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PROPOSED ATTORNEYS FOR
THE DEBTOR-IN-POSSESSION

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

In re:	§	
	§	CASE NO. 16-31590-bjh-11
PALADIN ENERGY CORP.,	§	
	§	(Chapter 11)
Debtor	§	
	§	Emergency Hearing Requested

**DEBTOR’S EMERGENCY MOTION FOR INTERIM AND FINAL
USAGE OF CASH COLLATERAL**

TO THE HONORABLE BARBARA J. HOUSER, CHIEF U.S. BANKRUPTCY JUDGE:

COMES NOW Paladin Energy Corp. (the “Debtor”), the debtor and debtor-in-possession in the above styled and numbered bankruptcy case (the “Bankruptcy Case”), and files this its *Emergency Motion for Interim and Final Usage of Cash Collateral* (the “Motion”), respectfully stating as follows:

I. PROCEDURAL BACKGROUND

1. On April 21, 2016 (the “Petition Date”), the Debtor filed its voluntary petition for relief under Chapter 11 of Title 11, United States Code (the “Bankruptcy Code”), thereby initiating the Bankruptcy Case and creating its bankruptcy estate (the “Estate”).

2. The Debtor is in possession of the Estate and manages the Estate as a debtor-in-possession. No trustee, examiner, or committee has been appointed as of this filing.

3. This Court has jurisdiction over the Bankruptcy Case and this Application pursuant to 28 U.S.C. §§ 157 and 1334. Consideration of this Application is a core proceeding under 28 U.S.C. § 157(b)(2). Venue of the Bankruptcy Case before this Court is appropriate under 28 U.S.C. §§ 1408 and 1409.

II. FACTUAL BACKGROUND

A. THE DEBTOR

4. The Debtor, in existence since 1997, is in the oil and gas business. Specifically, the Debtor is a producer, owning or otherwise having interests in numerous wells in Texas and New Mexico from which the Debtor extracts oil and gas for sale to third parties. Like every producer in this industry, the Debtor has suffered from the recent unprecedented decline in the price of oil, which has left the Debtor in breach of non-monetary covenants with its senior secured lender and unable to continue paying default interest. However, and unlike many other entities in this industry; the Debtor has an extensive and proven track record of success; the Debtor is not reliant on “fracking”; the Debtor’s customers are large, financially sound entities and the Debtor is not at material risk of non-payment from its customers; the Debtor is operationally cash flowing; the Debtor is not suffering any regulatory or environmental issues; and, with the exception of its senior secured lender and limited trade debt, the Debtor is not overly leveraged. The Debtor therefore believes that it will be able to reorganize for the benefit of all of its creditors, royalty owners, customers, and stakeholders. The Debtor filed its Bankruptcy Case for this purpose.

B. ALLEGED CASH COLLATERAL

5. The Debtor's senior, secured lender is MUFG Union Bank, N.A. (the "Bank") as administrative agent. As of the Petition Date, the Debtor was indebted to the Bank in the approximate amount of \$22,952,403.90. The Debtor's present loan with the Bank originated in 2008 in the original principal amount of \$40 million.

6. The Bank claims that all of the Debtor's cash and "cash collateral," as defined in the Bankruptcy Code, constitutes the Bank's collateral against which the Bank has perfected, first priority liens. The Debtor has not undertaken a review of whether the Bank in fact holds valid, perfected, first priority, non-avoidable liens and security interests against all of the Debtor's assets and "cash collateral" as of this time. For purposes of this Motion, however, and without prejudice to or waiver of the Debtor's and the Estate's right to contest the same, the Debtor assumes that the Bank holds valid, perfected, first priority, non-avoidable liens against all "cash collateral," although the Debtor requests no finding to that effect and reserves all of its and the Estate's rights regarding the same.

C. NEED FOR CASH COLLATERAL

7. The Debtor has an immediate and continuing need to use cash to operate its business. Without cash, the Debtor cannot pay its vendors, employees, utility providers, and others, on whose continuing services the Debtor is utterly reliant to continue extracting oil and gas, selling the same, and deriving income from the same. Moreover, due to various complicated leases, agreements, and laws, the Debtor and the Estate risk losing valuable assets and holdings if they discontinue their operations, while being unable to comply with numerous legal and regulatory requirements because they are unable to pay for vendors and business expenses risks environmental and other liabilities being imposed on the Debtor and the Estate. Either potential

would cause immediate, irreparable, and substantial injury to the Debtor and to the Estate. Equally as important, it would constitute severe and substantial injury to the Bank, or to any other entity claiming an alleged lien or other interest against any of the Estate's assets.

III. RELIEF REQUESTED

8. By this Motion, the Debtor requests: (i) first, authority to use Cash Collateral (as defined below) on an emergency, interim basis, for the period from the Petition Date to approximately June 1, 2016, or such other date that the Court holds the Final Hearing (defined below) (the "Interim Period"), in the amounts listed, and for the purposes disclosed, on the Budget attached hereto as Exhibit "A" and incorporated herein; and (ii) second, authority to use Cash Collateral for an additional seven (7) month period, through December 31, 2016 (the "Final Period"), in the amounts listed, and for the purposes disclosed, on the Budget, subject to any further extension thereof by agreement or by future order of the Court.

IV. ARGUMENTS AND AUTHORITIES

A. CASH COLLATERAL

9. The Bankruptcy Code defines "Cash Collateral" as including "cash, negotiable instruments, documents of title, securities, deposit accounts, or other cash equivalents whenever acquired in which the estate and an entity other than the estate have an interest and includes the proceeds, products, offspring, rents, or profits of property." 11 U.S.C. § 363(a).

10. Pursuant to the Bankruptcy Code, the Debtor may not use Cash Collateral unless "each entity that has an interest in such cash collateral consents," or unless "the court, after notice and a hearing, authorizes such use, sale, or lease in accordance with the provisions of this section." 11 U.S.C. § 363(c)(2)(A)-(B).

11. As noted above, the Debtor has yet to undertake a thorough review of whether the Bank has valid, perfected, first-priority and non-avoidable liens and security interests against the Debtor's assets and Cash Collateral. The Debtor believes that the Bank does have such security interests against certain assets and certain Cash Collateral, but that the Bank may not have such security interests or liens against other assets, including real property holdings (wells and oil and gas leases). Therefore, at the present, the Debtor does not know what portion of Cash Collateral the Bank has valid, perfected, first-priority and non-avoidable liens and security interests against. However, for purposes of this Motion, a final adjudication of the same is not necessary. Rather, for purposes of this Motion, the Debtor will assume, without making any affirmative representations and without seeking any adjudication, that the Bank does indeed hold valid, perfected, first-priority and non-avoidable liens and security interests against all Cash Collateral.

B. USAGE OF CASH COLLATERAL AND THE BUDGET

12. As noted above, the Debtor and the Estate have a need for the immediate and continuing usage of Cash Collateral to prevent immediate, irreparable, and substantial injury. This is so especially during the Interim Period, which is why the Debtor requests a preliminary hearing and interim order within the fourteen (14) day period referenced in Rule 4001(b)(2) to avoid immediate and irreparable harm to the Estate.

13. The Debtor requests authority to use Cash Collateral during the Interim Period and the Final Period for the purposes of, and in the amounts, listed on the Budget.¹ To protect the Estate against unexpected variances and to minimize the need for additional motions and hearing, the Debtor requests that it be permitted a 10% variance for each Budget item for each

¹ The Budget contains an opening cash balance as of the Petition Date. However, the Debtor has not been able to confirm with its bank what the precise amount on deposit as of that date was, in light of outstanding checks that may or may not have been negotiated prior to the automatic stay. The number as included in the Budget assumes that all payments cleared. If not, the amount will increase.

period (weekly during the Interim Period and monthly during the Final Period), with an overall Budget variance of no more than 15%.² All payments in the Budget would be cash payments for the referenced period and would not carry forward to any future expenditures incurred outside of the specific period, except for the following line items, which would accrue and would be available and payable when actually needed and approved: Reorganization Fees (consisting of any Court-approved professional for the Debtor and any committee) and Field Repairs/Well Service.

14. For the avoidance of doubt, any person (such as a professional) requiring approval of the Court for the allowance and payment of any claim, fees, and expenses, would not be relieved of any such requirement. That the Budget may contemplate the same does not mean that the Debtor would pay the same without appropriate authority and approval from the Court.

C. ADEQUATE PROTECTION

15. The Debtor acknowledges that, in order to use Cash Collateral, it must provide adequate protection to the Bank. *See* 11 U.S.C. § 363(e). Whatever the forms of adequate protection may be under section 361 of the Bankruptcy Code, one conclusion is clear: if the Bank does not suffer a diminution in the value of its cash collateral as a result of the Debtor's usage thereof, then the Bank is adequately protected.

16. Here, the Bank will be adequately protected because: (i) the Debtor's usage of Cash Collateral will lead to increased Cash Collateral as contemplated by the Budget, therefore increased collateral as a whole; (ii) the Debtor's usage of Cash Collateral will protect, preserve, maintain, safeguard, and enhance the Bank's collateral by avoiding a loss of interests and

² The Debtor has not attached to this Motion a proposed form of order approving the usage of Cash Collateral for the Interim Period, as the Debtor understands that the Bank is drafting said proposed form of order for the Debtor's review.

avoiding potentially disastrous liabilities being imposed against collateral; (iii) the Debtor proposes to grant the Bank a lien in all property, including all postpetition property, of the type that the Bank presently has a lien against, specifically excluding approved Budget expenses and accruals (and, for the avoidance of doubt, further explicitly excluding Chapter 5 causes of action), to the extent of any diminution in the value of Cash Collateral resulting from the Debtor's usage thereof; and (iv) the Debtor propose to grant the Lender a superpriority administrative claim, with priority over all claims except approved Budget expenses and accruals, to the extent of any diminution in the value of Cash Collateral resulting from the Debtor's usage thereof.

17. For these reasons and protections, *i.e.* enhancing the value of Cash Collateral, preserving all collateral, detailed budgeting, replacement liens, and a superpriority administrative claim as described above, the Debtor submits that the Bank and any other potential Cash Collateral creditor is more than adequate protected for the Debtor's requested usage of Cash Collateral.

V. PRAYER

WHEREFORE, PREMISES CONSIDERED, the Debtor respectfully requests that the Court enter an order: (i) authorizing the Debtor to use Cash Collateral during the Interim Period as discussed above; (ii) scheduling a final hearing on the Motion; (iii) authorizing the Debtor to use Cash Collateral during the Final Period as discussed above, subject to potential future additional requests and extensions; (iv) finding any creditor with an interest in Cash Collateral to be adequately protected under the protections discussed above; and (v) granting the Debtor such other and further relief to which they may show themselves to be justly entitled.

RESPECTFULLY SUBMITTED this 25th day of April, 2016.

MUNSCH HARDT KOPF & HARR, P.C.

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that, on this the 25th day of April, 2016, he caused true and correct copies of this document, with the exhibit thereto, to be served by U.S. first class mail, postage prepaid, on the attached Service List, and by e-mail on David Bennett, Esq., counsel for the Bank.

By: /s/ Davor Rukavina
Davor Rukavina