the circumstances surrounding the commencement of the Chapter 11 Cases. Part II sets forth the relevant facts in support of each of the First Day Pleadings.

² Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the relevant First Day Pleadings.

PART I - BACKGROUND

A. The Chapter 11 Filings

7. On the date hereof (the “Petition Date”), each Debtor filed a voluntary petition in this Court for relief under chapter 11 of the Bankruptcy Code. The Debtors continue to manage and operate their business as debtors-in-possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

B. The Debtors’ Business and Assets

8. Created in 1998 through a reverse merger involving Optima Petroleum Corp. and American Explorer, L.L.C., the Debtors are an independent oil and gas company headquartered in Lafayette, Louisiana. The Debtors are engaged in the exploration, development, acquisition, and operation of oil and gas properties in Texas and Louisiana.

9. Until 2002, the Debtors were focused exclusively in the Gulf Coast Basin with onshore properties principally in southern Louisiana and offshore properties in the shallow waters of the Gulf of Mexico shelf. During 2003, the Debtors began the implementation of their strategic goal of diversifying their reserves and production into longer life and lower risk onshore properties with the acquisition of the Carthage Field in East Texas. From 2005 through 2015, the Debtors further implemented this strategy by focusing their efforts in the Woodford Shale play in Oklahoma, along with various other resource projects resulting in the drilling and completion of 650 horizontal wells. Following that period, the Debtors focused in two primary project areas: the Cotton Valley Formation in East Texas targeting economic natural gas and natural gas liquids, and the Austin Chalk in Central Louisiana targeting primarily oil, thus balancing the product mix over time. In January 2018, the Debtors sold their Gulf of Mexico assets to Northstar Offshore Ventures LLC, substantially reducing their operational footprint to assets based solely in Texas and Louisiana.

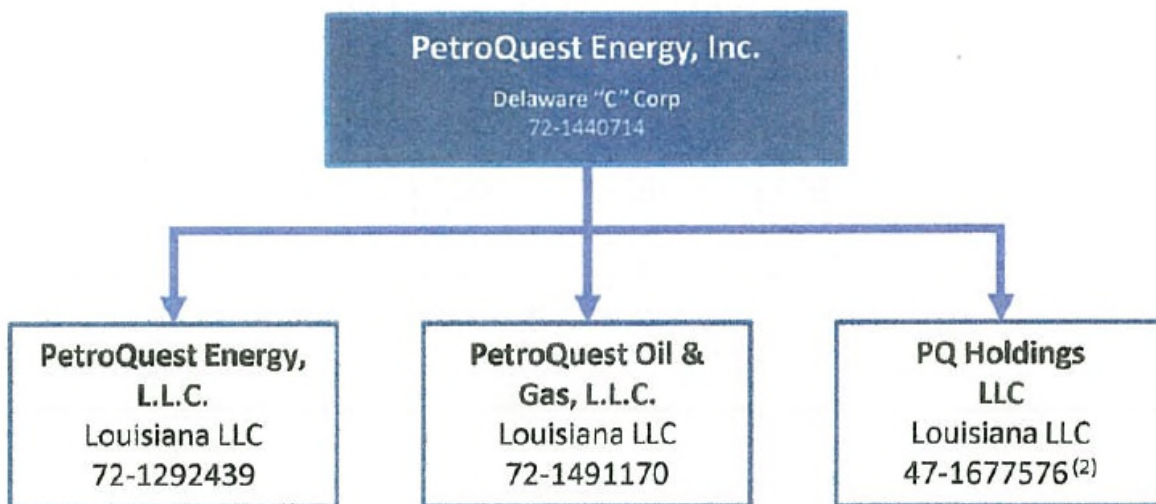
10. As of the Petition Date, the Debtors' primary operating assets consist of their oil and gas leasehold interests, producing properties, and related assets located in Panola County, Texas (collectively, the "East Texas Assets"). The Debtors' remaining assets include, among other things: (i) a single offshore overriding royalty interest, a single well in Oklahoma, and a processing platform located in Thibodeaux, Louisiana, which either have *de minimis* value or significant associated liabilities, and (ii) tax refunds, accounts receivable, credits, and unliquidated claims, the amount and timing of receipt, if any, of which is unknown.

C. The Prior Bankruptcy Cases

11. In late 2018, faced with the risks associated with drilling and an overleveraged balance sheet, the Debtors and certain affiliated entities filed chapter 11 bankruptcy cases in the U.S. Bankruptcy Court for the Southern District of Texas (the "Texas Bankruptcy Court") in order to implement a balance sheet restructuring. *See In re PetroQuest Energy, Inc.*, Case No. 18-36322 (DRJ) (Bankr. S.D. Tex.) (the "First Bankruptcy Cases"). On February 11, 2019, the Texas Bankruptcy Court entered an order confirming a plan of reorganization pursuant to which, among other things, the holders of prepetition second lien notes (i) exchanged their debt for 100% of the new equity in the reorganized company (i.e., the Debtors); and (ii) entered into a \$50 million exit facility with the Debtors (i.e., the term loan facility described below). The First Bankruptcy Cases are fully administered other than a single adversary proceeding involving Sanare Energy Partners LLC ("Sanare") described below.

D. The Debtors' Corporate Structure

12. The Debtors' corporate structure is reflected in the organizational chart below:



13. Besides PetroQuest Energy, L.L.C. ("PQE LLC"), the other Debtors that are part of the PetroQuest corporate group, PetroQuest Oil & Gas, L.L.C. and PQ Holdings, LLC (collectively, the "Non-Operating Subsidiaries"), have no assets, liabilities, or operations.

14. The Debtors are controlled by the Board of Directors of PQE Inc. (the "PQE Board"), which consists of a single independent director who was appointed in August 2024, Jeremy Stillings. The boards of managers of the other Debtors (together with the PQE Board, the "Boards") are identical, consisting of Charles T. Goodson, the Debtors' President and Chief Executive Officer, Art M. Mixon, the Debtors' Executive Vice President of Operations and Production, and me.

E. The Debtors' Prepetition Capital Structure

15. The following description of the Debtors' capital structure is for informational purposes only and is qualified in its entirety by reference to the documents setting forth the specific terms of such obligations and their respective related agreements.

i. Prepetition Term Loan

16. On February 8, 2019, PQE LLC entered into a \$50 million Term Loan Agreement (as amended or otherwise modified from time to time, the “Prepetition Term Loan Agreement”), with the lenders party thereto (the “Prepetition Term Loan Lenders”) and Wells Fargo Bank, N.A., as administrative agent. The Prepetition Term Loan Agreement was the exit loan facility in the First Bankruptcy Cases. The Prepetition Term Loan Agreement has been amended six (6) times, including in 2020 to provide an additional \$5 million in term loans and in 2022 to provide an additional \$7.5 million in term loans.

17. On September 3, 2024, the Prepetition Term Loan Agreement was amended for the sixth time to provide the Debtors with a \$2 million bridge loan (the “Bridge Loan”). The Bridge Loan provided the Debtors with sufficient liquidity to complete the prepetition marketing process described below and prepare for and commence these Chapter 11 Cases. As of the date hereof, the outstanding balance on the Prepetition Term Loan Agreement is \$104,452,458.82.

18. Pursuant to the Prepetition Term Loan Agreement and the related documents entered into in connection therewith, the Prepetition Term Loan Lenders have a first priority lien on substantially all of the Debtors’ assets.

ii. Unsecured Debt

19. As of the Petition Date, the Debtors have approximately \$11 million in unsecured debt in the form of accounts payable, accrued liabilities and other liabilities. The Debtors’ unsecured debt consists of, among other things, operating expenses, joint interest billings, marketing expenses, royalty payments, revenue interest disbursements, and plugging and abandonment (“P&A”) liabilities.

iii. Equity

20. As of the Petition Date, the Debtors have approximately 1,093,767 outstanding shares of common stock.

iv. Cash Position

21. As of the Petition Date, the Debtors have approximately \$1.5 million in cash and cash equivalents, of which approximately \$950,000 represents cash held for unpaid prepetition Royalty Payment Suspense Obligations. Accordingly, the Debtors have approximately \$550,000 of available cash on hand with which to operate their business. In addition, as of the Petition Date, the Debtors have approximately \$650,000 of professional retainer amounts to assist in funding these Chapter 11 Cases.

F. The Debtors' Litigation

22. PQE LLC and Patriot Natural Gas, LLC ("Patriot") are parties to a litigation pending in the District Court of Harris County, Texas for the 295th Judicial District (the "Texas State Court") under Cause No. 2022-74164, related to Patriot's termination of a purchase and sale agreement entered into in September 2022 for the East Texas Assets (the "Patriot Litigation"). Following extensive discovery, motion practice and a bench trial, on July 4, 2024, the Texas State Court issued a decision finding in favor of PetroQuest with respect to a fraud claim and finding in favor of Patriot with respect to a breach of contract claim (the "Patriot Decision"). Patriot was awarded its \$11.5 million purchase price deposit that was being held in escrow by JPMorgan Chase Bank, N.A., along with certain transactional fees and expenses (the "Patriot Attorneys' Fees"). In late September 2024, the parties entered into a settlement agreement that, among other things, fixed the amount of the Patriot Attorney's Fees, released a land report that is a key component of the diligence process in the sale process described below, and prevented Patriot from taking any action to levy upon the Debtors' assets until October 31, 2024. The settlement agreement also

resulted in an Agreed Final Judgment in the Patriot Litigation, that was entered by the Texas State Court on September 30, 2024.

23. PQE LLC and Sanare are parties to a litigation pending in the Texas Bankruptcy Court under Adversary Proceeding No. 19-03329 (the “Sanare Litigation”) related to a sale transaction between the two parties. Sanare argued that certain conditions under the purchase and sale agreement never occurred and that the contemplated asset transfer was not consummated. The Texas Bankruptcy Court and related appellate courts found that Sanare assumed the assets under the purchase and sale agreement, along with all related obligations and liabilities. During the appeal process, PQE LLC incurred significant costs related to plugging and abandonment and decommissioning because Sanare refused to perform the work. As result, PQE LLC sued Sanare for damages, and in May 2024 the Texas Bankruptcy Court awarded PQE LLC approximately \$8 million (the “Sanare Judgment”). As of the Petition Date, despite efforts by the Debtors to collect from Sanare, the amounts due and owing under the Sanare Judgment remain outstanding.

24. The Debtors also are involved in litigation relating to claims arising out of their operations in the normal course of business.

G. Prepetition Marketing Process

25. In February 2024, faced with the ongoing inability to service their debt payments under the Prepetition Term Loan Agreement, mounting P&A liabilities, and plummeting oil & gas pricing, the Boards made the strategic determination to engage Detring & Associates, LLC (“Detring”) to market the East Texas Assets in a competitive auction process.

26. Since being engaged, Detring has worked closely with the Company and their professionals to identify buyers that might be interested in acquiring the Company’s assets. Through this process, Detring developed a list of over ninety (90) entities that it believed may have an interest in the East Texas Assets, with the teaser for the opportunity distributed to thousands of

potential buyers interested in upstream oil & gas properties. That target list included public oil & gas companies, private equity-backed oil & gas companies, and family office-backed oil & gas companies. Detring also has spoken to creditors and interest holders that have sought to provide input regarding the sale process, including suggesting additional potential sale targets. Detring has been willing—and continues to be willing—to speak with parties in interest regarding the Company’s ongoing sale efforts.

27. As of October 10, 2024, approximately sixty-five (65) nondisclosure agreements (“NDAs”) and sixty (60) presentations³ have been circulated to potential purchasers with executed NDAs. Those entities that have executed NDAs have been provided access to a virtual data room (the “Data Room”) containing, among other things, a detailed management presentation describing the East Texas Assets, land and reserve reports, and operational and geological documentation. Moreover, parties requesting additional information have been provided access to the Company’s management, consultants, and counsel.

28. After approximately five (5) weeks of active marketing, Detring informed parties in the Data Room that initial bids were due on August 28, 2024. Seven (7) parties submitted bids by that deadline, and others indicated that they would need additional time to prepare their bids. Detring then extended the bid deadline to August 30, 2024. As of August 30, 2024, eight (8) total bids were received for the East Texas Assets (the “Initial Bidders”).

29. In order to maximize value for the East Texas Assets and to continue the competitive bidding process, Detring then told the Initial Bidders to submit a second “best and final” bid by September 4, 2024. Three (3) bidders submitted supplemental bids on that date, and one (1) new bidder later emerged (collectively the “Second Round Bidders”). The Debtors and

³ Based on groups who received the management presentation via the virtual data room.

their advisors then engaged in comprehensive discussions with the Second Round Bidders to determine whether they had any ability to increase their purchase price, remove contingencies, or serve as a stalking horse purchaser. Indeed, the Debtors engaged in extensive negotiations with one of those parties with the goal of designating that party as a “stalking horse” bidder. Due to the Debtors’ liquidity constraints, however, the Debtors commenced these proceedings prior to any agreement being finalized. The Debtors anticipate seeking approval of appropriate bidding and sale procedures within the first two (2) weeks of these Chapter 11 Cases.

H. Events Leading to Chapter 11 Cases and Decision to Restructure

30. In July 2024, with the Debtors already burdened by the factors leading to the prepetition sale process discussed above, the Texas State Court issued the Patriot Decision, exposing the Debtors to millions of dollars of liabilities in the form of Patriot’s attorneys’ fees that they had no ability to satisfy. After careful consideration, the PQE Board came to the inevitable conclusion that a restructuring of the Debtors’ business would be necessary. Accordingly, on August 1, 2024, the entire PQE Board resigned and appointed Jeremy Stillings as the sole independent director to, among other things, maintain the integrity of the sale process and oversee the Debtors’ restructuring efforts.

31. Following Mr. Stillings’ appointment, he moved swiftly to understand the Debtors’ business and to determine what course of action to take given the financial and operational difficulties described above. As part of that strategy, the Debtors retained the law firm of Cole Schotz P.C. and the financial advisory firm of Eisner Advisory Group LLC⁴ to assist the Debtors with their overall restructuring strategy and contingency planning.

⁴ An affiliate of EisnerAmper LLP.

32. After carefully considering the alternatives, the Boards made the difficult decision to file for chapter 11 protection in order to preserve the Debtors' assets and implement the sale process for the Company's East Texas Assets.

PART II -FIRST DAY PLEADINGS⁵

A. Administrative and Procedural First Day Pleadings

i. Joint Administration Motion

33. I believe that joint administration of these cases will avoid the unnecessary time and expense of duplicative motions, applications, orders and other pleadings, and related notices, that otherwise would need to be filed in each separate case absent joint administration. I believe that joint administration will save considerable time and expense for the Debtors, the Clerk of the Court, the U.S. Trustee and other parties in interest, which will, in turn, result in substantial savings for the Debtors' estates.

34. I believe that joint administration would not adversely affect any creditors' rights because the Debtors' motion requests only the administrative consolidation of these cases for procedural purposes. It does not seek substantive consolidation of the Debtors' estates. Accordingly, I believe that joint administration of the Chapter 11 Cases is in the best interests of the Debtors, their estates, and all other parties in interest and should be granted in all respects.

ii. Notice Procedures Motion

35. The Debtors submit that it is appropriate to authorize the Debtors to redact from any paper filed or to be filed with the Court in these Chapter 11 Cases, including the creditor matrix, the personally identifiable information—including home addresses—of the Debtors'

⁵ Capitalized terms used but not defined herein have the meanings ascribed to them in the applicable First Day Pleading.

individual creditors and interest holders—including the Debtors’ current and former employees, contract workers, debtholders, and other creditors—because such information can be used to perpetrate identity theft or locate survivors of domestic violence, harassment, or stalking. Additionally, the Debtors submit that it is appropriate to redact information related to potential transaction parties given the existence of non-disclosure agreements with these parties. The Debtors believe that authorizing the redaction of their identities is the best method to ensure transparency with respect to information disclosure, while still preventing the negative implications of public disclosure. Finally, the Debtors submit that the requirements to file a list of equity holders should be waived as to PQE Inc. Preparing and submitting such a list with last known addresses for each equity security holder and providing required notices, except the Notice of Commencement, to all such parties, would be expensive and time consuming and would serve little or no beneficial purpose.

iii. Claims Agent Retention Application

36. Stretto, Inc.’s (“Stretto”) retention is the most effective and efficient manner of noticing these creditors and parties in interest of the filing of the Chapter 11 Cases and of other developments in the Chapter 11 Cases. I am informed that Stretto has acted as the claims and noticing agent in numerous cases of comparable size. Stretto’s retention to act as an agent of the Court, as an independent third party with significant experience in this role, is in the best interests of the Debtors as well as their estates and creditors.

B. Operational First Day Pleadings

iv. Cash Management Motion

37. To support their operations, the Debtors maintain a cash management system to facilitate cash flow between Debtor entities, while minimizing costs (the “Cash Management System”).

38. On a daily basis, the Debtors process deposits, withdrawals, and other transfers in accordance with ordinary course practices. Accordingly, the Debtors maintain records of all transactions processed to track the funds involved in the Debtors' operations and efficiently manage their resources. This system enables the Debtors to satisfy their operating needs, ensure cash availability and liquidity, pay material debt obligations in the ordinary course and reduce administrative expenses by facilitating the movement of funds. The Cash Management System is therefore a critical component of the Debtors' overall business.

39. The Cash Management System includes nine bank accounts (collectively, the "Bank Accounts") controlled by the Debtors at two banks (collectively, the "Banks"). A list of the Debtors' Bank Accounts (the "Account List") is attached to the Cash Management Motion as an exhibit. I believe this exhibit to be true and correct. Eight of the Debtors' bank accounts are with First Horizon Bank ("First Horizon") and one is with JPMorgan Chase Bank ("JPM"), both of which are included in the U.S. Trustee's List of Approved Depositories. To the extent the Cash Management System does not strictly comply with the U.S. Trustee Guidelines and section 345 of the Bankruptcy Code, the Debtors seek a waiver of the deposit requirements set forth therein and in the U.S. Trustee Guidelines.

40. The Account List identifies the type of account and indicates the owner of each Bank Account. Each Bank Account is described below and a diagram of the Cash Management System is attached to the Cash Management Motion as **Exhibit B**.

41. The Cash Management System is comprised of the following Bank Accounts:

- a) *PetroQuest Energy, L.L.C. Main Operating Account* – (the "Main Operating Account"). The Main Operating Account is held at First Horizon and receives almost all of the Debtors' cash receipts. Funds are transferred from the Main Operating Account, as needed, to (i) the Payroll Account (as defined below) to disburse payroll, (ii) directly fund nearly all of the Debtors' other disbursements, including the Debtors' accounts payable, and (iii) fund certain intercompany

transactions. The Main Operating Account is also used to fund the Royalty Account (as defined below) on an as-needed basis.

- b) *PetroQuest Energy, L.L.C. Lockbox Account* – (the “Lockbox Account”). The Debtors maintain a Lockbox Account with First Horizon to deposit payments from working interest owners pursuant to joint operating agreements.
- c) *PetroQuest Energy L.L.C. Payroll Account* – (the “Payroll Account”). The Debtors a Payroll Account with First Horizon to meet payroll obligations to employees. The Payroll Account is a zero-balance account. To fund payroll for the Debtors’ U.S. employees, funds are automatically swept from the Main Operating Account to the Payroll Account daily as necessary to maintain the Payroll Account’s balance at \$0. The Payroll Account subsequently disburses funds to the Debtors’ third-party payroll provider and 401k provider.
- d) *PetroQuest Energy L.L.C. Land Account* – (the “Land Account”). The Debtors maintain a Land Account with First Horizon to pay bonus lease payments to leased mineral owners. The Land Account is a zero-balance account. To fund lease related payments, funds are automatically swept from the Main Operating Account to the Land Account on a daily basis as necessary to maintain the Land Account’s balance at \$0. The Land Account is funded by the Main Operating Account.
- e) *PetroQuest Energy L.L.C. Royalty Account* – (the “Royalty Account”). The Debtors maintain a Royalty Account with First Horizon to pay royalty and working interest revenue payments to their mineral and working interest owners. The Royalty Account is funded by the Main Operating Account.
- f) *PetroQuest Energy L.L.C. Money Market Account* – (the “Money Market Account”). The Debtors maintain a Money Market Account with First Horizon from which excess cash is deposited into a money market. The Money Market Account is the Debtors’ only interest-bearing account.
- g) *PetroQuest Energy Inc.* – (“PQ Inc. Stock Options Account”). The PQ Inc. Stock Options Account is held at First Horizon and is used to deposit funds from shareholders exercising stock options.
- h) *PetroQuest Energy L.L.C. Utility Account* – (the “Utility Account”). The Debtors maintain a Utility Account with First Horizon to pay monthly utilities and to hold deposits that may be required pursuant to Court order. The Utility Account is funded by the Main Operating Account.
- i) *PetroQuest Energy L.L.C. Corporate Credit Card Account* – (the “Corporate Credit Card Account”). The Debtors maintain a Corporate Credit Card Account with JPM which is used as cash collateral for credit cards. The corporate credit cards are used to obtain permits requiring payment electronically, employee meals/entertainment, travel expenses, supplies, and other incidental expenses. The balance on the Corporate Credit Card Account is paid off bi-monthly via an ACH transaction using funds from the Main Operating Account.

1. Business Forms and Investment and Deposit Practices

42. In the ordinary course of business, the Debtors may use a number of checks, business letterhead, purchase orders, invoices, envelopes, promotional materials, and other business forms and correspondence (collectively, the “Business Forms”). Given that the Debtors used the Business Forms prepetition, they do not include references to the Debtors’ current status as debtors-in-possession. Most parties doing business with the Debtors undoubtedly will be aware of the Debtors’ status as debtors in possession as a result of the publicity surrounding the Chapter 11 Cases and the notice of commencement of the Chapter 11 Cases that will soon be provided to parties in interest.

43. I believe that requiring the Debtors to change existing Business Forms would unnecessarily distract the Debtors from their restructuring efforts and impose needless expenses on the estates, without any meaningful corresponding benefit.

2. Intercompany Transactions

44. As explained above, in the ordinary course of business, the Debtors historically transferred money between their accounts to fund operations (the “Intercompany Transactions”). The Debtors are seeking authority to continue Intercompany Transactions postpetition.

45. I believe that the failure to continue the Intercompany Transactions in the ordinary course of the Debtors’ business would unnecessarily hinder operations. Absent the continuation of the Intercompany Transactions, the Debtors’ ability to operate their primary business during the Chapter 11 Cases may be prejudiced, and their ability to maximize value for creditors would be reduced. Avoiding such hindrances by continuing the Intercompany Transactions is, therefore, in the best interests of the estates.

v. *Employee Wages Motion*

46. As described more fully in the Employee Wages Motion, the continuation of the compensation (both in the form of salary and wages and benefit programs) for the Debtors' 16 employees (each, an "Employee"), is critical to the Debtors' continued operations and restructuring strategy. Three Employees work in East Texas, one Employee works in South Louisiana, and the remaining Employees are office workers, who provide a variety of engineering, management, land, and administrative services in offices in Lafayette, Louisiana. Collectively, the Employees' skills and knowledge of the Debtors' infrastructure, customers, and business operations are essential to the continued operation of the Debtors' business. Without the Employees' continued, uninterrupted services, an effective restructuring of the Debtors will not be possible.

47. The Debtors' employees (collectively, the "Workforce") perform a wide variety of functions critical to the Debtors' operations, the administration of the Chapter 11 Cases, and the Debtors' successful restructuring strategy.

48. The Workforce is the most important part of the Debtors' business. I believe that any delay in paying or failure to pay prepetition Employee Obligations could irreparably impair the morale of the Workforce at the time when their dedication, confidence, retention, and cooperation are crucial. Failure to pay the Employee Obligations could also inflict a significant financial hardship on the Employees' families. The Debtors cannot risk such a substantial disruption to their business operations, and it is inequitable to put Employees at risk of such hardship. Without this relief, otherwise-loyal Employees may seek other work opportunities, thereby putting at risk the Debtors' restructuring strategy. Payment of these obligations in the

ordinary course of business would enable the Debtors to focus on completing a successful restructuring, which would benefit all parties in interest.

1. Wages and Salary

49. In the ordinary course of business, the Debtors pay their Employees every other Friday, one week in arrears. Thus, the Debtors estimate that as of the Petition Date, approximately \$30,000.00 is owed on account of accrued and unpaid wages and salaries for the Employees and \$30,000.00 will become due within twenty-one (21) days of the Petition Date.

2. Vacation and Sick Leave

50. The Debtors also provide paid time off to their full-time Employees, which is classified as “Vacation” and “Sick Leave.” Upon hire, and thereafter upon the Employee’s work anniversary, the Employees are credited with Vacation hours, dependent upon their applicable work experience (see schedule below), plus 80 hours of Sick Leave:

Vacation and Sick Leave Schedule		
Years of Experience	Vacation Benefit	Sick Leave Benefit
0 – 5 years	80 hours	80 hours
5 – 10 years	120 hours	80 hours
10 plus years	160 hours	80 hours

51. Approval of Vacation is at the discretion of management, and if an Employee is terminated, Vacation hours are paid out according to the Debtors’ vacation policy (the “Vacation Policy”). As indicated in the above Vacation Schedule, pursuant to the Vacation Policy, Employees with 0-5 years of experience are entitled to 80 hours of vacation, Employees with 5-10 years of experience are entitled to 120 hours of vacation, and Employees with 10+ years of experience are entitled to 160 hours of vacation. A maximum of 40 hours of vacation time can be carried over to the next anniversary year and any vacation time in excess of 40 hours will be lost if it is not used. However, management has the discretion to allow an employee to carryover more than 40 hours of unused vacation time in extenuating circumstances.

52. As of the Petition Date, the balance for untaken Vacation is approximately \$170,000.00. Unused Sick Leave is not paid out to an Employee regardless of the reason for termination. The Debtors do not believe that they owe any Vacation payouts to any former Employees as of the Petition Date, but seek to continue their policy postpetition in the ordinary course of business.

3. Reimbursable Expenses

53. The Debtors routinely reimburse Employees for certain expenses incurred within the scope of their employment, such as travel, food, and cell phones (the “Reimbursable Expenses”). There is a lag time between the time expenses are incurred and the time an expense is processed and reimbursed. Consequently, it is difficult for the Debtors to determine with precision the actual amount of incurred, but not reported, reimbursable expenses as of any particular time. As of the Petition Date, I believe that the Debtors estimate that they owe approximately \$6,000.00 in aggregate Reimbursable Expenses. I believe that payment of prepetition Reimbursable Expenses is necessary because any other treatment of Employees would be highly inequitable and risk alienation of the Debtors’ workforce. Employees who have incurred Reimbursable Expenses should not be forced personally to bear the cost, especially because those Employees incurred such expenses for the Debtors’ benefit, in the course of their employment by the Debtors, and with the understanding that they would be reimbursed for doing so.

4. Severance

54. At the discretion of management, the Debtors provide severance payments to certain Employees who have entered into employment agreements that contain severance provisions (the “Severance Provisions”). Under the applicable Severance Provisions, the maximum allowed severance for these Employees is three months. As of the Petition Date, the Debtors owe \$0 on account of the Severance Provisions.

5. The Health Plans

55. The Debtors' healthcare plans, which include medical, dental, and vision benefits are an important component of the Benefits offered by the Debtors (the "Health Plans"). The Debtors offer the Health Plans to all of their full time Employees.⁶

6. Medical Plan

56. The Debtors' medical benefit plan (the "Medical Plan") is fully insured and administered by Blue Cross Blue Shield of LA. The Debtors pay 90% of the premium cost for the Medical Plan. The Debtors estimate that as of the Petition Date approximately \$32,000.00 is currently outstanding related to the Medical Plan, including administration fees related thereto. The Debtors are requesting authority to continue to operate the Medical Plan in the ordinary course of business.

a. Dental Plan

57. The Debtors' dental benefit plan (the "Dental Plan") is fully insured and administered by Lincoln Financial Group ("Lincoln"). The Debtors pay 90% of the premium cost for the Dental Plan. The Debtors estimate that as of the Petition Date no amounts are currently outstanding related to the Dental Plan, including administration fees related thereto. The Debtors are requesting authority to continue to operate the Dental Plan in the ordinary course of business.

b. Vision Plan

58. The Debtors' vision benefit plan (the "Vision Plan") is fully insured and administered by Lincoln. The Debtors pay 90% of the premium cost for the Vision Plan. The Debtors estimate that as of the Petition Date no amounts are currently outstanding related to the

⁶ The Debtors pay the insurance premiums in advance each month and the funds collected from Employees reimburses the Debtors. The Debtors do not hold any Employee funds that are not property of the estates. For the avoidance of doubt, the Debtors are not seeking to assume the Health Plans by Employee Wages Motion and any request to assume the Health Plans will be made by separate motion.

Vision Plan, including administration fees related thereto. The Debtors are requesting authority to continue to operate the Vision Plan in the ordinary course of business.

7. 401(k) Plan

59. The Debtors offer their Employees the opportunity to participate in a 401(k) savings plan (the “401(k) Plan”), which is administered by Principal Financial Group. The Employees may contribute a percentage of their base pay, subject to regulatory limits. The Debtors will match up to 100% of the Employee’s first 4% of deferred compensation. As of the Petition Date, the Debtors estimate that they owe \$0.00 on account of the employer match portion of the 401(k) Plan. The Debtors are seeking authority to pay amounts owed under the employer match portion of the 401(k) Plan to the extent any exist, and to continue the 401(k) Plan in the ordinary course of business.

8. Life Insurance and Disability Benefits

60. The Debtors provide their Employees with life insurance, accidental death and dismemberment coverage, and long-term disability benefits (the “Life Insurance,” “AD&D Coverage,” and “LTD Benefits,” respectively) through Lincoln. Life Insurance and AD&D Coverage provide each participating full-time Employee with coverage up to one time his or her annual earnings. Full-time Employees may opt into supplementary protection to cover accidents, critical illness, and/or hospital indemnity. As of the Petition Date, the Debtors believe no amounts are outstanding for premiums owed and claims asserted under these programs, and the Debtors seek authority to continue these programs in the ordinary course of business.

9. Emergency Assistance Program

61. The Debtors provide their Employees and immediate family members access to counseling programs (the “Emergency Assistance Program”). As of the Petition Date, the Debtors believe approximately \$100.00 is outstanding for premiums owed and claims asserted related to

this program, and the Debtors seek authority to continue this program in the ordinary course of business.

10. Employee Withholdings

62. In connection with paying the Unpaid Compensation and the Benefit Obligations (each as defined in the Employee Wages Motion), the Debtors routinely deduct and/or withhold from the Employees' paychecks amounts that the Debtors are required to transmit to third parties. For example, the Debtors may deduct from the Employees' earnings, among other things, (a) payroll taxes related to federal, state, and local income taxes, FICA, Social Security, and Medicare taxes for remittance to the appropriate federal, state, or local taxing authority; (b) employee contributions for health benefits and health care and dependent care spending accounts; (c) employee contributions to employee life insurance, long-term disability insurance, and personal accident insurance; (d) employee contributions to 401(k) plans and 401(k) loan repayments; and (e) legally ordered deductions, such as child support and garnishments (the "Employee Withholdings"). The Debtors then forward amounts equal to the Employee Withholdings from general operating accounts to appropriate third-party recipients. I believe that disbursement of the Employee Withholdings would not prejudice other creditors because I have been informed by counsel that such obligations generally give rise to priority claims under section 507(a) of the Bankruptcy Code.

63. The Debtors pay fees to third-party administrators and servicers of the Benefits. Third-party administrators assist the Debtors with, among other things, servicing the FSAs and administering the Benefits, and assist with payroll servicing and payroll transfer administration in connection with Employee Obligations. I believe that continued payment to third-party administrators is necessary, and without the continued service of these administrators, the Debtors

will be unable to continue honoring their obligations to Employees in an efficient and cost-effective manner.

(a) The Debtors are not seeking relief to pay prepetition Employee Obligations to any individual Employee in excess of the \$15,150 cap imposed by section 507(a)(4) of the Bankruptcy Code on an interim basis. I also believe that the total amount sought to be paid by the Employee Wages Motion is modest compared to the magnitude of the Debtors' overall business. Furthermore, the Debtors have sufficient funds to pay the Employee Obligations in the ordinary course using cash maintained by the Debtors and cash generated through operations and, to the extent necessary, the DIP Funds. Accordingly, I believe the relief requested in the Employee Wages Motion is necessary to avoid immediate and irreparable harm and is in the best interests of the Debtors, their estates, and all parties in interest.

vi. Insurance Motion

64. In the Insurance Motion, the Debtors seek entry of interim and final orders: (i) authorizing, but not directing, the Debtors to: (a) pay their obligations under prepetition insurance policies, (b) continue to pay certain brokerage fees, (c) renew, supplement, modify, or purchase insurance coverage, including through premium financing agreements, in the ordinary course, and (d) maintain their Surety Bond Program (as defined below) on an uninterrupted basis, and (ii) granting related relief.

65. With the assistance of their Insurance Broker, the Debtors procured fifteen (15) insurance programs and related insurance policies that are administered by several third-party insurance carriers. The Insurance Programs provide coverage for, among other things, general liability, directors' and officers' liability, employment practices liability, fiduciary liability, commercial general liability, cyber liability, workers' compensation, energy liability, and an

umbrella or excess liability insurance programs. On an annual basis, the Debtors pay approximately \$700,000 on account of Insurance Premiums. The Debtors generally pay the Insurance Premiums, as a combination of full payments and/or down payment with monthly payments. While the Debtors believe they are current on their obligations, it is anticipated that certain Insurance Premiums will become due and owing during these Chapter 11 Cases. The Debtors also finance certain of the Insurance Obligations through a premium financing agreement (the “Premium Financing Agreement”). In addition, in the ordinary course of business, the Debtors provide Surety Bonds to certain third parties to secure the Debtors’ payment or performance of certain obligations related to the operation of their businesses. As of the Petition Date, the Debtors do not owe any amounts on account of the Surety Bond Program.

66. The nature of the Debtors’ business and these Chapter 11 Cases render it essential for the Debtors to maintain their Insurance Programs, Premium Financing Agreement, and Surety Bond Program, as applicable, on an ongoing and uninterrupted basis. The non-payment of any premiums or related fees under the Insurance Programs and Surety Bond Program, as applicable, could result in one or more of the Insurance Carriers or the Sureties terminating or declining to renew the Insurance Programs or Surety Bond Program or refusing to enter into new insurance policies or surety bonds with the Debtors. If any of the Insurance Programs or the Surety Bond Program lapse, the Debtors could be exposed to substantial liability or property damages, to the detriment of all parties in interest.

67. In addition, the risk that eligible claimants under the Workers’ Compensation Program will not receive timely payments for prepetition employment-related injuries could have a negative impact on the financial well-being and morale of the Debtors’ employees and lead to the departure of certain employees. Such departures by employees at this critical time may result

in the disruption of the Debtors' business with a substantially adverse impact on the Debtors, the value of their assets, and these chapter 11 cases. Moreover, in many instances, the coverage provided under the Insurance Programs is required by the regulations, laws, and contracts that govern the Debtors' commercial activities.

68. Accordingly, for the reasons set forth herein and in the Insurance Motion, I respectfully submit that the relief requested in the Insurance Motion is in the best interests of the Debtors, their estates, and all parties-in-interest and will enable the Debtors to continue to operate their businesses and preserve the value of their estates. Absent the relief requested, the Debtors and their estates would suffer immediate and irreparable harm.

vii. Taxes Motion

69. I understand that the taxes the Debtors typically incur generally fall into the following categories: Ad Valorem Taxes, Franchise Taxes, Severance Taxes, Sales and Use Taxes, Business Licenses, Permits and Other Fees, Import and Customs Duties and Regulatory Assessments (each as defined in the Taxes Motion and collectively, the "Taxes"). A non-exclusive list of the Taxing Authorities is set forth on as exhibit to the Taxes Motion.

1. Ad Valorem Taxes

70. The Debtors own, or owned, property in Texas and Louisiana, and certain Taxing Authorities in these states have the authority to levy property occupancy taxes, real estate taxes, and other property taxes against the Debtors' leased and owned real and personal property (the "Ad Valorem Taxes"). As of the Petition Date, the Debtors estimate they owe approximately \$307,000.00 in Ad Valorem Taxes, none of which is payable within twenty-one (21) days after the

Petition Date.⁷ I believe that failure to timely remit payment of Ad Valorem Taxes may subject the Debtors to penalties or interest.

2. Franchise Taxes

71. The Debtors are required to pay taxes assessed for the privilege of doing business within a particular jurisdiction (the “Franchise Taxes”). The Debtors pay Franchise Taxes to the applicable Taxing Authorities in several states. Franchise Taxes are typically paid quarterly or annually to the applicable Taxing Authorities. As of the Petition Date, the Debtors do not believe they owe any amounts in prepetition Franchise Taxes. I believe that failure to timely remit payment of Franchise Taxes may subject the Debtors to penalties or interest.

3. Severance Taxes

72. Certain of the states in which the Debtors operate, including Texas and Louisiana, assess monthly severance taxes for the Debtors’ sale of oil, natural gas and natural gas liquids (the “Severance Taxes”). Severance Taxes are, in form and effect, akin to a sales tax and are remitted to the relevant state Taxing Authority. Based on the time required to market and sell the oil, natural gas, and natural gas liquids that the Debtors produce, the Debtors estimate that prepetition Severance Taxes of approximately \$90,000.00 have accrued and remain unpaid as of the Petition Date, of which approximately \$35,000.00 will become payable during the first twenty-one (21) days of the Chapter 11 Cases. Because payment of Severance Taxes is directly related to the Debtors’ ability to continue the extraction and sale of oil, natural gas and natural gas liquids, payment of the Severance Taxes is critical to the Debtors’ continued operations. Additionally, Severance Taxes are imposed by state law and non-compliance would be a violation of state

⁷ This amount ignores lien and assessment dates under state law and results from a calculation of the amount owed by prorating the time period to which the applicable taxes relate. Determining whether Property Taxes are prepetition or postpetition in nature can be difficult due to the intricacies of state law, and the Debtors are taking no position on those issues in the Taxes Motion.

statutes. I believe that failure to timely remit payment of Severance Taxes may subject the Debtors to penalties or interest.

4. Sales and Use Taxes

73. The Debtors are required to file monthly sales and use tax returns in the states where the Debtors conduct business, namely Texas and Louisiana (the “Sales and Use Taxes”). These Sales and Use Taxes are assessed in connection with the sale, purchase and use of goods and services. Sales and Use Taxes of approximately \$0.00 have accrued and remain unpaid as of the Petition Date, all of which is payable during the first twenty-one (21) days of the Chapter 11 Cases. I believe that failure to timely remit payment of Franchise Taxes may subject the Debtors to penalties or interest.

5. Regulatory Assessments

74. In the ordinary course of business, the Debtors are required to pay certain regulatory assessments, drilling and permitting fees, licensing fees, levies, inspection fees and other miscellaneous fees (the “Regulatory Assessments”).

75. I understand that failure to pay the aforementioned Regulatory Assessments may cause the Taxing Authorities to take precipitous action, including, but not limited to, filing liens, preventing the Debtors from conducting business in the ordinary course in the applicable jurisdictions in which they operate, and potentially holding directors and officers personally liable, all of which would disrupt the Debtors’ day-to-day business operations, potentially impose significant costs of the Debtors’ estates and their creditors, and hinder the Debtors’ efforts to successfully restructure. Regulatory Assessments are typically paid annually, with certain

assessments paid on a semi-annual or quarterly basis, totaling approximately \$15,000.00 per year.⁸

The Debtors do not believe that any Regulatory Assessments are due and owing as of the Petition Date. I believe that failure to timely remit payment of Regulatory Assessments may subject the Debtors to penalties or interest.

6. Business Licenses, Permits and Other Fees

76. In the ordinary course of business, the Debtors are required to pay various taxes and fees for business licenses, annual reports, various permits, and other similar types of taxes and fees (the “Business Fees”). The Debtors do not believe that any Business Fees are due and owing as of the Petition Date. I believe that failure to timely remit payment of Franchise Taxes may subject the Debtors to penalties or interest.

7. Import and Customs Duties

77. In the ordinary course of business, the Debtors are required to pay import and customs duties in the ordinary course of operating their business (the “Import and Customs Duties”). The Debtors do not believe that any Import and Customs Duties are due and owing as of the Petition Date. I believe that failure to timely remit payment of Franchise Taxes may subject the Debtors to penalties or interest.

viii. Utilities Motion

78. As more fully described in the Utilities Motion, the Debtors obtain electric, telecommunications, and other similar utility services (the “Utility Services”) from approximately 6 utility providers (the “Utility Companies”), a list of which is attached as an exhibit to the Utilities Motion (the “Utilities Services List”). I believe that uninterrupted Utility Services are essential to

⁸ The variance in regulatory fees each year is largely driven by, among other things, the amount of P&A expenses incurred each year.

the Debtors' ongoing operations and the success of the Chapter 11 Cases. Should any Utility Company alter, refuse, or discontinue service, even briefly, the Debtors' business operations could be severely disrupted. The Debtors operate a complex business with significant operations in East Texas and Louisiana. Interruption of the Utility Services provided at any of their locations would disrupt necessary communication and coordination between the Debtors' employees, vendors, customers, and various regulatory authorities, and would prevent the provision of necessary support to these same parties. I believe that any such disruption would jeopardize the Debtors' ability to manage their restructuring efforts. As a result, it is essential that the Utility Services continue uninterrupted during the Chapter 11 Cases.

79. I believe that there are no material defaults or significant arrearages with respect to the undisputed invoices for prepetition Utility Services. As of the Petition Date, the Debtors estimate that approximately \$5,000.00 in utility costs are outstanding. Based on a monthly average for the twelve months prior to the Petition Date, the Debtors estimate that their aggregate cost of Utility Services for the next twenty-one (21) days will be approximately \$6,042.00. Thus, I believe that the proposed \$3,021.00 utility deposit is appropriate and adequately protects the Utility Companies.

80. I believe and am advised that the Adequate Assurance Procedures (as defined in the Utilities Motion) are necessary to the success of the Debtors' Chapter 11 Cases because if such procedures are not approved, the Debtors could be forced to address numerous requests by Utility Companies for adequate assurance in a disorganized manner during the critical first weeks of the Chapter 11 Cases. Discontinuation of Utility Service could disrupt operations and jeopardize the Debtors' restructuring efforts and, ultimately, the value of the Debtors' estates and stakeholders' recoveries.

81. Based on the foregoing, I believe that the relief requested in the Utilities Motion would ensure the continuation of the Debtors' businesses at this critical juncture as the Debtors transition into chapter 11. Furthermore, I believe that the relief requested provides the Utility Companies with a fair and orderly procedure for determining requests for additional adequate assurance. Accordingly, I believe that the relief requested in the Utilities Motion should be granted in all respects.

ix. *Joint Interest Billing (JIB) Motion*

82. As more fully described in the JIB Motion, the Debtors hold working interests and similar operating rights interests in various oil and gas leases. Through a written agreement (an "Oil and Gas Lease"), owners of mineral interests sell or otherwise convey the exclusive right to capture minerals (a "Working Interest") to a third party (a "Working Interest Holder"). Generally, a Working Interest entitles the owner of that interest to a portion of the mineral production from the property or the proceeds thereof subject to the costs of exploration, development, and operation of the property.

83. The efficient capture of minerals often requires an area of land and/or depths (the "Contract Area") that implicates the working interest of more than one Working Interest Holder. Working Interest Holders, either through a joint operating agreement (a "JOA") or otherwise, will designate one Working Interest Holder as the operator of the Contract Area (the "Operator"). The Operator (a holder of an "Operating Working Interest") conducts the day-to-day business associated with capturing minerals in the Contract Area on behalf of itself and the other, non-operating Working Interest Holders (each, a holder of a "Non-Op Working Interest"). The Operator generally will pay all of the expenses associated with daily operations (the "Operating Expenses") on account of its Working Interest and Non-Op Working Interests. The Operator

subsequently will bill the holders of Non-Op Working Interests for their pro rata share of Operating Expenses (each, a “Joint Interest Billing” or “JIB”).

84. The Debtors hold Operating Working Interests and Non-Operating Working Interests in various Oil and Gas Leases. In respect of the Debtors’ Non-Operating Working Interests, in the twelve months ending September 16, 2024, the Debtors paid approximately \$1,300,000 in Joint Interest Billings. It is my understanding that failure to timely pay the Joint Interest Billings may provide grounds for contractual or statutory lien rights in favor of such Operators against the Debtors’ Non-Operating Working Interest in the associated Oil and Gas Lease or the Debtors’ pro rata portion of the production therefrom.

85. In respect of the Debtors’ Operating Working Interests, in the twelve months that ended September 16, 2024, the Debtors paid in the aggregate approximately \$5,500,000 in Operating Expenses. It is my understanding that failure to pay Operating Expenses when due could result in the Debtors’ removal as Operator under various JOA’s or the perfection and/or enforcement of liens on the Debtors’ assets.

86. Additionally, in order to market or sell production from oil and gas properties operated by the Debtors effectively, the Debtors, as Operator, will make contractual arrangements (the “Marketing Arrangements”) by which third parties (the “Marketing Arrangement Counterparties”) will charge the Debtors for gathering, transportation, treating, dehydration, compression, processing, fractionation, and other similar services necessary or desirable to get the oil and natural gas production to market in a condition ready for sale (such charges, collectively, the “Marketing Expenses”). The Debtors’ counterparties to the Marketing Arrangements commonly will have possession and, at times, title to the oil and gas production being marketed (the “Marketed Production”). It is my understanding that failure to pay Marketing Expenses when

due could result in such counterparties refusing to release production or revenues associated with the Marketed Production in their possession or refusing to accept delivery of additional Marketed Production.

87. I understand that, as of the Petition Date, the Debtors estimate they owe approximately \$1,960,000.00 in total for Joint Interest Billings, Operating Expenses, and Marketing Expenses with respect to the period prior to the Petition Date, of which \$800,000.00 will become due and payable during the first twenty-one (21) days of the Chapter 11 Cases. The amounts the Debtors are requesting authority to pay pursuant to the JIB Motion represent outstanding obligations to parties that, if left unpaid, could result in significant financial consequences for the Debtors, including the creation and imposition of statutory liens on the Debtors' assets, enhanced damages or interests for creditors or counterparties, or the elimination of the Debtors' interests or property rights in their valuable wells, oil and gas leases, or other properties. Accordingly, I respectfully ask the Court to grant the relief requested in the JIB Motion.

x. *Royalty Motion*

88. As discussed above, the Debtors have interests in various Oil and Gas Leases. The Debtors' leasehold interests are subject to or burdened by mineral interests retained by the lessors of the Debtors' Oil and Gas Leases ("Mineral Interest Owners"). The nature of the interests retained by the Mineral Interest Owners take many forms, including royalty interests, overriding royalty interests, net profit interests, non-participating royalty interests, production payments, and non-executive interests (collectively, "Royalty Interests"). As more fully described in the Royalty Motion, among other payment mechanisms and arrangements such as upfront bonus payments, the Mineral Interest Owners generally reserve either a share of production or payments in lieu of a share of production as compensation for such Royalty Interests ("Royalty Payments"). It is my

understanding that failure to timely make Royalty Payments can result in fines, liens, penalties, conversion and constructive trust claims, and litigation actions seeking the forfeiture, cancellation, or termination of the Oil and Gas Leases under the terms thereof.

89. The Debtors may also be required to make lease obligation payments to Mineral Interest Owners in addition to Royalty Payments, including, but not limited to, non-royalty lease payments such as delay rental payments, lease extension payments, shut-in royalty payments, and minimum royalty payments, together with making payment of escheat obligations (“Other Obligations”). Among other things, such payments may be necessary to extend valuable expiring Oil and Gas Leases or otherwise prevent the termination thereof. Accordingly, it is my understanding that failure to pay the Other Obligations could have a material adverse effect upon the Debtors and their estates, including, *inter alia*, the loss of valuable Oil and Gas Leases.

90. In respect of the Debtors’ Operating Working Interests, as Operator, the Debtors are often responsible for marketing and selling the oil and gas produced on a well. After selling the oil and gas, or facilitating such sales through Marketing Arrangements, the Debtors distribute the proceeds (the “Revenue Interest Disbursements”) to the corresponding Non-Operating Working Interest Owners in accordance with each party’s interest therein. It is my understanding that failure to timely pay Revenue Interest Disbursements to such Non-Operating Working Interest Owners could result in the perfection of liens on the Debtors’ interest in the applicable Oil and Gas Lease, as well as other consequences, including removal of the Debtors as Operator.

91. Additionally, the Debtors hold certain payments in “suspense” when they (i) they are too small to warrant payment under the terms of an Oil and Gas Lease, operating agreement or other applicable agreement, (ii) the Debtors have determined they should not be paid because of a dispute or other legal reasons, or (iii) the Debtors are unable to identify or properly pay the relevant

interest owner (such amounts held in suspense, "Suspense Obligations"). The Suspense Obligations are accrued but unpaid liabilities of the Debtors. The Debtors estimate that approximately \$950,000.00 in Suspense Obligations are unpaid as of the Petition Date. The Debtors do not anticipate being obligated to pay the full amount of the Suspense Obligations during the Chapter 11 Cases; however, in light of the difficulty in estimating precisely when, and to what extent, Suspense Obligations will become due and payable and, out of an abundance of caution, the Debtors seek authority in the Proposed Interim Order to continue to negotiate, resolve, settle, and honor the full amount of outstanding Suspense Obligations in the ordinary course whether such amounts relate to the prepetition or post-petition period.

92. Further, certain Suspense Obligations may eventually escheat to various state taxing authorities because the Debtors were unable to locate or otherwise pay the relevant interest owner, and the Debtors intend to pay approximately \$10,000.00 of this amount within the first twenty-one (21) days of the Chapter 11 Cases to various state taxing authorities.

93. I understand that, as of the Petition Date, the Debtors estimate they owe approximately \$2.3 million in total for Royalty Payments, Revenue Interest Disbursements, and Other Obligations with respect to the period prior to the Petition Date, of which \$490,000.00 will become due and payable during the first twenty-one (21) days of the Chapter 11 Cases. The amounts the Debtors are requesting authority to pay pursuant to the Royalty Motion represent outstanding obligations to parties that, if left unpaid, could result in significant financial consequences for the Debtors, including the creation and imposition of liens on the Debtors' assets, enhanced damages or interests for creditors or counterparties, or the elimination of the Debtors' interests or property rights in their valuable wells, oil and gas leases, or other properties. Accordingly, I respectfully ask the Court to grant the relief requested in the Royalty Motion.

xi. Lien Claim Motion

94. The Debtors are seeking authorization to pay certain undisputed, liquidated, prepetition claims of certain domestic common carriers, movers, shippers, truckers, and logistics management companies (the “Shippers”), warehousemen (the “Warehousemen”), third-party contractors, repairmen, and manufacturers (the “Third Party Contractors,” and together with Shippers and Warehousemen, the “Lien Claimants”), who provide vital services to the Debtors to address their shipping needs, and in each case who may assert or may seek to assert mechanics’ and other possessory liens against the Debtors’ property.

95. In the ordinary course of their business, the Debtors depend on the Shippers to transport or deliver goods, materials, equipment, and other property related to the Debtors’ operations (the “Materials”). The Debtors also rely on certain Warehousemen in the ordinary course of business to store pipe.

96. The Debtors pay the Shippers and the Warehousemen in arrears and, therefore, may be liable to the Shippers and Warehousemen, as applicable, for certain prepetition amounts. The Debtors’ possible failure to pay any such fees may entitle the Shippers to assert a lien, attempt to maintain possession of the Debtors’ property, and/or fail to deliver the Debtors’ property as and when due in the ordinary course of business. Likewise, the Debtors’ possible failure to pay any such amounts may entitle the Warehousemen to assert a lien, attempt to take possession of the Debtors’ property, and/or bar the Debtors’ access to Materials stored by the Warehousemen. Furthermore, applicable non-bankruptcy law may permit a Shipper or Warehousemen to attach a lien on the goods in its possession, which lien secures the charges or expenses incurred in

connection with the transportation or storage of such goods.⁹ As a result, certain Shippers and Warehousemen may refuse to deliver or release property in their possession or control before the prepetition amounts owed to them by the Debtors (the “Shipping and Warehousing Claims”) have been satisfied and their liens redeemed.

97. To continue using the Shippers’ and Warehousemen’s transportation and storage services, and to continue to have access to the Materials held or controlled thereby, the Debtors request authority to pay any such Shipping and Warehousing Claims in the ordinary course of business on a postpetition basis.

98. The Debtors routinely transact business with a number of Third-Party Contractors in the ordinary course of business. For example, the Debtors pay expenses related to the day-to-day costs of the exploration, drilling, and production from properties they operate. A significant portion of these expenses are payments to third parties that perform labor or furnish or transport materials, equipment or supplies in connection with drilling, producing, repairing, operating or maintaining the Debtors’ properties. These Third-Party Contractors may potentially assert statutory and contractual liens against the Debtors’ property (or even property of other third parties with working interests under operating agreements) to secure payment for prepetition goods and services provided to the Debtors. Given the nature of the Debtors’ business, nearly all of their vendors may be entitled to assert liens, and in certain circumstances, the liens of the Third-Party Contractors may be senior to the liens of other secured creditors.

99. I have been informed by counsel that pursuant to section 362(b)(3) of the Bankruptcy Code, the act of perfecting such liens, to the extent consistent with section 546(b) of

⁹ By Lien Claim Motion, the Debtors do not concede that any liens (contractual, common law, statutory, or otherwise) described in the Motion are valid, and the Debtors expressly reserve the right to contest the extent, validity, and perfection of any and all such liens, and to seek avoidance thereof.

the Bankruptcy Code, or to the extent the act is accomplished within the 30-day period set forth in section 547(e)(2)(A) of the Bankruptcy Code, is expressly excluded from the automatic stay.¹⁰ These statutory liens often allow such parties to retain possession of equipment, machinery, supplies, and other materials (or impair title to the equipment, machinery, supplies, and other materials, by filing a security interest) until the debtor satisfies the outstanding amounts owed. Arguably, acts to perfect these statutory liens are not subject to the automatic stay under section 362 of the Bankruptcy Code.

100. As of the Petition Date, the Debtors estimate that approximately \$25,000.00 in prepetition Third-Party Contractor claims (the “Third Party Contractor Claims,” and together with the Shipping and Warehousing Claims, the “Lien Claims”) remain outstanding and that approximately \$0.00 of such claims will become payable within the first twenty-one (21) days after the Petition Date. Accordingly, absent payment of any outstanding prepetition amounts, I believe that Third-Party Contractors may refuse to provide services for, and/or honor obligations under their existing agreements with, the Debtors on a going-forward basis.

xii. Cash Collateral/DIP Motion

101. As a result of extensive negotiations and a corresponding marketing process, the Company was able to secure commitments for an approximately \$14.2 million debtor-in-possession financing facility (the “DIP Facility”) from the Prepetition Term Loan Lenders. The proposed DIP Facility consists of a new money loan in an aggregate principal amount of up to \$1.695 million and roll-up DIP loans in the aggregate amount of approximately \$12.5 million. The

¹⁰ Under section 546(b) of the Bankruptcy Code, a debtor’s lien avoidance powers “are subject to any generally applicable law that . . . permits perfection of an interest in property to be effective against an entity that acquires rights in such property before the date of perfection.” 11 U.S.C. § 546(b)(1)(A). Under section 547(e)(2)(A) of the Bankruptcy Code, a transfer for preference analysis purposes takes place “at the time such transfer takes effect between the transferor and the transferee, if such transfer is perfected at, or within 30 days after, such time.” *Id.* § 547(e)(2)(A).

DIP Facility is governed by that certain Senior Secured Superpriority Debtor-in-Possession Term Loan Agreement, by and among PQE LLC, as borrower, PQE Inc., as parent, and the Non-Operating Subsidiaries, as guarantors, Computershare Trust Company, N.A., as administrative agent, and the other financial institutions that are from time to time party thereto as “Lenders,” attached as an exhibit to the proposed interim DIP order. Due to the Debtors large swing of cash balances during each month, immediate access to the DIP Facility is critical to maintain the Debtors’ enterprise, including monthly expenditures relating to payroll, insurance, well- and asset-related expenses, and to maintain cash for what are sometimes unforeseen costs relating to maintenance of the assets. The Debtors’ revenue receipts are generally received in the last week of each month, and expenses must be paid for the ensuing three weeks as cash decreases. With the work by the Debtors’ professionals and negotiations, I believe the DIP Facility terms are well within market. The non-default interest rate, as an example, is eight percent (8%).

Conclusion

102. The above describes the Debtors’ business and capital structure, the factors that precipitated the commencement of the Chapter 11 Cases, and the proposed path for the Debtors’ restructuring. The provisions of the Bankruptcy Code will assist the Debtors in implementing this strategy, with the goal of maximizing value for their constituents.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge.

Dated: November 13, 2024
Lafayette, Louisiana

By: /s/ Angelle Perret
Name: Angelle Perret
Title: Chief Financial Officer
PetroQuest Energy, Inc.