IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	)	Chapter 11
Quicksilver Resources Inc., *et al*.,[1]	)	Case No. 15-10585 (LSS)
Debtors.	)	Jointly Administered
	)	**Hearing Date: May 17, 2016 at 10:00 a.m. (ET)** **Objection Deadline: April 27, 2016 at 4:00 p.m. (ET)**

MOTION OF THE SECOND LIEN PARTIES FOR ALLOWANCE OF THEIR ADEQUATE PROTECTION CLAIMS

The Ad Hoc Group of the Second Lien Holders, Credit Suisse AG, Cayman Islands Branch (f/k/a Credit Suisse AG), as administrative agent for the Second Lien Lenders,[2] and The Bank of New York Mellon Trust Company N.A., as Second Lien Indenture Trustee and the collateral agent under that certain Indenture dated as of June 21, 2013 (collectively, the "Second Lien Parties"), hereby move (the "Motion"), pursuant to sections 105(a), 361 and 507 of the Bankruptcy Code and Bankruptcy Rule 3012, for an order allowing the Second Lien Parties' claims on account of the Debtors' Adequate Protection Obligations (the "Adequate Protection Claims") granted by the *Final Order Under 11 U.S.C. §§ 105, 361, 362, 363 and 507, and Bankruptcy Rules 2002, 4001 and 9014 (I) Authorizing Debtors to Use Cash Collateral and (II) Granting Adequate Protection to Prepetition Secured Parties* [D.I. 307] (the "Cash Collateral Order"), and, in support thereof, state as follows:

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

[2] All capitalized terms used herein but not defined have the meanings given such terms in the Cash Collateral Order (as defined below).

PRELIMINARY STATEMENT

1. Even though the Debtors entered these cases during a period of depressed pricing for the oil and gas that form the core of the Debtors' assets, the Second Lien Parties consented to the use of their Prepetition Collateral – both the hydrocarbons in the ground and their Cash Collateral – to allow the Debtors' continued operations and the funding of these cases, which the Court found was necessary to preserve the Debtors' going concern value. That consent was embodied in the consensual Cash Collateral Order, and was premised on the provision of adequate protection to the Second Lien Parties in the event of postpetition diminution of their collateral.

2. Unfortunately for all parties in interest, however, hydrocarbon prices had not bottomed-out as of the Petition Date, but rather continued to decline (and at times precipitously) through these cases. Thus between these macroeconomic forces, the Debtors' continued operation at a loss, and the continued sale of the hydrocarbons constituting Prepetition Collateral as the Debtors extracted it, there has been massive postpetition diminution in the value of the Second Lien Parties' interest in the Prepetition Collateral. The effects of the continued diminution are clear – any value beyond that subject to the Second Lien Parties' liens and superpriority claims has been wiped out. Any argument by the Creditors' Committee to the contrary is nothing but an attempt to prolong the litigation in the hopes of extracting hold-up value.

3. The sale of, among other assets, all of the oil and gas leases (and related assets) that constituted the Second Lien Parties' Prepetition Collateral (the "Sold Collateral") to BlueStone Natural Resources II, LLC ("BlueStone") has locked in the amount of the Second Lien Parties' Adequate Protection Claims and made them ripe for adjudication. It is in the

interests of judicial economy to adjudicate the amount of such claims now because, as will be demonstrated below and by the evidence presented at the hearing, such amount exceeds the distributable value of the Debtors' Estates regardless of how the issues remaining in the pending adversary proceeding initiated by the Creditors' Committee[3] are resolved. Thus, determining the amount of the Adequate Protection Claims will render the Adversary Proceeding moot and will pave the way for a prompt resolution of these chapter 11 cases.[4]

JURISDICTION AND VENUE

4. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This matter is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2). Venue in this Court is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

5. The predicates for the relief requested herein are sections 105, 361 and 507(b) of the Bankruptcy Code and Bankruptcy Rule 3012.

BACKGROUND

6. On March 17, 2015 (the "Petition Date"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code in this Court. The Debtors continue to operate their business and manage their properties as debtors in possession pursuant to Bankruptcy Code sections 1107(a) and 1108.

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[3] See Official Committee of Unsecured Creditors v. Bank of New York Mellon Trust Co. et al., (Adv. Pro. No. 15-51896) (LSS) (the "Adversary Proceeding"). While the Adversary Proceeding is still pending, all issues regarding the Second Lien Parties' secured status with respect to the Sold Collateral have already been resolved. See *Order Approving Stipulation and Agreement By and Among the Official Committee of Unsecured Creditors, the Second Lien Parties and the Debtors.* [D.I. 27].

[4] Similarly, the resolution of the issues raised in this Motion should obviate the need for the Court to rule on the *Motion of the Official Committee of Unsecured Creditors to Further Amend the "Amended Final Order Under 11 U.S.C. §§ 105, 361, 362, 363 and 507, and Bankruptcy Rules 2002, 4001 and 9014 (I) Authorizing Debtors to Use Cash Collateral and (II) Granting Adequate Protection to Prepetition Secured Parties"* [D.I. 1178]. The Creditors' Committee's allegation that there is unencumbered cash in the Debtors' operating accounts is not only wrong, but is also irrelevant. Under the Cash Collateral Order, any property of the Estates that was unencumbered on the Petition Date is subject to the Second Lien Parties' Adequate Protection Liens and the Second Lien 507(b) Claim.

7. As of December 31, 2014, the Debtors were indebted to the Second Lien Parties in the amount of (i) approximately $610.2 million (net of unamortized discounts) under the Second Lien Credit Documents and (ii) approximately $195.2 million (net of unamortized discounts) under the Second Lien Indenture Documents (collectively, the "Second Lien Prepetition Obligations").[5] The Second Lien Prepetition Obligations are secured by a second priority lien on (i) the majority of the domestic proved oil and gas reserves and certain related real and personal property of Quicksilver Resources, Inc. ("QRI"), (ii) the equity interests in certain of QRI's direct and indirect subsidiaries, and (iii) proceeds of the foregoing.

8. As disclosed in the First Day Declaration, the Debtors conducted a marketing process in late 2014-early 2015, which did not conclude before they filed for bankruptcy protection. See First Day Declaration, ¶ 39. Both prior to and following the Petition Date, the Second Lien Parties urged the continuation of this marketing process and the quick sale of the Debtors' assets. Shortly after the Petition Date, the Debtors filed an application to retain Houlihan Lokey Capital, Inc.,[6] the same investment banker that had assisted them in their prepetition sale process, to, among other things, continue to pursue a "Sale Transaction" under sections 363 or 1129 of the Bankruptcy Code.[7] Pending such sale, the Debtors needed to use their secured creditors' Cash Collateral to fund "orderly continuation of [their] operations and . . . preserv[e] . . . their going concern value." First Day Declaration, ¶ 56.

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5 See *Declaration of Vanessa Gomez Lagatta in Support of First Day Pleadings* [D.I. 19] (the "First Day Declaration"), ¶¶ 25, 26.

6 See *Debtors' Application for Entry of an Order Pursuant to Bankruptcy Code Sections 327(a) and 328(a) (A) Authorizing the Employment and Retention of Houlihan Lokey Capital, Inc. as Financial Advisor and Investment Banker to the Debtors and Debtors in Possession, Nunc Pro Tunc to the Petition Date, (B) Waiving Certain Time-Keeping Requirements Pursuant to Local Rule 2016-2(h) and (C) Granting Related Relief* [D.I. 129] (the "Houlihan Retention Application").

7 See Engagement Letter, attached as Exhibit 1 to Exhibit A to the Houlihan Retention Application.

9. To accommodate the Debtors' desire to pursue a restructuring (which potentially included a going-concern sale), and with the Committee's consent, the Second Lien Parties agreed to refrain from foreclosing on their Prepetition Collateral and consented to the Debtors' use of their Cash Collateral, but solely on the terms, and subject to the conditions, set forth in the Cash Collateral Order. The Second Lien Parties consented to extend the term of the Cash Collateral Order on December 14, 2015 to allow the Debtors to complete and consummate the sale process.[8]

10. In relevant part, the Cash Collateral Order, which was negotiated with, and supported by, among others, the Creditors' Committee, provides that the Second Lien Parties are entitled to, among other things, the Adequate Protection Claims in "an ***amount equal to the aggregate post-petition diminution in value of the [Second Lien Parties'] interest in the Prepetition Collateral*** resulting from the sale, lease or use by the Debtors (or other decline in value) of the Prepetition Collateral and the imposition of the automatic stay pursuant to Bankruptcy Code Section 362 . . .". Cash Collateral Order, ¶ 8. The Cash Collateral Order further provides that, "[f]or all adequate protection and stay relief purposes throughout these Cases, the [Second Lien] Parties ***shall be deemed to have requested relief from the automatic stay and adequate protection as of the Petition Date***." Cash Collateral Order, ¶ 25. In addition to being secured by the Adequate Protection Liens on virtually all of the Debtors' property, the Second Lien Parties' Adequate Protection Claims constitute "joint and several superpriority claims against the Debtors as provided in Bankruptcy Code section 507(b)," subject and subordinate only to the Carve Out and the First Lien 507(b) Claim. Cash Collateral Order, ¶ 9.

[8] See *Amended Final Order Under 11 U.S.C. §§ 105, 361, 362, 363 and 507, and Bankruptcy Rules 2002, 4001 and 9014 (I) Authorizing Debtors to Use Cash Collateral and (II) Granting Adequate Protection to Prepetition Secured Parties* [D.I. 943].

11. On January 20–21, 2016, at the conclusion of the Court-approved auction, the Debtors selected BlueStone as the successful bidder for certain of their oil and gas assets (including the Sold Collateral). The purchase price offered by BlueStone is $245 million in cash. Upon resolving all objections, on January 27, 2016, the Court entered an Order approving the sale to BlueStone.[9] On April 9, 2016 (the "Closing Date"), BlueStone paid the purchase price to the Debtors.

12. Among other things, the Sale Order provides that all "Interests" (defined to include all liens and claims)[10] will "attach to the proceeds of the Sale ultimately attributable to the property against or in which the holder of a (sic) Interest claims or may claim a (sic) Interest, in the order of their priority, with the same validity, force, and effect which they now have, subject to any claims and defenses the Debtors may possess with respect thereto." Sale Order, ¶ 7. The Sale Order also provides that all sale proceeds to be received by the Debtors shall (subject to the preserved rights of the Creditors' Committee) "constitute proceeds, products, offspring, or profits of the Prepetition Collateral in the same proportion that the value of the Prepetition Collateral that constitute purchased Oil and Gas Assets has to the value of all purchased Oil and Gas Assets, as such is determined by the Bankruptcy Court." Id. ¶ 19.

RELIEF REQUESTED

13. By this Motion, the Second Lien Parties request that the Court enter an order, pursuant to Bankruptcy Code sections 105, 361 and 507(b), and Bankruptcy Rule 3012, allowing the Second Lien Parties' Adequate Protection Claims with respect to the Sold Collateral in an amount of not less than $173 million.

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[9] See *Order Approving the Sale of the Debtors' Oil and Gas Assets* [D.I. 1095] (the "Sale Order").

[10] See Sale Order, ¶ T.

BASIS FOR RELIEF REQUESTED

I. The Second Lien Parties' Adequate Protection Claims Are Both Mandated by Law and Ordered by the Court

14. The Bankruptcy Code requires that courts adequately protect secured creditors' interests in their collateral. See 11 U.S.C. §§ 361, 362, 363 and 364. See also United States v. Whiting Pools, Inc., 462 U.S. 198, 203-04 (1983) ("At the secured creditor's insistence, the bankruptcy court must place such limits or conditions on the trustee's power to sell, use, or lease property as are necessary to protect the creditor."). This entitlement "is derived from the Fifth Amendment protection of property interests" and "is based as much on policy grounds as on constitutional grounds. Secured creditors should not be deprived of the benefit of their bargain." H.R. Rep. No. 95-595, at 339 (1977), as reprinted in 1978 U.S.C.C.A.N. 5963, 6295 (citing Wright v. Union Central Life Ins. Co., 311 U.S. 273 (1940), and Louisville Joint Stock Land Bank v. Radford, 295 U.S. 555 (1935)). See also Resolution Trust Corp. v. Swedeland Dev. Group, Inc. (In re Swedeland Dev. Group, Inc.), 16 F.3d 552, 564 (3d Cir. 1994) (stating that adequate protection is intended to "insure that the [secured] creditor receives the value for which he bargained prebankruptcy"). Apart from being constitutionally mandated, protection of the secured creditors' bargain is dictated by sound policy considerations: no reorganization where the debtor needed to be able to consensually use a secured creditor's cash collateral would ever be possible unless the secured creditor was confident that the protection it receives on the downside is real and will not be taken away.

15. To the extent the liens granted to an undersecured creditor under section 361 of the Bankruptcy Code prove to be insufficient in providing adequate protection to such creditor's interest in its collateral, the secured creditor is entitled to a superpriority claim under section 507(b) of the Bankruptcy Code, which entitles such creditor to recovery ahead of every

unsecured and regular administrative creditor. See, e.g., LNC Investments, Inc. v. First Fidelity Bank, 247 B.R. 38, 41 (S.D.N.Y. 2000) (stating that "in the privileged world of administrative claims, the § 507(b)-anointed claim is *primus inter pares*.").

16. In compliance with this legal mandate, the Cash Collateral Order granted to the Second Lien Parties the Adequate Protection Claims in an amount equal to "the aggregate post-petition diminution in value of the [Second Lien Parties'] interest in the Prepetition Collateral resulting from the sale, lease or use by the Debtors (or other decline in value) of the Prepetition Collateral and the imposition of the automatic stay pursuant to Bankruptcy Code section 362." Cash Collateral Order ¶ 8. Furthermore, the Cash Collateral Order expressly provides that the Second Lien Parties' Adequate Protection Claims are both secured by the Adequate Protection Liens and constitute "superpriority claims against the Debtors as provided in Bankruptcy Code section 507(b)." Cash Collateral Order ¶ 9. Thus, it is undisputed that the Second Lien Parties are entitled to a dollar-for-dollar compensation for any diminution in the value of their interest in the Prepetition Collateral (including the Sold Collateral) after the Petition Date on, first, secured and, second, superpriority basis.

II. Based on the Fair Market Value of the Second Lien Parties' Interest in the Sold Collateral, the Amount of the Adequate Protection Claims Is Not Less Than $173 Million

17. There has been a substantial diminution in the value of the Second Lien Parties' interest in the Sold Collateral since the Petition Date. As discussed at length in connection with the litigation surrounding the authorization for Debtors' use of Cash Collateral, the Second Lien Parties' hydrocarbon collateral is finite and was not replenished as the Debtors extracted it, converted it to cash and expended such cash on the general needs of the Debtors' Estates rather than on developing new reserves or on paying down their secured debt to the Second Lien Parties. Furthermore, the automatic stay—which the Second Lien Parties are

deemed to have moved to lift on the Petition Date[11]—prevented the Second Lien Parties from realizing their collateral's value before the significant decline in the prices of natural gas and crude oil occurred. Indeed, months ago the Debtors acknowledged that the adequate protection package provided to the Second Lien Parties could ultimately prove to be insufficient. At the December 14, 2015 hearing on the Debtors' use of Cash Collateral, the Debtors' counsel noted as follows:

> MR. GIBBS: [The] evidence is uncontroverted, that the primary prepetition collateral of the lenders which is the hydrocarbons primarily located in the Barnett Shale, has been and continues to be depleted daily with no replenishment through new drilling on unencumbered acreage. It is the uncontroverted evidence that the value of the collateral as determined by or is measured by market price for the hydrocarbons has dropped 22% for the pledged assets since May 1, the date Your Honor entered the original order. And it's also the uncontroverted evidence that the cash collateral of the lenders is being spent monthly by the Debtors to operate and maintain the Debtors' business, both their encumbered and their unencumbered assets . . . In fact, ***the Debtor and its management has a significant concern that the adequate protection packages that we have negotiated*** and agreed to give subject to Your Honor's approval ***won't, in fact, be sufficient to adequately protect the lenders against the potential diminution and value of their collateral.***

Transcript of December 14, 2015 Hearing at 6:23-7:21.

18. Accordingly, all that remains is for the Court to quantify the amount of the Second Lien Parties' Adequate Protection Claims with respect to the Sold Collateral, as measured by the diminution in the value of their interest in the Sold Collateral after the Petition Date. Furthermore, once the Court determines that the Adequate Protection Claims solely with respect to the Sold Collateral exceed the aggregate value of the Estates' even arguably unencumbered assets, the Court need not determine the exact amount of such claims: regardless

[11] See Cash Collateral Order ¶ 8.

of the exact amount, the Adequate Protection Claims will absorb the entire value of the Estates' maximum possible distributable unencumbered assets.

19. Section 361 of the Bankruptcy Code, which generally provides for the secured creditors' entitlement to adequate protection, provides no guidance with respect to determining the *quantum* of the adequate protection to which such creditors may be entitled (whether on secured or superpriority basis). The Supreme Court has explained, however, that valuation in the adequate protection context is the same as the valuation for establishing the amount of a secured claim under section 506(a) of the Bankruptcy Code. See United Sav. Ass'n of Tex. v. Timbers of Inwood Forest Assocs., Ltd., 484 U.S. 365, 372 (1988); see also In re Winthrop Old Farms Nurseries, Inc., 50 F.3d 72, 74 (1st Cir. 1995) (stating that "a valuation for § 361 purposes necessarily looks to § 506(a) for a determination of the amount of secured claim"). Section 506(a) of the Bankruptcy Code provides that "value shall be determined ***in light of the purpose of the valuation and of the proposed distribution or use of [collateral]***, and in conjunction with any hearing on such disposition or use or on a plan affecting such creditor's interest." 11 U.S.C. § 506(a)(1) (emphasis added).

20. Given the purpose of the valuation requested by the Second Lien Parties here, the amount of the diminution in the value of the Second Lien Parties' interest in the Sold Collateral for adequate protection purposes should be determined by comparing the value of the Sold Collateral as of the Petition Date[12] with the consideration received by the Debtors from BlueStone. See e.g., Official Comm. Of Unsecured Creditors v. UMB Bank, N.A. (In re Residential Capital, LLC), 501 B.R. 549, 592 (Bankr. S.D.N.Y. 2013) (stating that, to establish their entitlement to an adequate protection claim, creditors were required to show that the

[12] See Cash Collateral Order, ¶ 25 (providing that "[f]or all adequate protection . . . purposes throughout these Cases, the [Second Lien] Parties shall be deemed to have requested . . . adequate protection as of the Petition Date.").

aggregate value of their prepetition in collateral diminished from the petition date to the effective date of the debtors' reorganization plan).

21. The end point to the Sold Collateral's diminished value is subject to little dispute: it is the amount paid by BlueStone that is attributable to encumbered collateral. Courts have overwhelmingly held that the best evidence of collateral value is its actual sale price. See, e.g., Prudential Ins. Co. of Am. v. Boston (In re SW Boston Hotel Venture, LLC), 748 F.3d 393, 411 (1st Cir. 2014) (stating that courts routinely use the sale price as the best evidence of valuation of collateral); Ford Motor Credit Co. v. Dobbins, 35 F.3d 860, 870 (4th Cir. 1994) (same); In re Motors Liquidation Co., 482 B.R. 485, 492 (Bankr. S.D.N.Y. 2012) (same). At the most conservative estimate, the Sold Collateral constitutes 90% of the assets purchased by BlueStone, excluding the $5 million allocated to the purchase of certain assets in West Texas that were not subject to the liens of the Second Lien Parties. Based on this conservative estimate, the sale price attributable to the Sold Collateral is $216 million (*i.e.*, 90% of $240 million).

22. As to the valuation of the Sold Collateral on the Petition Date, the Supreme Court has provided guidance on the appropriate methodology for such valuation. In Assocs. Commercial Corp. v. Rash, 520 U.S. 953 (1997), the Supreme Court explained that there are three potential methodologies for determining the value of a secured creditor's collateral: (i) the foreclosure value (*i.e.*, what the secured creditor could obtain through a foreclosure sale), (ii) the replacement value (*i.e.*, what the debtor would have to pay for comparable property), and (iii) the midpoint between the two. Id. at 955-56. The Supreme Court held that the choice between these three methodologies must be determined in light of the "proposed use" of the collateral at issue. Id. at 962 (stating that the "proposed disposition or

use" of the collateral is of "paramount importance to the valuation question."). The Supreme Court went on to explain that where the debtor intends to "retain" and "use the collateral to generate income stream" (as opposed to surrendering the collateral to the secured creditor either voluntarily or through foreclosure), the appropriate valuation of the collateral should be its "replacement value." Id. at 963. The Supreme Court also stated that its use of the term "replacement value" is "consistent" with the "meaning of fair-market value" because both reflect "the price a willing buyer in the debtor's trade, business, or situation would pay a willing seller to obtain property of like age and condition." Id. at 959 n.2.

23. Although Rash was decided in the context of a cramdown plan in a chapter 13 case, other courts, including the Third Circuit, have applied the same reasoning when valuing collateral for various purposes in chapter 11 cases. See, e.g., In re Heritage Highgate, Inc., 679 F.3d 132, 141 (3d Cir. 2012) (valuing secured portion of claim under 506(a) and stating that the "proper measure" must be "the collateral's fair market value because it is most respectful of the property's anticipated use"); Motors Liquidation, 482 B.R. at 492, 494 (noting that "Rash can be applied to the provisions of all three reorganization chapters—11, 12, and 13—because these chapters all treat secured claims similarly" and using "fair market value" to value collateral in the context of a section 363 sale).

24. Moreover, courts have applied the fair market valuation suggested by Rash in cases, like the case at bar, when calculating an adequate protection claim of a secured creditor based on the diminution in value due to consensual use of such creditor's collateral to fund a section 363 sale. See, e.g., In re Sabine Oil & Gas Corp., Case No. 15-11835 (SCC), 2016 WL 1320279, slip op. at 106 (Bankr. S.D.N.Y. Mar. 31, 2016); Residential Capital, 501 B.R. 549; Salyer v. SK Foods, L.P. (In re SK Foods, L.P.), 487 B.R. 257 (E.D. Cal. 2013). The

Residential Capital court explained that fair market value methodology was particularly appropriate in a case where (i) no foreclosure sale was ever contemplated, (ii) the debtors never had any intention to surrender the collateral to the secured creditors, and (iii) a going-concern sale was contemplated from the petition date, as confirmed by testimony and evidenced by the fact that the debtors had a stalking-horse agreement executed before the petition date. Residential Capital, 501 B.R. at 595.[13] Embracing this reasoning, the Sabine Oil court recently declined a creditors' committee's suggestion that foreclosure value was the appropriate measure of the secured creditors' collateral on the petition date, stating that, in the circumstances identified in Residential Capital (that were also present in Sabine Oil), using foreclosure value would be "contrary to established law setting forth the proper methodology for valuing an adequate protection claim." Sabine Oil, slip op. at 106.[14]

25. Just as in Residential Capital and Sabine Oil, the Debtors entered these chapter 11 cases with the intent to continue operating their business as a going concern (which involved the use of the Prepetition Collateral, including the Sold Collateral, to generate revenue), pending either a going-concern sale or a restructuring. At no point did any other party request a turnover of any of the Sold Collateral to the Second Lien Parties or consent to a foreclosure by the Second Lien Parties. There is no question that the Debtors' "purpose" with respect to, and a "proposed disposition" of, the Sold Collateral on the Petition Date was its

[13] Similarly, the SK Foods court affirmed the bankruptcy court's use of the Rash fair market valuation of collateral where the diminution claim was calculated "in connection with the Debtors' use of the creditors' cash collateral, enabling the debtor to keep running the business, and in contemplation of the going-concern sale." SK Foods, 487 B.R. at 262.

[14] Under Texas law, the Debtors' oil and gas leases create fee simple interests in the oil and gas on the leased property. Thus, foreclosure on the leasehold interests constituting Sold Collateral would be very simple and inexpensive. A sale of real property under the power conferred by a deed of trust (as is the case here) must be a public sale at auction on the first Tuesday of a month after twenty-one days' notice given by public posting on the courtroom door in the county where the real property is located, filing in the office of the relevant county clerk and serving written notice of sale by certified mail on the debtor. See Texas Property Code, § 51.002. No license or special certification is necessary to conduct a real property foreclosure sale in Texas. See 30 Tex.Jur.3d Deeds of Trust and Mortgages § § 134-159.

continued operation in the ordinary course of business and either a reorganization around such collateral or a going-concern sale. See First Day Declaration, ¶ 56. Accordingly, the appropriate valuation standard for the Second Lien Parties' interest in the Sold Collateral as of the Petition Date is its fair market value in the Debtors' hands on such date.

26. A conservative starting point in determining fair market value of oil and gas assets is "PV-10," which is calculated as the present value of the estimated future oil and gas revenues from proven producing reserves, reduced by direct expenses of production and discounted at an annual rate of 10%.[15] It is conservative because PV-10 excludes the value associated with reserves that are probable (*i.e.*, 50% likely rather than 90% likely) and possible (i.e., 10% likely). The Debtors have publicly stated, in sworn unopposed declarations that are part of the record in these cases, that, as of March 5, 2015 (*i.e.*, less than two weeks before the Petition Date), the PV-10 value of their proven hydrocarbon reserves in the Barnett Shale was $464 million, of which at least 90% constituted Sold Collateral.[16] The Debtors have recently provided the Second Lien Parties with updated financial information, attached hereto as Exhibit A, which shows that this value would be over $433 million even after removing marginally economic wells.[17] Even based on this lower number (of which $398 million is attributable to

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[15] See Atiba K. Henry, *Understanding SEC Oil &Gas Reserve Reporting*, pg. 2, 2015, http://www.srr.com/assets/pdf/understanding-sec-oil-and-gas-reserve-reporting.pdf. Using solely the PV-10 Value would, in fact, reduce the amount of the Adequate Protection Claims because it ignores the value of the other two categories of reserves. If the value of these two reserves categories is included in the starting value for measuring the amount of the diminution, the value of the Adequate Protection Claims would only increase. See Alex W. Howard, Oil and Gas Company Valuations, Business Valuation Review Vol. 28 No. 1, pp. 31-32 (2009), http:/www.srr.com/assets/pdf/oil-and-gas-company-valuations-business-valuation-review.pdf.

[16] See Exhibit B, *Declaration of John-Paul Hanson In Support of Debtors' Motion For Entry of Interim and Final Orders (A) Authorizing the Use of Cash Collateral, (B) Granting Prepetition Secured Parties Adequate Protection, (C) Scheduling a Final Hearing, and (D) Granting Related Relief* [D.I. 252].

[17] The Second Lien Parties will supplement the evidentiary record with respect to this point.

the Sold Collateral), the Second Lien Parties' Adequate Protection Claims on account of the Sold Collateral are at least ***$173 million***.

III. Allowing the Adequate Protection Claims Will Moot the Adversary Proceeding

27. Applying the same conservative assumption that the Sold Collateral constitutes 90% of the Barnett Shale assets sold to BlueStone, the Debtors will receive approximately $29 million on the Closing Date on account of unencumbered oil and gas leases (the other unencumbered assets purchased by BlueStone were of *de minimis* value and the bulk of the remaining assets subject to the Creditors' Committee's challenge remain in the estates). Factoring in the Debtors' projected remaining cash of less than $20 million[18], and potential distributions on the Canadian intercompany note of approximately $10-15 million, the Debtors will have no more than $64 million to satisfy the not less than $173 million of Adequate Protection Claims. Because the Adequate Protection Claims will consume this entire amount, it is unnecessary to litigate the issues remaining unresolved in the Adversary Proceeding.

28. Furthermore, none of the claims remaining unresolved in the Adversary Proceeding changes the priority of the Adequate Protection Claims. First, even if there were administrative expenses in these cases that could be surcharged to the Sold Collateral (and there are not), the Creditors' Committee could not limit the Adequate Protection Claims through section 506(c). Section 506(c) allows a surcharge to be recovered from collateral securing an "allowed secured claim." However, adequate protection claims are not "allowed secured claims," and neither adequate protection liens nor superpriority claims under section 507(b) are subject to modification. See 11 U.S.C. § 1129 (not providing for such modification).

[18] See Debtors' Cash Flow Analysis dated 04/07/2016, attached hereto as Exhibit B showing unrestricted cash projected at $182.9 million as of July 1, 2016, including sale proceeds other than those used to satisfy the U.S. first lien credit facility

Additionally, section 507(b) claims have statutory priority over 503(b) administrative expenses: no section 503(b) claim (including those which constitute qualifying surcharges of collateral) may be paid until all section 507(b) claims have been paid in full. Finally, the Creditors' Committee's request for relief under section 552 is also irrelevant: even assuming that none of the Debtors' cash on the Petition Date was subject to the Second Lien Parties' prepetition liens, the Second Lien Parties' Adequate Protection Liens nevertheless attached to such cash. As a result, even if any of the Creditors' Committee's theories were valid, the claims and rights they would have attained on the basis of such theories would be junior in priority to the Second Lien Parties' Adequate Protection Claims. Thus, the Adversary Proceeding is moot and should be dismissed.

NOTICE

29. Notice of this Motion has been provided to the following parties: (i) the Office of the United States Trustee for the District of Delaware; (ii) counsel to the Debtors; (iii) counsel to the Creditors' Committee; and (iv) all parties requesting notice in these chapter 11 cases pursuant to Bankruptcy Rule 2002. In light of the nature of the relief requested herein, the Second Lien Parties submit that no other or further notice is necessary.

CONCLUSION

For the reasons set forth above and as will be elaborated at the hearing on the Motion, the Second Lien Parties respectfully request entry of an order, substantially in the form annexed hereto as Exhibit C, allowing the Second Lien Parties' Adequate Protection Claims in an amount not less than $173 million.

Dated: April 13, 2016
Wilmington, DE

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IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	)	Chapter 11
Quicksilver Resources Inc., *et al*.,[1]	)	Case No. 15-10585 (LSS)
Debtors.	)	Jointly Administered
	)	**Hearing Date: May 17, 2016 at 10:00 a.m. (ET)** **Objection Deadline: April 27, 2016 at 4:00 p.m. (ET)**

NOTICE OF MOTION

TO: (I) THE OFFICE OF THE UNITED STATES TRUSTEE FOR THE DISTRICT OF DELAWARE; (II) COUNSEL TO THE DEBTORS; (III) COUNSEL TO THE COMMITTEE; AND (IV) ALL PARTIES REQUESTING NOTICE IN THESE CHAPTER 11 CASES PURSUANT TO BANKRUPTCY RULE 2002.

PLEASE TAKE NOTICE that the Ad Hoc Group of the Second Lien Holders, Credit Suisse AG, Cayman Islands Branch (f/k/a Credit Suisse AG), as administrative agent for the Second Lien Lenders, and The Bank of New York Mellon Trust Company N.A., as Second Lien Indenture Trustee and the collateral agent under that certain Indenture dated as of June 21, 2013 (collectively, the "Second Lien Parties") have filed the attached **Motion of the Second Lien Parties for Allowance of Their Adequate Protection Claims** (the "Motion").

PLEASE TAKE FURTHER NOTICE that any objections to the Motion must be filed on or before **April 27, 2016 at 4:00 p.m. (ET)** (the "Objection Deadline") with the United States Bankruptcy Court for the District of Delaware, 824 N. Market Street, 3rd Floor, Wilmington, Delaware 19801. At the same time, you must serve a copy of any objection upon the undersigned counsel so as to be received on or before the Objection Deadline.

PLEASE TAKE FURTHER NOTICE THAT A HEARING ON THE MOTION WILL BE HELD ON **MAY 17, 2016 AT 10:00 A.M. (ET)** BEFORE THE HONORABLE LAURIE SELBER SILVERSTEIN IN THE UNITED STATES BANKRUPTCY COURT FOR THE DISTRICT OF DELAWARE, 824 N. MARKET STREET, 6TH FLOOR, COURTROOM NO. 2, WILMINGTON, DELAWARE 19801.

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

PLEASE TAKE FURTHER NOTICE THAT IF YOU FAIL TO RESPOND IN ACCORDANCE WITH THIS NOTICE, THE COURT MAY GRANT THE RELIEF REQUESTED IN THE MOTION WITHOUT FURTHER NOTICE OR A HEARING.

Dated: April 13, 2016
Wilmington, DE

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EXHIBIT A

[Filed Under Seal]

EXHIBIT B

[Filed Under Seal]

EXHIBIT C

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	)	Chapter 11
Quicksilver Resources Inc., *et al*.,[1]	)	Case No. 15-10585 (LSS)
Debtors.	)	Jointly Administered
	)	**Ref. Docket No. _____**

ORDER ALLOWING THE
SECOND LIEN PARTIES' ADEQUATE PROTECTION CLAIMS

Upon consideration of the *Motion of the Second Lien Parties for Allowance of Their Adequate Protection Claims* (the "Motion"), all objections interposed thereto (the "Objections"), and the arguments presented and the evidence adduced at the hearing on the Motion held on May 17, 2016; and the Court having jurisdiction to consider this Motion and the relief requested therein in accordance with 28 U.S.C. §§ 157 and 1334; and consideration of this Motion and the relief requested therein being a core proceeding in accordance with 28 U.S.C. § 157(b)(2); and venue being proper in this District pursuant to 28 U.S.C. §§ 1408 and 1409; and due and sufficient notice of the Hearing and the relief sought therein having been given; and it appearing that no other or further notice need be provided under the circumstances; and it appearing that the relief requested in the Motion is in the best interests of the Debtors, their estates, their creditors and other parties in interest; and after due deliberation thereon and good and sufficient cause appearing therefor, it is hereby ORDERED:

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

1. The Motion is granted, and the Objections are overruled on their respective merits.

2. The Second Lien Parties' Adequate Protection Claims are allowed in an amount of not less than $173 million.

3. This Court shall retain the exclusive jurisdiction to interpret and enforce the terms of this Order.

Dated: _____, 2016
Wilmington, DE

THE HONORABLE LAURIE SELBER SILVERSTEIN
UNITED STATES BANKRUPTCY JUDGE