

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

In re:

EDGEMARC ENERGY HOLDINGS, LLC,
et al.,¹

Debtors.

Chapter 11

Case No. 19-11104

(Joint Administration Requested)

**DECLARATION OF CALLUM STREETER IN SUPPORT OF THE DEBTORS’
CHAPTER 11 PETITIONS AND FIRST DAY PLEADINGS**

Callum Streeter declares and says:

1. I am the Chief Executive Officer and a member of the board of managers of EdgeMarc Energy Holdings, LLC (“EdgeMarc”). I have served as EdgeMarc’s CEO since March 2018, prior to which I served as EdgeMarc’s Chief Operating Officer since June 2015. I have worked in the oil and gas industry in the Appalachian Basin area for more than 13 years, predominantly in operations in the Marcellus and Utica shales. Prior to my employment with EdgeMarc, I worked at Energy Corporation of America, primarily as its Drilling and Completions Manager, from January 2006 until I joined EdgeMarc in 2012. I currently serve as the President and Chairman of the Board of the Appalachian Chapter of the American Association of Drilling Engineers. I earned a Bachelor of Civil Engineering from the University of Canterbury in Christchurch, New Zealand, a Master of Engineering Science in Petroleum Engineering from the University of New South Wales, and a Certificate of Professional

¹ The Debtors in these cases, along with the last four digits of each Debtor’s federal tax identification number, are: EdgeMarc Energy Holdings, LLC (6900), EM Energy Manager, LLC (5334), EM Energy Employer, LLC (8026), EM Energy Ohio, LLC (6935), EM Energy Pennsylvania, LLC (1541), EM Energy West Virginia, LLC (3771), EM Energy Keystone, LLC (7506), EM Energy Midstream Ohio, LLC (1268), and EM Energy Midstream Pennsylvania, LLC (3963). The Debtors’ corporate headquarters and mailing address is 1800 Main Street, Suite 220, Canonsburg, PA 15317.

Development from the Wharton School at the University of Pennsylvania. I am familiar with the day-to-day operations, business and financial affairs of the Debtors (as defined below).

2. I submit this declaration (this "Declaration") (a) in support of the Debtors' petitions for relief under chapter 11 of title 11 of the United States Code (as amended or modified, the "Bankruptcy Code"), (b) in support of the Debtors' requests for relief in the form of motions and applications (collectively, the "First Day Motions"), filed contemporaneously with this declaration, and (c) to assist the United States Bankruptcy Court for the District of Delaware (the "Court") and other interested parties in understanding the circumstances giving rise to the commencement of the Debtors' chapter 11 cases (the "Chapter 11 Cases"). I have reviewed the First Day Motions or have otherwise had their contents explained to me, and it is my belief that the expedited and other relief sought therein is essential to the uninterrupted operation of the Debtors' businesses and the maximization of the value of the Debtors' estates as the Debtors pursue a sale of all or substantially all of their assets.

3. Except as otherwise indicated, the facts set forth in this Declaration are based upon my personal knowledge, my review of the relevant documents, information provided to me by employees working under my supervision, or my opinion based upon experience, knowledge, and information concerning the operations of the Debtors and the oil and gas industry as a whole. If called upon to testify, I would testify competently to the facts set forth in this Declaration. Unless otherwise indicated, the financial information contained herein is unaudited and provided on a consolidated basis. I am authorized by the Debtors to submit this Declaration.

Commencement of Bankruptcy Proceedings

4. On the date hereof (the "Petition Date"), EdgeMarc and its direct and indirect subsidiaries that are debtors and debtors-in-possession in the Chapter 11 Cases (collectively, the

“Company” or the “Debtors”), each filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code. The Debtors intend to continue in the possession of their respective properties and the management of their respective businesses as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

5. The Debtors commenced the Chapter 11 Cases to pursue the sale of all or substantially all of their assets pursuant to section 363 of the Bankruptcy Code (the “Section 363 Sale”). The Debtors’ business is the exploration and production of natural gas in the Appalachian Basin, concentrated in the Marcellus and Utica shale formations in Monroe and Washington Counties in Ohio and Butler County in Pennsylvania. The Debtors control approximately 45,000 net acres in these regions and have drilled and developed a total of 60 producing wells thereon. The Debtors have forty-two (42) active employees in full-time and part-time positions. The Debtors have approximately \$77.79 million outstanding under a secured revolving credit facility and no other funded debt.

6. On September 10, 2018, due to factors entirely outside of the Debtors’ control, an explosion (the “Revolution Explosion”) occurred along a pipeline and gathering system (the “Revolution System”) being built by a third party, ETC Northeast Pipeline LLC (“ETC”), that performs gathering and processing services for the Debtors in Pennsylvania. The Revolution System was expected to go into commercial service around the time of the Revolution Explosion, and would have enabled the Debtors to gather, process and—ultimately—sell, gas from several newly drilled wells in Pennsylvania. Instead, the Revolution Explosion prevented the Debtors from selling the gas produced from those wells. As a result, EdgeMarc experienced a significant reduction in production capacity and revenue from its Pennsylvania operations.

7. The Debtors' gathering and processing agreement with ETC required the Revolution System to be placed into commercial service by January 1, 2019. Although ETC first estimated that the ruptured portion of the pipeline would be remedied within weeks, it remains out of commercial service to this day, and the Revolution System appears unlikely to be placed into commercial service until early 2020.

8. In January 2019, because ETC had failed to place the Revolution System in commercial service, the Debtors exercised their right to terminate certain individual transaction confirmations (the "ITCs") that were made part of the gathering and processing agreement. Debtor EM Energy Pennsylvania ("EdgeMarc PA") then provided notice to ETC that it would seek to flow gas through other, intact pipelines on an on-demand basis, as permitted under the gathering and processing agreement, which remained in force. However, ETC refused to flow the Debtors' gas under those terms.

9. Because the Debtors could not flow through ETC's Revolution System due to the Revolution Explosion, because ETC refused to gather the Debtors' gas via other infrastructure, and because the Debtors had no other means of selling gas from the affected wells, they determined in their business judgment to "shut in" their Pennsylvania wells and pause all remaining Pennsylvania operations. When flowing, those Pennsylvania operations account for approximately 50 million net cubic feet per day (MMcfd), or approximately one third of the Debtors' existing production capacity.

10. Shortly after the Debtors terminated the ITCs, ETC responded by filing a lawsuit in the Court of Common Pleas in Allegheny County, Pennsylvania. In that lawsuit, ETC sought payment of amounts allegedly outstanding under certain invoices and a declaratory judgment that EdgeMarc PA's termination of the ITCs was invalid. In February 2019, the Debtors asserted

multiple counterclaims in the litigation, including for breach of contract based on ETC's failure to place the Revolution System in commercial service and its failure to gather contractually-required volumes of the Debtors' gas. The litigation with ETC has been stayed by the commencement of the Chapter 11 Cases.

11. The Debtors' inability to sell gas from their Pennsylvania properties had a substantial negative impact on their liquidity and ability to satisfy their funded debt, contractual and other payment obligations. In particular, in anticipation of ETC's Revolution System coming online by January 1, 2019 (the "Guaranteed In-Service Date"), as required under their contracts with ETC, the Debtors had contracted for fixed amounts of transportation capacity under certain of their firm transportation service agreements ("FT Agreements"). The Debtors remain contractually obligated to pay for that transportation capacity even though they are unable to transport their natural gas through the applicable pipelines.

12. In addition, on March 21, 2019, the agent under the Debtors' secured revolving credit facility issued a notice of redetermination of the Debtors' borrowing base thereunder, reducing it from approximately \$80 million to \$40 million. Under the terms of the agreement governing that facility, the Debtors were required to begin repayment of outstanding amounts in excess of the borrowing base on May 1, 2019. On April 30, 2019, the Debtors received a one-week forbearance to May 8, 2019 for the event of default under the secured revolving credit facility of failing to make the first repayment. On May 7, 2019, the Debtors received an extension of that forbearance through May 15, 2019.

13. Realizing that they could not continue to satisfy their obligations under the FT Agreements given the cessation of Pennsylvania operations, the Debtors sought to negotiate with certain of their contractual counterparties, including ETC and certain FT Agreement

counterparties, to both alleviate short-term liquidity constraints and to find a longer-term solution to the problem created by the Revolution Explosion and resulting cessation of Pennsylvania operations. Unfortunately, the Debtors were unable to reach an agreement with any of those counterparties.

14. The Debtors, in consultation with their professional advisors, explored various other strategic alternatives and ultimately determined that a sale of all or substantially all of their assets through an auction process conducted under the supervision of the Bankruptcy Court would be the best way to maximize value for the benefit of their stakeholders.

15. As described in further detail in the Bidding Procedures Motion, to ensure that a winning bid is in fact the highest or otherwise best offer for the purchase of the Debtors' assets, the Debtors have developed bidding and auction procedures (the "Bidding Procedures") that will allow interested parties to submit bids for the Debtors' assets. I believe, based on my knowledge of the Debtors' operations, liquidity constraints, financial obligations, the impact of the pending litigation and prepetition negotiations with key stakeholders, and in consultation with the Debtors' professional advisors, that an auction of the Debtors' assets is the best, and may be the only, means of maximizing the value of the Debtors' estates for all stakeholders.

16. Section I of this Declaration describes the Debtors' business; Sections II and III describe the circumstances and events giving rise to the commencement of the Chapter 11 Cases, including the Debtors' prepetition restructuring initiatives; and Section IV sets forth a list of the First Day Motions and certain other motions filed contemporaneously with the filing of this Declaration.

I.

The Debtors' Business

A. Overview of the Debtors' Business

17. EdgeMarc (formed on September 30, 2011) is an exploration and production (“E&P”) company engaged in the acquisition, production, exploration and development of natural gas and natural gas liquids (NGLs) from underground deposits in the Appalachian Basin.

18. The Debtors conduct their drilling and exploration activities in the “stacked” liquid-rich Marcellus shale in Pennsylvania and dry gas Utica shale in Ohio. The Utica shale is located a few thousand feet below the Marcellus shale. While drilling in the Marcellus shale has been established in the oil and gas industry for many years, drilling opportunities in the Utica shale formation became viable for production in the late 2000s due to certain technological advancements in horizontal drilling. These technological developments made land acquisition opportunities for E&P companies especially attractive in stacked shale geographical areas, such as the one where the Utica and Marcellus shale formations overlap.

19. The Debtors have established a promising business with a profitable, cost-efficient and low-risk asset base concentrated in Monroe County, Ohio and Butler County, Pennsylvania through acquisitions of core stacked shale land positions in 2013 and 2014. See Diagram A below for a map depicting the entire overlapping Utica and Marcellus shale play and the locations of the Debtors' acreage.²

² The Debtors' production represents approximately 1% of the total quantity of natural gas that is produced by upstream operators from the Marcellus and Utica shales.

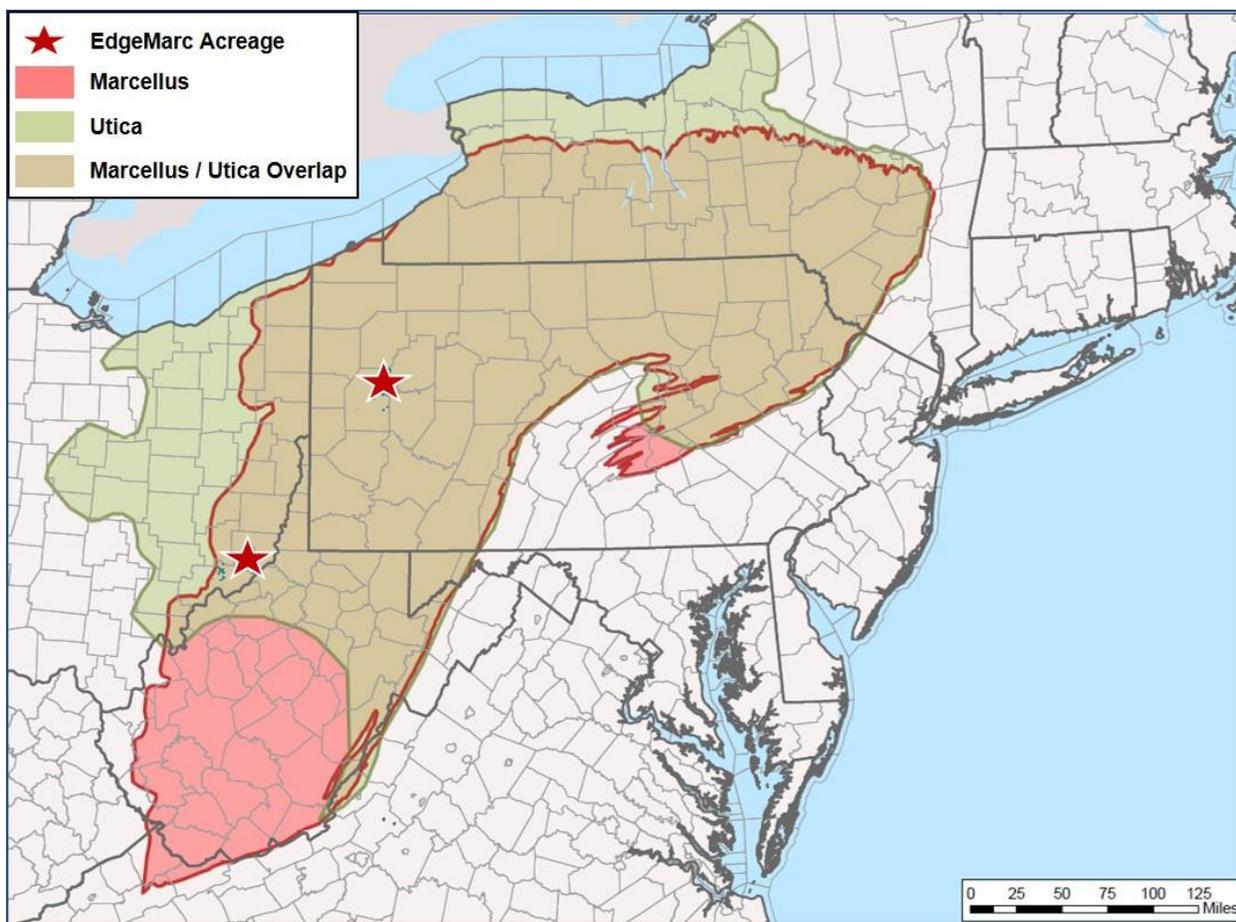


Diagram A: Map of Marcellus and Utica shales and the Debtors' acreage

20. The Debtors control contiguous positions of approximately 45,000 net acres, consisting of:

- Approximately 32,000 net core acres in Butler County, Pennsylvania (divided into two production areas, “Butler North” (approximately 21,000 acres) located in the northeast corner of Butler County, and “Butler South” (approximately 11,000 acres) located in central Butler County), comprising a scaled, contiguous position in the Marcellus wet gas window, with an average 100% working interest and 14.6 % average royalty rate;
- Approximately 11,000 net acres in Monroe County, Ohio comprising high-pressure and high-quality dry Utica reservoir, and acreage which the Debtors believe are prospective for super wet Marcellus exploration, with an average 100% working interest, and 18.3% average royalty rate; and

- Approximately 2,000 net acres in Washington County, Ohio, with an average 100% working interest and 15.6% royalty rate.

The Debtors have entered into approximately 1,862 leases and own a working interest in approximately 60 producing wells located in Ohio and Pennsylvania.

21. In May 2015, the Debtors began volume production of natural gas and NGLs and by 2018 had drilled and developed a total of 60 producing wells. In 2018 alone, the Debtors drilled and brought online 14 new wells in the Marcellus shale and six new horizontal wells in the Utica shale. By September 2018, the Debtors had over 175 MMcfd of production capacity with the potential to expand exploration and production into the Upper Devonian shale.³

22. However, after the Revolution Explosion, the Debtors took measures to preserve capital and liquidity given the uncertainty with respect to their Pennsylvania operations, and began to reduce their drilling and capital expenditures in Pennsylvania. On January 29, 2019, due to the Revolution Explosion and ETC's refusal to allow the Debtors to flow gas through ETC's gathering system on an on-demand basis, the Debtors were forced to shut in production and cease operation at all of their Butler County, Pennsylvania wells. The Debtors' production has fallen by over one-third since the shut-in due to the Revolution Explosion.

23. As of the Petition Date, the Debtors have 12 producing wells in Ohio with 3 additional wells in progress that if completed could come online by late 2019, and approximately 48 producing wells located in Pennsylvania that remain shut in due to the Revolution Explosion.

³ The Upper Devonian shale is a liquids-rich shale field located above the stacked Marcellus and Utica shales. Shallower and softer than the Marcellus shale, the Upper Devonian is generally considered easier to drill, and E&P firms are able to drill into the Upper Devonian, Marcellus and Utica shales from the same well pads with minimal additional capital expenditure.

B. The Debtors' Finances and Employees

24. For the twelve months ended December 31, 2018, the Debtors recorded consolidated net revenue of approximately \$116.9 million, which was primarily derived from the sale of natural gas, NGLs and condensate. Of their total revenues, \$54.2 million (or 46%) originated from the Debtors' Pennsylvania production and \$62.7 million (or 54%) from the Debtors' Ohio production.

25. The Debtors currently employ a talented and dedicated workforce of forty-two (42) people in both full-time and part-time positions. These employees have enabled the Debtors to continue to achieve high standards of productivity, efficiency, safety and environmental compliance in the face of recent headwinds. The employees live and work primarily in Ohio and Pennsylvania. None of the Debtors' employees is represented by a union or is subject to a collective bargaining agreement. In addition, the Debtors employed independent contractors and temporary workers, who also provided critical support to the Debtors' field operations.

C. Corporate Structure

26. EdgeMarc is a privately-held limited liability corporation and is the direct parent of EM Energy Employer LLC ("EM Employer") and EM Energy Manager LLC ("EM Manager").⁴ EM Employer, in turn, is the direct parent of each of the other Debtors, and all of the Debtors are organized under the laws of Delaware. A corporate organization chart depicting the ownership structure of the Debtors is attached hereto as Exhibit A. The majority of EdgeMarc's LLC units are owned by two private equity sponsors, Goldman Sachs Capital Partners ("Goldman Sachs") (holding 71.18% across three investment vehicles) and Ontario

⁴ EM Manager owns 0.001% of EM Employer, while EdgeMarc owns 99.999% of EM Employer and 100% of EM Manager.

Teachers' Pension Plan ("Teachers") (holding 27.76%). The overall management of the Debtors is conducted by me, in my capacity as EdgeMarc's Chief Executive Officer, and Chief Financial Officer Alan Shepard at the Debtors' headquarters in Canonsburg, Pennsylvania.

D. Capital Structure

27. The Debtors' funded debt obligations consist entirely of secured obligations under that certain Amended and Restated Credit Agreement, dated as of December 19, 2017 (as amended, restated or otherwise modified from time to time, the "RBL Credit Agreement"), by and among EM Employer, as borrower, the other Debtors, as guarantors, the lenders from time to time party thereto and KeyBank National Association ("KeyBank") as administrative agent, collateral agent and letter of credit issuer (in such capacities, the "RBL Agent"). Under the RBL Credit Agreement, the Debtors had access to a revolving credit facility (the "Revolving Credit Facility") that could be used to either fund cash draws for working capital or support letters of credit issued by the RBL Agent. The Debtors' obligations under the RBL Credit Facility are secured by mortgages on oil and gas properties representing substantially all of the value of the Debtors' oil and gas properties included in the Debtors' most recent reserve report and liens on certain other assets.

28. As of the Petition Date, the Debtors had approximately \$77.79 million in outstanding obligations under the RBL Credit Facility, consisting of \$47 million in drawn revolving credit obligations and \$30,792,041 in issued and outstanding letters of credit. On a prepetition basis, the Debtors managed ordinary course commodity risks through hedging transactions with KeyBank under ISDA Master Agreements (the "Hedging Agreements"), which are secured under the Prepetition Credit Facility. As of May 8, 2019, the Debtors have approximately \$791,000 in outstanding obligations under the Hedging Agreements.

E. Key Contractual Relationships

29. The Debtors principally conduct their drilling and extraction operations in Monroe County, Ohio and Butler County, Pennsylvania through Debtors EM Energy Ohio, LLC (“EdgeMarc OH”) and EdgeMarc PA. EdgeMarc, EdgeMarc OH and EdgeMarc PA entered into strategic agreements with third parties for gathering, processing, transporting and selling their natural gas and NGLs. See Diagram B below for a schematic of the Debtors’ gathering, compression, processing and firm transportation relationships.

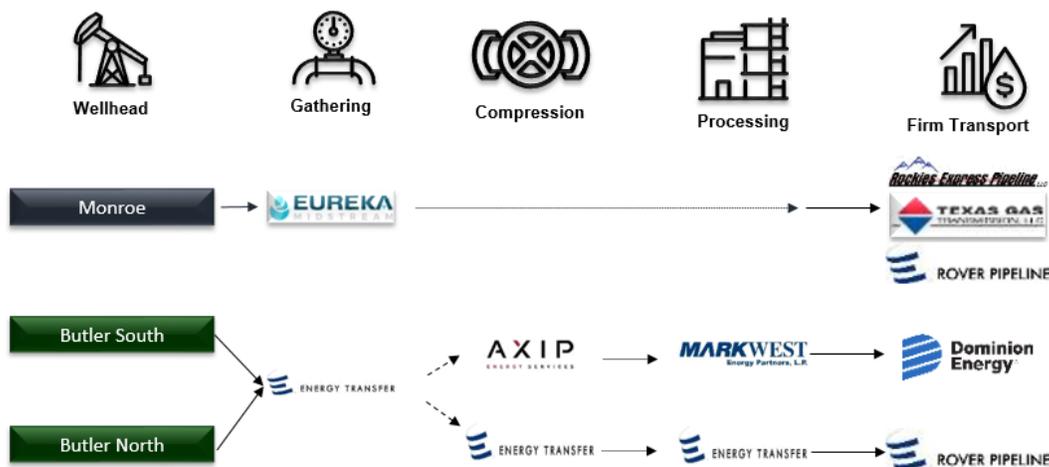


Diagram B: Schema of midstream and FT relationships

i. Gathering & Processing Agreements

30. The Debtors have gathering, compression, fractionation and processing agreements (“Gathering & Processing Agreements”) with certain midstream counterparties under which they would deliver natural gas and NGLs extracted at certain drilling sites to be compressed, treated, and/or otherwise refined at processing centers. In Ohio, the Debtors’ natural gas from Monroe County is gathered, compressed and processed in a gathering system

owned by Eureka Midstream, LLC⁵ (“Eureka,” and the “Eureka Gathering System”).⁶ In Butler County, Pennsylvania, the Debtors’ wellheads and operations are clustered in Butler North and Butler South. Prior to the “shut in” of Pennsylvania operations, the Debtors’ natural gas from Butler North was to be gathered, compressed and processed in the Revolution System, including a cryogenic processing plant (the “Revolution Plant”), which ETC was contractually obligated to construct and put in commercial use under a gathering and processing agreement with the Debtors. The Debtors’ gas in Butler South was (i) gathered by ETC,⁷ (ii) compressed by Axiip Energy Services, LLC (“Axiip”), and (iii) processed in cryogenic processing plants (collectively, the “Bluestone Processing Plant”) owned and operated by MarkWest Energy Partners, LLC (“MarkWest”).

ii. FT Agreements

31. The Debtors have FT Agreements with certain long-haul pipeline services providers under which their natural gas is transported to final delivery points along certain long-distance local or interstate pipelines. Until April 30, as discussed in more detail below and in the BP Rejection Motion, all of the Debtors’ natural gas was purchased at these final delivery points by the Debtors’ marketer, BP Energy Company (“BPEC,” and together with its affiliates, “BP”).

32. In Ohio, the Debtors entered into FT Agreements to transport their natural gas products, chiefly methane,⁸ from the Eureka Gathering System: (i) via two connected pipeline systems owned and operated by Rockies Express Pipeline, LLC (“REX”) and Texas Gas

⁵ In April 2019, Eureka Midstream, LLC was purchased by EQM Midstream Partners, LP. The acquisition has not impacted the Debtors’ operations.

⁶ The Debtors’ gathering and processing service provider in Washington County, Ohio is Blue Racer Midstream, LLC.

⁷ The Debtors’ gathering and processing agreement with ETC also contains minimum volume commitments (“MVCs”) that require the Debtors to flow a minimum amount of gas through ETC’s gathering systems or pay a fee.

⁸ The gas transported via the pipelines governed by the FT Agreements described in this section is the methane gas.

Transmission, LLC (“TGT,” and, respectively, the “REX Pipeline” and “TGT Pipeline,” and the agreements governing such transport, respectively, the “REX FT Agreement” and “TGT FT Agreement”), which transport the natural gas to be sold to BPEC for domestic sale, and (ii) a pipeline owned and operated by Rover (the “Rover Pipeline”), which transports the natural gas to a northern delivery point to be sold to BP Canada and into the Canadian market, under an agreement with Rover (the “Rover OH FT Agreement”).⁹

33. In Pennsylvania, the Debtors entered into FT Agreements (i) in Butler North, with Rover to transport natural gas from the Revolution System, once constructed and placed in commercial service (the “Rover PA FT Agreement,” and together with the Rover OH FT Agreement, the “Rover FT Agreements”), and (ii) in Butler South, with Dominion Energy Transmission, Inc. (“DTI”) to transport natural gas from the Bluestone Processing Plant (the “DTI FT Agreement”). From Butler North, the Rover Pipeline transported the natural gas through a new lateral pipeline known as the Burgettstown Lateral.

34. As discussed in more detail in the BP Rejection Motion, the TGT and Rover OH FT Agreements required credit support in the form of letters of credit. BPEC provided both TGT and Rover with letters of credit (“LCs”) in the amounts of approximately \$23.3 million and \$25 million, respectively (the “BP TGT LC”) and “BP Rover LC”). Under EdgeMarc’s marketing agreements with BP, EdgeMarc OH is contractually required to reimburse BPEC for any drawn amounts under these LCs as well as any associated charges and expenses.

35. As described herein and in the FT Rejection Motion and the TGT Agreement

⁹ On February 24, 2017, in anticipation of the need for long-haul transportation services of the gas processed at the Revolution Plant, EdgeMarc entered into an amended and restated rate schedule with Rover providing for firm transportation of specified contractual quantities of natural gas from the Revolution Plant to delivery points in Ohio via the Burgettstown Lateral pipeline (the “Amended Rover Agreement”). A portion of the natural gas under the Amended Rover Agreement would be delivered to REX in Clarington, Ohio (for ultimate delivery to TGT), and the balance would be delivered to the Rover Pipeline.

Rejection Motion, since the time that Debtors entered into the FT Agreements, subsequent developments, including the Revolution Explosion, have made them economically burdensome to the Debtors. Specifically, in the second and third quarters of 2014,¹⁰ during a sustained period of elevated natural gas prices, the Debtors entered into the FT Agreements. Under the FT Agreements the Debtors are obligated to pay to reserve dedicated capacity—a maximum daily quantity (the “Contractual Quantity”)—on the pipelines. The Debtors pay for such capacity even if it is not being used.

36. The Revolution Explosion and the subsequent shut-in of the Debtors’ Pennsylvania operations have prevented the Debtors from flowing gas sufficient to make use of the Contractual Quantities they are required to pay for under the FT Agreements. As a result, the FT Agreements have become burdensome drains on the Debtors’ finances. As of the Petition Date, the Debtors were not utilizing any capacity under the REX, Rover or TGT FT Agreements. Accordingly, the Debtors have determined that it is in the best interest of the Debtors’ estates to reject the REX, Rover and TGT FT Agreements.

37. As of the Petition Date, because the Debtors have “shut in” operations in Pennsylvania, EdgeMarc PA is not utilizing any of the contracted-for capacity under the DTI FT Agreement. In Ohio, the Debtors are transporting their gas on an on-demand basis; the net

¹⁰ At that time, there was a significant differential in price between natural gas sold in the Marcellus and Utica shale regions and natural gas delivered out of state, and demand for pipeline capacity to transport from those regions significantly exceeded supply. Several pipeline operators modified existing pipelines (or constructed new pipelines) to transport more natural gas out of the Marcellus and Utica shale regions. The Debtors, who were drilling several new wells with an eye to commencing production in 2015, saw the new pipelines as an opportunity to reserve a sufficient amount of out-of-state transportation capacity at prices that would be locked in even if demand increased. The Debtors accordingly entered into FT agreements with each of Rover, REX and TGT that provided the Debtors with east-west transportation of natural gas in the quantities the Debtors were projected to need and at then-competitive rates.

revenue in connection with transporting on an on-demand basis is expected to be favorable compared to transporting under the REX and TGT FT Agreements.

iii. Marketing Agreements

38. The Debtors entered into marketing agreements with BPEC and BP Canada, under which the Debtors agreed to sell and deliver 100% of their natural gas production (“BP Marketing Agreements”). Under the BP Marketing Agreements, BP receives the Debtors’ gas at delivery points along the various transportation pipelines described above and sells the gas onwards to its own customers. As described in more detail in the BP Rejection Motion, BPEC provided credit support to Rover and TGT in connection with the Rover OH and TGT FT Agreements, and the Debtors expect that both Rover and TGT will draw on those LCs, triggering EdgeMarc OH’s obligation under one of its BP Marketing Agreements to reimburse BPEC for such draws. Due to the risk that BPEC may assert (i) a right of setoff as to prepetition amounts owing to the Debtors, and (ii) a right of recoupment as to all postpetition amounts owing to the Debtors until it receives the full amount of the approximately \$48 million LC draw, the Debtors have determined that it is in the best interests of their estates to reject the BP Marketing Agreements and on May 1, 2019, ceased delivering product to BP and commenced delivering product to alternative marketers.

F. Cash Needs

39. The Debtors’ business is capital intensive—it relies on their ability to use cash to, among other things, (a) satisfy payroll and overhead expenses, (b) fund working capital needs and make capital expenditures, (c) pay for goods or services critical to the health and safety of employees and the communities in which they operate, (d) pay property taxes and other taxes, and (e) use for other general corporate purposes.

40. It is critical that the Debtors maintain the ability to access their cash in an uninterrupted and unlimited fashion (including pursuant to the DIP Financing described herein) so that they can have enough working capital to make payments to employees and other providers of goods and services. Any limitation on the Debtors' use of cash would critically threaten their ability to operate their business and continue as a going concern, and would result in a disastrous deterioration of the Debtors' value.

41. In order to avoid business disruption as the Debtors carry out their proposed sale process, and to preserve the value of the Debtors as a going concern in order to secure the highest possible price for their assets, the Debtors must be able to signal to their employees, contractual counterparties and other constituents that they continue to have access to sufficient liquidity to, among other things, continue the operation of their businesses as a going concern, meet payroll, pay capital expenditures, and otherwise satisfy their working capital and operational needs, all of which are required to preserve and maintain their enterprise value. As of the Petition Date, the Debtors had approximately \$6 million in cash on hand.

II. EVENTS LEADING TO THE CHAPTER 11 CASES

42. On September 10, 2018, before the Revolution System was ever placed into commercial service, a segment of the pipeline in Beaver County, Pennsylvania along the Revolution System that connects ETC's compression plant to the Revolution Processing Plant, slid down a hill and exploded. As a result of the Revolution Explosion, the Debtors were never able to use the Revolution System to gather and process natural gas from their well pads in Butler North.

43. ETC's failure to place the Revolution System into commercial service by the Guaranteed In-Service Date triggered EdgeMarc's right to terminate the ITCs. Specifically, prior to their termination, there were two ITCs in place. "ITC-102" governed the Debtors' gas gathering services in Butler South. "ITC-101" was intended to govern the Debtors' gas gathering services in connection with the Revolution System and other services in Butler North. Because the Revolution Explosion occurred prior to the Guaranteed In-Service Date of the Revolution System, no gathering ever occurred under ITC-101 prior to its termination. ITC-101 provides the Debtors with the right to terminate if the Revolution System was not placed in commercial service by the Guaranteed In-Service Date. EdgeMarc provided written notice to ETC on January 29, 2019 that it was terminating ITC-101. Because ITC-102 is by its terms coterminous with ITC-101, EdgeMarc also notified ETC that ITC-102 was simultaneously terminated by operation of contract.

44. Despite the termination of ITC-101 and ITC-102 on January 29, 2019, the GPA remained fully effective. Under the GPA, EdgeMarc is entitled to submit nominations¹¹ to ETC for the gathering of gas thereunder. Accordingly, on January 30, 2019, EdgeMarc submitted nominations for the quantity of natural gas that it expected to deliver to ETC for gathering during the month of February 2019, to be delivered to the Bluestone Processing Plant. ETC refused to accept the nominations.

A. ETC Litigation

45. Instead, on February 7, 2019, ETC filed a complaint in the Court of Common Pleas of Allegheny County, Pennsylvania alleging that EdgeMarc had failed to pay for amounts

¹¹ A "nomination" is an order by a natural gas shipper which sets forth the quantity of gas the shipper intends to run through a pipeline during a specified term.

allegedly due under the ITCs and seeking a declaration that the termination of the ITCs was not valid (the “ETC Litigation”). See *ETC Northeast Pipeline, LLC v. EM Energy Pennsylvania, LLC*, No. GD-19-002052 (Ct. Com. Pl., Allegheny Cnty., Feb. 7, 2019). On February 27, 2019, the Debtors filed an answer and counterclaims alleging that ETC had breached the GPA by failing to put the Revolution System in commercial service by January 1, 2019 and failing to gather and process contractually required volumes. The Debtors also sought a declaratory judgment that (i) the ITCs had been validly terminated as of January 29, 2019 and (ii) ETC had improperly issued invoices under ITC-101, even though the system was not in commercial service.

B. Shut-in of Butler County Wells

46. Given ETC’s refusal and/or inability to gather the Debtors’ gas, the Debtors had no choice but to pause production in Butler County due to the Revolution Explosion. Accordingly, on January 29, 2019, the Debtors commenced the process of shutting in their wells in Pennsylvania due to the Revolution Explosion and pausing their Pennsylvania operations until the dispute with ETC could be resolved. As a result, the Debtors lost the revenue they otherwise captured from production at those wells, which at the time accounted for approximately 50 MMcfd, or approximately one third of the Debtors’ revenue.

C. Effect of the Pennsylvania Shut-in on the Firm Transportation Agreements

47. Due to the Revolution Explosion and the shut-in of their Pennsylvania wells, the Debtors are unable to use any of the Contractual Quantities they are obligated to pay for under their Pennsylvania FT Agreements. However, the Debtors remain obligated to pay approximately \$4,600,000 in monthly fees for Contractual Quantities of 150 MDth/day in the aggregate under the Rejected FT Agreements (as defined in the FT Rejection Motion) and the

TGT FT Agreements. Absent rejection, through the end of 2019, the Debtors would expect to pay in excess of \$4 million under the TGT FT Agreements, \$13.9 million under the Rover PA FT Agreements, and \$5.2 million under the REX FT Agreements for unused Contractual Quantities.

D. Borrowing Base Redetermination

48. The Debtors' capacity to borrow or request LCs under the RBL Credit Facility is subject to a borrowing base (the "Borrowing Base") that is adjusted semi-annually, on April 15 and October 15 of each year, based on the value of the Debtors' oil and gas reserves and subject to certain procedures set forth in the RBL Credit Agreement. The Borrowing Base may also be adjusted one time during any fiscal year outside of the scheduled redetermination dates. Prior to March 18, 2019, the Debtors' Borrowing Base under the RBL Credit Agreement was \$80 million.

49. On March 15, 2019, KeyBank delivered a notice of redetermination to the Debtors stating that the RBL Facility borrowing base was redetermined to be \$40 million effective March 18, 2019. The Debtors elected to prepay the difference between the amounts outstanding under the RBL Facility and the redetermined borrowing base in six equal monthly installments of approximately \$6.4 million, commencing on May 1, 2019. The borrowing base as of the Petition Date was \$40 million.

50. On April 30, 2019, KeyBank delivered an executed forbearance letter extending the mandatory prepayment deadline from May 1, 2019 to May 8, 2019. On May 7, 2019, KeyBank agreed to extend the forbearance until May 15, 2019.

III.
PREPETITION RESTRUCTURING INITIATIVES

51. Facing increased operational and financial challenges and a liquidity crisis from the combination of the Revolution Explosion and onerous Contractual Quantities in certain FT Agreements, in early 2019, the Debtors engaged Evercore Partners (“Evercore”) and Davis Polk & Wardwell LLP (“Davis Polk”) to assist management with a review of strategic alternatives.

A. Prepetition Negotiations with Certain Pipeline Operators and ETC

52. In consultation with their professional advisors,¹² the Debtors determined to approach both ETC and certain FT Agreement counterparties in an attempt to negotiate needed contract modifications in the form of lower rates, MVCs and Contractual Quantities. The Debtors and their advisors developed a “Universal Proposal” that would adjust the rates, MVCs and Contractual Quantities so that, as a whole, the Debtors’ operations in Pennsylvania and Ohio would become commercially feasible while the Debtors and ETC worked to resolve the ETC Litigation. However, the Debtors initially approached ETC and Rover and were unable to make meaningful progress on the Universal Proposal.

B. Prepetition Marketing Process

53. Unable to reach a settlement and renegotiate commercial agreements on terms of an out-of-court Universal Proposal, the Debtors explored the possibility of pursuing a sale of all or substantially all of their assets to a third party in an out-of-court M&A process or a sale under section 363 of the Bankruptcy Code. The Debtors sought to market their assets prior to commencing the Chapter 11 Cases. In consultation with their advisors, the Debtors began by focusing on a select group of parties that the Debtors believed could act most quickly for an out-

¹² In March 2019, the Debtors also engaged Opportune LLC as financial advisor and Landis Rath & Cobb LLC as co-counsel.

of-court M&A process. In addition, on March 27, 2019, the Debtors formed a Restructuring Committee comprised of independent board member Patrick Bartels, Jr. In early May 2019, the Debtors launched a broader marketing process to be consummated through a chapter 11 proceeding.

C. Bidding Procedures

54. Substantially contemporaneously with the filing of this Declaration, the Debtors have filed the Bidding Procedures Motion, seeking approval of bidding procedures for an auction designed to maximize the value of the Debtors' assets for all stakeholders. To ensure that the winning bid is the highest or otherwise best offer for the purchase of the their assets, the Debtors have developed bidding and auction procedures to govern the sale. The Bidding Procedures allow interested parties to submit bids for any or all of the Debtors' assets. Under the Bidding Procedures, the Debtors plan to hold the auction on or prior to August 14, 2019 and close the sale by September 17, 2019.

55. The Bidding Procedures are designed with the objective of generating the greatest value for the Debtors' assets, while affording the Debtors maximum flexibility to execute such asset sales in a quick and efficient manner. The Debtors are confident that the Bidding Procedures and the other relief requested herein satisfy the requirements of section 363 of the Bankruptcy Code and will facilitate the sale of the Assets for the best value for the benefit of all of the Debtors' stakeholders.

D. DIP Negotiations

56. In order to ensure that they would have sufficient liquidity to continue to operate their businesses during the pendency of the Chapter 11 Cases and consummate the Section 363 Sale pursuant to the Bidding Procedures, the Debtors approached KeyBank—the agent and sole

lender under the RBL Facility—as well as potential third-party providers. After a period of hard-fought, arm’s-length negotiations, KeyBank agreed to provide post-petition financing on a secured and superpriority basis comprised of \$30 million in new money financing and a roll-up of approximately \$77.79 million in loans and letters of credit outstanding as of the Petition Date upon entry of the final order approving the post-petition financing (the “DIP Facility”).

57. The Debtors were unable to obtain a competitive post-petition financing facility from a third-party lender. Critically, KeyBank was not willing to consent to the priming of the RBL security interests. Unwilling to expose themselves to the risk and uncertainty of seeking to prime the RBL lenders non-consensually, the Debtors solicited proposals from third parties for financing that would refinance the RBL Facility in full or be provided on a junior or unsecured basis, but were unable to identify any party willing to provide the Debtors with financing on those terms.

58. The DIP Facility will permit the Debtors to continue operations and make payments to employees and vendors on a post-petition basis. Access to the DIP Facility is critical to the Debtors’ ability to successfully carry out the sale process.

59. I and the other members of the Debtors’ management team were actively involved throughout the process of negotiating and securing DIP Financing. Without the DIP Facility, the Debtors will experience an immediate liquidity shortfall and will be unable to maintain the level of operations necessary to preserve the value of their estates. The principal terms of the DIP Facility are described in more detail in the DIP Motion and the Ross Declaration in support of the DIP Motion. Following the arm’s length prepetition negotiations over the DIP Financing between the Debtors and KeyBank, I believe that the ultimate proposal from the KeyBank was

the only and most advantageous financing proposal available to the Debtors, and believe that it is an exercise of the Debtors' sound business judgment to pursue the DIP Financing.

**VI.
FIRST DAY MOTIONS AND CERTAIN OTHER MOTIONS FILED ON THE
PETITION DATE**

60. To minimize the adverse effect of the commencement of these Chapter 11 Cases on the Debtors' ability to effectuate a timely and efficient restructuring process that will preserve and maximize the value of the Debtors' estate, the Debtors have filed the following First Day Motions and certain other motions on the Petition Date:

- Motion of Debtors for Entry of an Order Directing Joint Administration of Chapter 11 Cases;
- Debtors' Application for Appointment of Prime Clerk LLC as Claims and Noticing Agent;
- Motion of Debtors for Entry of Interim and Final Orders Authorizing (I) the Debtors to Continue to Maintain Existing Cash Management System, Bank Accounts and Business Forms, (II) Continued Engagement in Intercompany Transactions, (III) Financial Institutions to Honor and Process Related Checks and Transfers, and (IV) Granting Limited Relief from the Requirements of Bankruptcy Code Section 345(b) and the United States Trustee Operating Guidelines;
- Motion of Debtors for Entry of (I) Interim and Final Orders Authorizing (A) the Debtors to (i) Pay Prepetition Employee Obligations and Other Compensation and (ii) Maintain Employee Benefits Programs and Pay Related Administrative Obligations, (B) Current and Former Employees to Proceed with Outstanding

Workers' Compensation Claims and (C) Financial Institutions to Honor and Process Related Checks and Transfers and (II) Final Order Authorizing the Debtors to Pay Amounts Under the Non-Insider Retention Plan;

- Motion of Debtors for Entry of Interim and Final Orders (I) Prohibiting Utilities from Altering, Refusing or Discontinuing Service, (II) Deeming Utilities Adequately Assured of Future Performance and (III) Establishing Procedures for Determining Requests for Additional Adequate Assurance;
- Motion of Debtors for Entry of Interim and Final Orders Authorizing (I) Debtors to Pay Certain Taxes, Governmental Assessments and Fees and (II) Financial Institutions to Honor and Process Related Checks and Transfers;
- Motion of Debtors for Entry of Interim and Final Orders Authorizing (I) the Debtors to Continue and Renew Their (A) Liability, Property, Casualty, and Other Insurance Policies and (B) Surety Bond Program and Honor All Obligations In Respect Thereof and (II) Financial Institutions to Honor and Process Related Checks and Transfers;
- Motion of Debtors for Entry of Interim and Final Orders Authorizing, But Not Directing, the Payment of Prepetition Claims of Certain Lienholders;
- Motion of Debtors for Interim and Final Orders (I) Authorizing Debtors (A) to Obtain Postpetition Financing and (B) to Use Cash Collateral, (II) Granting Adequate Protection to Certain Prepetition Secured Parties, (III) Scheduling a Final Hearing, and (IV) Granting Related Relief;

- Motion of Debtors for Entry of Interim and Final Orders Authorizing the Debtors to Honor Prepetition and Post-Petition Royalty Obligations, Working Interest Obligations and Other Obligations Related to Oil and Gas Leases;
- Motion of Debtors for Entry of an Order Establishing Procedures for Interim Compensation and Reimbursement of Expenses for Professionals and Official Committee Members;
- Application of Debtors to Approve the Employment and Retention of Landis Rath & Cobb LLP as Their Delaware Counsel, *Nunc Pro Tunc* to the Petition Date, Pursuant to Bankruptcy Code Section 327(a), Bankruptcy Rules 2014 and 2016 and Local Rule 2014-1;
- Application of Debtors for Authority to Employ and Retain Davis Polk & Wardwell LLP as Attorneys for the Debtors *Nunc Pro Tunc* to the Petition Date;
- Application of Debtors to Approve Employment and Retention of Opportune LLP as Restructuring Advisor Pursuant to Sections 327(a) and 328(a) of the Bankruptcy Code, *Nunc Pro Tunc* to the Petition Date;
- Application of the Debtors for Entry of an Order, Pursuant to Sections 327(a) and 328(a) of the Bankruptcy Code, Authorizing the Retention and Employment of Evercore Group L.L.C. as Investment Banker for the Debtors and Debtors In Possession, *Nunc Pro Tunc* to the Petition Date, and Waiving Certain Time-Keeping Requirements of Local Rule 2016-2;
- Debtors' Application for an Order Authorizing Employment and Retention of Prime Clerk LLC as Administrative Advisor *Nunc Pro Tunc* to the Petition Date;

- Motion of Debtors for Entry of an Order Authorizing the Employment and Retention of Professionals Utilized in the Ordinary Course of Business;
- Motion of Debtors for Entry of Orders (I)(A) Approving Bidding Procedures for Sale of Debtors' Assets, (B) Approving Stalking Horse Bid Protections, (C) Scheduling Auction for, and Hearing to Approve, Sale of Debtors' Assets, (D) Approving Form and Manner of Notices of Sale, Auction and Sale Hearing, (E) Approving Assumption and Assignment Procedures and (F) Granting Related Relief and (II)(A) Approving Sale of Debtors' Assets Free and Clear of Liens, Claims, Interests and Encumbrances, (B) Authorizing Assumption and Assignment of Executory Contracts and Unexpired Leases and (C) Granting Related Relief;
- Motion of Debtors for Entry of an Order Authorizing the Rejection of the BP Marketing Contracts Pursuant to Section 365(A) of the Bankruptcy Code *Nunc Pro Tunc* to the Petition Date;
- Motion of Debtors for Entry of an Order Authorizing the Rejection Of Firm Transportation Service Agreements with Rover Pipeline LLC and Rockies Express Pipeline LLC Pursuant to Section 365(A) of the Bankruptcy Code *Nunc Pro Tunc* to the Petition Date;
- Motion of Debtors for Entry of an Order Authorizing the Rejection of Firm Transportation Service Agreements with Texas Gas Transmission, LLC Pursuant to Section 365(a) of the Bankruptcy Code *Nunc Pro Tunc* to the Petition Date;

- Motion of Debtors for Entry of an Order (I) Extending the time to File Schedules of Assets and Liabilities, Schedules of Executory Contracts and Unexpired Leases and Statements of Financial Affairs, (II) Extending the Time to Schedule the Meeting of Creditors, and (III) Authorizing the Debtors to File a Consolidated List of the Debtors' Twenty (20) Largest Unsecured Creditors;

61. I have reviewed each of the First Day Motions and the other motions listed above, including any exhibits thereto, and incorporate by reference each of the factual statements set forth therein. I believe that the relief requested by the First Day Motions and the other motions listed above is necessary to enable the Debtors to preserve and maximize value and efficiently implement their restructuring efforts without disruption or delay.

DECLARATION

62. Pursuant to section 1746 of title 28 of the United States Code, I declare under penalty of perjury that the foregoing is true and correct.

Dated: May 15, 2019
Canonsburg, Pennsylvania

/s/ Callum Streeter
Callum Streeter
Chief Executive Officer

EXHIBIT A

DEBTORS' ORGANIZATIONAL STRUCTURE

