

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

In re:	)	
	)	Chapter 11
	)	
Quicksilver Resources Inc., <u>et al.</u> , <sup>1</sup>	)	Case No. 15-_____ ( )
	)	
Debtors.	)	Joint Administration Requested
	)	

**DECLARATION OF VANESSA GOMEZ LAGATTA  
IN SUPPORT OF FIRST DAY PLEADINGS**

I, Vanessa Gomez LaGatta, declare as follows under penalty of perjury:

I am Senior Vice President, Chief Financial Officer and Treasurer of Quicksilver Resources Inc. (“QRI” and, together with its debtor and non-debtor subsidiaries and affiliates, “Quicksilver”), a corporation organized under the laws of Delaware and one of the above-captioned debtors and debtors in possession (collectively, the “Debtors”).<sup>2</sup> I have been employed in this capacity by QRI since January 2015, after serving as QRI’s Vice President - Treasurer since September 2009. Accordingly, I am familiar with Quicksilver’s day-to-day operations, business, and financial affairs.

1. I submit this Declaration to assist the Court and other parties in interest in understanding the circumstances that compelled the commencement of these chapter 11 cases

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<sup>1</sup> The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, are: Quicksilver Resources Inc. [6163]; Barnett Shale Operating LLC [0257]; Cowtown Drilling, Inc. [8899]; Cowtown Gas Processing L.P. [1404]; Cowtown Pipeline Funding, Inc. [9774]; Cowtown Pipeline L.P. [9769]; Cowtown Pipeline Management, Inc. [9771]; Makarios Resources International Holdings LLC [1765]; Makarios Resources International Inc. [7612]; QPP Holdings LLC [0057]; QPP Parent LLC [8748]; Quicksilver Production Partners GP LLC [2701]; Quicksilver Production Partners LP [9129]; and Silver Stream Pipeline Company LLC [9384]. The Debtors’ address is 801 Cherry Street, Suite 3700, Unit 19, Fort Worth, Texas 76102.

<sup>2</sup> A chart detailing the corporate structure of the Debtors, their non-Debtor Cayman Islands affiliate, and their non-Debtor Canadian affiliates (the “Non-Debtor Canadian Entities”) is annexed hereto as **Exhibit A**.

and in support of the Debtors' petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") and the pleadings filed by the Debtors on or around March 17, 2015 (the "Petition Date"). I have reviewed the factual support set forth in each of the Debtors' "First Day" pleadings (defined below) and attest to the accuracy thereof. Except as otherwise indicated, all facts set forth herein are based on my personal knowledge, my discussions with other members of the Debtors' senior management, my review of relevant documents, or my opinion based upon experience, knowledge, and information concerning the Debtors' operations and financial affairs. If called upon to testify, I would testify competently to the facts set forth in this Declaration. I am authorized to submit this Declaration on behalf of the Debtors.

2. Sections I through IV of this Declaration provide an overview of the Debtors' businesses, organizational structure, capital structure, events giving rise to these chapter 11 cases, and information regarding these chapter 11 cases. Section V summarizes the relief requested with respect to, and the support for, the Debtors' motion for entry of an order approving their continued use of their existing cash management system and the interim and final orders authorizing the Debtors' use of cash collateral. Section VI summarizes the relief requested in certain of the other "First Day" pleadings.<sup>3</sup> Section VII summarizes the relief requested in certain other pleadings that were filed on the Petition Date, but that will be heard by the Court at a later date.

#### **I. OVERVIEW OF DEBTORS' BUSINESSES**

3. Quicksilver is an independent oil and gas company engaged in the acquisition, exploration, development, and production of onshore oil and natural gas in North America and is

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<sup>3</sup> "First Day" pleadings means the pleadings filed by the Debtors on the Petition Date or referred to in Sections V and VI herein.

based in Fort Worth, Texas. Quicksilver focuses primarily on unconventional reservoirs where hydrocarbons may be found in challenging geological conditions, such as fractured shales and coalbeds. As discussed in further detail below, Quicksilver's oil and natural gas properties in the United States are principally located in Texas and, in Canada, in the provinces of British Columbia and Alberta. Quicksilver's four development and exploration areas include:<sup>4</sup>

- the Barnett Shale in the Fort Worth Basin in north-central Texas (the "Barnett Shale");
- the Delaware basin in western Texas ("West Texas");
- the Horn River Basin in British Columbia, Canada (the "Horn River Basin"); and
- the coalbeds of the Horseshoe Canyon in Alberta, Canada ("Horseshoe Canyon").

Quicksilver's properties in the United States are owned by QRI. Non-Debtor Canadian Entity Quicksilver Resources Canada Inc. ("QRCI"), a wholly owned subsidiary of QRI, is the beneficial owner of Quicksilver's properties in Canada, including the Horn River Basin and Horseshoe Canyon (together with all other Canadian properties, the "Non-Debtor Canadian Properties").<sup>5</sup>

4. As of December 31, 2014, Quicksilver had approximately 585,000 net acres of oil and natural gas properties in the four development and exploration areas described above, with proven reserves of approximately 1.1 Tcfe and over 2,000 net producing wells. In addition, Quicksilver's oil and natural gas properties contain significant unbooked resource potential of

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<sup>4</sup> Attached hereto as **Exhibit B** is a map illustrating the location of Quicksilver's development and exploration areas.

<sup>5</sup> As described in greater detail herein, the Non-Debtor Canadian Entities have entered into a Forbearance Agreement with their senior secured lenders. As a result, the Non-Debtor Canadian Entities have not commenced insolvency proceedings, and thus, the assets of the Non-Debtor Canadian Entities, including the Non-Debtor Canadian Properties, are not subject to these chapter 11 cases. This Declaration provides a description of the Horn River Basin and Horseshoe Canyon properties solely in the interest of disclosure and out of an abundance of caution.

over 15.0 Tcfe plus 200 MMbbl. In the fourth quarter of 2014, Quicksilver produced approximately 243 MMcfed, with approximately 88% of that production comprised of natural gas; approximately 67% of Quicksilver's production came from the United States and 33% came from Canada.

5. As of December 31, 2014, Quicksilver reported total assets of approximately \$1.2 billion on its unaudited consolidated balance sheets, of which approximately \$423.3 million were current assets. The remaining \$790.7 million in reported assets related primarily to oil and gas properties, other property and equipment, long-term derivative assets, and other long-term assets. Quicksilver reported consolidated net loss of approximately \$31.9 million for the three months ending December 31, 2014 and a consolidated net loss of approximately \$103.1 million for the year ended December 31, 2014.

**A. The Debtors' Properties in the United States**

*(i) Barnett Shale*

6. The Barnett Shale is one of the Debtors' core production and development areas. The Debtors believe that they have a large portfolio of high-quality, low-risk assets in the Barnett Shale. In particular, as of December 31, 2014, the Debtors held approximately 89,000 net acres in the Barnett Shale, and proved reserves were approximately 0.8 Tcfe. The Debtors' acreage is divided between the dry gas areas in Tarrant and Denton counties in the northern part of the Fort Worth Basin, and the high-Btu natural gas areas in Hood and Somervell counties in the southern part of the basin. Natural gas liquids ("NGLs") are extracted through midstream facilities that the Debtors constructed and are now owned by Crestwood Midstream Partners LP. In 2014, sales of NGLs represented approximately 21% of the Debtors' production from the Barnett Shale and 14% of consolidated production revenue.

7. The Debtors focused their drilling activity in 2014 in the Barnett Shale in an attempt to increase production and cash flows from operations, with a limited capital plan. As operator, the Debtors drilled 19 (11.2 net) wells and completed 28 (17.7 net) wells in their Barnett Shale assets. As of December 31, 2014, the Debtors had a total of 980 (587.7 net) producing wells in their Barnett Shale assets.

(ii) *West Texas*

8. The Debtors' West Texas assets are an oil exploration opportunity. The Debtors' focus in West Texas is on approximately 60,000 gross (27,000 net) acres in Pecos County, which are being jointly developed with Eni Petroleum US LLC ("Eni")<sup>6</sup> and an undisclosed third-party. Additionally, on near-term expiring acreage in Crockett and Upton Counties, the Debtors executed a joint exploration agreement with another undisclosed third-party. As part of the agreement, the Debtors expect to be fully carried for the drilling and completion of up to five wells, which will be operated by such third-party. The Debtors retained a 12.5% interest in that project or approximately 2,000 net acres. The Debtors believe that the acreage, in both Pecos County and Crockett and Upton Counties, is prospective for the Bone Springs and Wolfcamp formations.

9. In the second half of 2014, the Debtors drilled and completed two wells in Pecos County with Eni. The Stallings #1H was completed in August 2014 and the Mitchell 1H was completed in October 2014. The Debtors also drilled the Puckett C well in Pecos County, which

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<sup>6</sup> In October and November 2013, the Debtors entered into two separate agreements involving their West Texas Assets, the largest of which is a joint exploration agreement with Eni (the "Eni JEA") whereby the parties jointly evaluate, explore, and develop approximately 52,500 gross acres currently held by the Debtors in Pecos County. Under the terms of the Eni JEA, Eni has agreed to pay up to \$52.0 million in three phases to earn a 50% interest in the Debtors' acreage. Upon completion of phase three, which will occur in 2015, the Debtors will participate equally in all future revenue, operating, and capital expenditures with Eni.

was completed late in the first quarter of 2015. The drilling and completion costs for these wells as well as one additional well are expected to be substantially covered by Eni pursuant to the Eni JEA. During 2015, the Debtors, together with Eni, expect to drill an additional four wells in West Texas.<sup>7</sup>

10. The Debtors did not recognize a material amount of proved reserves from their West Texas assets in 2014.

## **B. The Non-Debtor Canadian Properties**

### *(i) Horn River Basin*

11. The Horn River Basin is one of Quicksilver's core natural gas production and development areas. The Non-Debtor Canadian Entities hold approximately 126,000 net acres in the Horn River Basin. In 2012, the Non-Debtor Canadian Entities drilled an eight-well pad, and those eight wells have been their highest producing wells to date. As of December 31, 2014, proved reserves in the Horn River Basin were 66 Bcfe.<sup>8</sup>

12. In December 2011, certain of the Non-Debtor Canadian Entities and Kohlberg Kravis Roberts & Co. L.P. ("KKR") formed a midstream partnership (the "Fortune Creek Partnership") to construct and operate natural gas midstream services to support producer customers in British Columbia. In forming the Fortune Creek Partnership, the Non-Debtor Canadian Subsidiaries contributed an existing 20-mile, 20-inch gathering line and related

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<sup>7</sup> These wells are expected to be drilled pursuant to the existing Eni JEA. The Debtors and Eni are discussing the allocation of costs and percentage of working interest associated with these wells.

<sup>8</sup> In May 2013, the Non-Debtor Canadian Entities purchased a former paper mill site located in Campbell River, British Columbia with the intent to begin feasibility studies for development of the site as an liquefied natural gas ("LNG") export facility. The 1,200 acre site is classified as a brownfield redevelopment site and zoned as heavy industrial land with deep-water access. The Non-Debtor Canadian Entities believe the site is an attractive option for redevelopment as a liquefaction facility. In early 2014, the Non-Debtor Canadian Entities began demolition activities to clear the site of the remaining paper mill facilities. Further, in July 2014, the Non-Debtor Canadian Entities filed an export license application with the National Energy Board of Canada to export up to 20 Mtpa of LNG from the Campbell River site.

compression facilities and committed to deploy minimum capital expenditures of CAD\$300 million for drilling and completion activities in the Horn River Basin between 2012 and 2014.

13. In March 2014, the Non-Debtor Canadian Entities agreed with KKR to an amendment to extend the ending date to complete the minimum capital expenditure requirement (the “KKR Capital Expenditure”) to the earlier of June 30, 2016 or twelve months following the consummation of a transaction involving a material portion of the Horn River Basin assets and to broaden allowable expenditures to include acquisitions of producing properties that utilize partnership assets. The Non-Debtor Canadian Entities had incurred CAD\$180 million of capital expenditures as of December 31, 2014. The costs to be incurred under the KKR Capital Expenditure generally reflect the capital expenditures of all working interests in a well for wells in which the Non-Debtor Canadian Entities have a working interest regardless of their working interest percentage. To the extent these minimum capital expenditure commitments are not met, the Non-Debtor Canadian Entities will incur a cash penalty in an amount equal to the shortfall, which will be applied against the gathering agreement requirement. As part of the amendment, the Non-Debtor Canadian Entities contributed CAD\$28 million to the Fortune Creek Partnership, which was subsequently distributed to KKR and was applied against the gathering agreement requirement. The effect of this contribution was to reduce the balance of the partnership liability and to reduce the gathering rate that burdens Horn River Basin production by CAD\$0.13 per Mcf until at least 2016.

14. At present, although the Horn River Basin contains the most prolific wells in their portfolio, the Non-Debtor Canadian Entities do not have sufficient liquidity to further develop the Horn River Basin assets.

(ii) *Horseshoe Canyon*

15. Horseshoe Canyon is a coal bed methane natural gas play in central Alberta, Canada and is also one of Quicksilver's core natural gas production and development areas. As of December 31, 2014, proved reserves in Horseshoe Canyon were approximately 211.4 Bcf situated across approximately 343,000 net acres. The Non-Debtor Canadian Entities have working interests in over 3,000 gross (approximately 1,500 net) producing wells, with experienced, well-established partners. Horseshoe Canyon provides the Non-Debtor Canadian Entities with the opportunity for predictable and repeatable well results on shallow decline curves.

**II. THE DEBTORS' ORGANIZATION**

16. As indicated on the corporate structure chart attached hereto as Exhibit A, QRI is the ultimate corporate parent of the Quicksilver family of companies. QRI's direct and indirect subsidiaries include the Debtors, a non-Debtor subsidiary, and the Non-Debtor Canadian Entities.

**A. QRI's Direct and Indirect Interests in the Debtors**

17. QRI, which was formed as a Delaware corporation in 1997 and became a public company in 1999, is the primary operating entity in the United States and the only Debtor entity with significant assets and operations at this time. QRI owns a 100% interest in the following Debtor entities, each of which is a direct subsidiary of QRI: (i) Makarios Resources International Holdings LLC, a Delaware limited liability company ("Makarios Holdings"); (ii) Cowtown Pipeline Management, Inc., a Texas corporation ("CPMI"); (iii) Cowtown Pipeline Funding, Inc., a Delaware corporation ("CPFI"); (iv) Cowtown Drilling, Inc., a Texas corporation; (v) Silver Stream Pipeline Company LLC, a Delaware limited liability company; (vi) Barnett Shale



Operating LLC, a Delaware limited liability company; (vii) Quicksilver Production Partners GP LLC, a Delaware limited liability company ("QPP GP"); (viii) Quicksilver Production Partners LP, a Delaware limited partnership; and (ix) QPP Parent LLC, a Delaware limited liability company ("QPP Parent").

18. In addition to its direct ownership of these Debtor entities, QRI has direct or indirect ownership interests in certain other Debtor entities. In particular, QRI owns a 0.1% interest in QPP Holdings LLC, a Delaware limited liability company, with QPP Parent holding the remaining 99.9% interest in such entity. Moreover, QRI holds an indirect 100% interest in Makarios Resources International Inc. ("MRII") through Makarios Holdings, the direct parent of MRII. Finally, QRI also indirectly owns two limited partnerships: (i) Cowtown Gas Processing L.P., a Texas limited partnership, in which CPFI holds a direct 99% interest and CPMI holds a direct 1% interest; and (ii) Cowtown Pipeline L.P., a Texas limited partnership, in which CPFI holds a direct 99% interest and CPMI holds a direct 1% interest.

**B. QRI's Direct and Indirect Interests in Non-Debtor Entities**

19. QRI is also the ultimate parent of the Non-Debtor Canadian Entities. QRI directly owns a 100% interest in QRCI, a corporation organized under the laws of Alberta, Canada. Through QRCI, QRI also indirectly owns 100% interests in (i) Makarios Midstream Inc. ("Makarios Midstream"), a corporation organization under the laws of Alberta, Canada, (ii) 1622834 Alberta Inc., a corporation organized under the laws of Alberta, Canada, and (iii) 0942065 B.C. Ltd., a corporation organized under the laws of British Columbia, Canada ("0942065 B.C."). Makarios Midstream holds a 50% interest in the Fortune Creek Partnership with KKR. In addition, 0942065 B.C. owns a 100% interest in 0942069 B.C. Ltd., a corporation organized under the laws of British Columbia, Canada.

20. QRCI and the other Non-Debtor Canadian Subsidiaries own and/or operate the Non-Debtor Canadian Properties, including the Horn River Basin and Horseshoe Canyon.

21. QRI also owns 100% of the equity interests in Quicksilver Production Partners Operating Ltd., a Cayman Islands entity.

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

#### **A. Secured Debt**

22. As of the Petition Date, the Debtors have secured debt facilities in place in an aggregate face amount of approximately \$1.098 billion, which comprises the following: (a) no less than \$273 million in combined first lien senior secured revolving credit facility obligations (including outstanding letters of credit) (the "Combined Credit Agreements"), consisting of a senior secured U.S. revolving credit facility (the "U.S. Credit Facility") (pursuant to, as has been or may be amended, restated, supplemented or otherwise modified, the "U.S. Credit Agreement") and a senior secured Canadian revolving credit facility (the "Canadian Credit Facility") (pursuant to, as may have been or may be amended, restated, supplemented or otherwise modified, the "Canadian Credit Agreement"), (b) a \$625 million second lien term loan (the "Second Lien Credit Facility") (pursuant to, as has been or may be amended, restated, supplemented or otherwise modified, the "Second Lien Credit Agreement"), and (c) \$200 million of second lien floating rate notes due 2019 (the "Second Lien Notes") (pursuant to, as has been or may be amended, restated, supplemented or otherwise modified, the "Second Lien Indenture").

(i) *Combined Credit Agreements*

23. QRI, as borrower, entered into the U.S. Credit Agreement on December 22, 2011, with the lenders from time to time party thereto (collectively, the "U.S. Lenders"), JPMorgan

Chase Bank, N.A., as global administrative agent (the “Global Administrative Agent”), Bank of America, N.A., as syndication agent, and Deutsche Bank Securities, Inc., BNP Paribas and Wells Fargo Bank, N.A., as co-documentation agents. Contemporaneously therewith, QRI, as guarantor, and QRCI, as borrower, entered into the Canadian Credit Agreement with the lenders from time to time party thereto (collectively, the “Canadian Lenders”), JPMorgan Chase Bank, N.A. Toronto Branch, as administrative agent (the “Canadian Agent”),<sup>9</sup> the Global Administrative Agent, the Bank of Nova Scotia, as syndication agent, and the Toronto-Dominion Bank and Canadian Imperial Bank of Commerce, as co-documentation agents. On December 22, 2011, QRI and the Debtor Guarantors (as defined below) also entered into that certain *Guaranty Agreement* with the Canadian Agent (as has been or may be amended, restated, supplemented or otherwise modified, the “Canadian Guaranty Agreement”).<sup>10</sup>

24. Together, the Canadian Credit Agreement and the U.S. Credit Agreement provide for a senior secured revolving credit facility, subject to a global borrowing base of \$325 million (consisting of an allocated U.S. borrowing base of \$185 million and an allocated Canadian borrowing base of \$140 million), and a global letter of credit capacity of \$280 million. As of December 31, 2014, a combined \$9.2 million was available under the U.S. Credit Agreement and the Canadian Credit Agreement, all of which could be used to issue letters of credit. The collateral securing the obligations under the Combined Credit Agreements and the Canadian

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<sup>9</sup> Collectively, the Global Administrative Agent, U.S. Lenders, Canadian Agent, and Canadian Lenders are referred to as the “First Lien Parties”.

<sup>10</sup> Commencement of these chapter 11 cases by the Debtors was an event of default under the Canadian Credit Agreement. Notwithstanding that default and the automatic acceleration of the obligations under the Canadian Credit Agreement associated therewith, at the request of the QRI, the Debtor Guarantors and QRCI, the Global Administrative Agent, the Canadian Agent, the U.S. Lenders and the Canadian Lenders have implemented a forbearance from the exercise of rights and remedies against QRCI (the “Canadian Forbearance”). The Canadian Forbearance is an essential component of, and was granted in exchange for, the negotiated use of Prepetition Collateral and adequate protection set forth in the Interim Order.

Guaranty Agreement are set forth below. The value of such collateral substantially exceeds the amount outstanding under the Combined Credit Agreements.

(ii) *Second Lien Credit Agreement*

25. QRI, as borrower, entered into the Second Lien Credit Agreement on June 21, 2013 with the lenders from time to time party thereto (collectively, the “Second Lien Lenders”), Credit Suisse AG, as administrative agent (the “Second Lien Agent”), JPMorgan Chase Bank, N.A., as syndication agent, and Bank of America, N.A., Citigroup Global Markets Inc., Deutsche Bank Securities Inc., and Wells Fargo Bank, N.A., as co-documentation agents. The Second Lien Credit Agreement provides for a \$625 million second lien term loan, which was made at 97% of par and resulted in net proceeds of \$606.3 million. As of December 31, 2014, approximately \$610.2 million, net of unamortized discounts, was outstanding under the Second Lien Credit Facility.

(iii) *Second Lien Notes*

26. In June 2013, QRI issued the Second Lien Notes pursuant to the Second Lien Indenture, which was dated as of June 21, 2013, and entered into by and among QRI, as issuer, certain subsidiary guarantors party thereto, and the Bank of New York Mellon Trust Company, N.A., as trustee and second lien collateral agent (the “Second Lien Indenture Trustee”).<sup>11</sup> The Second Lien Notes were issued at 97% of par and resulted in proceeds of \$194 million. As of December 31, 2014, approximately \$195.2 million, net of unamortized discounts, was outstanding with respect to the Second Lien Notes.

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<sup>11</sup> Collectively, the Second Lien Indenture Trustee, Second Lien Agent, Second Lien Noteholders and Second Lien Lenders are referred to as the “Second Lien Parties”.

*(iv) Security*

27. QRI's obligations under the U.S. Credit Facility, the Second Lien Credit Facility, and the Second Lien Notes are guaranteed by certain of the Debtors<sup>12</sup> and secured (on a first priority basis with respect to the U.S. Credit Facility and on a second priority basis with respect to the Second Lien Credit Facility and the Second Lien Notes) by (i) the majority of QRI's domestic proved oil and gas properties and related assets (including real property and personal property related thereto and QRI's rights under Swap Agreements (as defined in the U.S. Credit Agreement)) (the "Domestic Pledged Property") and (ii) pledges of 100% of the equity interests of the Debtor Guarantors (the "Domestic Pledged Equity"), and 65% of the equity interests of QRCI and Quicksilver Production Partners Operating Ltd. (with respect to the U.S. Credit Agreement, on a ratable basis with borrowings under the Canadian Credit Agreement). The obligations under the Canadian Guaranty Agreement are secured by the Domestic Pledged Property, the Domestic Pledged Equity, 100% of the equity interests of QRCI (65% of which is on a ratable basis with the borrowings under the U.S. Credit Facility) and any Canadian restricted subsidiaries, under Canadian Credit Facility, and 65% of the equity interests of Quicksilver Production Partners Operating Ltd. (which is on a ratable basis with the borrowings under the U.S. Credit Facility) and the majority of QRCI's oil and gas properties and related assets (including real property and personal property related thereto). For the avoidance of doubt, the foregoing security includes, among other things, the hydrocarbons extracted by the Debtors and the proceeds generated by sales thereof and the proceeds from Swap Agreements.

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<sup>12</sup> The Debtor guarantors of the obligations under the U.S. Credit Facility, the Second Lien Credit Facility, and the Second Lien Notes are Cowtown Pipeline Management, Inc., Cowtown Pipeline Funding, Inc., Cowtown Gas Processing L.P., Cowtown Pipeline L.P., Barnett Shale Operating LLC, Silver Stream Pipeline Company LLC, QPP Parent LLC and QPP Holdings LLC (collectively, the "Debtor Guarantors").

28. The Debtors have material assets that are either not part of the collateral package of the First Lien Parties and the Second Lien Parties or, with respect to the assets noted in (i) and (ii), below, are part of the collateral package, but as of the Petition Date, such interest has not been perfected (collectively, the “Unencumbered Property”). The Unencumbered Property includes, but is not limited to, (i) the oil and gas leases and wells owned by QRI in Pecos County, Upton County, Reeves County, Presidio County, Culberson County and Crockett County, Texas, (ii) approximately 8.1% of the total value of proved hydrocarbon interests owned by QRI in the Barnett Shale located in the Fort Worth basin of North Texas, pursuant to the last reserve report delivered prior to the date of this Motion to the Global Administrative Agent in accordance with to the U.S. Credit Agreement, (iii) that certain *Amended and Restated Intercompany Note*, dated as of October 7, 2011, by and among QRI, QRCI, Cowtown Pipeline Funding, Inc., Cowtown Pipeline Management, Inc., Cowtown Pipeline L.P., and Cowtown Gas Processing L.P. with a face value of approximately \$413 million, (iv) approximately \$167.5 million of cash and cash equivalents previously borrowed under the U.S. Credit Facility (the “Unencumbered Cash”) and currently deposited in certain investment accounts and (v) certain other non-oil and gas real property and the personal property related thereto including, but not limited to, surface lands, inventory and prepayments received by the Debtors.<sup>13</sup>

(v) *Intercreditor Agreement*

29. The relationship and relative payment priorities among the Prepetition Secured Parties is subject to that certain *Second Lien Intercreditor Agreement*, dated as of June 21, 2013, by and among, QRI, certain subsidiary guarantors party thereto, the Global Administrative Agent as representative of the U.S. Lenders and the Canadian Lenders, the Second Lien Agent as

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<sup>13</sup> For the avoidance of doubt, the Unencumbered Property does not include the Third Party Funds.

representative of the Second Lien Lenders, and the Second Lien Indenture Trustee as representative of the Second Lien Noteholders (the “Intercreditor Agreement”). The Intercreditor Agreement, among other things, provides that the liens and security interests of the Second Lien Parties are subordinate to the liens and security interests of the First Lien Parties. The Intercreditor Agreement also governs and limits (a) the rights and remedies of the Second Lien Parties so long as obligations under the Combined Credit Agreements remain outstanding, and (b) the ability of the Second Lien Parties to challenge or contest the validity or priority of liens under the Combined Credit Agreements. Additionally, by virtue of the Global Administrative Agent’s consent to the Debtors’ use of Cash Collateral and the provision of adequate protection for the use of the Cash Collateral in accordance with the Interim Order, pursuant to and subject to the terms of the Intercreditor Agreement, the Second Lien Parties are deemed to have consented to the Debtors’ use of Cash Collateral.

**B. Unsecured Notes**

*(i) 2019 Senior Notes*

30. In August 2009, QRI issued \$300 million of senior notes due 2019 (the “2019 Senior Notes”) pursuant to that certain Indenture, dated as of December 22, 2005, by and among QRI, as issuer, and BNY Mellon, as trustee (as amended, supplemented, restated, or modified from time to time, the “2019 Senior Notes Indenture”). The 2019 Senior Notes were issued at 97.61% of par, which resulted in proceeds of \$292.8 million that were used to repay a portion of the Debtors’ 2007 senior secured credit facility. Interest at the rate of 9.125% is payable on the

2019 Senior Notes semiannually on February 15 and August 15.<sup>14</sup> The 2019 Senior Notes are unsecured senior obligations of the Debtors.

(ii) *2021 Senior Notes*

31. In June 2013, QRI issued \$325 million of Senior Notes due 2021 (the “2021 Senior Notes”) pursuant to that certain Indenture, dated as of June 21, 2013, by and among QRI, as issuer, and BNY Mellon, as trustee (as amended, supplemented, restated, or modified from time to time, the “2021 Senior Notes Indenture”). The 2021 Senior Notes were issued at 94.928% of par, which resulted in proceeds of \$308.5 million. Interest at the rate of 11.00% is payable on the 2021 Senior Notes semiannually on January 1 and July 1. The 2021 Senior Notes are unsecured senior obligations of the Debtors.

(iii) *Senior Subordinated Notes*

32. In March 2006, QRI issued \$350 million of senior subordinated notes due 2016 (the “Senior Subordinated Notes”) pursuant to that certain Indenture, dated as of December 22, 2005, by and among the QRI, as issuer, and BNY Mellon, as trustee (as amended, supplemented, restated, or modified from time to time, the “Senior Subordinated Notes Indenture”). Interest at the rate of 7.125% is payable semiannually on April 1 and October 1. The Senior Subordinated Notes are unsecured senior subordinated obligations of the Debtors.

**C. Preferred Stock**

33. QRI is authorized to issue ten million shares of preferred stock with \$0.01 par value per share. As of the Petition Date, QRI had not issued any shares of preferred stock.

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<sup>14</sup> As discussed in further detail below, QRI elected not to make the approximately \$13.6 million interest payment on their 2019 Senior Note in February 2015.



**D. Common Stock**

34. QRI is authorized to issue 400 million shares of common stock with a \$0.01 par value per share. As of the Petition Date, QRI had 191,634,503 shares of common stock issued, and members of the Darden family and entities controlled by them beneficially owned approximately 25% of QRI's outstanding common stock.

35. QRI's common stock was previously listed on the New York Stock Exchange ("NYSE") under the trading symbol "KWK." On January 8, 2015, the NYSE placed a trading halt on QRI's common stock due to its abnormally low trading price and suspended QRI's listing before the opening of the market. QRI's common stock is now quoted on the OTCQB under the symbol "KWKA."

**IV. EVENTS GIVING RISE TO THESE CHAPTER 11 CASES**

36. In late 2013 and early 2014, the Debtors recognized the need to address certain aspects of their capital structure and other obligations. Specifically, the Debtors sought to address key issues related to, among other things, (a) potential springing maturities under the Combined Credit Agreements, the Second Lien Credit Agreement and the Second Lien Indenture related to the outstanding Senior Subordinated Notes; (b) the KKR Capital Expenditure requirements described in more detail above; (c) the Debtors' high debt-to-cash flow ratio, relative to comparable companies; and (d) potential financial covenant defaults under the Combined Credit Agreements.

37. To assist with addressing these concerns, the Debtors retained Houlihan Lokey Capital, Inc. ("Houlihan Lokey"). Initially, Houlihan Lokey assisted the Debtors with the negotiation of an amendment to certain agreements relating to the Fortune Creek Partnership to extend the ending date for the KKR Capital Expenditure to the earlier of June 30, 2016 or twelve

months following the consummation of a transaction involving a material portion of the Horn River Basin and to broaden allowable expenditures to include acquisitions of producing properties that utilize partnership assets.

38. During this time, the Debtors amended certain definitions to the Combined Credit Agreements providing the Debtors incremental flexibility to continue to comply with the financial covenants contained in the Combined Credit Agreements. The Debtors also divested non-core assets including, the May 1, 2014 sale of certain assets in the Niobrara formation of the Sand Wash Basin in Colorado owned jointly by the Debtors and SWEPI LP for cash proceeds of approximately \$180 million, which were allocated equally between the Debtors and SWEPI LP. While the KKR amendment, the amendments to the Combined Credit Agreements, and the disposition of the majority of the Debtors' Colorado assets provided the Debtors with additional time, they did not address the underlying issues related to the Debtors' capital structure and other obligations impacting liquidity.

39. The Debtors utilized the additional time provided by the KKR amendment, the amendments to the Combined Credit Agreements, and the Colorado asset dispositions to explore strategic alternatives. During this period the Debtors continued to work with Houlihan Lokey and they retained Deloitte Transactions and Business Analytics LLP to assist with the evaluation of options to address near-term debt maturities, enhancement of the Debtors' liquidity position, employee retention, and evaluation of strategic alternatives.<sup>15</sup> After evaluating their strategic alternatives, during the third quarter of 2014, the Debtors launched a formal marketing process,

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<sup>15</sup> As part of the retention of Deloitte Transactions and Business Analytics LLP, QRI appointed John Little as its strategic alternatives officer. The details of Mr. Little's appointment can be found at <http://investors.qrinc.com/secfiling.cfm?filingID=1060990-14-130&CIK=1060990>.

led by Houlihan Lokey, covering any and all of Quicksilver's operating assets.<sup>16</sup> Bids for such assets were initially due in December 2014, but the bid deadline was subsequently extended to late January 2015. After the bid deadline passed, the Debtors evaluated the bids that were received with their advisors. Following discussions with various bidders, the Debtors concluded that the marketing process had not yet produced any viable options for asset sales or other strategic alternatives that would likely have a material impact on the Debtors' capital structure or liquidity.

40. Contemporaneous with the strategic alternatives marketing process, unfavorable economic and political developments, natural disasters and an unseasonably warm and late winter for much of North America caused commodity prices to fall precipitously. By way of example, when the marketing process began the spot price for natural gas was approximately \$4.30 per mmbtu versus today's spot price of approximately \$2.73 per mmbtu. While the Debtors' significant hedge position provides some protections against volatile commodity prices in 2015, none of the Debtors' NGLs are hedged and the majority of the Debtors' post-2015 production is unhedged.<sup>17</sup> Despite the strength of their assets, the Debtors believe that the volatility of commodity prices coupled with general uncertainty in the oil and gas market hindered their marketing efforts.

41. In February 2015, in light of (a) not yet having identified a transaction that would have a material impact on their capital structure or their liquidity, (b) the potential springing

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<sup>16</sup> During the formal marketing process, QRI and QRCI also received additional amendments to the financial covenants to the Combined Credit Agreements. These amendments provided relief from the continued pressure on the Debtors' cash flows relative to their obligations, which in turn allowed time for the formal marketing process.

<sup>17</sup> Attached here to as **Exhibit C** is a slide illustrating the Debtors' and QRCI's near-term hedging program as of the Petition Date.

maturities under the Combined Credit Agreement, the Second Lien Credit Agreement and the Second Lien Indenture, and (c) the potential receipt of an opinion containing a going-concern uncertainty from QRI's auditor, the Debtors elected not to make the approximately \$13.6 million interest payment on their 2019 Senior Notes, which was due on February 17, 2015. During the 30-day grace period provided for in the 2019 Senior Notes Indenture, the Debtors continued discussions with their creditors. The Debtors' discussions with their creditors did not produce an agreement that would enable the Debtors to effectively address, in a holistic manner, the impending issues adversely impacting their business, including (i) potential springing maturities under the Combined Credit Agreements, the Second Lien Credit Agreement and the Second Lien Indenture, (ii) potential near term liquidity shortfalls due to the springing maturities, (iii) potential near term breaches of certain financial covenants resulting from sharp declines in natural gas and NGL prices, and (iv) certain other potential defaults under the Combined Credit Agreements and the Second Lien Credit Agreement, including the receipt of an opinion containing a going-concern uncertainty from QRI's auditor.

42. As a result, on the Petition Date, each of the Debtors filed a voluntary petition under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the "Court") in order to restructure the Debtors' debt obligations and capital structure.

43. Contemporaneous with the filing of these chapter 11 cases, QRCI and the lenders under the Combined Credit Agreements entered into a Waiver and Forbearance Agreement (the "Forbearance Agreement"). Among other things, the Forbearance Agreement provides that the Canadian Lenders will forbear from exercising rights and remedies under the Canadian Credit Agreement that they otherwise would have been entitled to exercise as a result of and/or related

to these chapter 11 cases, up to June 16, 2015. As a result of the Forbearance Agreement, the Non-Debtor Canadian Entities have not commenced insolvency proceedings in Canada.

44. To minimize confusion, the chart below sets forth the Quicksilver entities that are (i) Debtors in these chapter 11 cases or (ii) Non-Debtor Canadian Entities:

Debtors in Chapter 11 Cases	Non-Debtor Canadian Entities
Quicksilver Resources Inc.	Quicksilver Resources Canada Inc.
Barnett Shale Operating LLC	Makarios Midstream Inc.
Cowtown Drilling, Inc.	1622834 Alberta Inc.
Cowtown Gas Processing L.P.	0942065 B.C. Ltd.
Cowtown Pipeline Funding, Inc.	0942069 B.C. Ltd.
Cowtown Pipeline L.P.	Fortune Creek Gathering and Processing Partnership
Cowtown Pipeline Management, Inc.	
Makarios Resources International Holdings LLC	
Makarios Resources International Inc.	
QPP Holdings LLC	
QPP Parent LLC	
Quicksilver Production Partners GP LLC	
Quicksilver Production Partners LP	
Silver Stream Pipeline Company LLC	

**V. CASH MANAGEMENT AND USE OF CASH COLLATERAL**

**A. Debtors' Motion for (A) Authority to (I) Continue Using Existing Cash Management System, (II) Honor Certain Pre-petition Obligations Related to the Use of the Cash Management System, and (III) Maintain Existing Bank Accounts and Business Forms; and (B) an Extension of Time to Comply with Bankruptcy Code Section 345(b) (the "Cash Management Motion")**

45. The Debtors' operations include both domestic and foreign operations. Prior to the Petition Date, in the ordinary course of the Debtors' businesses, the Debtors utilized a complex cash management system (the "Cash Management System") to efficiently collect, transfer, and distribute cash generated and utilized by business operations. The Cash Management System facilitates cash monitoring, forecasting, and reporting and enables the Debtors to maintain control over the administration of their bank accounts (the "Bank Accounts") located at banks and other financial institutions (collectively, the "Banks") and to utilize cash in the most efficient means possible.

46. The Cash Management System is comprised of numerous Bank Accounts, and a general overview of the movement of cash through the Cash Management System is depicted in the charts attached to the Cash Management Motion as Exhibit A. A full listing of the Bank Accounts maintained by the Debtors and the Non-Debtor Canadian Entities is attached to the Cash Management Motion as Exhibit B.

47. Historically, the Debtors and their non-Debtor Canadian subsidiaries have maintained two (2) separate cash management systems: (i) the Cash Management System comprised of accounts for domestic operations; and (ii) a system of accounts for Canadian operations (the "Non-Debtor Canadian Cash Management System"). The Debtors do not believe that the Non-Debtor Canadian Cash Management System is impacted by the commencement of

these chapter 11 cases and, therefore, this Motion does not seek any relief with respect to the Non-Debtor Canadian Cash Management System.

**The Debtors' Cash Management System**

*(i) The U.S. Operating Account*

48. The Debtors use a centralized domestic account (the "U.S. Operating Account") owned by QRI to manage the in-flows and out-flows of substantially all of the Debtors' domestic cash. The U.S. Operating Account, which is maintained at JPMorgan Chase Bank, N.A., is the account into which all funds generated by the Debtors' domestic operations, including product sales, hedge settlements, joint interest billings, and other sources of funds, including, but not limited to, tax refunds and asset sale proceeds, are deposited. Historically, funds paid to QRI by QRCI have also been deposited into the U.S. Operating Account, including funds paid to QRI on account of (i) services provided to Non-Debtor Canadian Entities by QRI personnel, (ii) interest payments under an intercompany note issued by QRCI in favor of QRI, (iii) hedge settlements, and (iv) miscellaneous other expenses. In general, the U.S. Operating Account receives deposits from various sources on a daily basis, with the timing of payment from any given source depending on the applicable payment terms and billing cycle. As funds are received, the Debtors record the source of the funds and, to the extent necessary, allocate such funds to the Debtor entity to which the funds have been paid through accounting entries.

49. The Debtors also utilize the U.S. Operating Account to fund various other accounts from which the Debtors pay expenses relating to their operations. As discussed in further detail below, the Debtors transfer funds from the U.S. Operating Account to their domestic Payroll and Medical Accounts (each as defined below) to cover employee payroll obligations and medical benefits and to three (3) disbursement accounts from which the Debtors

pay domestic vendors, royalty holders, and certain other parties. Funds are transferred from the U.S. Operating Account to the Payroll and Medical Accounts and the disbursement accounts described below. In addition, the U.S. Operating Account is used to pay various expenses through wire transfer. For example, the Debtors use this account to pay certain trade vendors that require wire transfers, certain gas gathering and transportation service providers, and to make other fund transfers as needed.

50. Finally, the Debtors transfer funds from the U.S. Operating Account to certain investment accounts in accordance with the terms of their Investment Policy (as defined below). In particular, all funds in excess of \$250,000 are automatically swept out of the U.S. Operating Account to the Investment Sweep Account (as defined below) on a nightly basis. Such funds are automatically transferred back to the U.S. Operating Account each morning. Funds are allocated from the U.S. Operating Account to the Debtors' other investment accounts manually on a less frequent basis in accordance with the Debtors' Investment Policy.

(ii) *The ENI Operating Account*

51. Pursuant to the Debtors' Joint Exploration Agreement with Eni, the Debtors periodically make cash calls to Eni. Eni then transfers funds to the Debtors to pay for, and reimburse the Debtors for, expenses that the Debtors incur as operator related to wells drilled thereunder. Such deposits are made into a special account (the "ENI Operating Account"). By segregating the funds into the ENI Operating Account, funds intended for expenses pursuant to the joint operating agreement referenced above do not become commingled with funds used for general purposes in the U.S. Operating Account.



*(iii) Payroll and Medical Accounts*

52. As described in below and in the Wages Motion (as defined below), which is being filed contemporaneously herewith, the Debtors have one (1) domestic payroll account (the “Payroll Account”) from which (i) domestic employee payrolls are funded to the Debtors’ payroll provider, Ceridian, (ii) employee 401(k) contributions are paid to the Debtors’ 401(k) plan administrator, Milliman Benefits, and (iii) employee severance payments are made. The Debtors transfer funds from the U.S. Operating Account to the Payroll Account on a twice-monthly basis. In addition, the Debtors fund a medical account (the “Medical Account”) from which the Debtors make payments to the applicable providers to fund employee healthcare benefits. Each of the Payroll and Medical Accounts is owned by QRI and maintained at JPMorgan Chase Bank, N.A.

*(iv) Disbursement Accounts*

53. The Debtors maintain three (3) domestic disbursement accounts, each owned by QRI and maintained at JPMorgan Chase Bank, N.A. The Debtors utilize one (1) account solely for electronic funds transfers (the “EFT Account”). The Debtors fund the EFT Account from the U.S. Operating Account. Transfers out of the EFT Account are transmitted by electronic funds transfers and are used to pay state taxing authorities and certain medical benefit payments that are not funded from the Medical Account. Payments to the state taxing authorities are typically made on a monthly basis, and medical benefit payments are made a few times per week. In addition, the Debtors utilize one (1) account solely for physical check disbursements (the “Controlled Disbursement Account”). The Controlled Disbursement Account is funded by the U.S. Operating Account and used to make payments at least twice per week to parties that do not receive funds by electronic funds transfers. The payments made from the Controlled

Disbursement Account include certain royalty payments, and certain other accounts payable that require physical checks. Finally, the Debtors also transfer funds from the U.S. Operating Account to a "Revenue ACH Account," which is used to make royalty payments to domestic royalty owners, working interest holders, and joint interest owners that have elected to receive payment through automatic clearing house transfers. Payments from the Revenue ACH Account are typically made monthly.

(v) *Investment Accounts*

54. In the ordinary course of their business, the Debtors established and follow an official "Investment Policy," the goal of which policy is to preserve capital and maximize liquidity. Pursuant to the Investment Policy, investments are restricted to certain short-term investments as defined in the Investment Policy and as implemented by the Debtors' treasury department. In accordance with the Investment Policy, the Debtors maintain thirteen (13) domestic investment accounts owned by QRI. One of the investment accounts is the "Investment Sweep Account," which is held at JPMorgan Chase Bank, N.A., and used to invest available funds in money markets overnight to maximize interest revenue. Funds in the U.S. Operating Account in excess of \$250,000 are automatically swept into the Investment Sweep Account nightly and returned to the U.S. Operating Account each morning. The other investment accounts are held at several different institutions, including (i) Comerica, (ii) Wells Fargo Securities, LLC, (iii) BB&T Securities, LLC, (iv) Merrill, Lynch, Pierce, Fenner & Smith Inc., (v) Bank of America, N.A., (vi) RBS, (vii) US Bank, National Association, (viii) BBVA Compass, (ix) Bank of Texas, (x) Texas Capital Bank, (xi) Plains Capital Bank, and (xii) Regions Financial Bank. These other investment accounts are used to diversify the Debtors' investment portfolio, and such accounts are used to invest in, among others things, money

market accounts or commercial paper. Transfers into these accounts are relatively infrequent, and funds are transferred through a manual process set forth in the Investment Policy.

(vi) *Political Action Committee Account*

55. A PAC account is operated by the Debtors at the Bank of Texas (the “PAC Account”). The Debtors use the PAC Account to make political contributions. In general, the Debtors do not hold significant funds in the PAC Account. As of the Petition Date, the PAC Account held less than \$3,000.

**B. Debtors’ Motion for Entry of an Order (A) Authorizing the Use of Cash Collateral, (B) Granting the Pre-petition Secured Lenders Adequate Protection, (C) Scheduling a Final Hearing, and (D) Granting Related Relief (the “Cash Collateral Motion”)**

56. The Debtors require access to the Prepetition Collateral,<sup>18</sup> including Cash Collateral, in the ordinary course of business to avoid immediate and irreparable harm to their estates. As discussed above, a significant portion of the Prepetition Collateral consists of liens on the majority of the Debtors’ domestic proved oil and gas properties and related assets (including real property and personal property related thereto), which includes the hydrocarbons extracted by the Debtors from those properties and the proceeds generated from sales thereof. The Debtors’ business model is predicated upon their ability to exploit their hydrocarbon assets, bring them to market and utilize the proceeds in their business operations. Thus, the orderly continuation of the Debtors’ operations and the preservation of their going concern value is largely dependent upon their ability to regularly convert the Prepetition Collateral into Cash Collateral and use it in their operations.

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<sup>18</sup> Capitalized terms used in this section V.B. have the meaning ascribed to such terms in the proposed interim order attached as Exhibit A to the Cash Collateral Motion.

57. The Debtors also rely on the encumbered cash generated from their operations to fund working capital, capital expenditures, research and development efforts, and for other general corporate purposes. During the case, the Debtors will need this operating revenue in addition to relying on the Unencumbered Cash to satisfy payroll, pay suppliers, meet overhead, pay utility expenses, as well as make any other payments which are essential for the continued management, operation and preservation of the Debtors' businesses.<sup>19</sup> The ability to satisfy these expenses as and when due is essential to the Debtors' ability to continue operating their businesses during the pendency of these proceedings and avoid immediate and irreparable harm to their estates.

58. Moreover, if the requested use of Cash Collateral is not approved, the Debtors will be forced to segregate their encumbered operating revenue from their Unencumbered Cash and other Unencumbered Property, and to carefully scrutinize each receipt to ensure that funds are not inadvertently comingled. This task, while daunting for any business, is particularly burdensome for the Debtors because the Debtors would be required to individually allocate all expenses and revenue to each well or lease and then further allocate each such allocation to the applicable owner or joint venture partner in accordance with each applicable lease and joint operating agreement. Indeed, if the Debtors were required to make the operational and cash management adjustments necessary to effect a segregation of their encumbered operating revenue from their Unencumbered Cash and other Unencumbered Property, the Debtors would necessarily need to increase their accounting and operational staff solely to facilitate the segregation and calculations attendant thereto. Further, for the segregation to be effective, the

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<sup>19</sup> See projected thirteen week cash flows attached hereto as Exhibit D.

Debtors would be forced to rely on the cooperation of their various vendors to provide separate invoicing with respect to encumbered and Unencumbered Property, which may not be consistent and would require the Debtors to seek out and obtain such information on a case by case and invoice by invoice basis. Accordingly, and in view of the Debtors' integrated cash management system and their use of a primary U.S. operating account, requiring the Debtors to effect a segregation of their encumbered operating revenue from their Unencumbered Cash and other Unencumbered Property would result in unnecessary administrative burdens and expenses that would divert the attention of the Debtors' employees at a time when they should be focusing on restructuring the Debtors' businesses.

## **VI. RELIEF REQUESTED IN REMAINING FIRST DAY PLEADINGS**

### **A. Debtors' Motion for Entry of Interim and Final Orders Authorizing, But Not Directing, the Debtors To (A) Pay Pre-Petition Employee Wages, Other Compensation, and Reimbursable Employee Expenses and (B) Continue Employee Benefits Programs (the "Wages Motion")**

#### *(i) Overview of Debtors' Workforce*

59. As of the Petition Date, the Debtors employ approximately 215 people in the United States across their various operations (collectively, the "Employees"), all of which are employed and compensated by Debtor Quicksilver Resources Inc.<sup>20</sup> The Debtors provide a variety of compensation and benefits to their Employees, all of which is more fully described below (collectively, the "Employee Obligations"). In addition, at any given time, the Debtors supplement their business needs and workforce with a variable number (typically five to ten) of

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<sup>20</sup> In addition to the Debtors' Employees in the United States, QRCI employs approximately eighty people in Canada and uses a significant number of independent contractors (the "Canadian Employees and Independent Contractors"). The Canadian Employees and Independent Contractors are not subject to the Wages Motion.

independent contractors (each an “Independent Contractor” and collectively, the “Independent Contractors”) that provide services in a number of different business areas.<sup>21</sup>

60. The Employees and Independent Contractors perform a variety of critical functions, including the acquisition, exploration, development, and production of onshore oil and gas, sales, customer service, purchasing, repair and maintenance, information and technology, and a variety of administrative, accounting, legal, finance, management, supervisory, personnel management, and other related tasks. Their skills, knowledge, and understanding with respect to the Debtors’ operations, customer relations, and infrastructure are essential to maintaining the Debtors’ business as a going concern during these cases.

61. Just as the Debtors depend on the Employees and Independent Contractors to operate their business on a daily basis, those individuals also depend on the Debtors. Indeed, the vast majority of these individuals rely exclusively on payments from the Debtors for their basic living necessities.

(ii) *Overview of the Employee Obligations*

62. The following table contains descriptions of the Employee Obligations and the Debtors’ estimates of the amount of Employee Obligations accrued but unpaid as of the Petition

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<sup>21</sup> Notably, Thomas F. Darden, the Debtors’ former Chairman, remains a consultant and Independent Contractor. Specifically, in May 2013, the Debtors entered into an agreement with Mr. Darden with respect to Mr. Darden’s retirement and provision of consulting services following his retirement. Effective May 15, 2013, Mr. Darden retired from his executive position and remained an employee through December 31, 2013 and a member of the Board of Directors as Chairman Emeritus until August 31, 2014, when he retired from the Board of Directors. Mr. Darden is currently engaged as a consultant for the three-year period following his retirement and receives a monthly consulting fee of \$45,000, an office allowance of \$12,500 per month and additional reimbursements with respect to certain business expenses. In addition, Mr. Darden is eligible to receive bonuses of up to \$2.5 million in the aggregate under certain circumstances in connection with certain possible future strategic transactions occurring on or before December 31, 2016. For the avoidance of doubt, the Debtors are not seeking to pay Mr. Darden any amounts by the Wages Motion.

Date and, of the unpaid Employee Obligations, the amounts due in the ordinary course of business within 21 days of the Petition Date.

Category	Description	Approximate Amount Accrued as of Petition Date	Approximate Amount Due Within 21 Days of Petition Date
Employee Compensation	<p>Employee compensation consists of amounts owed to the Employees pursuant to their individual terms of employment and under applicable law (as more fully described herein and in the Wages Motion, the “<u>Employee Compensation</u>”). Employee Compensation includes, as applicable, wages and salaries earned in the ordinary course of business, but does not include Severance Obligations, Reimbursable Expenses, Vacation Time, Sick Time (each as defined below), or the value of the non-cash benefits described herein and in the Wages Motion.</p> <p>All Employees are salaried, both exempt and non-exempt, and paid current on a semi-monthly basis.<sup>22</sup> The Debtors estimate that the average aggregate cost of Employee Compensation is \$2.1 million per month. The most recent payroll occurred on March 13, 2015. As a result, two business days of pre-petition Employee Compensation – approximately \$140,000 – has accrued but is unpaid as of the Petition Date.</p>	\$140,000	\$140,000
Independent Contractor Compensation	<p>The Independent Contractors are compensated as the need arises for their services in the ordinary course of business (the “<u>Independent Contractor Compensation</u>”). Independent Contractor Compensation is paid through the Debtors’ accounts payable system, with an average aggregate cost of \$20,000 per month. As of the Petition Date, the Debtors estimate that approximately \$13,200 in Independent Contractor Compensation had accrued but remained unpaid.</p>	\$24,365	\$24,365
Director	<p>The Debtors have eight directors (collectively, the “<u>Directors</u>”). Directors who also serve as the</p>	\$0	\$0

<sup>22</sup> Overtime payments due to non-exempt Employees are not paid current, but rather are paid 15 days in arrears.

Compensation	Debtors' executive officers do not receive any additional compensation for their service as Directors. The non-Employee Directors receive cash and/or equity, with the amount of each being determined pursuant to an individual election. Currently, on an annual basis, all non-Employee Directors receive (i) \$106,000 in cash, <sup>23</sup> which is payable quarterly at the regular quarterly board meeting, and (ii) \$99,000 of restricted stock that vests over three years on each of the first three anniversaries of the grant date (the " <u>Director Compensation</u> "). As of the Petition Date, the Debtors do not owe any amounts relating to pre-petition Director Compensation. <sup>24</sup>		
Bonus Program	Prior to the Petition Date, the Debtors maintained a discretionary bonus program (the " <u>Bonus Program</u> "). The Debtors are not seeking to continue the Bonus Program on a post-petition basis by this Motion. <sup>25</sup>	N/A	N/A
Withholdings and Payroll Taxes	During each pay period, the Debtors routinely withhold certain amounts from the gross pay of Employees, including Employee contributions to retirement savings plans, health benefits plans, employment insurance, garnishments, child support, personal insurance premiums, and similar withholdings (collectively, the " <u>Withholdings</u> "), which either the Debtors or a third-party service provider then forwards to the appropriate recipients. The Debtors estimate that the Withholdings total approximately \$295,000 per month. The Debtors believe that, as of the Petition Date, the only Withholdings that have not been remitted are those that accrued during the two business days since the last payroll on March 13, 2015, and are seeking authority to remit those amounts when appropriate. To the extent that any other Withholdings have been	\$82,000	\$82,000

<sup>23</sup> Each year, the non-Employee Directors have the option to elect to receive options or restricted shares in lieu of all or a portion of the cash payment. For 2015, none of the non-Employee directors have made this election.

<sup>24</sup> While the Debtors believe that payment of post-petition Director Compensation is an ordinary course payment that can be made without Court approval, the Debtors, out of an abundance of caution, seek authority to continue paying Director Compensation in the ordinary course of business upon entry of a final order approving the Wages Motion.

<sup>25</sup> The Debtors made certain prepetition payments under the Bonus Program, but no amounts are due and owing as of the Petition Date and no further amounts will be paid, including to "insiders" (as that term is defined in Bankruptcy Code section 101(31)), absent an appropriate motion.



	<p>collected and not remitted, the Debtors similarly seek authority to remit those amounts.</p> <p>In addition to the Withholdings, the Debtors are required by law to withhold amounts from wages of certain Employees that are related to federal, state, and local income taxes, including social security and Medicare taxes, and employment insurance for remittance to the appropriate taxing and other governmental authorities (collectively, the “<u>Payroll Taxes</u>”). The Debtors estimate that the Payroll Taxes total approximately \$750,000 per month, including employer amounts due. The Debtors believe that, as of the Petition Date, the only Payroll Taxes that have not been remitted are those that accrued during the two business days since the last payroll on March 13, 2015, and are seeking authority to remit those amounts when appropriate. To the extent that any other Payroll Taxes have been collected and not remitted, the Debtors similarly seek authority to remit those amounts.</p>		
Reimbursable Expenses and Credit Card Program	<p>The Debtors routinely reimburse certain Employees and Directors from accounts payable for business-related expenses, such as travel, meals, cellular telephone, automobile mileage, fuel, and other expenses (the “<u>Reimbursable Expenses</u>”). In certain instances, Employees are given corporate credit cards to pay for work-related expenses. Currently, forty-one Employees have been issued a Wells Fargo MasterCard. Amounts charged to these accounts are billed directly to the Debtors. Other Employees pay for the Reimbursable Expenses in the first instance using their personal funds or credit cards and then submit the expenses to the Debtors for reimbursement. Reimbursable Expenses are not fringe benefits to be considered as part of an Employee’s compensation; rather, they are reimbursements for out-of-pocket expenses incurred by Employees in the performance of their duties on behalf of the Debtors for the Debtors’ benefit.</p>	Unknown <sup>26</sup>	Unknown

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<sup>26</sup>

Based on historical figures, the Debtors estimate that the Reimbursable Expenses total approximately \$20,000 per month. Although the Debtors ask that Employees and Directors promptly submit their reimbursement requests, not all of them are able to do so. In fact, it is likely that Employees and Directors will submit requests for pre-petition expenses after the Petition Date. Thus, the Debtors are unable to provide a detailed amount of unpaid pre-petition expenses at this time.

Severance Obligations	<p>With certain exceptions, all regular, full or part time Employees working a minimum of twenty hours per week that are not (i) terminated for cause, (ii) entitled to separate severance benefits under an individual agreement, or (iii) employed pursuant to a written employment contract are eligible to receive severance under the Debtors' severance benefit plan (the "<u>Severance Plan</u>"). Under the Severance Plan, eligible Employees receive one week of their base pay as of the date of termination for each full year of service with the Debtors and a prorated amount for any partial year of service. As of the Petition Date, the Debtors believe that there are no unpaid amounts due under the Severance Plan. The Debtors are not seeking to continue the Severance Plan on a post-petition basis at this time.<sup>27</sup></p> <p>The Debtors have a separate contingent severance liability of up to \$62,288.40 (the "<u>Severance Obligations</u>"). Pre-petition, certain Employees that were subject to a planned reduction in force were offered additional severance benefits in exchange for executing an appropriate release. Under applicable federal law, certain of these former Employees have forty-five days to determine if they will accept the severance and grant the release. By this Motion, the Debtors seek authority to honor the Severance Obligations to the extent that any come due, <i>provided that</i> the Debtors will not make any payments in excess of the \$12,475 statutory cap.</p> <p>The Debtors also have in place change in control retention incentive plans for executives, key employees, and staff (collectively, the "<u>Change in Control Plans</u>"). The Debtors are not seeking to make any payments under the Change in Control Plans at this time and no amounts are due and owing thereunder as of the Petition Date.</p>	Up to \$62,288.40	\$0
Vacation Time	The Debtors provide their Employees with paid vacation time (the " <u>Vacation Time</u> "). The Debtors' policies provide that the amount of Vacation Time	\$550,000 <sup>30</sup>	Unknown

<sup>27</sup> For the avoidance of doubt, the Debtors will not pay any bonus, retention or severance payments to "insiders" (as that term is defined in Bankruptcy Code section 101(31)) without first seeking appropriate relief from this Court.

<sup>30</sup> This amount is not a current cash payment obligation, as Employees are only entitled to cash payment for accrued and unused Vacation Time if the Employee ceases to be employed by the Debtors.

	<p>available to Employees and the rate at which such Vacation Time accrues is generally determined by the Employee’s length of employment with the Debtors and years of relevant industry and technical experience, with most Employees receiving between three and five weeks of Vacation Time per year. Ordinarily, when an Employee elects to take Vacation Time, that Employee is paid his or her regular hourly or salaried rate for such time. Generally, Employees may carry five unused days of Vacation Time into the next year, but those five days must be used during the first quarter of the that year. If an Employee ceases to be employed by the Debtors, the Employee’s final paycheck will include any accrued but unused Vacation Time (including any permitted rollover from the prior year) for the current year.<sup>28</sup></p> <p>Employees also receive two weeks of sick time (the “<u>Sick Time</u>”) every year. Each Employee’s yearly allotment of Sick Time accrues over the course of the year, but the full two weeks is usable at the beginning of the year. Sick Time may not be rolled over into the next calendar year and it is not paid out at separation.</p> <p>By this Motion, the Debtors seek authority to continue their Vacation Time and Sick Time policies in the ordinary course of business on a post-petition basis, <i>provided that</i> (i) each Employee will be required to use any post-petition Vacation Time first, with any accrued pre-petition Vacation Time to be applied thereafter and (ii) all requests for Vacation Time and Sick Time must be coordinated and approved by the applicable Employee’s supervisor, consistent with past practices, to ensure no disruption<sup>29</sup> to the Debtors’ ongoing business operations.</p>		
Medical	The Debtors offer a number of insurance and	\$1,407,350	\$372,150

<sup>28</sup> Under their “re-energize” program, the Debtors provide an additional two weeks of Vacation Time to Employees for every five years of accrued service time. Vacation Time awarded under the re-energize program is not paid out at separation.

<sup>29</sup> For the avoidance of doubt, the Debtors are not seeking blanket authority to cash out accrued pre-petition Vacation Time or to otherwise deviate from their pre-petition policies.

<p>Benefits</p>	<p>benefits programs, including, among other things, self-funded<sup>31</sup> health and dental plans administered by CIGNA; a fully insured vision plan administered by VSP; a prescription drug benefit administered by CVS Caremark; flexible spending accounts administered by TASC; and other employee benefit plans (collectively, the “<u>Medical Benefit Plans</u>”).</p> <p>The Debtors estimate that the monthly cost of the Medical Benefit Plans, including administrative fees, claims paid under the self-insured medical, dental and prescription drug plans, Stop Loss Insurance, and the premium for the vision plan, is \$460,500.</p> <p>In addition to the foregoing, the Debtors have in place miscellaneous practices, programs, and policies that provide benefits and protections to Employees, including Family Medical Leave Act benefits, COBRA, and an employee assistance program (collectively, the “<u>Other Medical Programs</u>”). The Debtors believe that the Other Medical Programs are important to maintaining Employee morale and assisting in the retention of the Debtors’ workforce. The monthly cost of such programs for the Debtors is negligible in the context of the Debtors’ aggregate compensation and benefit obligations. The Debtors believe that failing to honor expected benefits under such Other Medical Programs would have an adverse effect on the Employees.</p>		
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<sup>31</sup> Although many of the Medical Benefit Plans are self-funded by the Debtors, the Debtors maintain stop-loss insurance to protect against catastrophic or unpredictable losses (the “Stop Loss Insurance”). Gerber Insurance Group provides the Debtors’ Stop Loss Coverage at a cost of \$27,000 per month. The premium for a given month is generally received and paid during that month. As of the Petition Date, the March 2015 premium has not yet been paid.

Workers' Compensation	The Debtors provide workers' compensation insurance for Employees at the statutorily required level for each applicable state. Additionally, in accordance with state law, the Debtors provide workers' compensation coverage to the Employees under state-administered workers' compensation programs. The Debtors are insured through Berkley National Insurance Company and pay annual premiums in the amount of \$146,000. Because the premiums are prepaid, the Debtors estimate that no amounts are outstanding as of the Petition Date.	\$0	\$0
Life, Disability, and Accident Insurance	The Debtors provide a number of different types of additional insurance benefits to their Employees, including basic life and accidental death and dismemberment, voluntary life and accidental death and dismemberment, long-term care, short-term disability, and long-term disability. The life, accidental death and dismemberment, and disability programs are administered by CIGNA. The long-term care benefit is administered by UNUM. With the exception of short-term disability, which is self-funded, all such insurance plans are fully insured, meaning the Debtors pay the applicable insurance carriers a set premium on a monthly basis, and the carrier pays the Employees' claims according to the applicable policy terms. The Debtors estimate that the average monthly cost of these insurance programs is \$29,500.	\$14,750	\$14,000
Retirement Savings Plan	<p>The Debtors maintain, for all eligible full-time U.S. Employees, a qualified defined contribution plan that meets the requirements of sections 401(a) and 401(k) of the Internal Revenue Code (the "<u>Employee Retirement Plan</u>") administered by Milliman Benefits, as follows:</p> <ul style="list-style-type: none"> <li>• Generally, eligible Employees can contribute eligible compensation, through payroll deductions, on a pre-tax basis, up to the limits imposed on those contributions under the Employee Retirement Plan and Internal Revenue Code. In 2014, Employees contributed approximately \$1.9 million to the Employee Retirement Plan.</li> <li>• Employees are eligible to receive a matching employer contribution of up to 4% of eligible earnings. In addition, the Debtors are required to make a yearly contribution to the</li> </ul>	\$6,000	\$6,000

	<p>Employee Retirement Plan of 3% of eligible earnings (the “<u>Yearly Contribution</u>”). Unless notice is provided at least thirty days in advance of the new plan year, the Yearly Contribution becomes mandatory and is generally made during the first quarter of the next calendar year (i.e., the 2015 contribution will not be made until the first quarter of 2016).</p> <ul style="list-style-type: none"> <li>• The Debtors’ average monthly matching contributions to the Employee Retirement Plan total \$81,000. As of the Petition Date, the Debtors estimate that their outstanding obligations on account of matching contributions total approximately \$6,000. The Yearly Contribution for 2014 has already been made and the Yearly Contribution for 2015 will not be due until 2016.</li> <li>• Milliman Benefits receives a monthly fee of approximately \$7,000 for administering the Employee Retirement Plan. These fees are first paid out of Employee Retirement Plan forfeitures and then by the Debtors. As of the Petition Date, the Debtors believe that there are sufficient forfeitures to cover any outstanding pre-petition fees. Out of an abundance of caution, however, the Debtors request authority to pay any amounts owed to Milliman Benefits that are not covered by forfeitures.</li> </ul>		
Payroll Costs	<p>The vast majority of the Debtors’ wage obligations are satisfied by direct deposit through the electronic transfer of funds from the Debtors’ payroll department directly to each Employee’s bank account, with the remainder of Employees receiving checks. The Debtors handle payroll management internally and outsource the payroll processing operation to Ceridian. Ceridian bills the Debtors for its services – approximately \$2,500 – after each semi-monthly pay period. As of the Petition Date, the Debtors estimate that approximately \$3,500 is due to Ceridian for payroll services that have accrued but are unpaid.</p>	\$3,500	\$3,500
Miscellaneous Employee Benefits	<p>In addition to the benefit plans described above, the Debtors are currently aware of, and may discover other, <i>de minimis</i> pre-petition obligations owed with respect to their Employees (the “<u>Miscellaneous</u></p>	\$40,000	\$0

	<p><u>Benefits Programs</u>”). For example, the Debtors provide reimbursement for certain relevant education expenses, including for tuition, fees, and textbooks. Importantly, Employees are only reimbursed education for these expenses if the course is approved and the Employee meets certain grade requirements. Currently, five employees are taking an approved course, with reimbursable costs expected to be approximately \$20,000.</p> <p>Some of the Employees may have incurred expenses in connection with the Miscellaneous Benefit Programs prior to the Petition Date, but have not yet sought reimbursement therefor. In most, if not all, such instances, the Employees incurred such expenses based on the Debtors’ policies and their eligibility to participate in the Miscellaneous Benefit Programs.</p>		
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63. The Debtors estimate that of the Employee Obligations described above, approximately \$1.79 million constitutes actual cash obligations owed to, or on account of, their Employees.

**B. Debtors’ Motion for Entry of Interim and Final Orders Authorizing the Debtors To Pay or Honor Pre-petition and Post-petition Royalty Obligations, Working Interest Obligations and Other Obligations Related to Oil and Gas Leases (the “Royalty Motion”)**

(i) *Mineral and Other Interests*

64. In connection with their oil and gas assets, the Debtors are obligated, pursuant to their oil and gas leases and other agreements, to remit to the lessors of the oil and gas leases and potentially other parties their share of revenue from the producing wells located on the respective leases pursuant to the terms of their oil and gas lease (the “Royalties”). In addition, overriding royalties (the “ORRI”) must be remitted to the owners of those interests, and the holders of non-executive mineral interests (the “Non-Executive Interests”) as well as the holders of non-participating royalty interests (the “NPRI” and, together with the Royalties, ORRI and Non-

Executive Interests, the “Mineral and Other Interests”) must receive the proceeds due to them pursuant to the applicable agreement.<sup>32</sup> Failure to forward all required amounts would have a material adverse effect upon the Debtors, including, without limitation, penalties and interest, turnover actions, conversion and constructive trust claims, litigation, and, in some instances, potential forfeiture and removal as operator. As of the Petition Date, the Debtors estimate that they owe approximately \$12.3 million to the holders of the Mineral and Other Interests.<sup>33</sup>

(ii) *Lease Expenses*

65. The Debtors are the operators for a number of the oil and gas wells in which the Debtors hold an interest, many under joint operating agreements with other parties. In connection with the daily operation of those wells, the Debtors incur numerous lease operating expenses (the “LOEs”). Many of the invoices for LOEs will cover both pre-petition and post-petition expenses. Given the number of such invoices, and the Debtors’ limited accounting staff, separating the pre-petition portions from the post-petition portions of each individual invoice will be impractical or even impossible for the Debtors to timely accomplish. Failure by the Debtors to satisfy their LOE obligations as they arise would have material adverse consequences, including, without limitation, being removed as operator and the assertion of significant secured claims (statutory and/or contractual) against property of the estates by holders of Non-Executory Interests and/or LOE claims.

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<sup>32</sup> For the avoidance of doubt, the Debtors are also obligated to remit a portion of the revenue from producing wells that remains after deducting the amounts attributable to the foregoing interests to the owners of the working interests in those wells.

<sup>33</sup> Included in the foregoing is approximately \$2.3 million attributable to suspended funds (the “Suspended Funds”). The Suspended Funds represent amounts that are due and owing to certain holders of Mineral and Other Interests but are otherwise unpayable for a variety of reasons, including, among others, incorrect contact information, ongoing disputes over ownership of the underlying interest, and failure to meet minimum payout requirements. To the extent that the issue preventing payment of Suspended Funds to a particular interest holder is resolved, the Debtors release the Suspended Funds in question.



66. Often the Debtors are also required to make rental payments during the term of a lease (the “Delay Rentals”). Failure to pay Delay Rentals would have a material adverse effect upon the Debtors, including, without limitation, the loss of the underlying lease.

67. Where the Debtors hold non-operating working interests in wells under various joint operating agreements (“JOAs”), the Debtors receive payments representing their share of production revenues. The Debtors then reimburse the operator for their share of the relevant costs – production expenses, taxes, etc. – through the payment of joint-interest billings (“JIBs”). The failure to timely pay JIBs may provide grounds for the operator to assert contractual or statutory lien rights against the Debtors’ interest in a well and the underlying oil and gas lease.

68. In addition to the various expenses owed in connection with existing wells, the Debtors incur liabilities through their efforts to secure additional oil and gas leases and extend certain others. The Debtors often solicit potential and current lessors by sending a letter expressing a desire to enter into (or extend) a lease arrangement and enclosing a proposed lease or lease amendment, as applicable. To entice the potential and current lessors to execute and return the appropriate documentation, the Debtors may also include an Offer for Purchase (an “OFP” and, together with the LOEs, Delay Rentals, and the JOA and JIB obligations, the “Lease Expenses”). An OFP is the mechanism by which cash and additional cash consideration will be provided to the lessor if the lease (or lease amendment) and OFP are both signed and returned to the Debtors. Once both executed documents are received, the Debtors have thirty days in which to conduct the necessary diligence and send a check in the amount required under the OFP. As of the Petition Date, the Debtors estimate that they may have as much as \$101,453 in outstanding OFP liabilities, including amounts attributable to both returned OFPs and those that accompanied

proposed leases which have not yet been returned, and request authority to continue honoring those obligations in the ordinary course of business.<sup>34</sup>

(iii) *Marketing Obligations*

69. The Debtors are also obligated under various agreements to market the oil and gas production (the “Marketed Production”) of certain owners of working interests (the “Working Interests”) to potential purchasers and remit the amounts due to the appropriate parties (the “Marketing Obligations” and, together with the Mineral and Other Interests and the Lease Expenses, the “Obligations”).<sup>35</sup> Specifically, following the sale of Marketed Production and the receipt of proceeds attributable thereto, the Debtors are obligated to remit the amount of those proceeds belonging to the owner of the Working Interest, net of all applicable Mineral and Other Interests, gathering costs, processing and transportation expenses and production taxes. The Marketing Obligations also require that the Debtors process and forward to the appropriate parties, from funds otherwise belonging to third parties, the amounts due on account of the Mineral and Other Interests, gathering costs, processing and transportation expenses and production taxes. Failure to forward all required amounts would have a material adverse effect upon the Debtors, including, without limitation, penalties and interest, turnover actions, conversion and constructive trust claims, assertion of significant secured claims against property of the estate, litigation, and, in some instances, removal as operator. As of the Petition Date, the

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<sup>34</sup> While OFPs executed and returned post-petition may arguably constitute administrative expenses of the Debtors’ estates, out of an abundance of caution the Debtors are requesting authority to continue honoring amounts due in connection with the OFPs that are signed and returned after the Petition Date.

<sup>35</sup> For the avoidance of doubt, the hydrocarbons marketed by the Debtors for the owners of various Working Interests, including, among others, TG Barnett Resources LP and Eni, are owned separately by such owners in the ground and are therefore not the assets of the Debtors, but rather are the assets of the owner of the relevant Working Interest.

Debtors estimate that they have approximately \$14.0 million in Marketing Obligations outstanding.

**C. Debtors' Motion for Interim and Final Orders Determining Adequate Assurance of Payment for Future Utility Services (the "Utilities Motion")**

70. In the ordinary course of business, the Debtors incur expenses for gas, water, sewer, electric, telecommunications, waste, and other similar utility services provided by approximately thirty-five utility providers (as such term is used in Bankruptcy Code section 366, collectively, the "Utility Providers"), a list of which is attached as Exhibit A to the Utilities Motion (the "Utility Service List"). On average, the Debtors spend approximately \$135,000 each month on utility costs. As of the Petition Date, the Debtors estimate that approximately \$45,000 in utility costs are outstanding.

71. Uninterrupted utility services are essential to the Debtors' ongoing operations and, therefore, to the success of their reorganization. Indeed, any interruption of utility services, even for a brief period of time, would negatively affect the Debtors' operations, customer relationships, revenues, and profits, seriously jeopardizing the Debtors' reorganization efforts and, ultimately, recoveries to their creditors. It, therefore, is critical that utility services continue uninterrupted during these chapter 11 cases.

**D. Debtors' Motion for Entry of Interim and Final Orders Authorizing, but Not Directing, the Debtors to Pay Certain Taxes and Fees (the "Taxes Motion")**

*(i) Overview of the Debtors' Tax Obligations*

72. In the ordinary course of business, the Debtors (a) incur income, sales, property, production, and other taxes (collectively, the "Taxes"); (b) pay or remit such Taxes to various taxing, licensing, and other governmental authorities (collectively, the "Authorities"); and (c) pay fees (collectively, the "Fees") to such Authorities for licenses, permits, and regulatory

assessments required to conduct the Debtors' business in the ordinary course. A non-exclusive list of Authorities is attached to the Taxes Motion as Exhibit A.<sup>36</sup> The Debtors pay or remit, as the case may be, the Taxes as incurred or monthly, quarterly, semiannually, or annually to the respective Authorities, as required by applicable laws and regulations. As of the Petition Date, the Debtors estimate that approximately \$3,136,464 relating to the pre-petition period will become due and owing to the Authorities in the ordinary course of business.

(ii) *Income Taxes*

73. As a result of their operations in various locations in the United States, the Debtors incur income tax liabilities due to the U.S. government and certain U.S. states (collectively, the "Income Taxes"). These Income Taxes are remitted to the applicable Authorities and to the Debtors' payroll processing vendor on a regular basis in connection with the Debtors' payroll obligations.<sup>37</sup> However, because the Debtors are operating at a net loss for the pre-petition period, the Debtors owe minimal amounts to the Authorities on account of Income Taxes. Accordingly, the Debtors estimate that little or no amounts relating to the pre-petition period will come due in the ordinary course of business during these chapter 11 cases on account of Income Taxes. Nevertheless, out of an abundance of caution, to the extent that the Debtors have (i) miscalculated the amounts due, (ii) paid an amount that was less than is actually owed, or (iii) made any payments pre-petition that were rejected, lost, or otherwise not received

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<sup>36</sup> Although Exhibit A to the Taxes Motion is intended to include all Authorities, the Debtors may have inadvertently omitted certain Authorities. The relief requested is intended to apply to all Authorities, whether or not such Authorities are listed in Exhibit A to the Taxes Motion.

<sup>37</sup> The Debtors are also required by law to withhold amounts from their employees' wages that are related to federal, state, provincial, and local income taxes, including social security and Medicare taxes and employment insurance for remittance to the appropriate taxing and other governmental authorities (collectively, the "Payroll Taxes"). The Debtors are seeking authority to continue withholding and paying the Payroll Taxes in the Wages Motion. The same rationale and authority for granting the Debtors the authority to continue collecting and remitting the Taxes described in the Taxes Motion applies to the Payroll Taxes.

in full by any Authority, the Debtors request authority, in their sole discretion, to pay any amounts that may come due.

*(iii) Sales Taxes*

74. In certain states, the Debtors also incur sales taxes (collectively, the “Sales Taxes”) due to the sale of goods or taxable services within those jurisdictions. The Sales Taxes are generally due monthly on or about the twentieth of each month, one month in arrears. The amount of the Sales Taxes varies from month to month based on the Debtors’ production quantity, and generally ranges between \$195,000 and \$300,000 per month. As of the Petition Date, the Debtors estimate that approximately \$140,000 in Sales Taxes have accrued and remain unpaid for the pre-petition period.<sup>38</sup> This balance will be due on April 20, 2015. If the Debtors do not pay the pre-petition Sales Taxes to the applicable Authorities when due, these Authorities may assess immediate, irreversible penalties for failure to make a timely payment. Such penalties may be entitled to priority treatment under Bankruptcy Code section 507(a)(8)(G).

*(iv) Property Taxes*

75. The Authorities also impose Taxes on the Debtors relating to property in which the Debtors own mineral, working, and royalty interests for the operation of their business (“Property Taxes”). For calendar year 2014, the Debtors incurred approximately \$13.2 million in Property Taxes, \$4.5 million of which is reimbursable by joint operating interest owners in the Debtors’ properties (i.e., the net Property Tax liability for 2014 was approximately \$8.7 million). The amount of Property Taxes varies each year based on the assessed value of the Debtors’

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<sup>38</sup> The Debtors may also be required to reimburse joint operating interest owners that remit Sales Taxes and Property Taxes on the Debtors’ behalf and then invoice the Debtors for their portion of such amounts. By separate motion, the Debtors are seeking authority to continue paying joint operating interest owners to reimburse them for such remittances.

properties. The Property Taxes are generally paid annually in the January following the applicable calendar year.

76. As of the Petition Date, the Debtors estimate that approximately \$2.2 million in Property Taxes has accrued and remains unpaid for the pre-petition period. Of that amount, approximately \$45,000 is due in April 2015 to the applicable Authority in Colorado for calendar year 2014 Property Taxes. The balance of the pre-petition Property Taxes will be due in January 2016. Accordingly, by this Motion, the Debtors are seeking authority to pay the Property Taxes as they become due. If the Debtors do not pay the pre-petition Property Taxes to the applicable Authorities when due, these Authorities may immediately assess substantial, irreversible penalties for failure to make timely payment. In addition, nonpayment of Property Taxes when due might allow the applicable Authorities to impose liens on the Debtors' property under Bankruptcy Code section 362(b)(18).

(v) *Production Taxes*

77. The Debtors pay taxes to the states in which they operate for minerals severed from the ground, which are known as severance or production taxes ("Production Taxes"). The primary liability for these Production Taxes is imposed on producers and purchasers of natural resources, such as oil, coal, or gas. The amount due varies based on the applicable tax rate for any particular well, the price of gas, and the volume produced. The Debtors pay Production Taxes for both their portion of the severed minerals and that portion attributable to non-operating working interest owners (i.e., the Debtors' payments to non-operating working interest owners are net of this tax liability). The Debtors have historically paid between \$6 million and \$8.4 million per year with respect to these production taxes and make payments to applicable Authorities on a monthly basis on the twentieth day of each month, two months in arrears. The

Debtors estimate that, as of the date hereof, there is \$561,000 owing to the State of Texas<sup>39</sup> with respect to pre-petition production taxes. Such amounts will be due as follows: \$358,000 on April 20, 2015 for February 2015 production and \$204,000 on May 20, 2015 for March 1-16, 2015 production. The Debtors anticipate that they will incur production taxes ranging from \$350,000 to \$475,000 per month in the ordinary course of their business throughout the remainder of 2015, subject to fluctuation from production volume and market prices.

(vi) *Business Taxes and Annual Reporting Fees*

78. Certain states require the Debtors to pay various business taxes. These taxes may be based on gross receipts or other bases determined by the taxing jurisdiction. Further, certain states require the Debtors to pay annual reporting fees to state governments to remain in good standing for purposes of conducting business within the state. The Debtors pay very small amounts of between \$10 and \$100 per year to each applicable state Authority with respect to these various business taxes and annual reporting fees. The Debtors estimate that, as of the date hereof, there are little or no amounts owing to the various Authorities with respect to pre-petition business taxes and annual reporting fees. The Debtors acknowledge that if any amounts are owed, some of these business taxes and annual reporting fees may, under applicable law, be entitled to a priority claim. Accordingly, the Debtors request authority to pay any such amounts, including business taxes and annual reporting fees that accrued pre-petition, as they come due in the ordinary course of business.

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Because Texas is the primary location of the Debtors' operations, the Debtors believe that no amounts are due to other states on account of Production Taxes at this time. However, out of an abundance of caution, to the extent that the Debtors have paid an amount that was less than is actually owed or made any payments pre-petition that were rejected, lost, or otherwise not received in full by any Authority, the Debtors request authority, in their sole discretion, to pay any amounts that may come due.

(vii) *Delaware Franchise Taxes*

79. The Debtors pay franchise taxes to the state of Delaware to operate their business in that state. The Delaware franchise taxes are paid on a quarterly basis, in the aggregate amount of \$180,000 per year. The Debtors estimate that, as of the Petition Date, they have approximately \$36,100 in accrued, unpaid Delaware franchise taxes that will come due in May 2015.

(viii) *Miscellaneous Taxes and Fees*

80. Finally, the Debtors incur and pay in the ordinary course of operating their business certain stamp fees, regulatory assessments, permitting fees, levies, and other miscellaneous Taxes (collectively, the “Miscellaneous Taxes”).<sup>40</sup> For example, the Debtors pay to the Railroad Commission approximately \$2,000 per well for obtaining permits to drill new wells in the ordinary course of their business. Additionally, the Debtors pay the City of Fort Worth \$600 per well annually in exchange for permission to operate in the city. The Debtors estimate that between \$172,000 and \$200,000 will be due to the City of Fort Worth for such fees within the first 21 days of these chapter 11 cases, which amount is attributable to calendar year 2014. The Debtors similarly pay fees to the City of Arlington in exchange for permission to operate in the city, which fees amount to approximately \$18,000 per quarter. The next such payment will come due in May 2015 and is attributable to the period from April 1, 2015 to June 30, 2015. Operating fees are also due to the Railroad Commission in the amount of approximately \$2,800 per year, and such fees have already been paid for calendar year 2015.

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<sup>40</sup> For the Debtors to obtain operating licenses in certain cities, they are required to deliver security instruments to the applicable city to secure the Debtors, obligations to, among other things, comply with road repair regulations and pay fines and penalties imposed by the city for breach of any ordinance. The Debtors use various bond agencies for the purpose of delivering such security instruments. One such agency has recently determined to cancel certain of the Debtors’ bonds as of March 21, 2015. As a result, the Debtors expect to make cash deposits to the City of Granbury in the aggregate amount of \$600,000. The Debtors do not believe that such cash deposits constitute payment of a claim. However, out of an abundance of caution, the Debtors request authority, in their sole discretion, to make the cash deposits.



The Debtors believe that any additional Miscellaneous Taxes are a *de minimis* expense and that the continued payment of the Miscellaneous Taxes, including any such taxes due and owing on account of pre-petition Miscellaneous Taxes, are a necessary cost of continuing to operate their business. Accordingly, the Debtors request authority to pay any such amounts, including Miscellaneous Taxes that accrued pre-petition, as they come due in the ordinary course of business.

81. It is my understanding that the relief requested pursuant to the Taxes Motion is appropriate because a portion of the Taxes and Fees are likely not property of the Debtors' estates under Bankruptcy Code section 541(d) and nonpayment of the pre-petition Taxes and Fees could cause immediate and irreparable harm to the Debtors because it could (i) cause the Debtors to incur substantial, irreversible penalties from the Authorities that are likely to be paid in full and in cash as priority claims under Bankruptcy Code section 507(a)(8), (ii) result in certain of the Authorities imposing liens related to nonpayment of Taxes under Bankruptcy Code section 362(b)(18), (iii) prevent the Debtors from operating their business, and (iv) expose certain directors and officers of the Debtors to personal liability, which, in turn, could cause the Debtors' estates to incur indemnification liability or deplete insurance policy proceeds.

**E. Debtors' Motion for Interim and Final Orders Authorizing, But Not Directing, the Debtors to (A) Continue Pre-Petition Insurance Coverage and (B) Maintain Funding for the Insurance Brokers (the "Insurance Motion")**

82. In the course of their domestic operations, the Debtors maintain insurance policies covering, *inter alia*, workers' compensation and employer's liability, automobile liability, general commercial liability, non-owned aviation liability, umbrella and excess liability, property damage, well control liability, care, custody and control liability, site pollution liability, director

and officer liability, fiduciary liability, and employed lawyers liability (collectively, the “Insurance Policies”).<sup>41</sup>

83. The Insurance Policies described in the Insurance Motion have annual premiums of approximately \$2,762,000.<sup>42</sup> Unless otherwise specified, each of the Insurance Policies (other than those policies relating to director, officer and management liability, crime, fiduciary liability, and employed lawyer professional liability) expire on June 1, 2015. Insurance Policies relating to director, officer and management liability, crime, fiduciary liability, and employed lawyer professional liability expire December 1, 2015.<sup>43</sup>

84. Generally, the Debtors pay the full amount of the premiums on the Insurance Policies at the time such Insurance Policies are renewed.<sup>44</sup> The Debtors do not use any premium financing arrangements. To assist the Debtors with the procurement and negotiation of their Insurance Policies, the Debtors employ (a) Wortham Insurance as their insurance broker for property and casualty insurance policies (the “P&C Insurance Broker”) and (b) Aon Risk Solutions for director, officer, and other management liability policies (the “D&O Insurance Broker”) and, together with the Insurance Broker, the “Insurance Brokers”). In conjunction with the placement of the Insurance Policies, the Debtors have agreed to compensate the P&C Insurance Broker on a commission basis. Specifically, as of January 28, 2015, the P&C

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<sup>41</sup> In addition to the Insurance Policies discussed in this Motion, the Debtors maintain numerous insurance programs with respect to employee health, dental, disability, and life insurance benefits. These policies are addressed in the Wages Motion.

<sup>42</sup> This amount does not include a one-time premium of \$1,985,647 for the Debtors’ directors’ and officers’ liability six-year runoff program discussed in paragraph 96.

<sup>43</sup> A brief summary of the Debtors’ Insurance Policies is attached to the Insurance Motion as Exhibit C.

<sup>44</sup> Certain of the Insurance Policies are subject to audits pursuant to which the premium amounts may be adjusted based on actual loss rates. As of the Petition Date, however, no such audits have been completed, and none of the Debtors’ premiums have been adjusted.

Insurance Broker earned commissions totaling \$173,165. The D&O Insurance Broker is also compensated on a commission basis, however, all commissions are accounted for in the annual premiums paid by the Debtors and paid by the applicable insurance carriers to the D&O Insurance Broker. The commissions earned by the D&O Insurance Broker for the director, officer, and other management liability policies currently in effect, including directors' and officers' runoff program discussed in paragraph 95 total approximately \$472,000.

85. As of the Petition Date, the Debtors are not aware of any amounts owed with respect to the Insurance Policies, including for premiums, deductibles, or commissions payable to the Insurance Brokers. Nevertheless, out of an abundance of caution and to account for potential variances between the Debtors' estimated obligations and any obligations that may have accrued as of the Petition Date, the Debtors are seeking authority to make any payments necessary to continue the Insurance Policies.

*(i) The Debtors' Insurance Policies*

86. The Debtors' domestic insurance coverage includes the following nine lines: (a) workers' compensation and employer's liability; (b) automobile liability and physical damage; (c) general commercial liability; (d) non-owned aviation liability; (e) umbrella and excess liability; (f) property; (g) well control and care, custody and control; (h) site pollution; and (i) director, officer, and other management liability.

87. Workers' Compensation & Employer's Liability: The Debtors workers' compensation and employer's liability insurance is required by law in several states where the Debtors conduct their business and covers the Debtors in all fifty states. Such insurance is provided to the Debtors through Tri-State Insurance Company of Minnesota. The policy has an

annual premium of \$146,246. The policy applies to the Debtors' domestic employees and those temporarily travelling in Canada.

88. Automobile Liability & Physical Damage: The Debtors' automobile liability and physical damage insurance is provided by Berkley National Insurance Company. The policy has an annual premium of \$176,846 and includes a \$1,000 comprehensive deductible and a \$1,000 collision deductible. As a blanket policy, it covers each of the Debtors' owned or leased vehicles as well as hired (i.e., rented) and non-owned (i.e., personal) vehicles used by the Debtors' employees while on company business.

89. Commercial General Liability: The Debtors maintain general coverage for various forms of liability to third parties ("Commercial General Liability"). Gemini Insurance Company ("Gemini") is the carrier of the Commercial General Liability coverage, which includes a \$100,000 deductible and an annual premium of \$180,337. The Commercial General Liability coverage applies to the Debtors' domestic office and oilfield activities.

90. Non-Owned Aviation Liability: The Debtors insure for losses resulting from the operation of non-owned aircraft that exceed the coverage provided by the aircraft provider. The coverage applies worldwide but is limited to non-owned aircraft with a capacity of fifty (50) seats or less. This coverage is provided by StarNet Insurance Company and has an annual premium of \$9,495.

91. Umbrella & Excess Liability: The Debtors maintain an umbrella and excess liability insurance policy to provide excess coverage when the Debtors have reached the applicable policy limits under certain policies, including the following: (i) workers' compensation and employer's liability; (ii) automobile liability and physical damage; (iii) commercial general liability; and (iv) non-owned aviation liability. The Debtors also maintain

second, third, and fourth layer excess liability coverage for such policies. The aggregate coverage provided by the four layers of coverage totals \$100 million in excess liability, with each additional \$25 million layer being provided by a different carrier.<sup>45</sup> Each of the layers contains a \$25,000 self-insured retention for insured events not otherwise covered by the underlying insurance. The annual premiums on these policies total approximately \$383,065.

92. Property: The Debtors' property insurance covers real property, business property, personal property, and oil lease equipment contained in buildings or on real property owned or leased by the Debtors, including the Debtors' corporate office and all oilfield locations on file with the underwriters. The property insurance is provided by Liberty Mutual Insurance Company and has an annual premium of \$242,308.

93. Well Control & Care, Custody & Control: The Debtors maintain two separate well control and care, custody and control insurance policies. These policies insure against losses incurred in the event that a well blow out occurs at one of the Debtors' drilling sites, including expenses incurred in regaining control of the well, addressing any environmental issues from the blow out, and resuming operation of the well. In addition, these policies also cover losses resulting from damage to non-owned property that is in the Debtors' custody and control. One of the well control and care, custody and control insurance policies covers the Debtors' activities generally (excluding activities in Granbury, Texas), while the other policy only covers the Debtors' activities in Granbury, Texas. By applicable law, the Debtors are

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<sup>45</sup> The primary umbrella and excess liability insurance policy is provided by Gemini and, in general, covers the first \$25 million in excess liability. The second layer excess liability coverage is provided by Ironshore Specialty Insurance Company ("Ironshore") and, in general, covers the second \$25 million in excess liability. The third layer excess liability coverage is provided by Chubb Custom Insurance Company and, in general, covers the third \$25 million in excess liability. The fourth layer excess liability coverage is provided by Arch Insurance Company and, in general, covers the fourth \$25 million in excess liability.

required to maintain the Granbury policy separately from their general well control and care, custody and control policy. These policies are provided certain syndicates of Lloyd's. The policies have an aggregate annual premium of \$135,950.

94. Site Pollution: The Debtors insure against losses resulting from pollution caused by the Debtors and, generally, their contractors that may occur over time as a result of the Debtors' operations. The policy is provided by Ironshore and has an annual premium of \$394,605.32.

95. Director, Officer & Management Liability: The Debtors maintain nine layers of directors' and officers' liability policies, each expiring on December 1, 2015. The primary policy is provided by AEGIS Insurance Services, Inc. ("AEGIS") and is subject to retention payments of up to \$1,000,000 depending on type of the covered event. This primary policy also includes employment practices liability coverage. The primary policy has a separate \$10 million limit for each of directors' and officers' liability and employment practices liability. After certain credits,<sup>46</sup> this policy has an annual premium of \$287,276.

96. Each of the nine (9) excess layers cover directors' and officers' liability only and each provide excess coverage only to the next layer of coverage. The providers of the excess layers and annual premiums are as follows:

<b>Excess Layer:</b>	<b>Insurance Provider</b>	<b>Policy Premium</b>
\$10–20 million	Illinois National Insurance Company	\$192,305
\$20–30 million	Allied World National Assurance Company	\$113,500
\$30–40 million	Illinois National Insurance Company	\$68,744
\$40–50 million	Freedom Specialty Insurance Company	\$58,000
\$50–60 million	Berkley Insurance Company	\$70,000

<sup>46</sup> These credits include (i) an AEGIS Continuity Credit of \$30,903 and (ii) a credit in the amount of \$46,821 for the portion of the annual premium that is allocated to the Non-Debtor Canadian Entities that also receive coverage under the this policy. QRCI pays the portion of the premium allocated to Canada directly to AEGIS.

\$60–65 million	ACE American Insurance Company	\$40,000
\$65–75 million	Starr Indemnity & Liability Company	\$56,000
\$75–80 million	QBE North America	\$40,000
\$80-90 million	Endurance American Insurance Company	\$110,000

97. The Debtors also maintain a directors’ and officers’ liability six-year runoff program that includes coverage for “Claims” (as defined in the policy) arising six years following the Debtors’ emergence from chapter 11 for alleged “Wrongful Acts” (as defined in the policy) leading up to and during these chapter 11 cases. The runoff program, which will provide \$90 million of new, unimpaired coverage limits, triggers upon the Debtors’ emergence from chapter 11, and will include an exclusion for prior noticed “Claims.” The program is comprised of policies issued by AEGIS and the Debtors’ current excess directors’ and officers’ policies and mirrors the respective layers and limits currently in effect for those policies. The premiums for the runoff program total \$1,985,647.

98. In addition to directors’ and officers’ insurance, the Debtors maintain crime coverage, fiduciary liability, and employed lawyer professional policies. The crime coverage policy is provided by Federal Insurance Company and has an annual premium of \$14,996. The fiduciary liability policy and employed lawyer professional policy are each provided by Illinois National Insurance Company and have annual premiums of \$20,099 and \$22,500, respectively.

(ii) *Non-Debtor Canadian Insurance Policies*

99. Except with respect to director’ and officers’ liability insurance, the Non-Debtor Canadian Entities maintain separate insurance coverage that is broken down into two sub-groups: (a) coverage for non-Debtor QRCI;<sup>47</sup> and (b) coverage for non-Debtor Fortune Creek Gathering

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<sup>47</sup> QRCI utilizes BFL Canada Insurance Services Inc. as its broker for Canadian property and casualty insurance policies.

and Processing Partnership (“Fortune Creek”). In general, the QRCI coverage includes the following six lines: (a) automobile liability and physical damage; (b) general liability; (c) pollution liability; (d) non-owned aviation liability; (e) umbrella and excess liability; (f) property; and directors’ and officers’ liability.<sup>48</sup> The Fortune Creek coverage includes the following three lines: (a) general liability; (b) umbrella and excess liability; and (c) property.

100. As discussed in further detail above, the Non-Debtor Canadian Entities have entered into a forbearance and waiver agreement with their senior secured lenders, and as a result, the Non-Debtor Canadian Entities have not commenced insolvency proceedings. None of the Non-Debtors Canadian Entities are Debtors in these chapter 11 cases. The Debtors do not believe that the insurance coverage maintained by the Non-Debtor Canadian Entities is impacted by the commencement of these chapter 11 cases and the Debtors are not seeking any relief with respect to such insurance coverage by the Insurance Motion. For that reason, the Debtors have included a description of the insurance coverage maintained by the Non-Debtor Canadian Entities, including QRCI and Fortune Creek, in the Insurance Motion solely for the purpose of disclosure and out of an abundance of caution.

**F. Debtors’ Motion for the Entry of Interim and Final Orders Establishing Notification and Hearing Procedures for Transfers of, or Claims of Worthlessness with Respect to, Equity Securities (the “Trade Restrictions Motion”)**

*(i) The Debtors’ Tax Attributes*

101. The Debtors have incurred, and are currently incurring, significant net operating losses (“NOLs”), amounting to approximately \$826 million as of the end of 2014, translating to potential tax savings of approximately \$289.1 million based on a 35% federal income tax rate.

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<sup>48</sup> As previously discussed, non-Debtor QRCI is covered by the Debtors’ directors’ and officers’ liability insurance policy. QRCI pays \$46,821 directly to AEGIS on account of the portion of the annual premium that is allocated to the Non-Debtor Canadian Entities.



Sections 39(a), 59(e), 172(b), and 904(d) of the Internal Revenue Code of 1986 (as amended, the “IRC”) permit a corporation to carry forward Tax Attributes (as defined below) to offset taxable income and tax liability, thereby significantly improving the corporation’s liquidity in the future. The Debtors’ NOLs consist of losses generated in any given or prior tax year and can be “carried forward” to up to twenty subsequent tax years to offset the Debtors’ future taxable income, thereby reducing future aggregate tax obligations. NOLs also may be utilized to offset taxable income generated by transactions completed during the chapter 11 cases.

102. The relief sought in the Trade Restrictions Motion will protect and preserve the Debtors’ valuable tax attributes, including the NOLs, tax credits (“Tax Credits”) and other tax attributes (collectively, the “Tax Attributes”), ultimately benefitting all stakeholders. Conversely, loss of the Debtors’ Tax Attributes will cause substantial deterioration of value, harming the estates and significantly reducing the ultimate payout to the Debtors’ stakeholders. Failure to obtain the relief sought in this motion will greatly increase the risk that the Debtors will be unable to make use of their Tax Attributes.

103. In particular, unrestricted trading of Equity Securities (as defined below) could adversely affect the Debtors’ Tax Attributes. If (a) too many 5% or greater blocks of the Debtors’ Equity Securities are created or (b) too many shares are added to or sold from such blocks such that, together with previous trading by 5% shareholders during the preceding three-year period, an ownership change within the meaning of section 382 of the IRC would be triggered prior to emergence from bankruptcy and outside the context of a confirmed chapter 11 plan. Likewise, if a 50% or greater shareholder of the Debtors’ Equity Securities were, for federal or state tax purposes, to treat such Equity Securities as having become worthless prior to

the Debtors emerging from chapter 11 protection, such a claim would trigger an ownership change under IRC section 382(g)(4)(D), thus causing an adverse effect on the Tax Attributes.

104. The Debtors' NOLs are substantial and any loss of the Debtors' Tax Attributes, including during the first month of these cases, could cause significant and irreparable damage to the estates and stakeholders. Indeed, it is my belief that the relief requested in the Trade Restrictions Motion is critical for maximizing estate value and will help ensure a meaningful recovery for creditors. If no restrictions on trading or worthlessness deductions are imposed by this Court, such trading or deductions could severely limit or even eliminate the Debtors' ability to use their Tax Attributes—a valuable asset of the Debtors' estates—which could lead to significant negative consequences for the Debtors, their estates, the Debtors' stakeholders and the overall reorganization process.

**G. Motion of the Debtors for an Order (A) Authorizing Payment of Prepetition Claims of Critical Vendors and Service Providers, and (B) Authorizing and Directing Financial Institutions to Honor and Process Checks and Transfers Related to Such Claims (the “Critical Vendor Motion”)**

105. The Debtors purchase goods and services from certain vendors and contractors that are suppliers of goods and service providers without which the Debtors could not operate (collectively, the “Critical Vendors”). Certain of these Critical Vendors do not have written contracts with the Debtors for this arrangement, may be entitled to administrative priority pursuant to Bankruptcy Code section 503(b)(9), or could not be replaced within a reasonable time and on terms as beneficial to the Debtors as those currently in place.

106. The Critical Vendors supply goods and provide services to the Debtors that are necessary to operate their businesses, which in certain instances may include, but are not limited to, salt water removal services critical to the Debtors' drilling operations, oil field services, drilling supplies and materials, and information technology and other computer-related services.

With respect to the Debtors' Critical Vendors, replacement vendors, even where available, would likely result in higher costs for the Debtors and, in certain instances, would substantially interfere with the Debtors' ability to operate going forward.

107. If the Debtors can benefit from maintaining lower costs of goods and services purchased during the post-petition period and avoid the severe disruption that might be caused by a cessation of service, prudence dictates that the Debtors should have the authority to pay selected Critical Vendors some or all of their pre-petition claims. The Debtors intend that such payments to Critical Vendors on account of their pre-petition claims would be contingent on an agreement by the relevant Critical Vendor that it will continue to sell goods or provide services to the Debtors on a go-forward basis on terms favorable to the Debtors. Nonetheless, the Debtors seek the right, in their sole discretion, to pay a Critical Vendor without such agreement if such payment is necessary to avoid immediate and irreparable harm to, and is in the best interest of, their estates.

108. The Debtors therefore seek the authority to pay, in their sole discretion and business judgment, some or all of the pre-petition obligations of certain Critical Vendors (the "Critical Vendor Claims") to maintain their operations. The Critical Vendors are an essential component of the Debtors' continuing operations. The Debtors estimate that the maximum amount needed to pay the pre-petition claims of Critical Vendors is approximately \$5.80 million (the "Critical Vendor Claims Cap").<sup>49</sup> The Debtors believe that certain of the payments that would be made to the Critical Vendors pursuant to the relief requested in this Motion would be on account of the goods and services provided to the Debtors within the 20-day period prior to

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<sup>49</sup> The Critical Vendor Claims Cap does not include any pre-petition claims that the Debtors have authority to pay under other orders entered by this Court in these chapter 11 cases.

the Petition Date and, I am advised, would be entitled to administrative expense priority under Bankruptcy Code section 503(b)(9).

109. The Debtors are mindful of their fiduciary obligations to seek to preserve and maximize the value of their estates. The preservation of key business relationships and minimization of the effects of the chapter 11 process on the end users of the Debtors' oil and gas activities are among management's primary goals as the Debtors transition into chapter 11. For these reasons, the Debtors seek to minimize the adverse business effects, as well as the cash flow impact, of their chapter 11 filing and possible irreparable harm, to the fullest extent possible by obtaining authority from this Court to pay certain necessary trade vendors that are not subject to written contracts with the Debtors or that have trade liens and that are so essential to the Debtors' business that the loss of their particular goods or services would cause immediate and irreparable harm to the Debtors' business, goodwill, and market share.

110. While the Debtors hope and expect to be able to ensure a continuing post-petition supply of goods and services through consensual negotiation with the Critical Vendors, the Debtors recognize that their fiduciary duties bind them to consider and plan for vendors that refuse to provide future goods or services unless their pre-petition claims are paid. The Critical Vendors are so essential to the Debtors' business that the lack of each of their particular goods and services, even for a short duration, would severely disrupt the Debtors' operations and cause irreparable harm to the Debtors' business, goodwill, and market share. This irreparable harm to the Debtors and to the recovery of all creditors would far outweigh the cost of payment of the pre-petition claims of the Critical Vendors.

111. In determining the amount of the Critical Vendor Claims Cap, the Debtors have carefully reviewed their suppliers to determine, among other things: (a) which suppliers were

sole-source or limited-source suppliers, without whom the Debtors could not continue to operate without disruption; (b) which suppliers would be difficult to replace because they meet the Debtors' and their customers' strict quality, health, safety, and environmental standards and records; (c) which suppliers would be prohibitively expensive to replace; and (d) which suppliers present an unacceptable risk should they cease providing truly essential services or supplies. After compiling this information, the Debtors estimated the amount they believe they would be required to pay to ensure the continued supply of critical goods and services. The Critical Vendor Claims Cap represents this estimated amount.

112. The Critical Vendor Claims Cap represents only a percentage of the total amount of the pre-petition vendor claims in these cases. It represents the Debtors' best estimate as to how much must be paid to the Critical Vendors to continue the Debtors' operations and the supply of critical goods and services to the Debtors. The Debtors will seek to minimize the amount paid on account of such claims.

113. The Debtors believe that payment of the Critical Vendor Claims is necessary to preserve operations and maximize the value of their assets. The need for the flexibility to pay such claims is particularly acute in the period immediately following the Petition Date. During this period, the Debtors, their attorneys, their financial advisors, and their other professionals will be focusing on stabilizing operations and efforts to preserve and maximize the value of their assets. At the same time, while the Debtors are distracted with stabilization of the businesses and efforts to preserve and maximize the value of their assets, the Critical Vendors may attempt to assert their considerable leverage and deny provision of essential goods and services going forward, suddenly and without notice, in an effort to cripple the Debtors' operations and coerce payment.

114. Furthermore, if the relief sought in the Critical Vendor Motion is not granted, the Critical Vendors will have no incentive to continue to finance the Debtors on Customary Trade Terms. Indeed, over the last year, certain vendors that became concerned about the Debtors' financial condition have demanded that the Debtors pay for their goods on accelerated payment terms or on a cash-in-advance or cash-on-delivery basis. Any further expansion of these activities by other Critical Vendors would be detrimental to the Debtors, their estates, and their creditors.

115. The continued availability of trade credit, in amounts and on terms consistent with those the Debtors worked diligently to obtain and maintain pre-petition, is clearly advantageous to the Debtors. It allows the Debtors to maintain and enhance necessary liquidity and focus on efforts to maximize the value of their assets. The Debtors believe that preserving working capital through the retention and reinstatement of their normally advantageous trade credit terms will enable the Debtors to stabilize business operations at this critical time, to maintain their competitiveness, and to maximize the value of their businesses for the benefit of all interested parties. Conversely, any deterioration of trade credit, or disruption or cancellation of deliveries of goods or provision of essential services, could spell disaster for the Debtors' restructuring efforts.

**H. Debtors' Motion for an Order Authorizing the Payment of Pre-Petition Claims of Certain Lienholders (the "Lienholder Motion")**

116. In the ordinary course of business, the Debtors depend on certain vendors to transport natural gas and other related products (collectively, the "Gas"), which belongs to both the Debtors and certain of their partners, from the site of extraction at the well through the gathering systems and processing plants and into transportation pipelines, which deliver the Gas

to sales points located in Texas and various other locations where the Debtors sell the Gas. In addition, the Debtors rely on other vendors to store drilling pipe and other inventory of the Debtors. Finally, the Debtors routinely contract with and rely on the services of a number of third parties to assist them in the drilling and operation of the Debtors' wells and reparation of equipment and vehicles used in the process of extracting Gas. Each of these relationships is described in more detail below.

117. The Debtors engage certain vendors to transport and deliver the Gas from the wellhead to the sales points where such Gas is sold. First, the Debtors engage certain vendors to transport the Gas from the well site to either a compression station or a processing plant through gathering lines (collectively, the "Gatherers"). The Debtors primarily utilize the services of Gatherers, Crestwood Midstream Partners LP and DCP Midstream Partners, LP. The Gatherers take possession of the Gas at the Debtors' well sites and transport such Gas through gathering lines to one or more compression stations or processing plants where the Gas is initially processed. The processed Gas and associated liquids are then shipped by transportation pipeline operators (the "Transporters" and together with the Gatherers, the "Shippers") through several transportation pipelines to sales points where the Debtors sell the Gas. As a result of the foregoing, the Shippers regularly possess Gas belonging to the Debtors and certain of the Debtors' partners. To minimize disruption to the Debtors' operations, the Debtors seek authority to pay any pre-petition amounts owed to the Shippers.<sup>50</sup> The average monthly amount paid by the Debtors to the Shippers on behalf of the Debtors and their partners is approximately

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<sup>50</sup> Certain of the Shippers may ultimately have their claims paid pursuant to the relief request by the Critical Vendor Motion. At this time, however, it is unclear whether the Debtors and such Shippers will be able to reach an agreement that is consistent with the terms of the Critical Vendor Motion. Accordingly, out of an abundance of caution, the Debtors seek authority to pay such Shippers in the Lienholder Motion in the event that such Shippers are not ultimately entitled to the relief requested by the Critical Vendor Motion.

\$11,000,000 for the Gatherers and \$3,500,000 for the Transporters. As of the Petition Date, the Debtors estimate that they may owe the Shippers up to approximately \$10,000,000.

118. In the ordinary course of business, the Debtors use approximately five vendors (collectively, the “Warehousemen”) to store drilling pipe when not being used. The average monthly amount paid by the Debtors to the Warehousemen is approximately \$300.<sup>51</sup> The Debtors pay the Warehousemen in arrears. Therefore, the Debtors believe that it is likely that they owe the Warehousemen certain amounts for storage fees. Additionally, if the Debtors were to default on any obligation to the Warehousemen, the Warehousemen may assert a lien, attempt to take possession of the Debtors’ property, and bar the Debtors’ access to the drilling pipe (which has a value far in excess of \$300). Therefore, in an abundance of caution, the Debtors seek authority to pay the Warehousemen for any pre-petition obligations and to continue to pay the Warehousemen in the ordinary course of business.

119. Under most state laws, a Shipper or a Warehouseman may have a lien<sup>52</sup> on the goods in its possession, which lien secures the charges or expenses incurred in connection with the transportation or storage of such goods.<sup>53</sup> Additionally, pursuant to Bankruptcy Code section 363(e), the Shippers and Warehousemen may be entitled to adequate protection in the form of a possessory lien. As a result, certain Shippers and Warehousemen may refuse to deliver or

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<sup>51</sup> Certain of the Warehousemen sell or refurbish drilling pipe for the Debtors and hold such inventory, but do not charge a separate storage fee.

<sup>52</sup> By this Motion, the Debtors do not concede that any liens (contractual, common law, statutory, or otherwise) described in this 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.

<sup>53</sup> For example, Uniform Commercial Code section 7-307 provides, in pertinent part, that a “carrier has a lien on the goods covered by a bill of lading for charges subsequent to the date of its receipt of the goods for storage or transportation (including demurrage and terminal charges) and for expenses necessary for preservation of the goods incident to their transportation or reasonably incurred in their sale pursuant to law.” *See* U.C.C. § 7-307(1) (2003).



release Gas (including Gas owned by certain of the Debtors' partners), equipment, or supplies in their possession or control, as applicable, before the pre-petition amounts owed to them by the Debtors (collectively, the "Shipping and Warehousing Claims") have been satisfied and their liens redeemed.

120. In addition to the Shipping and Warehousing Claims, in the ordinary course of their business, the Debtors routinely contract with and rely on the services with a number of third parties, a number of which may assert mechanics' liens and materialmen's liens or other liens that attach to the Debtors' interests in their oil and gas leases (collectively, the "Miscellaneous Lien Claims"). As such, these third parties (the "Lien Claimants") have the potential to assert Miscellaneous Lien Claims against the Debtors and their property if the Debtors fail to pay for the goods or services rendered. The average monthly amounts paid by the Debtors to the Lien Claimants on behalf of the Debtors and their partners is approximately \$13.6 million. The Debtors believe that the vast majority of the Miscellaneous Lien Claims are covered by the relief sought in Royalty Motion. Accordingly, out of an abundance of caution, the Debtors seek relief in the Lienholder Motion for the Miscellaneous Lien Claims only to the extent such claims are not covered by the relief sought in the Royalty Motion.

121. Furthermore, the Debtors are also the operators for a number of wells in which they own an interest with other third parties. If the Debtors are unable to pay the Shipping and Warehousing Claims or the Miscellaneous Lien Claims and any Shipper, Warehousemen or Lien

Claimant asserts a lien against a well that the Debtors operate, the Debtors potentially could be removed as operator of such well.<sup>54</sup>

122. Although the Debtors generally make timely payments to the Lien Claimants, a number of the payments may not have been made prior to the Petition Date for certain pre-petition goods and services, which may result in the Lien Claimants having a right to assert and perfect the Miscellaneous Lien Claims. Accordingly, at any given time, the Debtors and their assets may be subject to a wide variety of potential Miscellaneous Lien Claims. As of the Petition Date, the Debtors are unable to estimate the amounts that could become due to the Lien Claimants. To ensure that such Miscellaneous Lien Claims are satisfied in the ordinary course of business so as to not interrupt the Debtors' business or interfere with the Debtors' relationships with its partners during the post-petition period, the Debtors seek the relief requested in the Lienholders Motion.

123. The Debtors' business is dependent upon the timely delivery of Gas, services, and equipment to and from the areas in which they operate. Any disruption in this system would have deleterious effects on the Debtors' business. The Debtors believe that the value of the Gas, equipment, and supplies in the possession or control of the Shippers, Warehousemen, or Lien Claimants, and the potential injury to the Debtors if they are not timely released, is likely to substantially exceed the amount of Shipping and Warehousing Claims and Miscellaneous Lien Claims asserted by such parties. Indeed, even if the Shippers, Warehousemen, or Lien Claimants did not have valid liens under applicable state law, their possession (and retention) of the

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<sup>54</sup> The Debtors do not concede that the assertion of any such liens would constitute a valid basis for removing the Debtors as operator of any well, and the Debtors expressly reserve the right to contest any such contention in the event that any party seeks to remove the Debtors as operator. Additional information regarding the obligations incurred by the Debtors in operating their wells can be found in Royalty Motion.

Debtors' equipment, supplies, or Gas would severely disrupt, and potentially cripple, the Debtors' operations. For these reasons, the Debtors believe that it is necessary and essential to their restructuring efforts and the enhancement and preservation of the value of their estates that they be permitted to make payments on account of certain Shipping and Warehousing Claims and Miscellaneous Lien Claims.

124. The Debtors believe that the total amount to be paid to the Shippers, Warehousemen, and Lien Claimants on account of their pre-petition claims is necessary and appropriate in light of the importance and necessity of the Shippers, Warehousemen, and Lien Claimants to the Debtors' and their business operations, and the direct and indirect losses that the Debtors would suffer as a consequence of a Warehouseman's or Lien Claimant's refusal to release the Debtors' equipment and supplies or a Shipper's refusal to transport Gas for the Debtors. Moreover, the Debtors do not believe that there are viable and timely alternatives to the Shippers, Warehousemen, and Lien Claimants that the Debtors have used prior to the Petition Date.

125. The Debtors' ability to continue operations without disruption depends on a successful and efficient system for the delivery, receipt, and shipment of Gas, equipment, and supplies. It is essential for the Debtors' business operations and efforts to maximize the value of their assets that the Debtors maintain a reliable and efficient shipping and storage network. Because the Debtors rely primarily on third parties to gather, process, and transport Gas, it is essential that these bankruptcy cases not be a reason or excuse for any such party to cease timely performing services or to retain Gas in its possession on account of unpaid pre-petition claims. If the Debtors are unable to deliver Gas on a timely and uninterrupted basis, the Debtors will likely incur, at a minimum, significant expenses as a result of disruption in their sales process,

thereby causing substantial and potentially irreparable harm to their businesses and efforts to maximize the value of their assets for the benefit of stakeholders.

**I. Debtors' Motion for Entry of an Order Authorizing the Debtors to Prepare a Single List of Creditors in Lieu of Submitting a Separate Mailing Matrix for Each Debtor**

126. The Debtors comprise fourteen entities operating as a series of closely-related entities. Prior to the Petition Date, the Debtors' and their agents maintained computerized records of their creditors, interest holders, and other parties in interest. Because of the closely-related nature of their businesses and the fact that many of the Debtors do not have significant operations, many of the Debtors' creditors overlap between the various Debtors.

127. The Debtors will file an application to retain Garden City Group, LLC (the "Proposed Claims and Noticing Agent") as their claims and noticing agent in these chapter 11 cases. If that application is granted, the Proposed Claims and Noticing Agent will—among other things—(i) assist with the consolidation of the Debtors' computer records into a creditor database and prepare creditor lists, (ii) mail notices to the parties in the database, including the notice of commencement of these chapter 11 cases, and (iii) undertake any other mailings directed by the Court or the U.S. Trustee, or required by the Bankruptcy Code or the Bankruptcy Rules. The Debtors believe that using the Proposed Claims and Noticing Agent for this purpose will maximize administrative efficiency in these chapter 11 cases and reduce the administrative burdens that would otherwise fall upon the Court and the U.S. Trustee.

128. After consulting with the Proposed Claims and Noticing Agent, the Debtors believe that preparing a single consolidated list of creditors in the format currently maintained by the Debtors in the ordinary course of their businesses will be sufficient to permit the Proposed Claims and Noticing Agent to promptly provide notices to all applicable parties. Indeed, with

the assistance of the Proposed Claims and Noticing Agent, the Debtors will be prepared to provide parties in interest with a computer-readable consolidated list of creditors upon request and will be capable of undertaking all mailings required during the pendency of these chapter 11 cases. Accordingly, the Debtors believe that maintaining a single consolidated list of creditors, rather than preparing a separate matrix for each Debtor, will maximize efficiency, increase accuracy, and reduce costs to the benefit of the Debtors' estates.

**J. Debtors' Motion Pursuant to Bankruptcy Rule 1015 Requesting Joint Administration of Chapter 11 Cases**

135. The fourteen Debtors in these chapter 11 cases are closely related entities, sharing common management and ownership and are all affiliated as defined in Bankruptcy Code section 101(2). There is also significant overlap among the various Debtors' creditors. Accordingly, the Debtors believe that joint administration will ensure that all parties receive notice of all critical events and is a more efficient and cost-effective use of the Debtors' resources. Moreover, joint administration of these chapter 11 cases will also avoid the preparation, replication, service, and filing, as applicable, of duplicative notices, applications, and orders in each of the fourteen Debtor cases, thereby saving the Debtors' estates, and the Bankruptcy Court, considerable time and resources.

**K. Debtors' Application for an Order Appointing Garden City Group, LLC as Claims and Noticing Agent for the Debtors Pursuant to 28 U.S.C. § 156(c), 11 U.S.C. § 105(a), and Local Rule 2002-1(f) *Nunc Pro Tunc* to the Petition Date**

129. The Debtors have thousands of potential creditors in these chapter 11 cases, and they anticipate that over 30,000 entities may need to be noticed. In view of the number of anticipated claimants and the complexity of the Debtors' businesses, the Debtors submit that the appointment of Garden City Group, LLC ("GCG") as their claims and noticing agent is necessary and in the best interests of both the Debtors' estates and their creditors. Based on

GCG's substantial experience serving as claims and noticing agent in numerous other cases of comparable size, the Debtors believe that GCG is well-qualified and will be able to provide claims and noticing agent services efficiently and effectively.

**VII. RELIEF REQUESTED IN OTHER PLEADINGS**

**A. Debtors' Application for an Order Authorizing the Retention and Employment of Ernst & Young LLP as Independent Auditor for the Debtors *Nunc Pro Tunc* to the Petition Date (the "EY Application")**

*(i) Ernst & Young LLP's Qualifications*

130. The Debtors require the services of seasoned and experienced auditors that are familiar with the Debtors' businesses and operations. EY is a highly respected and experienced professional services provider that performs services such as assurance, tax, transactional and advisory services. EY has indicated a desire and willingness to act in these chapter 11 cases on the terms set forth in the Engagement Letter (as defined in the EY Application) and described in the EY Application.

131. In the course of performing pre-petition audit services for the Debtors, EY has developed institutional knowledge of the Debtors' businesses. Accordingly, EY already possesses the necessary background and familiarity with the Debtors' affairs to assist the Debtors in effectively addressing issues that may arise in the context of completing and issuing the audit during these chapter 11 cases. Accordingly, the Debtors believe that EY is well suited and uniquely qualified to serve as their auditors in these chapter 11 cases.

132. The Debtors submit that the services to be rendered by EY will not duplicate the services to be provided by other professionals in these chapter 11 cases.

133. Accordingly, the Debtors propose to engage EY as their auditors in these chapter 11 cases pursuant to the Engagement Letter, and respectfully submit that EY's retention is in the

best interest of the Debtors, their estates and other parties-in-interest. The Debtors also intend to file a motion to shorten the notice period with respect to the hearing on the Application.

(ii) *Services and Professional Compensation*

134. Pre-petition EY served as the Debtors' auditors and provided a variety of audit-related services (the "Audit Services"). To that end, EY has begun and is near completing the audit related to the Debtors' 2014 Form 10-K. If the relief requested in the Application is granted, EY will provide the Audit Completion Work (as defined below) for the Debtors. The Audit Services to be provided under the Engagement Letter are more fully described therein and are summarized below.

135. EY will complete and issue the audit of the Company's financial statements and its internal control over financial reporting. Specifically, the Audit Services include:

- (1) Auditing and reporting on the consolidated financial statements of the Company for the year ended December 31, 2014.
- (2) Auditing and reporting on the effectiveness of the Company's internal control over financial reporting as of December 31, 2014.
- (3) Reviewing the Company's 2015 quarterly unaudited interim financial information before the Company files its Form 10-Qs.

136. EY's hourly rates in effect at this time for the Audit Services are as follows:

Partner/Executive Director:	\$925
Senior Manager:	\$815
Manager:	\$715
Senior:	\$540
Staff:	\$335

137. EY's hourly rates are adjusted annually on July 1 in the ordinary course of EY's business. EY will promptly advise the Debtors in writing of any rate change for their Audit Services that becomes effective during the course of EY's engagement.

138. In addition to the hourly fees set forth above, the Debtors will reimburse EY for any reasonable, necessary and documented administrative and other expenses incurred in connection with the services described in this application, consistent with applicable U.S. Trustee's fee and expense guidelines. EY's expenses will include, but not be limited to, reasonable, necessary, and documented out-of-pocket expenses for items such as travel, accommodations, and other expenses, specifically related to this engagement.

139. The Debtors and EY believe that the foregoing compensation arrangement is reasonable under the standard set forth in Bankruptcy Code section 328(a) and comparable to compensation generally charged by firms of similar structure to EY for comparable engagements. Furthermore, the fees and expenses described above are consistent with EY's normal and customary billing practices for the scope of services outlined in the Engagement Letter.

140. Subject to the Court's approval, and in accordance with applicable provisions of the Bankruptcy Rules, the Local Rules, and the applicable orders of this Court, EY intends to apply to the Court for payment of compensation for professional services rendered and reimbursement of expenses. Such applications will include time records setting forth, in summary format, a description of the services rendered by each professional and otherwise be consistent with the interim compensation procedures approved by this Court.

**B. Debtors' Motion to Shorten Notice and Objection Periods Regarding Debtors' Application for an Order Authorizing the Employment and Retention of Ernst & Young LLP as Independent Auditor for the Debtors *Nunc Pro Tunc* to the Petition Date**

141. As set forth in the EY Application, the Debtors have engaged EY to complete a crucial, time-sensitive project. Under the Securities and Exchange Act of 1934 and applicable regulations promulgated by the SEC for public companies, the Debtors are required to file their



annual report for the year ended December 31, 2014 on Form 10-K on or before March 31, 2015. To complete the Form 10-K, the Debtors require EY to perform the Audit Services related to auditing and reporting on the Debtors' consolidated financial statements, as well as, the effectiveness of the Debtors' internal control over financial reporting for the year ended December 31, 2014 (collectively, the "Audit Completion Work").

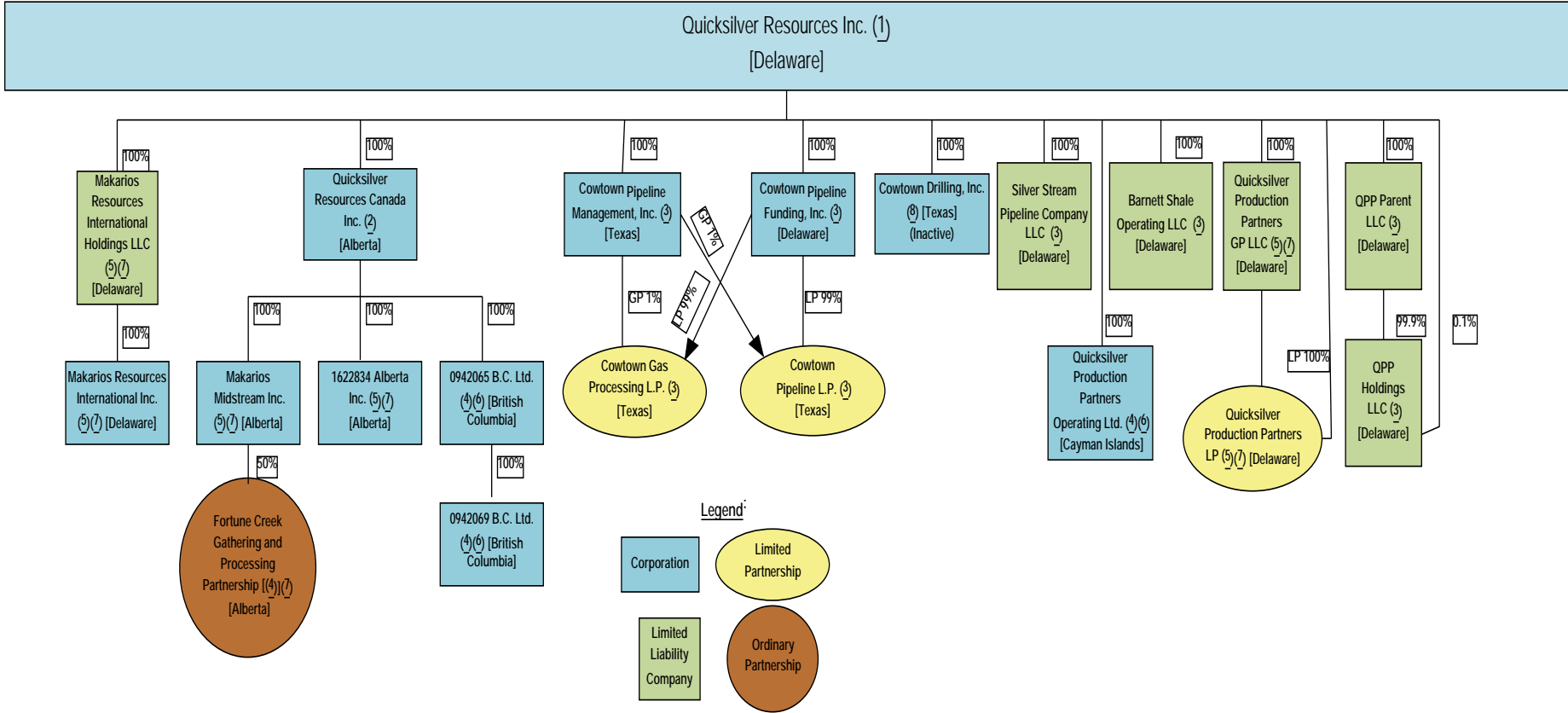
142. EY cannot issue an audit report without this Court's approval of the Engagement Letter's terms and conditions, which delineate the scope of work and other terms and conditions that apply and serve for the benefit of both EY and the Debtors. In view of Bankruptcy Code section 327 and cases interpreting it, and notwithstanding the Debtors' execution of the Engagement Letter, EY cannot be assured that the Engagement Letter is effective with respect to the Debtors absent an order from this Court approving its retention and the terms of the Engagement Letter. Accordingly, in the absence of this Court's approval of the Engagement Letter before the 10-K filing deadline, EY will not issue the very deliverable for which the Debtors seek to retain EY. In the event the Debtors are unable to timely file their 10-K, they will be required to issue a long form audit, which will result in significantly increased costs to the Debtors' estates.

I declare under penalty of perjury that the foregoing is true and correct. Executed on this 17th day of March, 2015.

By: 

Vanessa Gomez LaGatta  
Senior Vice President, Chief Financial  
Officer and Treasurer  
Quicksilver Resources Inc.

**Exhibit A**



(1) Primary obligor under the (a) U.S. Credit Agreement; (b) Second Lien Term Loan; (c) Second Lien Notes due 2019; (d) Senior Unsecured Notes due 2019; (e) Senior Unsecured Notes due 2021; and (f) Senior Subordinated Notes. Guarantor and Credit Party under the Canadian Credit Agreement.

(2) Primary obligor under the Canadian Credit Agreement. Restricted Subsidiary under the (a) U.S. Credit Agreement; (b) Second Lien Term Loan; (c) Second Lien Notes due 2019; (d) Senior Unsecured Notes due 2019; (e) Senior Unsecured Notes due 2021; and (f) Senior Subordinated Notes.

(3) Guarantor and Restricted Subsidiary under the (a) U.S. Credit Agreement; (b) Canadian Credit Agreement; (c) Second Lien Term Loan; (d) Second Lien Notes due 2019; (e) Senior Unsecured Notes due 2019; (f) Senior Unsecured Notes due 2021; and (g) Senior Subordinated Notes.

(4) Restricted Subsidiary under the U.S. Credit Agreement and the Canadian Credit Agreement.

(5) Unrestricted Subsidiary under the U.S. Credit Agreement and the Canadian Credit Agreement.

(6) Restricted Subsidiary under the (a) Second Lien Term Loan; (b) Second Lien Notes due 2019; (c) Senior Unsecured Notes due 2019; (d) Senior Unsecured Notes due 2021; and (e) Senior Subordinated Notes.

(7) Unrestricted Subsidiary under the (a) Second Lien Term Loan; (b) Second Lien Notes due 2019; (c) Senior Unsecured Notes due 2019; (d) Senior Unsecured Notes due 2021; and (e) Senior Subordinated Notes.

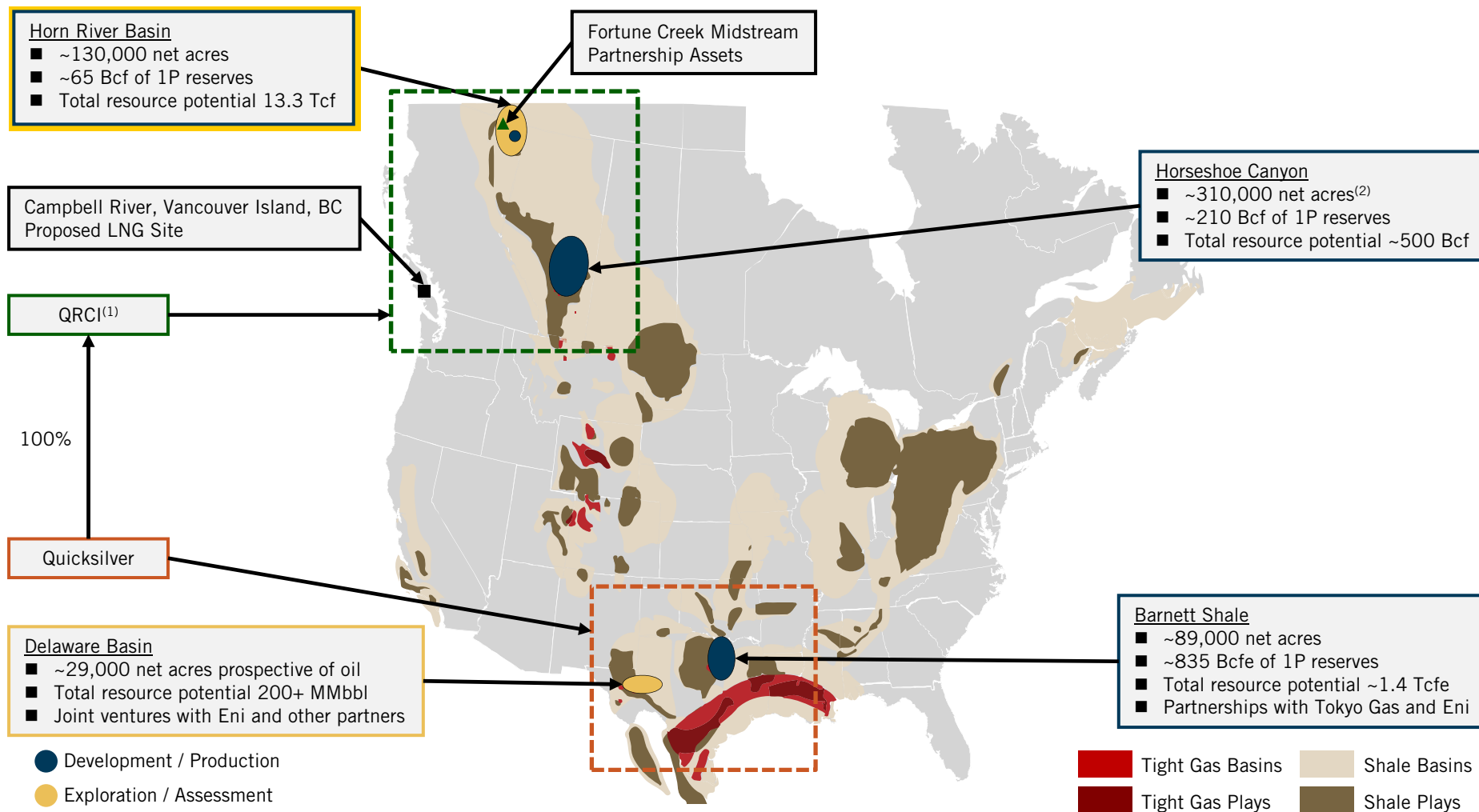
(8) Unrestricted Subsidiary under the (a) U.S. Credit Agreement; (b) Canadian Credit Agreement; (c) Second Lien Term Loan; and (d) Second Lien Notes due 2019. Restricted Subsidiary under the (a) Senior Unsecured Notes due 2019; (b) Senior Unsecured Notes due 2021; and (c) Senior Subordinated Notes.

**Exhibit B**

Quicksilver  
Resources Inc.

# Quicksilver: Geography

*High-quality, large-scale resource base provides long-term drilling inventory in both oil and gas plays*



Sources: Company data

Note: 1P reserves exclude upside value from undeveloped acreage with estimated unbooked resource potential of over 15.0 Tcfe + 200 MMbbl

(1) Not represented above is Quicksilver's pre-exploratory prospective asset in central Alberta, targeting oil in the Nordegg, Montoney and Duvernay formations ("Alberta Shale Oil Play")

(2) Inclusive of ~5,000 net producing acres outside core HSC region

**Exhibit C**

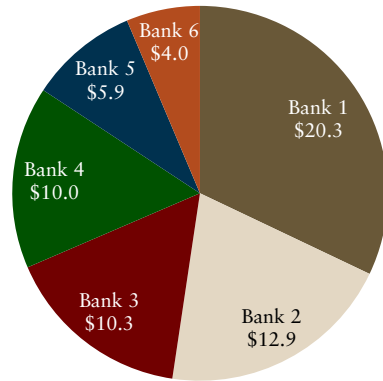
Quicksilver  
Resources Inc.

# Quicksilver: Near-Term Hedging Program

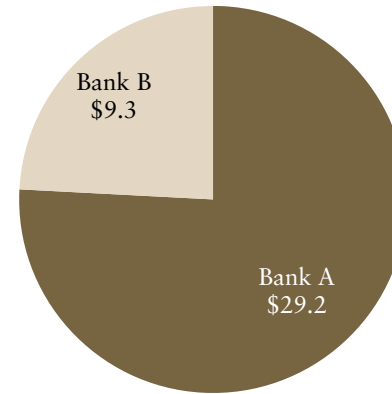
*Quicksilver's derivatives portfolio provides the Company with near-term protection from downside price levels*

■ The Company's hedge portfolio includes:

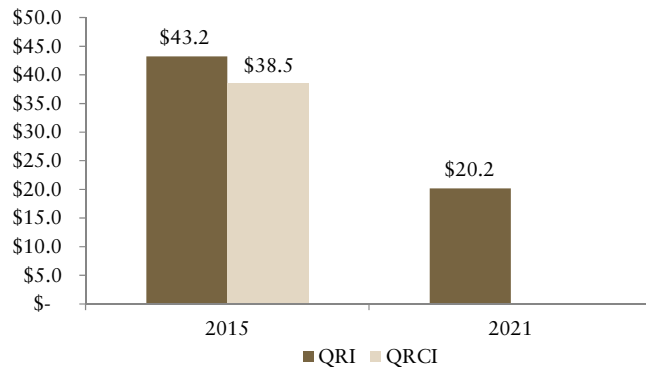
**Total QRI MTM: ~\$63.4M<sup>(1)</sup>**



**Total QRCI MTM: ~\$38.5M<sup>(1)</sup>**



**MTM Expiration Schedule (\$M)**



**Natural Gas Swaps**

Period	QRI		QRCI		Total	
	Volume (Mmbtu/d)	Price	Volume (Mmbtu/d)	Price	Volume (Mmbtu/d)	Price
2015	90	\$4.96	30	\$7.75	120	\$5.66
2016-2021	10	\$4.37	N/A	N/A	10	\$4.37

Sources: Company data

Note: We enter into derivatives with counterparties who are our lenders at inception of the derivative. Not all current financial institution counterparties are lenders in our revolver. Data as of March 17, 2015

(1) Portfolio reflects derivatives with respect to legal counterparties



**Exhibit D**

Quicksilver  
Resources Inc.

## Cash Forecast

Preliminary 13-Week U.S. Cash Forecast – *DRAFT: SUBJECT TO MATERIAL REVISION*

13-Week Cash Forecast: U.S. Ops	Week Ending:		3/13	3/20	3/31	Mar-15	4/3	4/10	4/17	4/24	4/30	Apr-15	5/1	5/8	5/15	5/22	5/31	May-15
<i>(USD in millions)</i>																		
Beginning Cash	\$		5.7	18.5	10.6	5.7	10.4	24.5	12.9	5.8	1.6	10.4	16.1	28.6	16.4	16.1	13.4	16.1
<b>Sources of Cash</b>																		
Hedge settlements (net)			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Commodity Sales			3.9	0.5	17.6	22.0	-	-	3.7	0.7	20.3	24.6	-	-	3.6	1.1	19.8	24.4
JIBs			0.5	-	2.0	2.5	-	3.0	-	-	2.0	5.0	-	2.0	-	-	3.0	5.0
Other			8.8	-	-	8.8	0.3	-	0.2	-	-	0.4	0.3	-	-	-	-	0.3
<b>Total Sources of Cash</b>			13.2	0.5	19.6	33.3	0.3	3.0	3.8	0.7	22.3	30.0	0.3	2.0	3.6	1.1	22.8	29.7
<b>Total Uses of Cash</b>			(9.9)	(10.0)	(35.0)	(55.0)	(13.9)	(12.2)	(7.9)	(4.9)	(7.9)	(46.8)	(1.3)	(14.4)	(3.8)	(4.0)	(12.0)	(35.5)
<b>Total Operational Restructuring Cash Flows</b>			-	2.2	2.9	5.1	0.2	(2.1)	(2.7)	0.2	0.2	(4.2)	0.2	0.2	0.2	0.2	0.2	0.9
<b>Total Financial Restructuring Cash Flows</b>			(3.1)	(0.6)	(0.1)	(3.8)	12.6	(0.4)	(0.3)	(0.2)	-	11.7	(1.7)	-	(0.3)	-	(4.0)	(6.0)
<b>Cash Investments:</b>																		
Redeem:			12.5	-	12.5	25.0	15.0	-	-	-	-	15.0	15.0	-	-	-	-	15.0
Reinvest:			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Investment Balance</b>			167.5	167.5	155.0	155.0	140.0	140.0	140.0	140.0	140.0	140.0	125.0	125.0	125.0	125.0	125.0	125.0
<b>Ending Cash</b>	\$		18.5	10.6	10.4	10.4	24.5	12.9	5.8	1.6	16.1	16.1	28.6	16.4	16.1	13.4	20.2	20.2
<b>Cash and Investment Balance</b>	\$		186.0	178.1	165.4	165.4	164.5	152.9	145.8	141.6	156.1	156.1	153.6	141.4	141.1	138.4	145.2	145.2

Source: Company data

Note: Any change to the assumptions underlying these projections would result in a change to the projections themselves