

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE SOUTHERN DISTRICT OF TEXAS  
HOUSTON DIVISION**

	)	
In re:	)	Chapter 11
	)	
BRUIN E&P PARTNERS, LLC, <i>et al.</i> , <sup>1</sup>	)	Case No. 20-33605 (MI)
	)	
Debtors.	)	(Joint Administration Requested)
	)	(Emergency Hearing Requested)
	)	

**DECLARATION OF MATTHEW B. STEELE,  
CHIEF EXECUTIVE OFFICER OF BRUIN E&P PARTNERS, LLC,  
IN SUPPORT OF CHAPTER 11 PETITIONS AND FIRST DAY MOTIONS**

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I, Matthew Steele, hereby declare under penalty of perjury:

1. I am the Chief Executive Officer of Bruin E&P Partners, LLC (“Bruin”), a corporation organized under the laws of Delaware and one of the above-captioned debtors and debtors in possession (together with Bruin, collectively, the “Debtors”). I was appointed as the Chief Executive Officer of Bruin in September 2015 and am a member of the Board of Directors of Bruin (the “Board”).<sup>2</sup> In my capacity as Chief Executive Officer, I am familiar with the Debtors’ day-to-day operations, business and financial affairs, and books and records.

2. Prior to my position as the Chief Executive Officer, I served as the Chief Executive Officer of Ursa Resources Group II (“Ursa”). Before Ursa, I was a founding partner and president of Ursa Resources Group LLC, a private equity backed company focused on the exploration and development of the Bakken Shale and Three Forks formations in the Williston Basin. I began my

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<sup>1</sup> A complete list of each of the Debtors in these chapter 11 cases may be obtained on the website of the Debtors’ proposed claims and noticing agent at <http://omniagentsolutions.com/bruin>. The location of Debtor Bruin E&P Partners, LLC’s principal place of business and the Debtors’ service address in these chapter 11 cases is 602 Sawyer Street, Suite 710, Houston, Texas 77007.

<sup>2</sup> The Board of Directors is defined as the “Management Committee” pursuant to Bruin’s LLCA operating agreements.

career at Shell E&P, worked for Southwestern Energy, and served as an independent consultant and founding partner for several oil and gas prospect generating companies. In total, I have over 19 years of experience in the oil and gas industry.

3. I submit this declaration (this "Declaration") to assist the United States Bankruptcy Court for the Southern District of Texas (the "Court") and parties in interest in understanding the circumstances that compelled the commencement of these chapter 11 cases and in support of the Debtors' petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") filed with the Court on the date hereof (the "Petition Date"). To minimize the adverse effects upon their business, the Debtors have filed motions and pleadings seeking various types of "first day" relief (collectively, the "First Day Motions"). The First Day Motions seek relief to allow the Debtors to meet their critical and necessary obligations and fulfill their duties as debtors in possession. I am familiar with the contents of each First Day Motion and believe that the relief sought in each First Day Motion is necessary to enable the Debtors to operate in chapter 11 with minimal disruption or loss of productivity and value, constitutes a critical element in achieving a successful reorganization of the Debtors, and best serves the Debtors' estates and creditors' interests. The facts set forth in each First Day Motion are incorporated herein by reference.

4. Except as otherwise indicated herein, all facts set forth in this Declaration are based upon my personal knowledge of the Debtors' employees, operations, finances, information learned from my review of relevant documents, information supplied to me by other members of the Debtors' management team and their advisors, or my opinion based on my experience, knowledge, and information concerning the Debtors' operations, financial affairs, and restructuring initiatives. I am over the age of 18, and I am authorized to submit this Declaration on behalf of the Debtors.

If called upon to testify, I could and would testify competently to the facts set forth in this Declaration.

### **Introduction**

5. The Debtors are a Houston-based independent oil and gas company engaged in the exploration, development, production, and acquisition of oil and gas properties in the Williston Basin in North Dakota. As is well known, the operating and market conditions in the oil and gas industry have undergone a profound transformation in recent years, leading many companies to seek chapter 11 relief. The Debtors were able to successfully run their business during the last several years through a combination of efforts to strategically acquire operating assets, sell non-operating assets, raise capital, optimize operations, and reduce expenses, but the market overhaul in March and April 2020 proved to be more than the Debtors' leverage could withstand.

6. Prior to the unprecedented market conditions outlined below, Bruin and the Board had already positioned themselves to address potential long-term solutions to right-size their balance sheet. In late 2019, the Debtors retained Kirkland & Ellis LLP as legal counsel, in late January 2020, the Debtors retained PJT Partners LP as financial advisor, and in April 2020, the Debtors retained AlixPartners LLP as restructuring advisor, to assist with liability management. From late 2019 through March 2020, the Board conferred with the Debtors' management team and advisors multiple times regarding their out-of-court options.

7. Then, in March 2020, drastic and unprecedented global events, including a "price war" between the Kingdom of Saudi Arabia ("Saudi Arabia") and the Russian Federation ("Russia") and the macroeconomic effects of the COVID-19 pandemic, forced the Debtors to move more quickly than anticipated to reevaluate their financial position and immediate next steps. On March 9, 2020, the West Texas Intermediate ("WTI") index—the benchmark for U.S.-based oil exploration and production companies—declined **24.59% in a single day**. Since mid-March,

major oil indexes experienced numerous subsequent drops and U.S. indexes hovered around \$20 per barrel, until prices plummeted on April 20, 2020, when WTI crude oil for May delivery dropped roughly *300% in a single day* and settled well below \$0—the first time in history. The market turmoil in March and April took, and continues to take, a toll on both energy markets and the financial system as a whole, as institutions grapple with significant levels of economic uncertainty.

8. The recent extreme and sudden downturn fundamentally changed the economic landscape surrounding the Debtors' out-of-court deleveraging options and strategic alternatives that might have otherwise been available had the world not been in the midst of a global pandemic—including the dynamics surrounding the negotiations with the RBL Lenders (as defined herein).

9. While the Debtors and their advisors were focused on increased volatility in the market, on April 6, 2020, the RBL Lenders reduced the Debtors' borrowing base (which is set for redetermination on April 1 and October 1 of each year under the Debtor's Credit Agreement, as defined below) to \$400 million from \$710 million, resulting in a borrowing base deficiency of over \$170 million (the "Borrowing Base Deficiency"). The combination of these factors, in essence, caused the Debtors and their advisors to promptly focus on both in-court and out-of-court restructuring and strategic alternative discussions in April 2020. As a result, the Debtors began contingency planning negotiations by engaging with the RBL Lenders and an ad hoc group of the Debtors' unsecured noteholders (the "Ad Hoc Group") represented by O'Melveny & Meyers LLC and Porter Hedges LLP as legal counsel, and Ducera Partners as financial advisor, and pursuing a marketing process with the consent of the Debtors' private equity sponsor, ArcLight (defined below).

10. In the immediate near-term, however, the Debtors needed to address the Borrowing Base Deficiency and future liquidity requirements. Therefore, the Debtors, pursuant to the Credit Agreement (as defined herein), elected to make six consecutive equal monthly installments, the first installment being due and payable on May 4, 2020 (the “First Installment”), and each subsequent installment being due and payable on the same day in each of the subsequent five calendar months, with each payment being equal to one-sixth of such Borrowing Base Deficiency (collectively, the “Installment Payments”).

11. As the Board evaluated the possibility that the Debtors would not be able to make all of the Installment Payments, the Debtors worked with their advisors on a parallel restructuring path by engaging in a third-party marketing process to solicit equity capital commitments as part of their recapitalization efforts from both parties outside and inside their capital structure. It eventually became clear to the Board and its advisors that making the Installment Payments would severely limit the Debtors’ flexibility to satisfy their funded debt obligations and their ability to pay ongoing operating expenses. Ultimately, the Board, in a sound exercise of its fiduciary duties and upon the advice of the Debtors’ advisors, elected to enter into discussions with the RBL Lenders regarding a potential forbearance to avoid penalization from failing to make the Installment Payments. Such negotiations were successful and the parties entered into the Forbearance Agreements (as defined herein), pursuant to which the RBL Lenders ultimately agreed to forbear from exercising their rights under the Credit Agreement until July 16, 2020.

12. With the immediate pressure lifted as a result of the Forbearance Agreements, the Company and its advisors advanced their strategic negotiations with the RBL Lenders and the Ad Hoc Group, while continuing the marketing process. To facilitate these discussions, several

members of the Ad Hoc Group became restricted under confidentiality agreements, and the Debtors provided requested diligence to the Ad Hoc Group and its advisors.

13. Since the end of May 2020, the Debtors, the Ad Hoc Group, and the RBL Lenders exchanged proposals back and forth regarding a potential restructuring transaction, including negotiations with respect to debtor-in-possession (“DIP”) financing, an exit facility, the issuance of new warrants, and the treatment of the unsecured claims. As a result, on July 16, 2020, the Debtors, the Consenting RBL Lenders, the Consenting Noteholders, and the Consenting Sponsor—the Debtors’ private equity sponsor, ArcLight Capital Partners (“ArcLight”)—entered into a restructuring support agreement (the “RSA”), as attached to Exhibit B of the Disclosure Statement filed on the Petition Date.<sup>3</sup> Pursuant to the RSA, the Parties agreed to support and vote in favor of the prepackaged chapter 11 plan attached as Exhibit A to the RSA (the “Plan”). Indeed, on July 16, 2020, the Debtors launched solicitation of the Plan, and, although solicitation is ongoing, under the RSA, holders of approximately 100% of the aggregate principal amount of the RBL Claims and 67.92% of the aggregate principal amount of the Notes Claims have affirmatively committed to vote in favor of the Plan. Altogether, the Plan, the RSA, the exit facility term sheet negotiated in connection with the RSA, and the transactions contemplated thereunder, will leave the Debtors poised to continue operations and capitalize on their de-levered balance sheet.

14. Importantly, the Plan eliminates more than \$840 million in par amount of the Debtors’ funded-debt obligations, contemplates a case to be completed in less than 55 days, and unimpairs the vast majority of the Debtors’ trade vendors, including unimpairment of all holders of Royalty and Working Interests.

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<sup>3</sup> Capitalized terms used but not defined herein shall have the meaning given to such term in the RSA.

15. During the cases, the Debtors will continue to have access to cash after the Petition Date of approximately \$50 million and up to \$75 million through the proposed DIP financing during these chapter 11 cases. Access to such financing will allow the Debtors to continue their business and administer these chapter 11 cases seamlessly and in accordance with the First Day Motions.

16. To familiarize the Court with the Debtors and their enterprise, I submit this Declaration. This Declaration is organized into four sections. *Part I* provides a general overview of the upstream industry and the Debtors' business, corporate history, and corporate structure.<sup>4</sup> *Part II* details the Debtors' prepetition capital structure. *Part III* describes the Debtors' prepetition restructuring efforts, the events and circumstances leading to the filing of these chapter 11 cases, and proposed timeline for these chapter 11 cases. Finally, *Part IV* summarizes the First Day Motions filed herewith.

### **Part I: General Background**

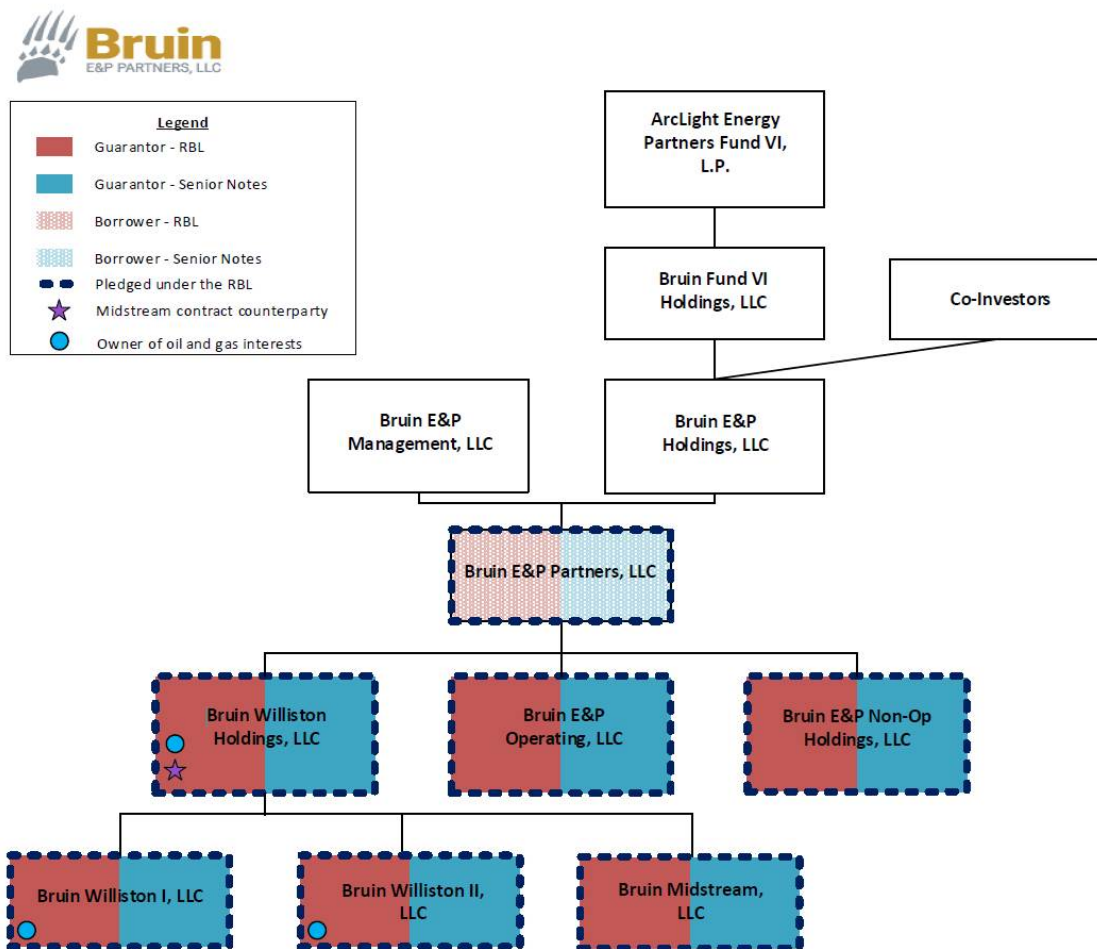
#### **A. The Debtors' Corporate History.**

17. The Debtors operate an independent exploration and production ("E&P") company with an oil-focused asset base. The Debtors' production and development activities are in the Williston Basin in North Dakota. The Debtors' assets include mature properties with stable, high-quality, oil-weighted production. Headquartered in Houston, Texas, the Debtors have approximately 134 employees. The Debtors' operating revenue for the twelve-month period ending December 31, 2019 was approximately \$582 million, and, as of the Petition Date, the Debtors have approximately \$1.077 billion in par amount of total funded debt obligations.

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<sup>4</sup> Many of the financial figures presented in this Declaration are unaudited and potentially subject to change, but reflect the Debtors' most recent review of their businesses. The Debtors reserve all rights to revise and supplement the figures presented herein.

18. The Debtors' current corporate structure is as follows:



19. Bruin was founded in 2015 and is run by a highly-experienced management team backed by a private equity sponsor, ArcLight. The majority of the Bruin management team most recently managed Ursa, a highly successful operator in the Piceance Basin, East Texas Eagle Ford, and Bakken Shale. The members of Bruin's management team each started their careers with large exploration and production companies with assets in different basins throughout the world and received training and experience through such larger companies. The Bruin management team's knowledge and experience, coupled with their proven working relationship, have enabled Bruin to set up ongoing operations and relationships in the Williston Basin since 2015.



20. As of the Petition Date, the Debtors control a substantial acreage position in the Bakken Shale and Three Forks formations in the Williston Basin in North Dakota, with 155,558 net acres in the oil-productive “sweet spots” of the basin. As of January 1, 2020, the Debtors’ estimated proved reserves totaled approximately 193 million barrels of oil equivalent, of which approximately 48% were categorized as proved developed reserves. The Debtors’ 2019 net average daily production was about 37 thousand barrels of oil equivalent per day.

21. At the end of 2019 and continuing through the beginning of 2020, the Debtors, like many of their industry peers, experienced significant challenges recently due to volatility in commodities markets. Such challenges have been exacerbated in recent months by the unprecedented drop in global energy prices and market uncertainty due to the combined effects of the COVID-19 pandemic and tensions between the Saudi Arabia and Russia.

**B. The Debtors’ Assets and Operations.**

**1. The Debtors’ Business Strategy.**

22. Since their inception, the Debtors have built a strong asset base through a combination of property acquisitions and development of proved reserves and exploration activities. The Debtors’ operations and capital programs over the last several years have focused on organic drilling opportunities and the development of previously acquired properties. In particular, the Debtors focus on projects they believe will provide the greatest potential for repeatable success and production growth.

**2. Acquisitions and Divestitures.**

23. The Debtors have focused on managing their level of capital spending and concentrated their drilling activities on projects they determined would provide the highest rate of return. In September 2017, the Debtors strategically expanded their already established presence in the Williston Basin through their \$1.4 billion acquisition of assets and subsidiary equity interests

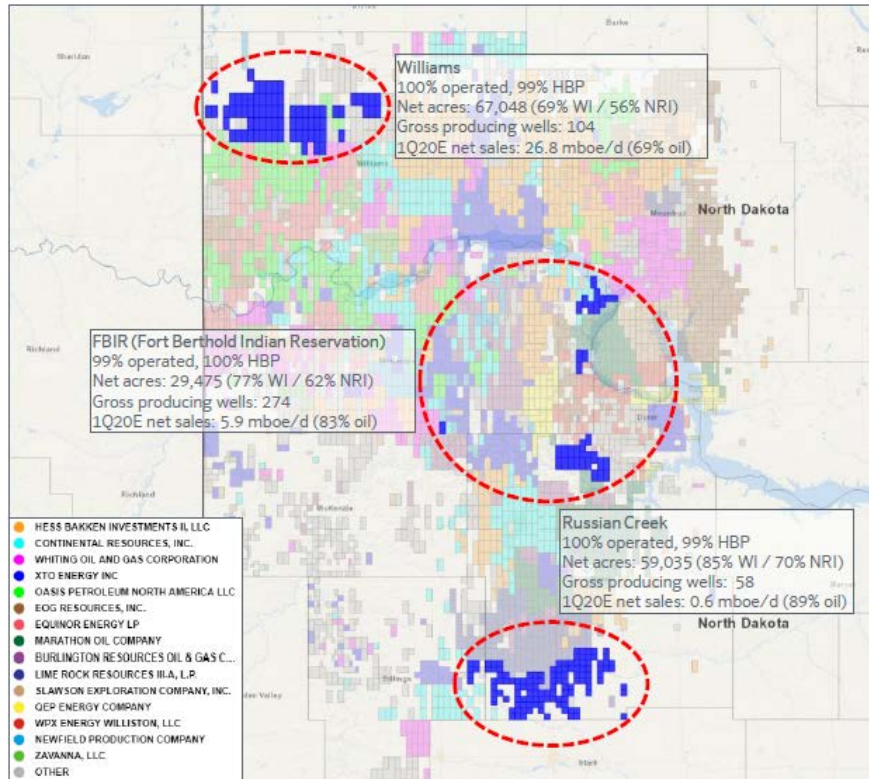
from Halcón Resources Corporation (“Halcón”). The Debtors acquired Halcón’s approximately 104,000 net acres of oil and gas properties, which, at the time, produced about 29 thousand barrels of oil per day. The acquisition allowed the Debtors to significantly scale their production and operations and to remain competitive with their peers. The Debtors continually evaluate their portfolio of assets and sell assets when the Debtors believe that the sales price realized will provide an above-average rate of return for the asset or when the asset no longer matches the profile of properties the Debtors desire to own.

24. The Debtors’ have completed other recent acquisitions and divestitures, which are described below:

- a. **Lime Rock Acquisition.** In November 2016, the Debtors completed the acquisition of approximately 60,000 net acres in Southern Dunn County, North Dakota, for an aggregate purchase price of \$29.1 million (before closing adjustments). The producing properties had production of 1,000 barrels of oil per day and estimated proved reserves of 3 million barrels of oil equivalent as of the acquisition date, 91% of which was crude oil.
- b. **Enerplus Acquisition.** In December 2016, the Debtors completed the acquisition of approximately 6,000 non-operated net acres in the core of the Williston Basin, for an aggregate purchase price of \$292 million (before closing adjustments). The producing properties had production of 5,500 barrels of oil per day and estimated proved reserves of 37 million barrels of oil equivalent as of the acquisition date, 85% of which was crude oil. A substantial portion of this asset was operated by Halcón and became Bruin-operated interests following the Halcón acquisition.
- c. **Non-Op Divestiture.** In February and August 2018, the Debtors sold 99.5% of their non-operated assets in North Dakota in a two-part transaction, for a total of approximately \$164 million. As a result of this two-part divestiture, the Debtors sold 3,400 net acres, which had an average production of 2,400 barrels of oil per day.

### 3. The Debtors' Geography.

25. The Debtors' operations are in the Williston Basin targeting the Bakken Shale and Three Forks formations, encompassing approximately 155,558 net acres and 475 operated wells. The Debtors operate in excess of 99% of their net acreage position in the Williston Basin.



### C. The Debtors' Industry.

26. The majority of the Debtors' assets are in the upstream sector of the oil and gas industry, which is comprised of E&P activities that focus on locating and extracting crude oil, raw natural gas, and other hydrocarbons from under the ground. Common upstream assets include wells and simple well pad equipment. The Debtors focus on the acquisition, exploration, development, and production of crude oil, natural gas, and natural gas liquids ("NGLs"). Although the Debtors also engage in certain in-field functions such as gathering, processing, and marketing (as well as the ownership and operation of certain salt water disposal wells)—which are typically

characterized as mid-stream or downstream activities—the Debtors consider such functions to be ancillary to their upstream E&P activities.

**D. Marketing Contracts.**

27. The Debtors have two general categories under which they sell their oil and natural gas. The Debtors principally sell their oil and gas production to marketers, and other purchasers that have access to nearby pipeline or rail takeaway. In areas where there is no practical access to gathering pipelines, oil is trucked or transported to terminals, market hubs, refineries or storage facilities. The sale of natural gas typically happens through gathering agreements with a midstream processor. The Debtors' revenue as of December 31, 2019 was over \$580 million for oil sales. NGL and natural gas sales revenues were nearly \$16 million and \$19 million, respectively, excluding gathering, processing, and transportation costs of approximately \$33 million.

28. The Debtors maintain production sales agreements containing customary terms and conditions for the oil and natural gas industry, and which generally provide for sales based on prevailing market prices in the area. These production sales agreements generally have terms of one year or less. The Debtors are also party to certain contracts requiring them to deliver fixed volumes of crude oil. Under the terms of these agreements, if the Debtors fail to deliver the committed volumes, they will be required to pay a deficiency payment.

## Part II: The Debtors' Prepetition Capital Structure

29. As of the Petition Date, the Debtors have approximately \$1.077 billion in total funded debt obligations. The relative priorities of each debt obligation are as follows:

Debt	Approx. Principal Amount Outstanding
RBL Facility	\$510 million
<b>Total Secured Debt</b>	<b>\$510 million</b>
8.875% Senior Notes due 2023	\$567 million
<b>Total Unsecured Notes</b>	<b>\$567 million</b>
<b>Total Funded Debt Obligations</b>	<b>\$1.077 billion</b>

### A. The RBL Facility.

30. On September 7, 2017, the Debtors entered into that certain Amended and Restated Credit Agreement, by and among Bruin, as borrower, the lenders party thereto from time to time (the "RBL Lenders"), and Bank of Montreal, as the administrative agent (as amended, supplemented, or modified from time to time in accordance with the terms therein, the "Credit Agreement"), which provides for the Debtors' reserve-based lending facility (the "RBL Facility"). Pursuant to a certain Amended and Restated Guarantee and Collateral Agreement, dated as of September 7, 2017, the RBL Facility is guaranteed by each of the Debtors and is secured on a first-priority basis by substantially all of the assets and stock of the Debtors. The borrowing base of the RBL Facility is \$400 million and the aggregate commitments are \$400 million following the Debtors' borrowing base redetermination on April 2020.

31. The RBL Facility matures on September 7, 2022 and accrues interest at a rate per annum equal to 2.00% plus the alternative base rate plus an applicable margin of 1.00% - 2.00% based on the borrowing base utilization percentage.

32. The borrowing base under the RBL Facility is subject to scheduled redeterminations on April 1 and October 1 of each year. On April 6, 2020, the borrowing base under the RBL Facility was reduced from \$710 million to \$400 million in connection with the April 1, 2020, regular borrowing base redetermination, and the aggregate elected commitments were reduced to \$400 million. As of the Petition Date, approximately \$510 million is outstanding under the RBL Facility. Additionally, as of the Petition Date, there are approximately \$734,400 in letters of credit as issued but undrawn under the RBL Facility.

**B. 8.875% Senior Notes.**

33. In connection with entry into that certain Indenture, dated as of July 26, 2018 (the "8.875% Senior Notes Indenture"), by and among Bruin, as issuer, each of the guarantors party thereto, and UMB Bank, N.A., as trustee, Bruin issued a series of 8.875% senior notes due 2023 (the "8.875% Senior Notes") in an aggregate principal amount of \$600 million. The 8.875% Senior Notes bear interest at a rate of 8.875% per annum. Interest is payable on the 8.875% Senior Notes on February 1 and August 1 of each year, beginning on February 1, 2019. The 8.875% Senior Notes mature on August 1, 2023. As of the Petition Date, approximately \$567 million of 8.875% Senior Notes are outstanding under the 8.875% Senior Notes Indenture.

**C. Derivatives Instruments.**

34. The Debtors have historically utilized derivative financial instruments to hedge the Debtors' exposure to pricing risk in oil, natural gas, natural gas liquid components, and interest rates. Prior to the Petition Date, the vast majority of the Debtors' derivative financial instruments were terminated to maximize the value of such instruments, with the \$59 million in net proceeds therefrom applied to repay loans under the RBL Facility. As of the Petition Date, the Debtors remain party to (i) approximately \$250 million in notional amount of interest rate hedges with a mark-to-market liability of approximately \$4.8 million and (ii) commodity hedges of

approximately 730 thousand barrels of oil equivalent with a mark-to-market liability of approximately \$2 million.

**D. Equity.**

35. Under Bruin's Amended and Restated Limited Liability Company Agreement, dated as of December 31, 2016 (as amended, restated, amended and restated, or otherwise modified), Bruin has two classes of equity, Class A membership interests ("Class A") and Class B membership interests. Class A represents ordinary equity investments by Bruin's sponsor and management, has voting rights, and receives preferred treatment to all other classes of equity. As of the Petition Date, Bruin E&P Holdings, LLC, a Delaware limited liability company, BMFG, LLC, a Texas limited liability company, and Bruin E&P Management, LLC, a Delaware limited liability company, are the three members of Bruin, holding 99.738147%, 0.261853%, and 0% of the Class A equity interests, respectively.

**Part III: Events Leading to These Chapter 11 Cases**

**A. Recent Market Volatility and Early 2020 Oil Market Crash.**

36. As highlighted above, the difficulties faced by the Debtors are consistent with those faced industry-wide. Volatile oil and gas commodities markets have challenged oil and gas companies and others for years. From January 1, 2012 until April 20, 2020, WTI crude oil prices ranged from a high of \$107.95 per barrel to a low of -\$36.98 per barrel; during that same period Henry Hub natural gas prices ranged from a high of \$8.15 per mmbtu to a low of \$1.49 per mmbtu. As of the Petition Date, prices have rebounded to approximately \$40.00 per barrel (WTI) and \$1.72 per mmbtu (Henry Hub), but such prices continue to challenge further economic development of the Debtors' assets.

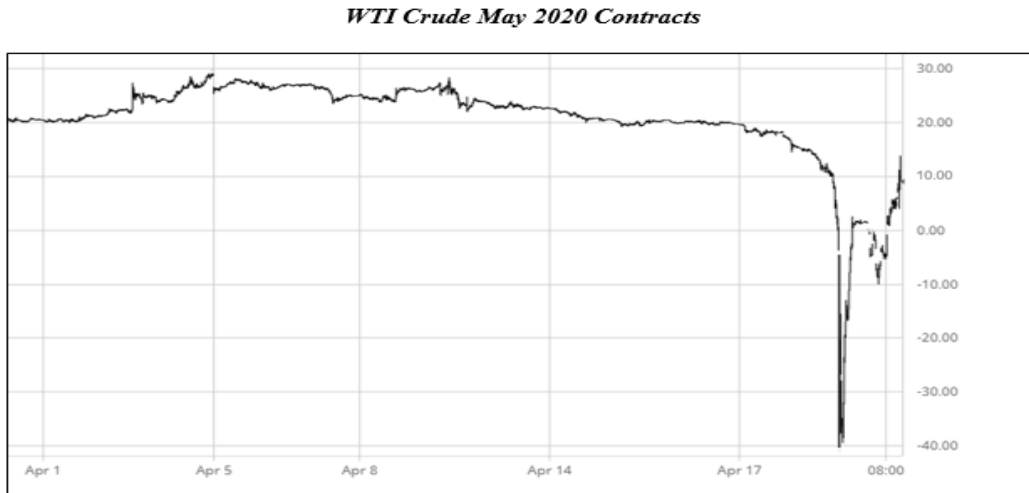
*WTI Crude Prices since 2012*

37. In early 2020, the initial spread of COVID-19 caused decreased factory output and transportation demand, resulting in a decline in energy prices. To address this, OPEC, led by the Saudi Arabia, called for additional cuts in oil production, subject to agreement by Russia. However, those initial efforts faltered, and the parties failed to reach an agreement as to production levels. Instead, both Saudi Arabia and Russia announced that they would *increase*, rather than decrease, production, resulting in surplus supply amidst already decreasing demand for energy. Meanwhile, the COVID-19 pandemic continued (and still continues) to spread, causing governments across the world to institute strict public health and safety measures, including stay-at-home orders that have further decreased energy demand. On April 12, 2020, in an effort to relieve some of the negative impacts on the industry, 23 countries agreed to commit to withholding 9.7 million barrels of oil per day from the global markets. However, that agreement was not enough to counteract the combined effects of the initial price war and the decreased demand due to COVID-19.

38. The corresponding effects on energy markets have been stark. In March 2020, oil prices plummeted to near \$20 per barrel, the lowest in nearly twenty years, until April 20, 2020,



when the WTI crude oil price for May 2020 contracts settled at a negative price for the first time in history.



39. Indeed, the effect on companies in the oil and gas industry (not just E&P companies) has been undeniable. However, independent oil and gas companies such as Bruin have been especially hard-hit, as their revenues are primarily generated from the sale of unrefined oil, natural gas, and NGLs. Making matters worse, the drastic decrease in demand and corresponding over-supply of oil, natural gas, and NGLs has led to an unprecedented storage shortage. Oil and gas companies have been left with no option but to consider well shut-ins and other production measures to address the storage issue.

40. In response to the sharp decline in commodity prices, on March 13, 2020, the Debtors reached out to over 500 of their vendors and had largely successful efforts in negotiating price reductions. The Debtors also successfully engaged in discussions with their midstream counterparties and secured a discount in rates from one of those counterparties. Then, in April 2020, the Debtors terminated the contract on their remaining drilling rig and commenced a program to shut in subeconomic producing wells. Although these drastic measures are expected to significantly reduce capital expenditures in 2020 from 2019, the removal of drilling and

completion activities for the remainder of 2020 will result in reduced cash flows due to the natural decline in production that will not be replaced with additional production from new well completions. In light of the rebound in commodities prices in the recent weeks, as of the Petition Date, the Debtors are evaluating their revised operating strategy for the remainder of 2020, with the goal of bringing some wells back online while continuing to monitor and evaluate oil and gas production activities at a sustainable rate.

41. The current volatility in commodity markets has made it especially difficult for some companies to execute on out-of-court restructuring alternatives. In the first half of 2020, several E&P companies and related service and midstream providers have filed for chapter 11, including Kingfisher Midstream, LLC on January 13, 2020; McDermott International, Inc. on January 21, 2020; Southland Royalty Company, LLC on January 27, 2020; Pioneer Energy Services Corporation on March 1, 2020; Whiting Petroleum on April 1, 2020; Ultra Petroleum Corp. on May 14, 2020; Gavilan Resources, LLC on May 15, 2020; Templar Energy LLC on May 31, 2020; Extraction Oil and Gas, Inc. on June 14, 2020; and Chesapeake Energy Corporation on June 28, 2020.

#### **B. Debtors' Response to Market Events**

42. Prior to the March 2020 global collapse of oil prices, the Debtors were focused on evaluating various transactions and operational shifts that could enhance operational efficiencies and balance their capital structure to set the Debtors on a path for long-term success. As discussed above, however, the Debtors needed to react faster than anticipated to the abrupt market downturn. Their initial steps included commencing negotiations with their stakeholders and implementing a third party marketing process for an equity investment.

43. Marketing Process. The Debtors' third party marketing process commenced on April 8, 2020, and the Debtors and their advisors reached out to approximately 50 third parties—

including investors with and without Bakken Shale portfolio companies—of which 28 executed nondisclosure agreements with Bruin. Confidential discussions and diligence review progressed with those parties bound by nondisclosure agreements over the following two weeks, leading to multiple preliminary proposals for the Debtors’ consideration. The Debtors and their advisors considered the preliminary proposals and entered into the next phase of diligence and negotiations—which included continued access to a virtual data room and calls between the Bruin management team and certain of the third parties. The Debtors received over 300 questions from interested parties over the course of the process. Final proposals were due by May 11, 2020, and the Debtors received ten final proposals. Because the final proposals suggested an impairment of the RBL Lenders’ claim, the RBL Lenders ultimately decided to forego further engagement with bidders in the third party marketing process. As a result, the Debtors and their advisors diverted their efforts to continued negotiations with key stakeholders in an attempt to reach a restructuring agreement premised on a debt-for-equity exchange.

44. Forbearance Negotiations. As discussed above, in order to eliminate the Borrowing Base Deficiency, the Debtors, with the consent of the RBL Lenders, elected to make the Installment Payments to address their Borrowing Base Deficiency. As the Debtors explored their restructuring options and the downfall on April 20, 2020 occurred, the Debtors began negotiating that certain Forbearance Agreement, Limited Waiver and Fifth Amendment to the Credit Agreement, dated as of May 1, 2020, by and among Bruin, as borrower, each of the guarantors party thereto, and Bank of Montreal, as administrative agent (the “Forbearance Agreement”). Pursuant to the Forbearance Agreement, the RBL Lenders agreed to forbear from exercising their rights and remedies under the Credit Agreement as a result of the Debtors’ inability to make the First Installment and waive certain other existing and prospective events of default

under the Credit Agreement until May 18, 2020. Negotiations between the Debtors and the RBL Lenders progressed prior to the expiration of the Forbearance Agreement, and, in order to facilitate continued negotiations, the Debtors and the RBL Lenders entered into the First Amendment to the Forbearance Agreement on May 15, 2020 (the “First Forbearance Amendment”), the Second Amendment to the Forbearance Agreement on June 17, 2020 (the “Second Forbearance Amendment”), the Third Amendment to Forbearance Agreement on July 2, 2020 (the “Third Forbearance Amendment”), the Fourth Amendment to Forbearance Agreement on July 9, 2020 (the “Fourth Forbearance Amendment”), and the Fifth Amendment to Forbearance Agreement on July 13, 2020 (the “Fifth Forbearance Amendment”, and the Forbearance Agreement, the First Forbearance Amendment, the Second Forbearance Amendment, the Third Forbearance Amendment, the Fourth Forbearance Amendment, and the Fifth Forbearance Amendment collectively, the “Forbearance Agreements”). Under the Forbearance Agreements, the RBL Lenders ultimately extended the date upon which they would agree to forbear from exercising their rights under the Credit Agreement until July 16, 2020.

45. *Creditor Negotiations.* As described above, following the sudden crash of oil prices in March 2020, the Debtors and their advisors revised their prior plans to pursue an out-of-court liability management transaction later in 2020, and instead evaluated whether there were any potential third parties interested in funding a transaction to help stabilize the Debtors’ financial position. *First*, the Debtors engaged with the RBL Lenders and the Ad Hoc Group regarding the terms of the consensual use of cash collateral and a potential restructuring premised on a debt-for-equity exchange of the Debtors’ RBL Facility and senior unsecured notes. *Second*, the Debtors entered into the Forbearance Agreements to avoid a default with respect to the Installment Payments due to the Borrowing Base Deficiency. *Third*, the Debtors engaged with their key

stakeholders in an effort to commence an orderly entry into chapter 11, including through negotiations around the DIP Facility (defined below), the RSA, and the Plan.

46. As discussed more fully in the DIP Motion (defined below), the Debtors filed these chapter 11 cases with an agreement with the RBL Lenders to provide access to financing that consists of \$230 million in postpetition financing, including a vital new money component in the amount of \$75 million (the “DIP Facility”), that will provide the Debtors with timely access to liquidity that is important to ensuring that the Debtors’ business is stabilized and value is maximized. These funds will be used to administer these chapter 11 cases and for operating, working capital, and other general corporate purposes for paying fees, costs, and expenses incurred in connection with the cases. The DIP Facility ensures that the Debtors have, and will continue to have, sufficient liquidity to fund operations during and after these proceedings, enabling business continuity into the foreseeable future.

**C. Restructuring Support Agreement and Plan.**

47. The Plan eliminates more than \$840 million of par amount of funded debt from the Debtors’ balance sheet in accordance with the RSA and pursuant to the following key terms:<sup>5</sup>

- an aggregate \$230 million proposed DIP Facility provided by Bruin’s senior secured lenders;
- an agreement by Bruin’s senior secured lenders to eliminate over \$840 million in funded debt in exchange for approximately 92.5% of the equity in Reorganized Bruin (subject to certain adjustments described in the Plan);
- recovery for holders of Allowed Notes Claims in the form of 7.1% of the equity in Reorganized Bruin;
- payment in full for all holders of Allowed General Unsecured Claims against the Debtors other than the Bruin Williston Debtor;

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<sup>5</sup> Capitalized terms used in this paragraph but not defined herein shall have the meaning given to such term in the Plan.

- recovery for holders of Allowed General Unsecured Claims against the Bruin Williston Debtor in the form of 0.4% of the equity in Reorganized Bruin;
- existing Bruin Interests will be cancelled, released, and extinguished without distribution on account of such existing Interests; and
- payment in full in cash of all administrative and priority claims.

48. The Debtors believe that an expeditious resolution to these chapter 11 cases is necessary to ensure Bruin's ability to continue to operate on a go-forward basis. As such, the parties to the RSA have agreed to meet the following key dates and milestones to ensure a timely emergence from chapter 11: (a) no later than 11:59 p.m. (prevailing Central Time) on July 16, 2020, the Debtors shall have commenced Solicitation; (b) no later than 11:59 p.m. (prevailing Central Time) on July 17, 2020, the Debtors shall have commenced the Chapter 11 Cases in the Bankruptcy Court; (c) as soon as reasonably practicable, but in no event later than three (3) business days from the Petition Date, the Court shall have entered into an interim order approving the DIP Facility; (d) as soon as reasonably practicable, but in no event later than thirty-five (35) days from the Petition Date, the Court shall have entered a final order approving the DIP Facility; and (e) as soon as reasonably practicable but in no event later than 55 days after the Petition Date, the effective date of the Plan shall have occurred (collectively (a) through (e), the "RSA Milestones").

49. The RSA also includes an exit term sheet in relation a reserve-based revolving credit facility, by and among Bruin, as borrower, Bruin's subsidiaries as guarantors, Bank of Montreal as administrative agent, and the RBL Lenders (the "Exit Facility"). The Exit Facility will consist of \$230 million in total commitments with proceeds to be used to (i) refinance in full the indebtedness under the DIP Facility, (ii) finance the consummation of the Plan, (iii) pay fees and expenses related to the Exit Facility, and (iv) finance working capital and general corporate

expenses. The Exit Facility will mature three years and six months after emergence from chapter 11.

#### **D. Corporate Governance**

50. In furtherance of corporate governance best practices, the Board established a special committee (the “Special Committee”), and on April 11, 2020, the Board appointed M.A. (Mac) McFarland and Scott D. Vogel to the Special Committee and delegated to the Special Committee the authority to investigate certain matters pertaining to a transaction in which one or more conflicts exist or may exist between Bruin, its equity holders, and/or its managers and officers. Specifically, the Special Committee investigated Bruin’s Senior Notes Offering (the “Transaction”), which closed on or about July 23, 2018, and the use of a portion of the proceeds from the Transaction to pay a \$200 million dividend (the “Dividend”) to ArcLight and others (the “Investigation”), to determine whether payment of the Dividend may have constituted a voidable transaction under applicable legal standards.

51. To carry out the Investigation, the Special Committee retained Jenner & Block, LLP (“Jenner & Block”) as independent counsel on April 20, 2020. Jenner & Block retained Opportune, LLP, as its independent financial advisor for the Investigation as of May 28, 2020.

#### **E. Chapter 11 Filing.**

52. In light of the termination of the Forbearance Agreements, the Debtors commenced these chapter 11 cases. During the coming weeks and months, the Debtors will continue to engage in good-faith negotiations with the RBL Lenders and the Ad Hoc Group, with the ultimate goal of moving expeditiously through chapter 11 and ultimately emerging with a value-maximizing plan of reorganization. The Debtors intend to use the chapter 11 process and tools afforded to them by the Bankruptcy Code to carefully evaluate their contractual obligations and identify opportunities to renegotiate or reject those that are no longer beneficial to the estate.

#### **Part IV: First Day Motions**

53. Contemporaneously herewith, the Debtors have filed a number of First Day Motions in these chapter 11 cases seeking orders granting various forms of relief intended to stabilize the Debtors' business operations, facilitate the efficient administration of these chapter 11 cases, and expedite a swift and smooth restructuring of the Debtors' balance sheet, including:

##### **Administrative Motions:**

- “Creditor Matrix Motion”: *Debtors' Emergency Motion for Entry of an Order (I) Authorizing the Debtors to File a Consolidated List of Creditors and a Consolidated List of the 30 Largest Unsecured Creditors, (II) Authorizing the Debtors to Redact Certain Personal Identification Information, and (III) Granting Related Relief.*
- “Joint Administration Motion”: *Debtors' Emergency Motion for Entry of an Order (I) Directing Joint Administration of Chapter 11 Cases and (II) Granting Related Relief.*

##### **Operational Motions:**

- “Cash Management Motion”: *Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Continue to Operate Their Cash Management System and Maintain Existing Bank Accounts and (B) Continue to Perform Intercompany Transactions and (II) Granting Related Relief.*
- “Claims Agent Retention”: *Debtors' Application for Entry of an Order (I) Authorizing and Approving the Appointment of Omni Agent Solutions as Claims and Noticing Agent and (II) Granting Related Relief.*
- “DIP Motion”: *Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Postpetition Financing Pursuant to Section 364 of the Bankruptcy Code, (II) Authorizing the Use of Cash Collateral Pursuant to Section 363 of the Bankruptcy Code, (III) Granting Adequate Protection to the Prepetition RBL Secured Parties, Pursuant to Sections 361, 362, 363, and 364 of the Bankruptcy Code, (IV) Granting Liens and Superpriority Claims, (V) Modifying the Automatic Stay, and (VI) Granting Related Relief.*
- “Hedging Motion”: *Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Perform Under and Amend Prepetition Hedge Agreements, (B) Enter into, and Perform Under,*



*Postpetition Hedge Arrangements, (C) Grant Liens and Superpriority Claims, and (II) Granting Related Relief.*

- *“Insurance Motion”*: Debtors’ Emergency Motion for Entry of an Order (I) Authorizing the Debtors to (A) Continue Insurance Coverage Entered Into Prepetition and Satisfy Prepetition Obligations Related Thereto, (B) Renew, Amend, Supplement, Extend, or Purchase Insurance Policies, and (II) Granting Related Relief.
- *“Lienholders Motion”*: Debtors’ Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Payment of Specified Lienholder and Other Trade Claims, (II) Confirming Administrative Expense Priority of Outstanding Orders, and (III) Granting Related Relief.
- *“Royalty Motion”*: Debtors’ Emergency Motion For Entry of an Order (I) Authorizing Payment of Mineral Obligations and (II) Granting Related Relief.
- *“Surety Bond Motion”*: Debtors’ Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Continue Their Surety Bond Program and (II) Granting Related Relief.
- *“Taxes Motion”*: Debtors’ Emergency Motion for Entry of an Order (I) Authorizing the Payment of Certain Prepetition and Postpetition Taxes and Fees and (II) Granting Related Relief.
- *“Utilities Motion”*: Debtors’ Emergency Motion for Entry of an Order (I) Approving the Debtors’ Proposed Adequate Assurance of Payment for Future Utility Services, (II) Prohibiting Utility Providers from Altering, Refusing, or Discontinuing Services, (III) Approving the Debtors’ Proposed Procedures for Resolving Adequate Assurance Requests, and (IV) Granting Related Relief.
- *“Wages Motion”*: Debtors’ Emergency Motion for Entry of an Order (I) Authorizing the Debtors to (A) Pay Prepetition Wages, Salaries, Other Compensation, and Reimbursable Expenses and (B) Continue Employee Benefits Programs and (II) Granting Related Relief.

54. I have consulted with my advisors regarding each of the First Day Motions and I understand each of the First Day Motions and the relief requested therein. To the best of my knowledge and belief, the factual statements contained in each of the First Day Motions are true and accurate and each such factual statement is incorporated herein by reference.

55. I believe that the relief requested in the First Day Motions is necessary, in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will allow the Debtors to operate with minimal disruption and maximum value preservation during the pendency of these chapter 11 cases. Failure to grant the relief requested in any of the First Day Motions may result in immediate and irreparable harm to the Debtors, their business, and their estates. Accordingly, for the reasons set forth herein and in each respective First Day Motion, the Court should grant the relief requested in each of the First Day Motions.

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

Dated: July 17, 2020

*/s/ Matthew B. Steele*

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Matthew B. Steele  
Chief Executive Officer  
Bruin E&P Partners, LLC

**Certificate of Service**

I certify that on July 17, 2020, I caused a copy of the foregoing document to be served by the Electronic Case Filing System for the United States Bankruptcy Court for the Southern District of Texas.

*/s/ Matthew D. Cavanaugh*

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Matthew D. Cavanaugh