UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

In re:	§	**Chapter 11**
	§	
MD AMERICA ENERGY, LLC, *et al.*,	§	**Case No. 20--34966 (DRJ)**
	§	
Debtors.[1]	§	**(Joint Administration Pending)**
	§	

DECLARATION OF SCOTT AVILA IN SUPPORT OF CHAPTER 11 PETITIONS AND FIRST DAY PLEADINGS

I, Scott Avila, being duly sworn, depose and say:

1. I am the Chief Restructuring Officer of MD America Energy, LLC ("MD America") and certain of its affiliates, the debtors and debtors in possession in the above-captioned cases (collectively, the "Debtors"). I am over the age of 18, competent to testify, and authorized to submit this declaration (the "Declaration") on behalf of the Debtors.

2. I co-founded Paladin Management Group, LLC ("Paladin") and have been Managing Partner since 2018. Paladin is a professional services firm with an office located at 633 W. 5th Street, 28th Floor, Los Angeles, CA 90071. Paladin's Advisory and Interim Management practice consists of senior financial, management consulting, accounting, and other professionals who specialize in providing financial, business, and strategic assistance frequently in situations involving underperforming and distressed businesses. Paladin serves troubled companies, debtors, and secured and unsecured creditors, equity holders, and other parties in both in-court and out-of-court engagements. Paladin's professionals have experience working on cases with similar fact

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[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, as applicable, are as follows: MD America Energy, LLC (0164), MD America Energy Holdings, Inc. (5493), MD America Intermediate Holdings, LLC (3204), MD America Holdings, LLC (5748), MD America Pipeline, LLC, and MD America Finance Corporation (8321). The address of the Debtors' headquarters is: 301 Commerce Street, Suite 2500 Fort Worth, Texas 76102.

scenarios to the Debtors, in which we were presented with issues and performed analyses similar to the work at hand in this case.

3. Before co-founding Paladin in 2018, I spent three years as Chief Executive Officer of Armory Strategic Partners, three years as a Principal in Deloitte's Corporate Restructuring Group, and nine years as Managing Partner of CRG Partners. I have over 25 years of experience in the restructuring industry serving as an advisor to private equity firms, corporations, lenders, and boards of directors of underperforming businesses and companies in transition. I have an undergraduate degree from California State University, Hayward and an MBA degree from the University of Southern California Marshall School of Business. I am actively involved in numerous professional organizations and frequently speak and write on topics related to turnaround management and corporate renewal.

4. I was appointed Chief Restructuring Officer of the Debtors effective August 19, 2020.

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

6. To minimize any disruption to the Debtors' operations and to ensure a smooth transition into chapter 11, the Debtors intend to request various types of relief in "first day"

applications and motions (collectively, the "First Day Pleadings") in connection with the chapter 11 cases (the "Chapter 11 Cases").[2] I submit this declaration in support of the Debtors' (a) voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") and (b) the First Day Pleadings.

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

PART I – BACKGROUND

A. Overview

8. The Debtors commenced these Chapter 11 Cases in the United States Bankruptcy Court for the Southern District of Texas (the "Court") to implement a restructuring through a prepackaged plan of reorganization (the "Plan"), a copy of which has been filed contemporaneously herewith, that reduces the Debtors' prepetition debt by approximately $58 million and deleverages their balance sheet and allows the Debtors to emerge from chapter 11 as a going concern business poised for success. The Plan leaves trade creditors (comprised of vendors and royalty owners) unimpaired and has the support of 100% of the Debtors' secured debt holders (the "Consenting Term Loan Lenders") who are overwhelmingly the largest creditor group. The Consenting Term Loan Lenders have documented their support for the restructuring and these Chapter 11 Cases through a restructuring support agreement (the "Restructuring Support Agreement"), have voted to accept the Plan, and have agreed to the consensual use of their cash collateral in accordance with the Debtors' proposed *Interim Order (I) Authorizing Use of Cash*

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

Collateral; (II) Granting Adequate Protection for the Use Thereof; (III) Modifying the Automatic Stay; (IV) Scheduling a Final Hearing Pursuant to Bankruptcy Rule 4001 as to Use of Cash Collateral; and (V) Granting Related Relief. The Restructuring Support Agreement is attached hereto as **Exhibit A**.

9. The Debtors are a Texas based, privately owned oil and gas operating company engaged in the acquisition, development, exploitation and production of crude oil and natural gas properties in East Texas. MD America, which is the Debtors' principal operating entity, currently owns approximately 64,683 net acres with 256 operated wells, focused in the Brazos Valley in East Texas and over 100 miles of low-pressure natural gas gathering lines owned and operated by MD America's subsidiary, MD America Pipeline LLC. Since the Debtors were established in 2011, they have focused on a strategy of acquiring mature oil and gas properties and then enhancing the value of those properties. Covid-19 and continued weakness in the commodities markets, however, has hindered MD America's ability to implement their strategy.

B. Plan

10. The Debtors believe that, to be successful, the Chapter 11 Cases must proceed expeditiously. The terms of the Restructuring Support Agreement reflect that belief and the Debtors have agreed to certain milestones contained in the Restructuring Support Agreement, regarding, among other things, a deadline for entry of an order by the Court approving the Disclosure Statement and solicitation procedures and confirming the Plan within 45 calendar days after the Petition Date. To meet this deadline, the Debtors propose the following timeline for the Chapter 11 Cases and have sought emergency relief to establish the proposed schedule (subject to the Court's calendar).

Event	Date
Voting Record Date	October 8, 2020
Solicitation Commencement Date for Ballots	October 9, 2020
Voting Deadline	October 11, 2020
Deadline for Service of Combined Notice	October 16, 2020
Plan Supplement Deadline	November 3, 2020
Objection and Opt-Out Deadline	November 13, 2020 by 5:00 p.m. prevailing Central Time
Reply Deadline	November 17, 2020 by 5:00 p.m. prevailing Central Time
Combined Hearing	November 19, 2020 at __:__ a.m./p.m. prevailing Central Time

11. A quick resolution to these cases is essential to the preservation of the value of the Debtors' assets and estates and to allow the Debtors to emerge from chapter 11 as a going concern. The Debtors' stakeholders have supported the Debtors' business leading up to the filing in anticipation of a balance sheet restructuring that does not risk the erosion of the Debtors' asset base, or business relationships and minimizes the expense of a process to right size the balance sheet. To ensure that result, the Debtors negotiated a good faith, arm's length transaction with the Consenting Term Loan Lenders which is premised on costs of these Chapter 11 Cases being minimized and the transaction being effectuated promptly to avoid delay, disruption to operations, and degradation of value.

12. The restructuring transactions will be implemented through the Plan, which has been agreed to by the Debtors and which the Consenting Term Loan Lenders have voted to accept. The claims of the Term Loan Lenders are impaired under the Plan and will be exchanged for a pro rata share of (i) the New First Lien Term Loan in the amount of $60 million and (ii) 100% of the equity in the Acquired Entity. Notably, the Consenting Term Loan Lenders have agreed that the Plan will leave all Trade Claims unimpaired, but any other unsecured creditors, which includes

claims arising from the Transaction Bonus Plan (to the extent there are any) and the Wilson Family Heirs Surface Use Agreement will receive no recovery under the Plan.[3] In addition, as described below, the Debtors have an outstanding loan under the Paycheck Protection Program in the principal amount of $1,163,893, which will be unimpaired by the Plan, but for which the Debtors will apply for forgiveness under the provisions of the CARES Act (as defined below) and other applicable law.

C. The Debtors' Business

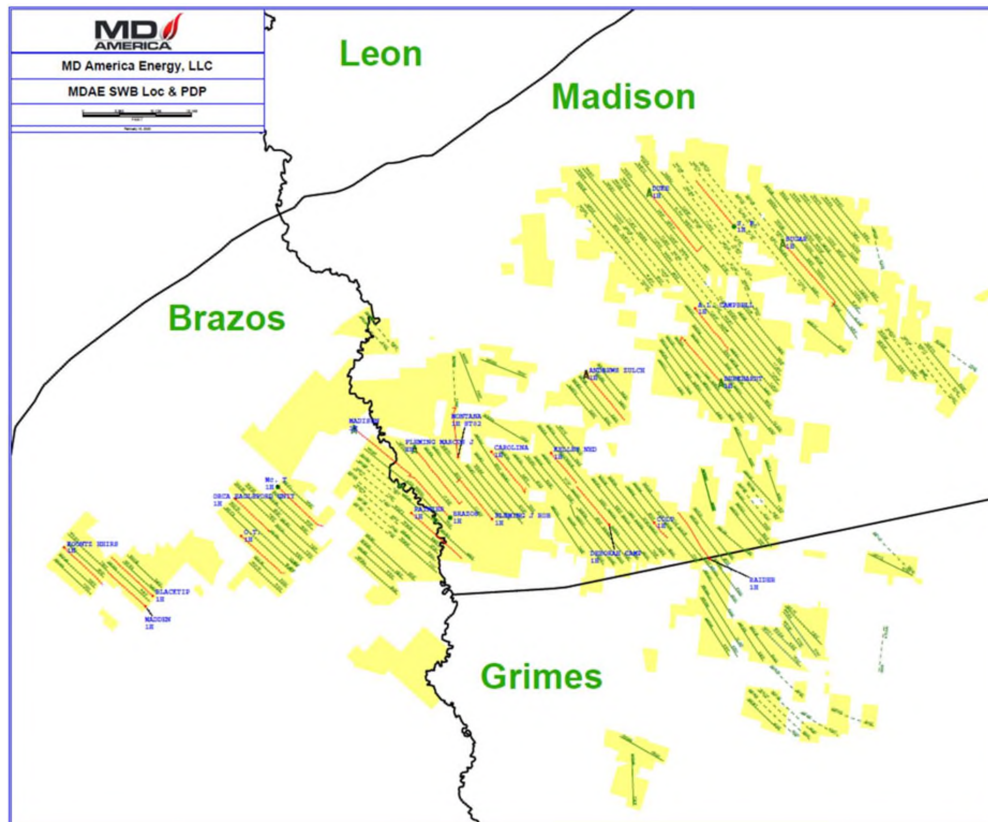
13. The Debtors are a private, oil and gas exploration firm based in Fort Worth, Texas with 22 employees and acreage in the East Texas Eagle Ford Extension and Woodbine Formations producing approximately 4,486 barrels of oil equivalent per day in the first half of 2020. The Debtors were formed in 2011 when Woodbine Acquisition LLC purchased certain assets in East Texas from Petromax Operating Company Inc. In 2013, MeiDu Energy Corporation (f/k/a MeiDu Holding Co., Ltd.) ("MeiDu Corporation") purchased Woodbine Acquisition LLC and their related affiliates for a purchase price implying a total enterprise value of $535 million and then in 2014, renamed Woodbine Acquisition LLC as MD America Energy, LLC. As noted below, MeiDu Corporation is a publicly-traded conglomerate based in Hangzhou, China.

14. MD America has primarily focused its production efforts on the Woodbine formation in East Texas since its formation. The Woodbine formation was originally drilled in the late 1970's and early 1980's testing the economic limits of the northwestern sector of the Kurten Field with vertical wells. In the late 2000's, small operators such as Unit Petroleum Company and Petromax Operating Company began drilling horizontal wells in the Woodbine, and in 2011,

[3] I have been informed that Eric Waller was a co-owner of Wilson Family Heirs, LLC and negotiated the pertinent Surface Use Agreement on behalf of both MD America and Wilson Family Heirs, LLC.

Woodbine Acquisition LLC purchased the assets from Petromax Operating Company, and began systematic development of the Woodbine play which led to deeper knowledge of the reservoir.

15. In 2014, MD America bought additional assets from Devon Energy Production Company, L.P. in one purchase, and made another purchase from Manti and WM Operating LLC for properties that were adjacent to the properties that MD America already owned. In 2015, in the midst of sub $40 oil, MD America was able to voluntarily pay down $100 million of principal on an outstanding $525 million facility unrelated to the Prepetition Term Loan Agreement (as defined below) leaving $425 million due to the lender group. In 2016, MD America completed two purchases of assets in East Texas from undisclosed sellers and paid off the rest of the $425 million with funds provided by its parent, MeiDu Corporation. The purchases added approximately 130 operated and non-operated wells within approximately 18,400 net acres.



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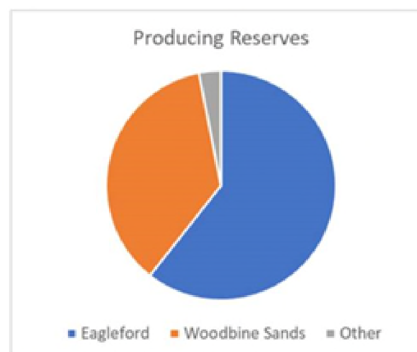
16. Historically, MD America and other producers in this part of East Texas have focused on the Woodbine, Austin Chalk, Buda, and other formations, but more recently, the focus has turned to the Eagle Ford Shale Extension. As of June 30, 2020, MD America had 23 wells from the Eagle Ford shale producing approximately 1,840 barrels of oil equivalent per day and 233 wells from other formations producing approximately 1,167 barrels of oil equivalent per day, with an aggregate production mix that is approximately 67% oil, 20% natural gas liquids, and 3% gas. In total, MD America has an interest in over 325 wells that, as of December 2019, held approximately 88% of its 64,683 net acres (approximately 71,209 gross acres) in Madison, Brazos, Grimes and Leon Counties, Texas.

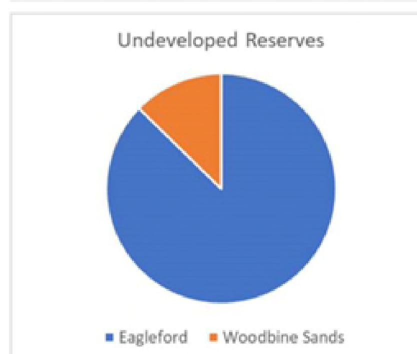
17. As a result of the majority of acreage being held-by-production and because MD America serves as operator in 79% of its wells, MD America has flexibility and optionality in deciding where to allocate resources next.

MDAE Reserve Summary

Producing		
Horizon	Wells	Mboe
Eagleford	26	14,810
Woodbine Sands	198	8,863
Other	101	756
Total	325	24,429



Undeveloped		
Horizon	Net Locations	Mboe
Eagleford	104.8	38,299
Woodbine Sands	25.1	5,568
Total	129.9	43,866



[4]

18. Of MD America's proven reserves, approximately 61% are in the Eagle Ford Extension, 36% in the Woodbine Sands, and 3% in other various formations. As of June 30, 2020, MD America had approximately 24.4 million barrels of oil equivalent of proven reserves, which consists of 81% oil, 7% gas, and 12% natural gas liquids.

19. In early 2018, MD America planned on drilling 64 gross wells but the decline in commodity prices changed those plans. Since January 1, 2018, MD America has focused the majority of its capital in the Eagle Ford shale, drilling 19 wells with an average drilling and completion cost of $7.7 million, which is steadily decreasing.

[4] Reserves based on the June 30, 2020 report of Cawley, Gillespie and Associates and only includes locations that were economic at that time.

20. Additionally, MD America owns its own gas gathering system and robust takeaway infrastructure in Brazos and Madison Counties, Texas to support planned development pace and the opportunity to capture third-party volumes leading to meaningful value creation.

D. MeiDu Corporation Subordinated Promissory Note

21. On August 14, 2018, MD America, as holder, received that certain Subordinated Promissory Note from MeiDu Corporation, as maker (the "Note"), in a principal amount up to $100,000,000 with an interest rate of 6% per year and a maturity date of June 30, 2030. The Note is subordinate and junior to all debt of MeiDu Corporation, other than any indebtedness that is expressly made subject to the Note. The Note evidences all outstanding advances from MD America to MeiDu Corporation, whether before or after the date the Note was entered into and, at least in part, paid from proceeds under the Prepetition Term Loan Agreement. As of June 30, 2020, MeiDu Corporation owed MD America $22,100,000 in principal and $2,691,534.24 in accrued interest, for a total amount owed of $24,791,534.24. MeiDu Corporation has not paid any interest that has accrued since the initial grant of the Note, and the Debtors intend to take remedial actions to collect such amounts owed.

E. The Debtors' Capital Structure

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

i. Prepetition Term Loan Agreement

23. On November 14, 2018, MD America entered into a term loan facility, as Borrower, that allowed an initial draw of $100 million, and additional delayed term loans in an aggregate amount not to exceed $100 million (as amended or otherwise modified from time to time, the

"Prepetition Term Loan Agreement"), with MD America Energy Holdings, Inc., MD America Intermediate Holdings, LLC and MD America Holdings, LLC, as Holding Companies (the "Holding Companies"), the lenders party thereto (the "Term Loan Lenders"), Loan Admin Co LLC, as Administrative Agent (in such capacity and in its capacity as collateral agent under the Security Documents (as defined in the Prepetition Term Loan Agreement), the "Term Loan Agent"), a Joint Lead Arranger, and Sole Book Runner and Guggenheim Securities, LLC, as a Joint Lead Arranger, which term loan facility is guaranteed by the Holding Companies, MD America Pipeline, LLC and MD America Finance Corporation (the foregoing guarantors, together with MD America, the "Credit Parties") and secured by a first-priority lien on the equity interests of MeiDu America, Inc. ("MeiDu America," together with MeiDu Corporation, "MeiDu") in MD America Energy Holdings, Inc. and substantially all of the assets of the Credit Parties. Pursuant to the terms of the Prepetition Term Loan Agreement, the Borrower has drawn upon approximately $130 million under the Prepetition Term Loan Agreement, and as of June 30, 2020, approximately $125 million in principal is outstanding. As a condition to the Prepetition Term Loan Agreement, the Credit Parties and MeiDu America also entered into certain Security Documents (as defined in the Prepetition Term Loan Agreement), including, without limitation, the Pledge Agreements and the Security Agreement,[5] whereby the Credit Parties pledged substantially all of their assets as collateral and MeiDu America, which is not a Debtor, pledged 100% of its equity interests in MD America Energy Holdings, Inc., which is a Debtor, to the Term Loan Agent on behalf of the Term Loan Lenders.

[5] Pledge Agreements means, collectively, that certain Pledge Agreement dated November 14, 2018, between MeiDu America and the Term Loan Agent (as amended, the "Parent Pledge Agreement") and that certain Pledge Agreement dated November 14, 2018, between the Credit Parties and the Term Loan Agent. Security Agreement means that certain Security Agreement dated November 14, 2018, between the Credit Parties and the Term Loan Agent.

24. Section 10.21 of the Prepetition Term Loan Agreement includes customary reporting requirements for similar credit facilities and requires MD America to provide the Term Loan Agent and Term Loan Lenders with reserve reports quarterly in form and substance reasonably satisfactory to the Term Loan Agent. MD America submitted reserve reports to the Term Loan Agent for December 31, 2018, March 31, 2019, and, June 30, 2019. Under the Prepetition Term Loan Agreement, the Term Loan Agent has the right to engage its own petroleum engineering firm to review the assumptions used by MD America in a reserve report. The Term Loan Agent exercised its right to review the assumptions and retained an engineering firm to review the June 30, 2019 report. The engineering firm ultimately disputed the assumptions on which the June 30, 2019 report was based, and the Term Loan Agent determined such reserve report to be unsatisfactory for purposes of the Prepetition Term Loan Agreement requirement.

25. As a result of the reserve report, the Term Loan Lenders sent a letter to MD America reserving their right to declare an event of default. After months of negotiations with the Credit Parties, the Term Loan Lenders entered into an amendment to the Prepetition Term Loan Agreement on December 20, 2019 with the Term Loan Agent and the Credit Parties (the "First Amendment") in lieu of declaring an event of default. The First Amendment provided for several concessions by the Term Loan Lenders, including amendments to (a) calculate the PV-10 value of the Credit Parties' reserves, (b) modify provisions related to drilling activity, (c) make a one-time accommodation for disagreements over the calculations for the coverage ratio as of June 30, 2019 and September 30, 2019, and waive specified covenant testing for the fiscal quarter ending December 31, 2019, (d) require a term loan prepayment on or prior to March 31, 2020 in the amount of $30,000,000 plus any premium thereon to be funded through a new money equity investment by MeiDu America, Inc., (e) require that if the prepayment noted in clause (d) was not

made when due, then on April 1, 2020, MD America would pay to the Term Loan Agent (for the account of the Term Loan Lenders) a fee in the amount of $2,000,000, and (f) release existing claims against the Term Loan Agent and the Term Loan Lenders. MeiDu America, Inc. never made the promised equity investment and thus MD America failed to make the $30,000,000 payment due on March 31, 2020 and the $2,000,000 fee thereafter triggering an immediate event of default under the First Amendment.

26. Prior to the Petition Date, the Debtors made a prepayment of approximately $8 million to the Term Loan Agent. As of the Petition Date, the Debtors owe approximately $117.8 million in principal, plus interest and fees under the Prepetition Term Loan Agreement.

ii. PPP Loan

27. Effective as of April 13, 2020, MD America received an unsecured loan in the approximate amount of $1.1 million (the "PPP Loan") pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The PPP Loan matures in April 2022 and bears interest at a rate of 1.0% per annum. Principal and interest are payable monthly beginning seven months from the date of the PPP Loan and may be prepaid at any time prior to maturity with no prepayment penalties.[6]

F. Events Leading to the Chapter 11 Cases

28. As noted, the failure of MD America to pay the Term Loan Prepayment as required by the First Amendment triggered an immediate event of default under the Prepetition Term Loan

[6] Under the terms of the CARES Act, PPP Loan recipients can apply for and be granted forgiveness for all or a portion of the loan. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds for payment of payroll costs and any covered payments of mortgage interest, rent, and utilities. In the event the loan, or any portion thereof, is forgiven pursuant to the PPP, the amount forgiven is applied to outstanding principal. As of the Petition Date, the Debtors used all of the funds to maintain payroll and make lease, rent and utility payments and believe that the full amount of the PPP Loan will be forgiven. If all or any portion of the PPP Loan is not forgiven then it will be unimpaired. As of the Petition Date, $1.1 million remains outstanding under the PPP Loan.

Agreement. On April 1, 2020, the Term Loan Lenders issued a Notice of Default and the Term Loan Lenders exercised their rights under the Prepetition Term Loan Agreement and Pledge Agreements, including the Parent Pledge Agreement (as defined below), to remove the MeiDu-appointed board at MD America and appointed the Current Board (as defined below). Since then, the Current Board has worked to reduce costs and streamline the Debtors' operations.

The New York Litigation

29. On June 24, 2020, ***more than ten weeks*** after the Term Loan Lenders exercised their remedies and the Current Board was appointed, MeiDu, as Plaintiffs, sued the Term Loan Lenders and the Current Board, as Defendants, and the Debtors, as nominal defendants in the Supreme Court of the State of New York, County of New York [Index No.: 652519/2020] (the "New York Litigation") seeking equitable remedies, including Declaratory Relief, Injunctive Relief, Discharge of Debt, and Set-Off of Debt, and damages for conversion and breach of fiduciary duty. My understanding is that MeiDu's core assertion in the suit is that the Term Loan Lenders were not entitled to exercise their rights under the Pledge Agreements to vote the pledged shares of the Debtors, including the appointment of the Current Board, and, in so doing, acted improperly. MeiDu contends that the Term Loan Lenders' actions have damaged them. As set forth in responsive papers filed in the New York Litigation, the Term Loan Lenders have asserted that all of MeiDu's claims are without merit.

30. On July 9, 2020, the court denied MeiDu's request for a temporary restraining order and preliminary injunction which had sought to restrict the Current Board from taking any actions, and to remove the Current Board and reinstitute the previous board. It is my understanding that, in denying MeiDu's request, the New York court (Justice Peter Sherwood) found that Plaintiffs had failed to demonstrate the existence of any legal basis for preventing the Term Loan Lenders from

exercising their rights to vote the pledged shares. MeiDu filed a notice of appeal of that ruling to the New York Appellate Division, First Department on July 22, 2020. On July 20, 2020, the Term Loan Lenders moved to dismiss the New York Litigation in its entirety. This motion to dismiss is now fully briefed, and as of the date hereof, remains pending.

Commodity Pricing and Covid-19 and Industry Challenges

31. The West Texas Intermediate ("WTI") index—the benchmark for U.S.-based oil exploration and production companies—ranged from a high of $110.62 per barrel to a low of negative $37.63 per barrel between January 1, 2012 and the Petition Date. Henry Hub natural gas prices ranged from a high of $6.00 per mmbtu to a low of $1.63 per mmbtu during that same period.

32. In addition to long term negative pricing declines, prices dropped precipitously in recent months as a result of the onset of the COVID-19 pandemic and the recent price war between Russia and the Kingdom of Saudi Arabia. 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 Kingdom of 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 the Kingdom of 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 to spread, causing governments across the world to institute strict public health and safety measures including quarantine orders, stay-at-home orders, and social distancing guidelines 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

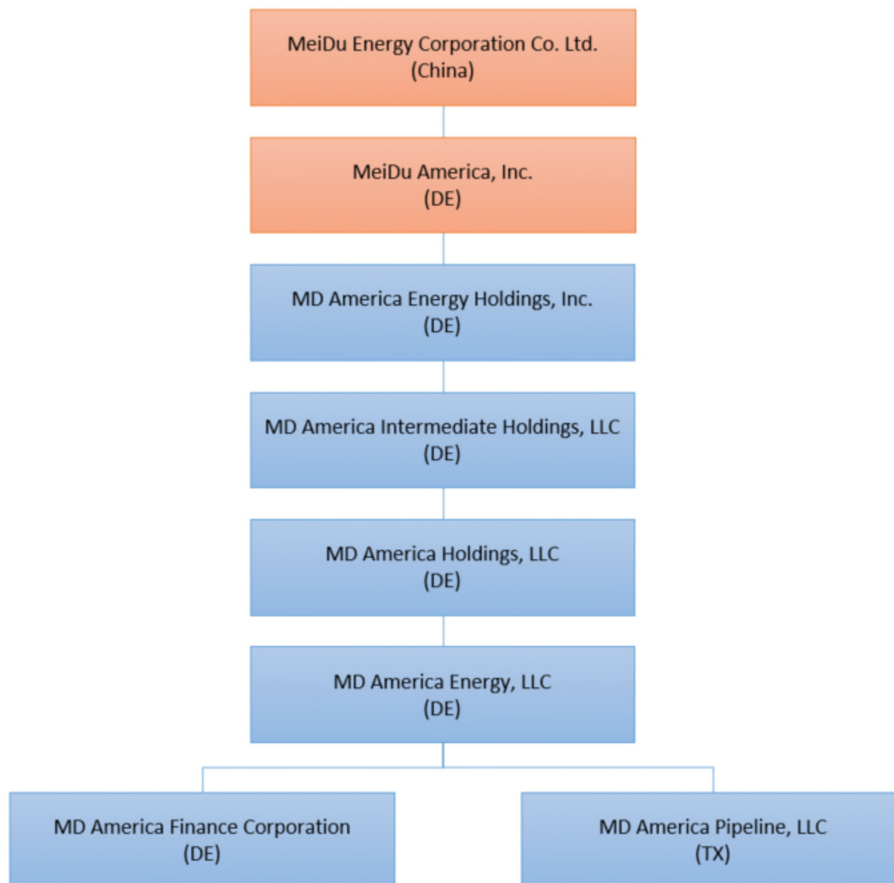
from the global markets. Despite efforts of large oil supply countries to reduce the supply in the unprecedented demand shock, the demand has not recovered sufficiently causing pricing to remain weak compared to prior levels.

33. The corresponding effects on energy markets have been stark. On March 9, 2020, the WTI index declined ***24.59 percent in a single day***. Major oil indexes and U.S. indexes then continued to hover around $20.00 per barrel, until prices plummeted to a level never before seen on April 20, 2020, when WTI crude oil for May delivery settled at negative $37.63 per barrel, a record low and drop of roughly ***306 percent in a single day***.

34. The Debtors commenced these Chapter 11 Cases following proactive liability management against the backdrop of consistently declining oil and gas prices. The Debtors have undertaken significant efforts to address their leverage and profitability — including (a) an aggregate 41% savings in compensation, office lease, information technology, and other general and administrative expenses; and (b) aggregate lease operating expenses savings of 51%. Despite these efforts, the recent, dramatic drop in commodity prices and resulting tightening of the credit markets have frustrated the Debtors' ability to further deleverage absent a chapter 11 proceeding.

G. The Debtors' Corporate Structure

35. The Debtors' full corporate structure, which includes non-debtor entities in red, is reflected in the organizational chart with each entity owning 100% of the entity immediately below it:



36. MeiDu America, Inc., which is a subsidiary of MeiDu Energy Corporation Co. Ltd. pledged the equity of MD America Energy Holdings, Inc. to the Term Loan Lenders under the Prepetition Term Loan Agreement. Neither MeiDu America, Inc. nor MeiDu Energy Corporation Co. Ltd. are Debtors. Besides MD America, the other Debtors that are part of the MD America corporate group currently have limited assets and operations. Navasota Pipeline Company was formed in 2010, and in 2014, the entity's name was changed to MD America Pipeline, LLC. MD America Pipeline, LLC owns approximately 114.3 miles of low-pressure gas gathering lines and

was formed to better control well connections, gas capture, and to realize incremental value through third party opportunities. It has a robust takeaway infrastructure to support current and future production with minimal incremental infrastructure capital to sustain a one rig drilling program.

37. MeiDu Corporation is the ultimate parent entity of the Debtors. MeiDu Corporation is a publicly-traded conglomerate based in Hangzhou, China that operates real estate, construction materials, and commodities trading businesses with experience in the broader energy sector. MeiDu America is 100% owned by MeiDu Corporation.

38. Each of MD America Energy Holdings, Inc., MD America Intermediate Holdings, LLC, MD America Holdings, LLC, MD America Pipeline, LLC, and MD America Finance Corporation are guarantors of the debt issued pursuant to the Prepetition Term Loan Agreement. In addition, MeiDu America, MD America Energy Holdings, Inc., MD America Intermediate Holdings, LLC, MD America Holdings, LLC, MD America, MD America Pipeline, LLC, and MD America Finance Corporation are all pledgors under the applicable Pledge Agreements (as defined below). MD America Energy Holdings, Inc., MD America Intermediate Holdings, LLC, MD America Holdings, LLC, MD America, MD America Pipeline, LLC, and MD America Finance Corporation are all assignors under the Security Agreement (as defined below).

39. The Debtors are controlled by the Board at MD America Energy Holdings, Inc., which consists of the two members listed below ("Current Board"):

Name	Position
Robert Warshauer	Director
Donald G. Ritter	Director

Each member of the Current Board is independent and was appointed by the Term Loan Lenders pursuant to rights exercised by the Term Loan Lenders under the Prepetition Term Loan

Agreement and the Parent Pledge Agreement after certain defaults under the Prepetition Term Loan Agreement by the Debtors (as described above).

40. The Debtors' core management team consists of the following individuals:

Name	Position
Scott Avila	Chief Restructuring Officer
Mike Dye	Chief Financial Officer
Tim Bozeman	Chief Operating Officer
Roy Yates	Senior Vice President – Geosciences

MD America's former Chief Executive Officer, Eric Waller, was terminated for cause on October 10, 2020 following a comprehensive investigation.

H. The Debtors' Litigation

41. Other than the New York Litigation, the Debtors' are not involved in any material litigation.

PART II. FIRST DAY PLEADINGS

A. Administrative and Procedural First Day Pleadings

i. Joint Administration Motion

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

43. I believe that joint administration would not adversely affect any creditors' rights because the Debtors' motion requests only the administrative consolidation of these cases for

procedural purposes. It does not seek substantive consolidation of the Debtors' estates. Accordingly, I believe that joint administration of the Chapter 11 Cases is in the best interests of the Debtors, their estates, and all other parties in interest and should be granted in all respects.

ii. Consolidated Creditor List Motion

44. The Debtors, while separate legal entities, have a large number of common creditors and a centralized cash management system. Filing separate lists of the top 20 unsecured creditors and separate creditor matrices in their respective cases would generate a variety of lists with a large number of duplicate entries. Consolidating the list of creditors to one list between the Debtors of the 30 largest unsecured creditors is in the best interest of the Debtors, its estate, and its creditors to avoid unnecessary duplication and to ensure administrative inefficiency.

iii. Claims Agent Retention Application

45. Prime Clerk LLC's ("Prime Clerk") retention is the most effective and efficient manner of noticing these creditors and parties in interest of the filing of the Chapter 11 Cases and of other developments in the Chapter 11 Cases. I am informed that Prime Clerk has acted as the claims and noticing agent in numerous cases of comparable size.

46. Prime Clerk's retention to act as an agent of the Court, as an independent third party with significant experience in this role, is in the best interests of the Debtors as well as their estates and creditors.

iv. Confirmation Schedule and Solicitation Procedures Motion

47. The table above in paragraph 10 of this Declaration summarizes the relevant dates related to the Solicitation Procedures and sets forth the Debtors' proposed dates for the Confirmation Hearing and related objection deadline, as well as the mailing of the Combined Notice of the Confirmation Hearing and commencement of the Debtors' Chapter 11 Cases. The

Debtors anticipate that notice of the Confirmation Hearing will be published and mailed to all known holders of claims or interests at least 30 days before the date by which objections must be filed with the Court. I believe that the proposed confirmation schedule and solicitation procedures is appropriate in light of the deadlines set forth in the Restructuring Support Agreement entered into with the Consenting Term Loan Lenders.

B. Operational First Day Pleadings

i. Cash Collateral

48. The Debtors seek relief under the Cash Collateral Motion to utilize their cash together with postpetition receipts from operations to prosecute the Chapter 11 Cases and operate their businesses on a postpetition basis. With the consent of the Consenting Term Loan Lenders, the Debtors propose to use the Cash Collateral for (i) the costs of administering these Chapter 11 Cases, including the satisfaction of administrative costs and expenses of the Debtors incurred in these Chapter 11 Cases, (ii) any payments authorized by any order of this Court, including first-day related relief subject to the terms thereof, (iii) the Debtors' ongoing working capital needs during the pendency of these Chapter 11 Cases, (iv) funding the Carve-Out, and (v) other general corporate purposes.

49. In return, the Debtors have agreed to an adequate protection package that includes: adequate protection liens and superpriority administrative claims for any diminution in value of the Term Loan Lenders' collateral, payment of the secured lenders' professional fees and expenses, and certain reporting and budgeting obligations.

50. The Debtors are not seeking debtor-in-possession financing. As such, I believe that the Debtors' access to Cash Collateral during these Chapter 11 Cases is critical to their restructuring efforts. Absent entry of the Cash Collateral Orders, the Debtors would be unable to

generate revenue, operate their businesses, or pay their employees. Indeed, without access to sufficient cash, the Debtors would potentially have to suspend operations, materially damaging the Debtors' business reputation and relationships with their customers. Further, there can be no guarantee that if the Debtors were to temporarily suspend operations that such operations could be resumed once the Debtors' access to cash was restored. For these reasons, entry of the Orders is in the best interests of the Debtors, their creditors, and all other parties in interest.

51. The Debtors, with the assistance of their advisors, prepared an 8-week cash forecast that takes into account payments to be made pursuant to the First Day Pleadings, if granted. I have reviewed the cash forecast and concluded that it is reasonable. I have further concluded that the Debtors' cash on hand and revenue earned from operations is sufficient to fund all payments contemplated by the First Day Pleadings and fund the Debtors' postpetition operating and restructuring-related expenses.

52. Continued and uninterrupted access to Cash Collateral will allow the Debtors to continue operating their businesses in the ordinary course, to the benefit of the Debtors' estates and their stakeholders. I believe that the ultimate terms of the adequate protection package and the Cash Collateral Orders are reflective of the extensive and arms' length, good-faith negotiations involved.

53. For the reasons described herein, the relief requested in the Cash Collateral Motion is in the best interests of the Debtors, their creditors, and all other parties in interest.

ii. Cash Management Motion

54. To support their operations, the Debtors maintain a cash management system to facilitate cash flow between Debtor entities, while minimizing costs (the "<u>Cash Management System</u>").

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

56. The Cash Management System includes six bank accounts (collectively, the "Bank Accounts") controlled by the Debtors and held at Texas Capital Bank, N.A. ("Texas Capital" or a "Bank"), which is included on the U.S. Trustee's List of Approved Depositories. A list of the Debtors' Bank Accounts (the "Account List") is attached to the Cash Management Motion as **Exhibit A**.[7] The Account List identifies the type of account and indicates the owner of each Bank Account. Each Bank Account is described below and a diagram of the Cash Management System is attached to the Cash Management Motion as **Exhibit B**.

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

a) *MD America Energy, LLC Operating Account (9828)* – (the "Operating Account"). The Debtors maintain this account for day-to-day operating needs, including payment of employee benefits, loan paydowns, utility payments, tax payments, payment of the Credit Card Programs (as defined below), and general accounts payable. The Operating Account collects revenue generated by the Debtors' operating activities, including oil and gas sales, royalty receipts, and joint interest billing reimbursements, in addition to funding from the MDAP Account (as defined below).

b) *MD America Energy, LLC Energy Capital Account (7375)* – (the "Energy Capital Account"). The Debtors were previously required to maintain this account as a requirement to receive a prior loan, but currently do not use the

[7] I believe that Exhibit A attached to the Cash Management Motion is a complete list of their Bank Accounts. To the extent that any Bank Account has been omitted from that list, the Debtors request that the interim and final orders granting the relief sought herein apply to all Bank Accounts actually in, or linked to, the Cash Management System.

account for any purpose. As of the Petition Date there are no funds held in this account.

c) *MD America Energy, LLC Paycheck Protection Program Account (3838)* – (the "PPP Account"). In order to maintain separation and clarity of funds received from the Small Business Administration's Paycheck Protection Program, the Debtors opened the PPP Account to hold $1,163,893 received from the Paycheck Protection Program. As of the Petition Date there are either no funds held in this account or a *de minimis* amount.

d) *MD America Energy, LLC Texas Railroad Commission Letter of Credit Account (1224).* The Debtors opened the TRCC LOC Account and maintain a Certificate of Deposit for the purpose of providing Texas Capital the funds necessary to provide a letter of credit to the issuer of the surety bond for the performance bond that is provided to the Texas Railroad Commission.

e) *MD America Pipeline, LLC Operating Account (9836)* – (the "MDAP Account"). The Debtors maintain this account for collecting revenues generated from the gathering services provided by MD America Pipeline, LLC. The Debtors periodically transfer funds in this account to the Operating Account.

a) *MD America Energy, LLC Utility Deposit Account (5874)* – (the "Utility Deposit Account"). In preparation for the Chapter 11 Cases, the Debtors opened the Utility Deposit Account at Texas Capital and there are currently no funds in the account. The Debtors will continue to maintain this account throughout the course of these Chapter 11 Cases in case the need for this account arises.

Credit Card Programs

58. As part of the Cash Management System, the Debtors provide certain employees with Credit Cards and Fuel Cards (each, as defined below) to cover legitimate business expenses in the ordinary course of business (such programs, the "Credit Card Programs"). The Credit Card Programs are an integral part of the Debtors' Cash Management System. Costs incurred through use of the Credit Card Programs are applied against the credit balance funded on an as-needed basis from the Operating Account.

59. The Debtors have two credit cards for approved, legitimate, and documented business expenses and supplies incurred on behalf of the Debtors in the ordinary course of business

(the "Credit Cards") issued by Texas Capital. Eric Waller, the former Chief Executive Officer of the Debtors previously had authority to use one of the Credit Cards, but he no longer has the authority. Brooklyn George, the Comptroller of the Debtors, has the other Credit Card, and her use of the Credit Card for procurement of qualifying business expenses is essential to the continued operation of the Debtors' businesses. The Debtors liability under the Credit Cards is no more than $50,000, and, on average over the last 12 months, the Debtors pay approximately $20,000 per month for amounts incurred on the Credit Cards. The Debtors have implemented internal mechanisms that permit them to accurately track the balances and monitor the expenses incurred on the Credit Cards. Prior to the Petition Date, the Debtors paid off the balances related to the Credit Cards.

Fuel Cards

60. Additionally, under the applicable Credit Card Program, the Debtors provide approximately twelve employees with fuel cards (the "Fuel Cards") issued by WEX Bank to pay in-transit fuel costs incurred by the Debtors' employees in connection with travel between multiple work sites and field offices and minor maintenance of the Debtors' vehicles. Expenses incurred on account of the Fuel Cards are billed directly to the Debtors and do not pass through the applicable Employee's personal financial accounts. On average, the Debtors have historically spent approximately $4,000 per month on account of the Fuel Cards. As of the Petition Date, the Debtors have approximately $4,000 outstanding on the Fuel Cards that will become due within the first thirty (30) days after the Petition Date, and the Debtors are seeking authority to pay such amounts and continue using the Fuel Cards in the ordinary course of business.

61. I believe and have been informed by counsel that if the Credit Card Programs are discontinued, the applicable card issuer could attempt to collect funds from the Debtors' employees, potentially resulting in harm to their personal credit and finances.

Business Forms and Investment and Deposit Practices

62. In the ordinary course of business, the Debtors may use a number of checks, business letterhead, invoices, authority for expenditures, envelopes, promotional materials, field ticket approval stamp, and other business forms and correspondence (collectively, the "Business Forms"). As of the Petition Date, the Debtors have approximately 1,000 checks outstanding related to Trade Claims and Mineral Claims (Trade Claims and Mineral Claims, collectively, the "Ordinary Course Claims").[8] Given that the Debtors used the Business Forms prepetition, they do not include references to the Debtors' current status as debtors in possession. Most parties doing business with the Debtors undoubtedly will be aware of the Debtors' status as debtors in possession because of the publicity surrounding the Chapter 11 Cases and the notice of commencement of the Chapter 11 Cases that the Debtors will send to parties in interest. I believe that requiring the Debtors to change existing Business Forms before the existing Business Forms are depleted would unnecessarily distract the Debtors from their restructuring efforts and impose needless expenses on the estates, without any meaningful corresponding benefit; *provided, however*, the Debtors are, or can direct others, to include the designation "Debtor in Possession" and the corresponding bankruptcy case number on all checks within ten business days after the Petition Date. In addition, with respect to any Business Forms that exist or are generated electronically, the Debtors shall

[8] As Trade Claims and Mineral Claims are defined in the *Debtors' Emergency Motion Seeking Entry of an Order Authorizing, but not Directing, the Debtors to continue their prepetition Business Operations, Policies, and Practices and Pay related Claims in the Ordinary Course of Business on a Postpetition Basis*.

ensure that such electronic Business Forms are clearly labeled "Debtor in Possession" within 10 business days of the interim order being entered.

Intercompany Transactions

63. As explained above, in the ordinary course of business, the Debtors regularly transfer money between their accounts to fund operations (the "Intercompany Transactions"), which are all tracked and documented by the Debtors.

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

iii. Employee Wages Motion

65. As described more fully in the Employee Wages Motion, the continuation of the compensation (both in the form of salary and wages and benefit programs) for the Debtors' 22 employees (each, an "Employee"), is critical to the Debtors' continued operations and reorganization. Collectively, the Employees' skills and knowledge of the Debtors' infrastructure, customers, and business operations are essential to the continued operation of the Debtors' business. Without the Employees' continued, uninterrupted services, an effective reorganization of the Debtors will not be possible.

66. The Debtors' employees (collectively, the "Workforce" or "Employees") perform a wide variety of functions critical to the Debtors' operations, the administration of the Chapter 11 Cases, and the Debtors' successful reorganization.

67. The Workforce is the most important part of the Debtors' business. I believe that any delay in paying or failure to pay prepetition Employee Obligations could irreparably impair the morale of the Workforce at the time when their dedication, confidence, retention, and cooperation are crucial. Failure to pay the Employee Obligations could also inflict a significant financial hardship on the Employees' families. The Debtors cannot risk such a substantial disruption to their business operations, and it is inequitable to put Employees at risk of such hardship. Without this relief, otherwise-loyal Employees may seek other work opportunities, thereby putting at risk the Debtors' continued operation as a reorganized enterprise. Payment of these obligations in the ordinary course of business would enable the Debtors to focus on completing a successful reorganization, which would benefit all parties in interest.

Wages and Salary

68. In the ordinary course of business, the Debtors fund OrchestrateHR bi-weekly on Wednesday and then OrchestrateHR pays the Employees bi-weekly on Friday, 6 days in arrears. In preparation for an early October filing, on October 11, 2020, the Debtors paid approximately $50,000 to certain executives for prepetition amounts owed to the executives above the priority cap. Thus, the Debtors estimate that as of the Petition Date, approximately $70,000 is owed on account of accrued and unpaid wages and salaries for the Employees. In addition, the Unpaid Compensation as of the Petition Date also includes an approximate, estimated $5,500 owed to the Independent Contractors, which will become due within 30 days of the Petition Date.

Vacation and Sick Leave

69. The Debtors also provide paid time off to their full-time Employees ("PTO"). In a calendar year, full-time employees will accrue PTO according to their employee level.

Additionally, full-time employees will accrue 8 hours of PTO per anniversary year up to five (5) years (no more than 40 hours) beginning on January 1 of the next year.

Employee Level	**Paid Time Off**
Executives / Leadership Team	240 Hours + 8 hours for every year employed by the Debtors
Senior Staff Employees[9]	200 Hours + 8 hours for every year employed by the Debtors
Staff Employees	160 Hours + 8 hours for every year employed by the Debtors

70. Approval of PTO is at the discretion of management, and in the event that an Employee is terminated, earned and accrued PTO hours are paid out according to the Debtors' PTO policy (the "PTO Policy"). As indicated in the above PTO Schedule, pursuant to the PTO Policy, Staff Employees accrue 160 hours of PTO plus up to 40 hours based on the number of service years at the Debtors for a total of 200 hours per year, Senior Staff Employees accrue 200 hours plus up to 40 hours based on the number of years at Debtors for a total of 240 hours per year, and Executives and Leadership team accrue 240 hours plus up to 40 hours based on the number of service years at the Debtors for a total of 280 hours per year. A maximum of 80 hours of PTO per year can be carried over to the next anniversary year and any PTO in excess of 80 hours remaining at the end of the year will be lost if it is not used.

71. As of the Petition Date, the balance for untaken PTO is approximately $323,000. The Debtors do not believe that they owe any PTO payouts to any former Employees as of the Petition Date, but seek to continue their policy postpetition in the ordinary course of business.

Reimbursable Expenses

72. The Debtors routinely reimburse Employees for certain expenses incurred within the scope of their employment, such as travel, food, and cell phones (the "Reimbursable Expenses"). There is a lag time between the time expenses are incurred and the time an expense is

[9] "Senior Staff Employees" means exempt employees with 10 or more years in oil and gas.

processed and reimbursed. Consequently, it is difficult for the Debtors to determine with precision the actual amount of incurred, but not reported, reimbursable expenses as of any particular time. Prior to COVID-19, however, the average monthly amount expended by the Debtors for the Reimbursable Expenses was $8,358, since approximately March, the average is approximately $1,000 per month. The Debtors request the authority to pay the Reimbursable Expenses in the ordinary course of business whether arising prepetition or postpetition.

Severance

73. At the discretion of management, the Debtors provide severance payments to Employees who are terminated or furloughed. In particular, Employees may be given up to four weeks of salary as severance but that can vary based on the Employee. By the Wages Motion, the Debtors seek authority, but not direction, to honor in the ordinary course of business the severance policies and practices prior to the Petition Date.

Tuition Reimbursement

74. The Debtors reimburse 90% of the cost of tuition, books, registration, laboratory, and other fees the institute require the student to pay ("Tuition Reimbursement Program") up to $3,000 to full time employees who have been employed by the Debtors for at least six months. Currently, no employees have enrolled in the Tuition Reimbursement Program, so no amounts are due, however, the Debtors request the authority to honor the Tuition Reimbursement Program in the ordinary course of business whether arising prepetition or postpetition.

75. In the ordinary course of business, the Debtors, through MD America, offer various customary benefits to the Employees. The benefits offered by the Debtors include healthcare benefits, a 401(k) plan, and life insurance and disability benefits (each as discussed below) (collectively, the "Benefits").

OrchestrateHR

76. The Debtors have contracted with OrchestrateHR, Inc. (OrchestrateHR, Inc. and any subsidiaries providing the services, hereinafter "OrchestrateHR") to provide a variety of services related to the Workforce Benefit Programs, the Benefit Obligations, and Employee Withholdings, among others (the "OrchestrateHR Services"). A part of the OrchestrateHR Services is acting as an agent of the Debtors for the purpose of paying third parties for the Workforce Benefit Programs, the Benefit Obligations, and the Employee Withholdings. For the Services that OrchestrateHR provides, the Debtors pay OrchestrateHR approximately $250 per pay period (since the Company pays bi-weekly, average monthly expense is $500). As of the Petition Date, the Debtors estimate that they owe $250 to OrchestrateHR for the services provided.

The Health Plans

77. The Debtors' healthcare plans, which include medical, dental, and vision benefits, are an important component of the Benefits offered by the Debtors (the "Health Plans"). The Debtors offer the Health Plans to all of their Employees who work 30 hours or more per week. The Health Plans are described more fully below.[10]

Medical Plans

78. The Debtors' medical benefit plan (the "Medical Plan") is fully insured and administered by Blue Cross Blue Shield of Texas ("BCBS"). The Debtors pay a monthly average of approximately $37,226 for administration of the Medical Plan. The Debtors estimate that as of the Petition Date, no amounts attributable to the Debtors are currently outstanding, including

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

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

Dental Plan

79. The Debtors offer a fully insured dental plan (the "Dental Plan") to Employees through BCBS. The Debtors pay approximately $2,794 monthly to BCBS for administration of the Dental Plan. The Debtors estimate that as of the Petition Date, no amounts attributable to the Debtors are currently outstanding, including administration fees related thereto. The Debtors are requesting authority to continue to operate the Dental Plan in the ordinary course of business.

Vision Plan

80. The Debtors offer a vision plan (the "Vision Plan") to Employees through Dearborn National, a division of BCBS. The Debtors pay $413 monthly to BCBS, as Employees pay 100% of the premium for administration of the Vision Plan. The Debtors estimate that, as of the Petition Date, no amounts attributable to the Debtors are currently outstanding, and the Debtors seek authority to continue the Vision Plan in the ordinary course of business.

COBRA Policy

81. The Debtors provide their Employees coverage under the Consolidated Omnibus Budget Reconciliation Act, which provides Employees who lose their health coverage the right to continue benefits for a limited period of time (the "COBRA Policy"). The COBRA Policy is administered by OrchestrateHR through a monthly premium of approximately $3,144 paid by the Debtors (and reimbursed by the applicable Employee) to OrchestrateHR who then transfers the funds to the appropriate governmental authority, which is due in advance on the first of each month. Currently six (6) former Employees participate in the COBRA Policy. The Debtors estimate that, as of the Petition Date, no amounts attributable to the Debtors are currently

outstanding, and the Debtors seek authority to continue the COBRA Policy in the ordinary course of business.

Health Savings Accounts and Flexible Spending Accounts

82. The Debtors offer full-time Employees the opportunity to contribute to a health savings account (the "HSA") or to a healthcare flexible spending account (the "FSA") (collectively, the "HSA and FSA") to use pre-tax dollars toward the payment of medical or dependent care expenses. At the beginning of each calendar year, the HSA and FSA participants commit a set amount of funds for the HSA or FSA, and the Debtors collect a pro-rated amount at each payroll period. The participant submits claims to OrchestrateHR, and then OrchestrateHR reimburses the Employee for the claimed amount (up to the pre-committed amount) and sweeps the payroll account for the amount of the claim that it processes. The administrative fee for administration of the HSA and FSA is included in the fee paid to OrchestrateHR. The Debtors are seeking authority to pay such amounts and continue using OrchestrateHR to carry out the HSA and FSA program in the ordinary course of business.

HRA

83. The Debtors also provide their Employees with a health reimbursement arrangement (the "HRA") which allows eligible Employees to be reimbursed by the Debtors for a portion of any medical deductibles that the Employees have to meet under the Medical Plan. As of the Petition Date, the Debtors have reimbursed Employees approximately $20,681 for 2020 and have a potential outstanding liability of approximately $132,413. The Debtors do not seek authority to pay this amount in full. As of the Petition Date, the Debtors believe they owe approximately $1,000 to Employees for prepetition amounts of which all will come due within the first 30 days after the Petition Date.

401(k) Plan

84. The Debtors offer their Employees the opportunity to participate in a 401(k) savings plan (the "401(k) Plan"), which is administered by Rogers Wealth Group. The Employees may contribute a percentage of their base pay, subject to regulatory limits. The Debtors will match 100% of the Employee's first 6% deferred, for a total of 6% of an Employee's 401(k) contributions for participants who defer at least 6% of their pay. For 2020, the Debtors' contributions are expected to total, in the aggregate, approximately $7,847.99 per biweekly pay period. As of the Petition Date, the Debtors estimate that they owe approximately $8,000 on account of the employer match portion of the 401(k) Plan. The Debtors are seeking authority to pay amounts owed under the employer match portion of the 401(k) Plan to the extent any exist, plus administrative and investment fees, and to continue the 401(k) Plan in the ordinary course of business.

Life Insurance and Disability Benefits

85. The Debtors provide their Employees life insurance, accidental death and dismemberment coverage (the "Life Insurance," and "AD&D Coverage," respectively) through Dearborn National, a division of BCBS. Life Insurance and AD&D Coverage provide each participating full-time Employee with coverage of $50,000. Full-time Employees may also elect for additional Life Insurance and AD&D Coverage. The Debtors pay approximately $282 monthly to Dearborn National for administration of the Life Insurance and AD&D Coverage. As of the Petition Date, I believe that no amounts are outstanding for premiums owed and claims asserted under these programs, and the Debtors seek authority to continue these programs in the ordinary course of business.

Short-term and Long-Term Disability Benefits

86. The Debtors provide their Employees short term and long-term disability benefits (collectively, "Disability Benefits,") through The Guardian Life Insurance Company of America. The Debtors pay approximately $1,543 monthly to The Guardian Life Insurance Company of America for administration of the Disability Benefits. Disability Benefits cover 60% of the eligible Employee's salary with a maximum amount of $2,500 per week for short term disability and $10,000 per month for long term disability. As of the Petition Date, I believe that no amounts are outstanding for premiums owed and claims asserted under these programs, and the Debtors seek authority to continue these programs in the ordinary course of business.

Elective Supplemental Coverage

87. Full-time Employees may opt into supplementary protection to cover disability insurance, accidents, cancer insurance, hospital confinement insurance, critical illness insurance, term life insurance, and universal insurance ("Elective Supplemental Coverage"). These coverages are available through Aflac Incorporated. The Debtors only withhold amounts from the Employee's paychecks, and Debtors do not pay any portion of these additional coverages.

88. I believe that performing the obligations under the above-described Benefits programs is important for preserving the value of the Debtors' estates. Any disruption in the benefits under such programs will call into question the Debtors' commitment to their Employees, who are essential to continuing the operations of the Debtors.

Employee Withholdings

89. In connection with paying the Unpaid Compensation and the Benefit Obligations, the Debtors routinely deduct and/or withhold from the Employees' paychecks amounts that the Debtors are required to transmit to third parties. For example, the Debtors may deduct from the

Employees' earnings, among other things, (a) payroll taxes related to federal, state, and local income taxes, FICA, Social Security, and Medicare taxes for remittance to the appropriate federal, state, or local taxing authority; (b) employee contributions for health benefits and health care and flex spending accounts; (c) employee contributions to employee life insurance, long-term disability insurance, and personal accident insurance; (d) employee contributions to 401(k) plans and 401(k) loan repayments; (e) employee contributions for the Elective Supplemental Coverage, and (e) legally ordered deductions, such as child support and garnishments (collectively, the "Employee Withholdings"). The Debtors then forward amounts equal to the Employee Withholdings from general operating accounts to OrchestrateHR who then pays the appropriate third-party recipients. As of the Petition Date, the Debtors estimate that they owe approximately $62,000 on account of Employee Withholdings.

90. As described in the Employee Wages Motion, the Debtors pay fees to third-party, administrators and servicers of the Benefits, including OrchstrateHR. Third-party administrators assist the Debtors with, among other things, servicing the FSAs and administering the Benefits, and assist with payroll servicing and payroll transfer administration in connection with Employee Obligations. I believe that continued payment to third-party administrators, including OrchestrateHR, is necessary, and without the continued service of these administrators, the Debtors will be unable to continue honoring their obligations to Employees in an efficient and cost-effective manner.

91. The Debtors are not seeking relief to pay prepetition Employee Obligations to any individual Employee in excess of the $13,650 cap imposed by section 507(a)(4) of the Bankruptcy Code on an interim basis. I also believe that the total amount sought to be paid by the Employee Wages Motion is modest compared to the magnitude of the Debtors' overall business.

Furthermore, the Debtors have sufficient funds to pay the Employee Obligations in the ordinary course using cash maintained by the Debtors and cash generated through operations. Accordingly, I believe the relief requested in the Employee Wages Motion is necessary to avoid immediate and irreparable harm and is in the best interests of the Debtors, their estates, and all parties in interest.

iv. Insurance Motion and Surety Bond Motion

92. In the ordinary course of their oil and natural gas exploration and production operations, the Debtors maintain workers' compensation insurance, well control insurance, general liability insurance, and other insurance programs (each, an "Insurance Program") and incur certain obligations to pay premiums and other obligations related thereto, including, but not limited to, broker or advisor fees, taxes, other fees, and deductibles (collectively, the "Insurance Obligations"), in accordance with or relating to their respective insurance policies (each, an "Insurance Policy") through several insurance carriers (each, an "Insurance Carrier").

93. The Insurance Programs include: (i) coverage of worker's compensation and employer's liability (the "Workers' Compensation Insurance"); (ii) coverage of potential third party liability in connection with the Debtors' oil and gas businesses (the "General Liability Program"); (iii) business property building and contents coverage (the "Business Property Program"); (iv) employee benefit plans administration liability coverage (the "Administration Coverage Program"); (v) automobile liability and damage coverage (the "Automobile Program"); (vi) Oil and Gas Umbrella Excess liability protection supplementing the above Basic Insurance Programs (as defined below) (the "Umbrella and Excess Program"); (vii) coverage for well control, pollution cleanup, pollution-related legal liability, and restoration expenses for risks and damages arising from well blowout or uncontrolled well events, including coverage for care, custody and control as lease "operator" or drilling contractor (the "Well Control Program");

(viii) coverage for losses of oil lease property and equipment (the "Oil Lease Property Program"); (ix) coverage of environmental legal liability, including pollution incidents, crisis events, and clean-up costs; (x) umbrella and excess coverage for various casualty Insurance Policies, as described below (the "Excess Liability Program"), and (xi) the Side A Insurance, the Employment Practices Liability, Fiduciary Duty Liability, and Commercial Crime Insurance (all as defined below) (collectively, the "Management Liability Program"). A detailed list of the Insurance Policies is attached to the Insurance Motion and Surety Bond Motion as **Exhibit A**. The Debtors also retain the services of Querbes & Nelson, an insurance broker, in connection with maintaining the Insurance Programs. The Insurance Programs and the role of each insurance broker are discussed below.

94. In the ordinary course of business, the Debtors are required to provide surety bonds to the Texas Railroad Commission to secure the Debtors' payment or performance of certain obligations (the "Surety Bond Program," the individual surety bonds, the "Surety Bonds," and all payment obligations or posting of collateral related thereto, the "Surety Bond Obligations"). The Surety Bonds are issued by One Beacon Surety Company (collectively, the "Issuer"). A detailed list of the Surety Bonds is attached to the Insurance and Surety Bond Motion as **Exhibit B**, which is incorporated herein by reference.

Workers' Compensation

95. In the ordinary course of business, the Debtors maintain Workers' Compensation Insurance for claims arising from or related to employment by the Debtors (the "Workers' Compensation Claims"). The Insurance Carrier for the Workers' Compensation Insurance is Travelers Casualty and Surety Company ("Travelers"). Texas law requires that the Debtors maintain Workers' Compensation Insurance. The Workers' Compensation Insurance covers,

among other things, statutory workers' compensation and employer liability claims generally arising from accidents, disability, death, or disease sustained by employees in the course of their employment with the Debtors.

96. The Debtors renewed the Workers' Compensation Insurance for an annual premium based on projected employee-payroll, of $20,610.00 on January 24, 2020, and it will expire on December 7, 2020. The Debtors paid this premium in full prepetition. This premium is subject to an audit (a "Premium Audit") that may occur annually up to three years after the policy period ends, which will determine if any increases in the Debtors' actual payroll obligations require a corresponding increase, or an arrearages payment, in the premium for the expired coverage period. If any arrearages arise from the Premium Audit, such arrearages are due as established by the billing statement or invoice for such audit additional premiums and/or retrospective additional premiums invoiced to the Debtors.

97. Due to the nature of their business, some of the Debtors' employees may be exposed to certain occupational hazards. The Workers' Compensation Insurance requires no deductible, and thus the Debtors owe no amounts for Workers' Compensation Claims. All amounts owed for Workers' Compensation Claims are paid by Travelers. Accordingly, to the best of my knowledge, the Debtors do not owe any prepetition amounts on account of the Workers' Compensation Insurance.

98. I have been informed by counsel that under applicable workers' compensation laws, the Debtors or the applicable Insurance Carrier may be obligated to pay all or part of a Workers' Compensation Claim directly to an employee, his or her other medical providers, or his or her heirs or legal representatives. Although I believe it is unlikely, it is possible that an event giving rise to an obligation of the Insurance Carriers to make such a payment—for example, for injury or disease

of an employee—could have occurred prepetition without the my knowledge. To that end, out of abundance of caution, the Debtors seek relief from the automatic stay for authorization to pay such Workers' Compensation Claims and related costs, and for Travelers to have authorization to do the same.

The St. Paul Fire & Marine Insurance Company Program

99. The St. Paul Fire & Marine Insurance Company Program provides several layers and types of coverage to the Debtors under one policy: (1) General Liability Program; (2) the Business Property Program; (3) the Administration Coverage Program; and (4) the Automobile Program. These four coverages are collectively referred to herein as the "Basic Insurance Programs."

100. The General Liability Program provides coverage for legal or contractual liability or other damages to third parties arising from or incurred to third parties in connection with the Debtors' oil and gas operations or the Debtors' premises. This liability is generally covered up to $1,000,000 per person or event with a general total limit of $2,000,000 and there are no deductibles for the General Liability Program.

101. The Business Property Program provides coverage for the following locations and contents:

- Business personal property coverage for contents located at the office location located at 301 Commerce Street, Suite 2500, Fort Worth, Texas 76102. This property is generally covered up to $562,400, and the Debtors must pay a deductible of $5,000 per loss event.

- Building and business personal property coverage for the building and contents located at the office, shop and storage shed located at 3707 TX Highway 21 West, Madisonville, TX 77864. The building is generally covered up to $365,600 and the business personal property is generally covered up to $56,300. The Debtors must pay a deductible of $5,000 per loss event.

102. The Administration Coverage Program provides liability protection coverage for loss resulting from administration of employee benefit plans caused by wrongful acts (as defined by the policy). This liability is generally covered up to $1,000,000 for each wrongful act with a total limit of $3,000,000. The Debtors must pay a deductible of $1,000 per wrongful act.

103. The Automobile Program includes liability protection for any automobile and for physical damage protection for any scheduled or hired automobiles. This liability is covered up to $1,000,000 for any one accident or occurrence, and the Debtors must pay a deductible of $1,000.

104. The St. Paul Fire & Marine Insurance Company Program also includes the Umbrella and Excess Program liability protection supplementing the above Basic Insurance Programs. The Umbrella and Excess Program has a deductible of $10,000 that applies only if the underlying policy does not cover an applicable claim. The Umbrella and Excess Program provides excess coverage to the Basic Insurance Programs up to the general total limit of $10,000,000, including $10,000,000 for each event and $10,000,000 for personal injury of each person.

105. The Insurance Carrier is St. Paul Fire and Marine Insurance Company ("St. Paul"). The coverage period is December 7, 2019 through December 7, 2020, and the Debtors paid the annual premium of approximately $137,572 in full prepetition on January 31, 2020. The Debtors do not owe any further amounts on account of the St. Paul Fire and Marine Insurance Company Program as of the Petition Date.

Well Control Program

106. The Debtors carry Well Control insurance. This insurance provides coverage associated with the regaining of control of a well, cleaning up pollution caused by a blowout and redrilling the well or restoring it to operation. The Well Control Program provides coverage up to

the general total limit of $15,000,000 for drilling/workover wells and $10,000,000 for all other wells, subject to retentions of $150,000 and $100,000 for each occurrence, respectively.

107. The Well Control Program also includes coverage to the Debtors for care, custody and control as lease "operator" or drilling contractor. Such coverage is limited to $5,000,000 and subject to retention of $100,000 for each occurrence.

108. The Insurance Carrier is Travelers Property Casualty Company of America. The coverage period is from December 7, 2019 through December 7, 2020 and the Debtors paid the annual premium of approximately $64,215 in full prepetition on February 14, 2020. Accordingly, the Debtors do not owe any amounts on account of this program as of the Petition Date.

Oil Lease Property Program

109. The Debtors carry Oil Lease Property Protection insurance. This insurance provides coverage of oil and gas lease property and equipment. The Oil Lease Property Program provides coverage for equipment up to $29,453,168 with coverage of up to $100,000 for each item or loss event for unscheduled equipment. The Debtors must pay a deductible of $25,000 for the policy and $50,000 for each loss event, and if the damage arises from flood or surfaced water coverage is $25,000.

110. The Insurance Carrier is St. Paul Fire & Marine Insurance Company. The coverage period is from December 7, 2019 through December 7, 2020 and the Debtors paid the annual premium of approximately $55,950 in full prepetition on January 24, 2020. Accordingly, the Debtors do not owe any amounts on account of this program as of the Petition Date.

Environmental Program

111. The Debtors carry Environmental Legal Liability insurance. This insurance provides coverage of oil and gas lease property and equipment. The Environmental Program

provides coverage up to the aggregate limit of $3,000,000. The Debtors must generally pay a deductible of $350,000 per incident.

112. The Insurance Carrier is Aspen Specialty Insurance Company. The coverage period is from December 7, 2019 through December 7, 2020 and the Debtors paid the annual premium of approximately $138,034.05 in full prepetition on January 31, 2020. Accordingly, the Debtors do not owe any amounts on account of this program as of the Petition Date.

Management Liability Program

113. The Management Liability Program provides preventative protection against a variety of liability and damages associated with the Debtors' directors, officers, and other upper management; specifically the following areas, each within the first layer of coverage:

- Side A Directors and Officers Liability Insurance: This provides coverage for the liability arising from the Debtors' directors and officers for alleged wrongful acts (the "Side A Insurance"). The Debtors paid a premium in the amount of $375,000. Liability is covered up to $10,000,000 in aggregate for the coverage period, which is June 26, 2020 through June 26, 2022. The Debtors have the option to extend the policy for one year for an additional $750,000 premium. There is no deductible for the Debtors or affected directors and officers. This insurance coverage is provided by XL Specialty Insurance Company.

- Employment Practices Liability: This provides coverage against claims made by employees alleging discrimination, wrongful termination, harassment, and other employment-related issues against the Debtors (the "Employment Practices Liability"). Liability is covered up to $2,000,000 in the aggregate for the coverage period, with a $25,000 retention for each claim. The coverage period is September 21, 2020 through September 21, 2021. This insurance coverage is provided by Continental Casualty Company.

- Fiduciary Duty Liability: This provides coverage for claims of mismanagement of the Debtors' employee benefit plans (the "Fiduciary Duty Liability"). Liability is covered up to $1,000,000 in the aggregate for the coverage period, with no retention for each claim. The coverage period is September 21, 2020 through September 21, 2021. This insurance coverage is provided by Continental Casualty Company.

- Commercial Crime Insurance: This provides coverage for liability accruing to the Debtors from an employee's alleged dishonesty, forgery or alteration, and computer fraud (the "Commercial Crime Insurance"). Liability is covered up to $1,000,000 in the aggregate for the coverage period, with a $15,000 retention for each claim. The coverage period is

September 21, 2020 through September 21, 2021. This insurance coverage is provided by Continental Casualty Company.

114. The Debtors paid the aggregate premium for the Employment Practices Liability, the Fiduciary Duty Liability, and the Commercial Crime Insurance in full prepetition in the amount of $18,010 (the "Aggregate Premium"), so as of the Petition Date, the Debtors do not owe any amounts with regards to these policies. The Debtors can extend these policies for up to 3 years at a rate of 100% of the Aggregate Premium for the first year, 125% of the Aggregate Premium for the second year, and 125% of the Aggregate Premium for the third year.

Excess Liability Program

115. The Debtors also carry additional Commercial Excess Liability insurance supplementing the St. Paul Fire & Marine Insurance Company Program and Workers Compensation Program. The Excess Liability Program provides excess coverage up to the occurrence and aggregate limits of 10,000,000 each.

116. The Insurance Carrier is Evanston Insurance Company. The coverage period is December 7, 2019 through December 7, 2020, and the Debtors paid the annual premium of approximately $26,880 in full prepetition on February 7, 2020. Accordingly, the Debtors do not owe any amounts on account of the Excess Liability Program as of the Petition Date.

Surety Bond Program

117. The Surety Bonds relate to the Debtors' obligations related to conservation and environmental bonds, general performance obligation bonds, reclamation bonds, lease or land use bonds, supersedeas bonds, and bonds guaranteeing plugging and abandonment commitments. When a governmental unit, public agency, or other third party requests a form of security with respect to payment or performance by the Debtors of certain obligations, the Debtors may determine in their business judgment that posting a Surety Bond is preferable to providing cash

and cash equivalents on hand to satisfy such request, and the Debtors thus may post a Surety Bond. The Debtors' Issuer provides, upfront, an instrument in the full amount of the requested security to the requesting party on behalf of the Debtors, in exchange for, among other things, a fee from the Debtors to secure the Surety Bond issuance on the Debtors' behalf. The issuance of a Surety Bond shifts the risk of the Debtors' nonperformance or nonpayment from the obligee to the Surety.

118. Collectively, the Debtors' Surety Bonds provide coverage in the aggregate amount of approximately $2,275,000. The Debtors Surety Bond provided for the Debtors plugging and abandonment obligations to the Texas Railroad Commission is provided by the Issuer. The Issuer requires a letter of credit for this Surety Bond which is issued by Texas Capital Bank N.A. Premiums related to the Surety Bond Program are generally determined on an annual basis and are paid by the Debtors when a particular surety bond is issued or renewed. The term for all three of the Surety Bonds is from August 1, 2020 through August 1, 2021. The Debtors pay approximately $56,875 annually in premiums on account of the Surety Bond Program and all of that has been paid until August of 2021.

119. To continue their business operations during the reorganization process, I believe that the Debtors must be able to provide financial assurance to the relevant governmental authorities and other third parties. This, in turn, requires the Debtors to maintain the existing Surety Bond Program, including paying bond premiums as they fall due, providing collateral, renewing or potentially acquiring additional bonding capacity as needed in the ordinary course of business, paying related fees to third parties, and executing other agreements (as needed) in connection with the Surety Bond Program. I believe that failing to provide, maintain, or timely replace their surety bonds in the ordinary course of business will prevent the Debtors from undertaking essential functions related to their operations. Although the Debtors are not aware of any amounts owed on

account of the Surety Bond Program as of the Petition Date, out of an abundance of caution, the Debtors seek authority to honor any Surety Bond Obligations, continue the Surety Bond Program in the ordinary course of business and continue acquiring additional bonds to ensure that the Surety Bond Program and the Debtors' business operations remain uninterrupted on a postpetition basis.

Insurance Broker Services

120. The Debtors retain Querbes & Nelson to serve as their insurance broker and consultants for the Insurance Programs (in such role, the "Insurance Broker"). Querbes & Nelson also serves as the Debtors surety bond broker and consultants for the Surety Bond Program (in such role, the "Surety Bond Broker"). The Insurance Brokers and Surety Bond Broker provide access to specific markets and expertise in certain lines and types of coverage. In addition, the Insurance Brokers often act as the intermediary between the Debtors and the Insurance Carriers, as the Insurance Brokers will often transfer insurance premiums and claims asserted for various Insurance Programs to the various Insurance Carriers, likewise, the Surety Bond Broker provides similar services. The Debtors pay the Insurance Brokers commissions up-front as policies are renewed each year, based on the aggregate amount of the insurance premiums, and pay the Surety Bond Broker commission up-front as bonds are renewed each year based on the aggregate amount the surety bond premiums. As of the Petition Date, the Debtors do not owe any prepetition commissions to the Insurance Brokers or Surety Bond Broker. For the avoidance of doubt, the Debtors request authority from this Court to continue making payments to the Insurance Brokers for the Insurance Obligations and the Surety Bond Broker for the Surety Bond Obligations, as necessary under the Insurance Programs and the Surety Bond Program, as applicable.

121. In light of the risks applicable to the Debtors' operations and the critical need for the Debtors to protect their assets from such risks, I believe it is essential that the Debtors maintain

the Insurance Programs and that they obtain authority to pay all obligations related thereto, including outstanding payments to the Insurance Brokers. Without authority to maintain and pay amounts owed in connection with the Insurance Programs, the ability of the Debtors to conduct business operations in many locations would come to a halt to the detriment and prejudice of all parties in interest. Additionally, based on the Debtors' current circumstances, I believe it is unlikely that the Debtors would be able to renew or replace their existing Insurance Programs on more favorable terms. Furthermore, I understand that the Debtors must maintain most or all of the Insurance Programs to comply with the U.S. Trustee's operating guidelines, applicable state and federal laws, requirements from state and federal regulatory agencies, and other prepetition contracts. Based on the foregoing, I believe that the relief requested in the Insurance Motion is in the best interests of the Debtors, their estates, and all other parties in interest and should be granted in all respects.

v. Taxes Motion

122. I understand that the taxes the Debtors typically incur generally fall into the following categories: Payroll Taxes, Income Taxes, Property Taxes/Ad Valorem Taxes, Franchise Taxes, Severance Taxes, Sales Taxes, and Regulatory Assessments (each as defined in the Taxes Motion and collectively, the "Taxes"). A non-exclusive list of the Taxing Authorities is set forth on **Exhibit A** to the Taxes Motion.

1. Payroll Taxes

123. As set forth in more detail in the Debtors' Employee Wages motion,[11] in the normal course of business, payroll related to trust fund taxes accrue as employees provide services to the

[11] *See Debtors' Emergency Motion for an Order (i) Authorizing, but not Directing, the Debtors to Pay Prepetition Workforce Obligations, (ii) Authorizing, but not Directing, the Debtors to Continue Certain Workforce Benefit Programs, and (iii) Authorizing, but not Directing, Applicable Banks and Financial Institutions to Honor Prepetition Checks for Payment of the Prepetition Workforce Obligations*, filed contemporaneously herewith.

Debtors. Where applicable, these payroll related taxes include federal income tax, social security tax, Medicare, state unemployment insurance, and state disability insurance (collectively, the "Payroll Taxes").[12] Generally, these funds are deducted from employee earnings, but due to the commencement of the Chapter 11 Cases, may not have been forwarded to the appropriate third-party recipients. I have been informed that such withheld funds, to the extent they remain in the Debtors' possession, constitute moneys held in trust and therefore are not property of the Debtors' estates. Out of an abundance of caution, however, by this Motion, the Debtors seek authority, in their discretion, to forward the Payroll Taxes to the appropriate parties in the ordinary course.

2. Federal Income Taxes

124. The Debtors incur federal tax liabilities (the "Income Taxes"). As of the Petition Date, the Debtors do not believe any amounts are outstanding on account of the Income Taxes; however, certain Income Taxes and other Taxes attributable to the prepetition period may come due during the Chapter 11 Cases. Thus, the Debtors request authority to pay all prepetition Income Taxes that have accrued as of the Petition Date and to continue to pay such obligations in the ordinary course on a postpetition basis.

3. Property Taxes/Ad Valorem Taxes

125. The Debtors own, or owned, property in Texas and the Taxing Authorities in Texas have the authority to levy property occupancy taxes, real estate taxes, and other property taxes against the Debtors' leased and owned real and personal property (the "Property Taxes"). The Debtors estimate the prepetition liability for Property Taxes to be approximately $1,800,000.[13]

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[12] Given the payroll cycle and the Petition Date, the Debtors believe that they currently owe approximately $50,000 for prepetition amounts, all of which will be due within 30 days after the Petition Date.

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

Failure to timely remit payment of Property Taxes may subject the Debtors to penalties or interest. The Debtors therefore seek authority to pay all prepetition Property Taxes that are outstanding or have accrued as of the Petition Date and to continue to pay such obligations in the ordinary course of business on a postpetition basis.

4. Franchise Taxes

17. The Debtors are required to pay taxes assessed for the privilege of doing business within a particular jurisdiction (the "Franchise Taxes"). The Debtors pay Franchise Taxes to the applicable Taxing Authorities in Delaware. Franchise Taxes are typically paid quarterly or annually to the applicable Taxing Authorities. As of the Petition Date, the Debtors estimate they owe approximately $1,575 in prepetition Franchise Taxes, all of which will become payable March 1, 2021. The Debtors therefore request authority to honor such prepetition Franchise Taxes and to pay any postpetition Franchise Taxes in the ordinary course of business.

5. Severance Taxes

126. Texas assesses monthly severance taxes for the Debtors' sale of oil, natural gas and natural gas liquids (collectively, the "Severance Taxes"). Severance Taxes are, in form and effect, akin to a sales tax and are remitted to the relevant state Taxing Authority. In 2020, the Debtors' Severance Tax payments have averaged approximately $20,879 per month.[14] Based on the time required to market and sell the natural gas and natural gas liquids that the Debtors produce, the Debtors estimate that prepetition Severance Taxes of approximately $80,000 have accrued and remain unpaid as of the Petition Date, of which approximately $40,000 will become payable during the first 30 days of the Chapter 11 Cases. Because payment of Severance Taxes is directly related

[14] The Debtors only pay severance taxes on natural gas and natural gas liquids, while severance taxes related to oil are paid by the purchasers of oil. Additionally, the average for the year is skewed low because of the impacts of low oil and gas prices earlier in the year.

to the Debtors' ability to continue the extraction and sale of oil, natural gas and natural gas liquids, I believe that payment of the Severance Taxes is critical to the Debtors' continued operations. Additionally, Severance Taxes are imposed by state law and non-compliance would be a violation of state statutes. Accordingly, the Debtors seek authority to honor such outstanding prepetition obligations and to continue paying any such obligations in the ordinary course of business on a postpetition basis.

6. Regulatory Assessments

127. In the ordinary course of business, the Debtors incur certain regulatory assessments, drilling and permitting fees, licensing fees, levies, inspection fees and other miscellaneous fees (collectively, "Regulatory Assessments,").

128. I understand that substantially all of those amounts are on account of prepetition obligations. Further, I understand that failure to pay the aforementioned Taxes may cause the Taxing Authorities to take precipitous action, including, but not limited to, filing liens, preventing the Debtors from conducting business in the ordinary course in the applicable jurisdictions in which they operate, and potentially holding directors and officers personally liable, all of which would disrupt the Debtors' day-to-day business operations, potentially impose significant costs of the Debtors' estates and their creditors, and hinder the Debtors' efforts to successfully reorganize. Regulatory Assessments are typically paid annually, with certain assessments paid on a semi-annual or quarterly basis, totaling approximately $60,000 per year.[15] Regulatory Assessments of approximately $30,000 have accrued and remain unpaid as of the Petition Date, all of which is payable in the first 30 days of these Chapter 11 Cases. Based on the foregoing, I believe that the

[15] The variance in regulatory fees each year is largely driven by, among other things, the amount of plugging and abandonment expenses incurred each year.

relief requested in the Taxes Motion is in the best interests of the Debtors, their estates, and all parties in interest and should be approved.

129. Although, as of the Petition Date, the Debtors were substantially current in the payment of assessed and undisputed Taxes and Fees, certain Taxes and Fees attributable to the prepetition period were not yet due. Moreover, the continued payment of the Taxes on their normal due dates will ultimately preserve the resources of the Debtors' estates, thereby creating a greater recovery for stakeholders. If the Taxes are not timely paid, the Debtors would be required to expend disproportionate attorneys' fees and other costs to resolve various issues related to such obligations in light of the relatively *de minimis* amount of the Taxes. The Debtors believe some of the Taxes constitute trust fund obligations that are not property of the Debtors' estates, and as to which the Debtors' officers and directors may have personal liability in the event of nonpayment. Efforts by the Taxing Authorities to collect such trust fund amounts would provide obvious distractions to the Debtors and their officers and directors in their efforts to maximize the value of the Debtors' estates.

130. And, even with respect to the Taxes that are not trust fund taxes, the Debtors believe that paying such Taxes will ultimately benefit the Debtors' estates and their stakeholders. Many of those Taxes may be entitled to priority under the Bankruptcy Code or may be subject to liens. Therefore, other creditors, stakeholders, and other parties in interest will not be prejudiced if such prepetition taxes are paid.

vi. Utilities Motion

131. As more fully described in the motion, the Debtors obtain gas, water, telecommunications, and other similar utility services (collectively, the "Utility Services") from approximately 7 utility providers (collectively, the "Utility Companies"), a list of which is attached

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

132. During these Chapter 11 Cases, the Debtors will pay, on or before the first day of the billing period for each Utility Company, an estimated prepayment to each Utility Company for the expected amount due for such billing period (each such payment, a "Prepayment," and all prepayments, the "Prepayments"). Included in **Exhibit A**, attached to the Utilities Order, is each of the Utility Companies and the average amount the Debtors pay for the Utility Provider's services. Prior to the Petition Date, the Debtors paid approximately $20,000 for prepetition amounts due to the Utility Companies and the initial Prepayments in the aggregate, approximate amount of $20,000 for a total payment of approximately $40,000.

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

Debtors' reorganization efforts and, ultimately, the value of the Debtors' estates and stakeholders' recoveries.

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

vii. Trade Claims

135. In the ordinary course of their oil and natural gas exploration and production operations, the Debtors incur the Ordinary Course Claims to a variety of creditors, including ordinary course good and services providers, shippers, lien claimants, working interest holders, royalty holders, and numerous other vendors and creditors (collectively, the "Ordinary Course Creditors").[16] As further described below, the Ordinary Course Claims in this Motion fall into two principal categories: Trade Claims and Mineral Claims.

136. The Plan provides that the Debtors will satisfy all Ordinary Course Claims in full, in cash, and in the ordinary course of business. Therefore, the requested relief will merely affect the timing of payments to the Debtors' Ordinary Course Creditors.

137. As further described in the *Debtors' Emergency Motion for Entry of an Order (I) Scheduling a Combined Disclosure Statement Approval and Plan Confirmation Hearing, (II) Conditionally Approving Disclosure Statement, (III) Establishing a Plan and Disclosure*

[16] The Debtors make certain other payments in the ordinary course, including payments to utility providers, employees, and governmental authorities and taxing authorities. The Debtors describe these other ordinary course payments and seek relief for such payments in other motions.

Statement Objection Deadline and Related Procedures, (IV) Approving the Solicitation Procedures, and (V) Approving the Combined Notice (the "Scheduling Motion"), filed contemporaneously herewith, the Debtors intend to seek confirmation of the Plan on November 19, 2020 and emerge from these Chapter 11 Cases as soon as possible thereafter.

138. I have been informed that courts regularly authorize payments of the kind contemplated herein where a debtor's proposed prepackaged plan of reorganization provides a 100% recovery for trade claims, payment of such claims is necessary to the continued viability of the Debtors' business, and/or such claims give rise to an administrative or secured claim. Such payments affect only when—not whether or how much—such creditors will be paid in the Chapter 11 Cases. Accordingly, I believe that authorizing the Debtors to pay undisputed prepetition Ordinary Course Claims of the Ordinary Course Creditors as such claims become due and payable in the ordinary course of business will allow for a smooth and expeditious reorganization in these Chapter 11 Cases. Furthermore, this authorization will lay the groundwork for an essential element of the Plan, which leaves such trade claims unimpaired, and will not prejudice any party in interest in these Chapter 11 Cases.

Trade Claims

140. The Debtors incur a variety of trade obligations in the ordinary course of business, including expenses related to joint interest billings (the "Joint Interest Billings"), third party contractors (the "Third Party Contractor Claims"), shipping and warehousing claims (the "Shipping and Warehousing Claims"), goods and materials received within 20 days prior to the Petition Date (the "503(b)(9) Claims"), goods that have been ordered but will not be delivered until after the Petition Date (the "Outstanding Orders"), general and administrative costs ("G&A"), and gathering, transporting, and processing costs (the "GTP Costs", together with

Third Party Contractor Claims, Shipping and Warehousing Claims, 503(b)(9) Claims, Outstanding Orders, and GTP Costs, the "Trade Claims") to certain of the Ordinary Course Creditors (the "Trade Creditors") to ensure the continued operation of the Debtors' business. The following table summarizes the Trade Claims that the Debtors estimate are accrued but unpaid as of the Petition Date.

Category	Description of Trade Claims	Estimated Amount Outstanding as of the Petition Date	Estimated Amount Due within 30 Days
Joint Interest Billings	Payments in the ordinary course to Operators for the Debtors' share of operating expenses owned for non-operated wells and leases.	$230,000	$115,000
Third Party Contractor Claims	Payments in the ordinary course to contractors for the operation wells and/or drilling and completing new wells	$2,700,000	$1,350,000
Shipping and Warehousing Claims	Transportation and delivery of goods, including, pipeline and tubing and other goods related thereto	$100,000	$50,000
503(b)(9) Claims	Goods and materials received within 20 days prior to the Petition Date	$250,000	$250,000
Outstanding Orders	Goods that have been ordered but will not be delivered until after the Petition Date	$100,000	$100,000
GTP Costs[17]	Amounts netted out of production receipts in the ordinary course by the third parties providing services related to gathering, transportation, processing, and quality bank adjustments	$2,000,000	$1,000,000
G&A Costs	Payments in the ordinary course for products and to vendors that supply office supplies, postage, information technology support services, and other miscellaneous services and products	$200,000	$100,000
	Total Estimated Amount	**$6,880,000**	**$3,615,000**

[17] The GTP Costs are netted out of the proceeds counterparties owe to the Debtors for payments on production.

Mineral Claims

139. The Debtors incur royalty obligations in the ordinary course of business, including expenses related to working interests, overriding royalty interests, non-participating royalty interests, net profits interests, production payments, and unleased mineral interests (the "Royalty Interests"). In addition, the Debtors incur obligations related to non-operating working interests (the "Non-Op Working Interests," and, collectively with the Royalty Interests, the "Mineral Claims") where the Debtors market and sell minerals on behalf of the Non-Op Working Interest holders. The Mineral Claims are owed to certain of the Ordinary Course Creditors to ensure the continued operation of the Debtors' oil and gas leases.

140. The Debtors make payments for Mineral Claims each month. Such payments are generally paid two months in arrears. Amounts owed are calculated as provided for in the underlying oil and gas lease, operating agreement, or other contract or, with regards to co-tenants where there is no contract, according to their proportionate share of proceeds, and are typically based on the production revenue received by the Debtors from purchasers, less applicable severance taxes and, in some instances, certain post-production charges.

141. The Debtors hold payments related to certain Mineral Claims in "suspense" when (i) they are too small to warrant payment under the terms of an oil and gas lease, operating agreement or other applicable agreement, (ii) the Debtors have determined they should not be paid because of a dispute or other legal reasons, or (iii) the Debtors are unable to identify or properly pay the owner of the Mineral Claim (such amounts held in suspense, "Suspense Obligations").

142. The Suspense Obligations are accrued but unpaid liabilities of the Debtors. The Debtors estimate that approximately $2,000,000 in Suspense Obligations will become due and payable in the ordinary course of the Debtors' business and operations (either through accrual of

additional royalties or resolution of a dispute or other issue barring payment) within the first 30 days of the Chapter 11 Cases. The Debtors do not anticipate being obligated to pay the full amount of the remaining Suspense Obligations during the Chapter 11 Cases; however, in light of the difficulty in estimating precisely when, and to what extent, Suspense Obligations will become due and payable and, out of an abundance of caution, the Debtors seek authority in the proposed Order to continue to negotiate, resolve, settle, and honor the full amount of outstanding Suspense Obligations in the ordinary course whether such amounts relate to the prepetition or postpetition period.

143. As of the Petition Date, the Debtors estimate they owe approximately $7,500,000 on account of accrued and undisputed Mineral Claims, of which approximately $3,500,000 will become due and payable within the first 30 days of the Chapter 11 Cases. Out of the $7,500,000 of Mineral Claims estimated to be outstanding as of the Petition Date, up to $3,756,000 (comprised of $3,700,000 in Suspense Obligations and $56,000 of uncashed royalty checks) may eventually escheat to the Comptroller of Texas because the Debtors were unable to locate or otherwise pay the owner of the Mineral Claim. Prior to the Petition Date, the Debtors escheated all of the Mineral Claims that were due to be escheated for the year to the Comptroller of Texas.

144. Accordingly, the Debtors request authority to pay approximately $7,500,000 in prepetition Mineral Claims in the ordinary course when due. Of this amount, the Debtors request authority under the proposed Order to pay approximately $3,500,000, including Suspense Obligations, under the proposed Order to Interest Owners as those amounts become due in the ordinary course during the first 30 days of the Chapter 11 Cases.

viii. Rejection of Transaction Bonus Plan

145. In the lead up to these Chapter 11 Cases, the Debtors undertook an initial analysis of their executory contracts. As a result of this analysis, the Debtors determined, and I concur in my business judgment, that the Transaction Bonus Plan, attached as **Exhibit A** to the proposed order, is unnecessary and burdensome to the Debtors' estates and therefore the Debtors' Board terminated the Transaction Bonus Plan pursuant to its terms. *See* Transaction Bonus Plan, ¶ 9(a).[18] However, out of an abundance of caution, and as further detailed in the *Debtors' Motion for Entry of an Order (I) Authorizing Rejection of the Transaction Bonus Plan Effective as of the Petition Date and (II) Granting Related Relief*, filed contemporaneously herewith on the 21-days' negative notice, the Debtors now seek to immediately reject the Transaction Bonus Plan to the extent the Board's termination was not effective with respect to all of the Participants (as defined below). Additionally, the Debtors seek to reject the Award Agreements.

146. MD America created the Transaction Bonus Plan that established a $10 million cash bonus pool for certain designated employees who executed an award agreement under the Transaction Bonus Plan in May of 2019 (the "Participants"). The cash pool, which is subject to a tax gross up, was to be distributed to the Participants upon the earlier of (i) an Exit Event[19] or (ii)

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[18] Paragraph 9 of the Transaction Bonus Plan provides that:

(a) Subject to subsection (b) below, the Board may at any time wholly or partially amend, alter, suspend or terminate the Plan; provided, however, that no such amendment that materially and adversely effects the economic rights of any Participant shall be made without such Participant's written consent.

(b) The Plan shall automatically terminate upon the completion of all payment to be made under the Plan in connection with an Exit Event.

[19] The Management Incentive Plan dated as of January 1, 2017, defines an "Exit Event" as the occurrence of any of the following transactions: (i) Merger, consolidation or similar transaction in which current equity owners hold less than 50% of the voting equity of the surviving entity; (ii) Sale of equity interests of the Company to a non-affiliate as a result of which the current equity holders own less than 50% of the voting equity of the acquiring entity; (iii) Sale of all or substantially all of the assets of the Company.

if applicable, the Participant's sale to the Company of his or her Vested Series B Units within 40 days following an Exit Date.[20]

147. The Debtors determined and I believe that it is no longer necessary or desirable to maintain the Transaction Bonus Plan or any Award Agreements because they do not have sufficient cash on hand to pay the transaction bonus and continue operating. Additionally, after my best efforts, as well as that of the new board of directors, the Debtors could not locate any of the Award Agreements. The Debtors estimate that rejection of the Transaction Bonus Plan will save the Debtors approximately $15 million after accounting for the tax gross up.

ix. Rejection of the Wilson Family Heirs Surface Use Agreement

148. In the lead up to these Chapter 11 Cases, the Debtors undertook an initial analysis of their executory contracts. As a result of this analysis, and as further detailed in the *Debtors' Motion for Entry of an Order (I) Authorizing Rejection of the Wilson Family Heirs Surface Use Agreement Effective as of the Petition Date and (II) Granting Related Relief*, filed contemporaneously herewith on 21-days' negative notice, the Debtors determined, and in my business judgment, that the Surface Use Agreement, attached as **Exhibit A** to the Order, is unnecessary and burdensome to the Debtors' estates and now seek to reject the Surface Use Agreement as of the Petition Date.

149. Effective as of February 2, 2019 (the "Effective Date"), MD America entered into the Surface Use Agreement with the Wilson Family Heirs, LLC (the "Wilsons"). Eric Waller, the former chief executive officer of the Debtors, was a co-owner of the Wilsons and negotiated the Surface Use Agreement on behalf of both MD America and the Wilsons. In addition, Mr. Waller did not disclose this related party transaction. MD America owned the surface of the Subject

[20] As defined in such Participant's Restricted Unit Agreement issued under the Management Incentive Plan.

Lands (as defined in the Surface Use Agreement) and had the obligation to repair any fences, roads, cattle guards, or existing structures. In exchange, three (3) years after the Effective Date, the Wilsons had the right to sell, lease or encumber the Water. The Wilsons also had the right to use the Subject Lands, including water, for all agricultural purposes, pasturage or other similar purposes. Additionally, MD America granted to the Wilsons a right of first refusal at $2,000 per acre if MD America ever sold the Subject Lands to a third party.

150. The Debtors determined and I believe that it is no longer necessary or desirable to maintain the Surface Use Agreement.

x. Hedging Activities

151. As is customary in the Debtors' industry, in the ordinary course of business, the Debtors have historically entered into financial derivative contracts primarily to hedge the Debtors' exposure to commodity price risks to their cash flows (collectively, the "Customary Hedging Agreements" and the activities related thereto, the "Hedging Activities") with creditworthy third parties pursuant to the Hedge Practices. The Hedging Activities operate to reduce the Debtors' exposure to commodity price fluctuations and provide the Debtors with long-term cash flow predictability to manage their business. Through the Hedging Activities and Customary Hedging Agreements, the Debtors are able to hedge against adverse oil and gas price fluctuations and thereby protect the economic value of their operations by preventing substantial declines in cash flows.

152. Historically, the Debtors' Customary Hedging Agreements consisted primarily of swaps, costless collars, puts, and three way collars. Swaps are designed so that the Debtors receive or make payments based on a differential between fixed and variable prices for crude oil and natural gas. A costless collar consists of a call, which establishes a maximum price the Debtors

will receive for the volumes under contract and a purchased put that establishes a minimum price the Debtors will receive for the volumes under contract. As hedges roll off, the Debtors' senior management ("Management") reassess the type of hedging transactions that will provide the best opportunities for the Debtors.

153. Historically, the Debtors have entered into transactions under the Customary Hedging Agreements for not less than 65% of projected crude oil, natural gas, and natural gas liquids production for not less than 36 months into the future. The prepetition Customary Hedging Agreements were typically secured on a first lien basis under that certain *Credit Agreement*, dated as of November 14, 2018 (as amended, restated, amended and restated, supplemented, or otherwise modified from time to time, the "Credit Agreement") by and among MD America, as borrower; MD America Intermediate Holdings, LLC and MD America Holdings, LLC, each as a holding company; Loan Admin Co LLC, as administrative agent, joint lead arranger, and sole book runner; Guggenheim Securities, LLC, as joint lead arranger; and the Lenders (as defined therein) party thereto; and the "Credit Documents" (as defined in the Credit Agreement) with a security interest in substantially all of the assets of the Debtors (the "Collateral"). The Debtors' Hedging Activities have generated significant value and are particularly important in times of increased volatility in commodity prices.

154. The Debtors enter into an International Swap and Derivatives Association, Inc. Master Agreement ("ISDA") with each counterparty prior to engaging in Hedging Activities with such counterparty. The ISDA is a standard contract that governs all derivative contracts entered into between the Debtors and the respective counterparty. The ISDA may allow for offsetting of amounts payable or receivable between the Debtors and the counterparty for transactions that occur on the same date and in the same currency.

155. I anticipate that the Debtors will enter into amended ISDAs (the "Amended ISDAs") with one or more of their Hedge Counterparties, which will provide the Debtors with the ability to enter into new Postpetition Hedging Agreements after the Petition Date on terms generally consistent with the Customary Hedging Agreements as Management deems appropriate and prudent. By this Motion, the Debtors seek authority to enter into and perform under any Postpetition Hedging Agreements in the ordinary course of business.

156. Agreements like the Customary Hedging Agreements are common in the Debtors' industry and are routinely used in the ordinary course of business to mitigate exposure to fluctuating commodity prices. The board of directors for the Debtors (the "Board") has delegated authority to Management to engage in Hedging Activities, as Management deems appropriate. As is typical in the Debtors' industry, Management has established certain customary practices (the "Hedge Practices") to ensure that such agreements are in the best interests of all of the company's stakeholders. The Hedge Practices are described below.

157. ***Limited Scope of Hedging Activities***. Historically, Management has limited Customary Hedging Agreements to (a) swaps and (b) costless collars, (c) puts, and (d) three way collars.

158. ***Approval Process***. The Debtors' Customary Hedging Agreements have been approved by Management.

159. ***Reporting***. Reports on Hedging Activities are provided annually to the Board of MeiDu Energy Corporation and to certain third party auditors, which include disclosures regarding monthly operating revenue related to hedge settlements and the percent of production hedged. Each month, the Debtors also provide reports on Hedging Activities to the Debtors' secured lenders, which include disclosures regarding: (a) projected oil and gas production from the

Debtors' oil and gas properties for the three month period beginning with such month, (b) the volumes from the Debtors' oil and gas properties currently hedged for each such three month period, and (c) the volumes from the Debtors' oil and gas properties available to be hedged during such three month period.

160. The Debtors do not engage in speculative Hedging Activities. Management typically hedges around material acquisitions, during the Debtors' annual budgeting process, and opportunistically as attractive market terms and prices arise. The Hedging Activities are directly tied to the Debtors' forecasted future oil and gas production levels. Management continually assesses the appropriate level of production to hedge and bases its decisions on a variety of factors, including current and future expected commodity market prices, cost and availability of costless put/call collars and swap contracts, forecasted drilling activity, liquidity, and the level of acquisition activity.

161. Consistent with their past practices and the terms of the Restructuring Support Agreement, the Debtors entered into hedges for a minimum of 75% of their PDP reserves until the Plan Effective Date (as defined in the Restructuring Support Agreement).

162. For over a month, the Debtors have been engaged in discussions with potential hedge counterparties that are Approved Counterparties (as defined in the Credit Agreement) (collectively, the "Hedge Counterparties") regarding the terms of potential Postpetition Hedging Agreements. I believe it is likely that the Debtors will, in the near future, be able to enter into Postpetition Hedging Agreements with one or more Hedge Counterparties. The Debtors expect that the Postpetition Hedging Agreements will be on terms generally consistent with the Customary Hedging Agreements, except to the extent that they contain additional termination events and covenants unique to hedging agreements filed during Chapter 11 Cases.

163. The Debtors seek authority to secure and otherwise ensure payment of the Hedging Obligations by providing the Hedge Counterparties: (a) superpriority administrative claims on account of the Hedging Obligations under section 364(c)(1) of the Bankruptcy Code, and (b) first-priority valid and perfected, priming security interests and liens in and to substantially all of the assets of the Debtors.

164. In light of the foregoing, the Debtors seek authority to enter into Postpetition Hedging Agreements in the ordinary course of business. The Hedging Agreements are essential to the continued prudent operation of the Debtors' businesses and provide revenue and cash flow stability for the Debtors' estates. The Debtors believe that postpetition Hedging Activities will be a low-risk means of reducing the impact of volatile commodity prices on the Debtors' cash flow during the pendency of these Chapter 11 Cases. Without the ability to continue and maintain Hedging Activities postpetition, the Debtors would be vulnerable to fluctuations in prices of oil and natural gas that could result in significant diminution in the value of their estates. Moreover, I believe that, if the Debtors do not enter into Postpetition Hedging Agreements in the near future, the Debtors and their estates may be significantly harmed. Accordingly, I believe the relief requested in the Hedging Motion is essential to avoid the immediate and irreparable harm and will yield benefits that are in the best interests of the Debtors, their estates, and all parties in interest.

C. Request for Emergency Consideration

165. The Debtors request emergency consideration of the Joint Administration Motion; the Scheduling Motion; the Creditor List Motion; the Cash Collateral Motion; the Cash Management Motion; the Insurance and Surety Bond Motion; the Taxes Motion; the Employee Wages Motion; the Utilities Motion; the Claims Agent Retention Application; the Scheduling Motion; the Trade Claims Motion; the Hedging Program Motion; the Bar Date Motion; and the

Restrictions on Equity Trading Motion. I believe that, based on the complexity of the Chapter 11 Cases (as explained to me by the Debtors' counsel) and the Debtors' urgent need to continue operations during these cases, emergency consideration of such motions is warranted.

Conclusion

166. The above describes the Debtors' business and capital structure, the factors that precipitated the commencement of the Chapter 11 Cases, the terms of the Debtors' consensual balance sheet restructuring, and the critical need for the Debtors to restructure their financial affairs and operations. The provisions of the Bankruptcy Code will assist the Debtors in achieving their financial reorganization and reestablishing themselves as a healthy economic enterprise able to effectively compete in their industry for the benefit of their economic stakeholders and employees.

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

Dated: October 12, 2020
Los Angeles, California

By: */s/ Scott Avila*
Name: Scott Avila