

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

In re:)	
)	Chapter 11
Quicksilver Resources Inc., <u>et al.</u> , ¹)	Case No. 15-10585 (LSS)
)	
Debtors.)	Jointly Administered
)	

**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**

I, John-Paul Hanson, declare as follows under penalty of perjury:

1. I am a Managing Director at Houlihan Lokey Capital, Inc. (“Houlihan Lokey”), where I am a senior banker in the firm’s Financial Restructuring Group, Head of Houlihan Lokey’s Oil and Gas E&P Group, and Co-Head of the firm’s Energy Group. Houlihan Lokey has its principal office at 245 Park Avenue, New York, New York 10167.

2. I submit this declaration in support of the *Debtors’ Motion for Entry of Interim and Final Orders (A) Authorizing the Use of Cash Collateral, (B) Granting the Prepetition Secured Lenders Adequate Protection, (C) Scheduling a Final Hearing, and (D) Granting Related Relief* [D.I. 16] (the “Cash Collateral Motion”).²

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 Capitalized terms used herein, but not otherwise defined have the meaning ascribed to them in the Cash Collateral Motion.

3. In forming the opinions set forth herein, I have relied upon and/or considered, among other things, the following: (a) my experience in chapter 11 cases, including with use of cash collateral and issues attendant to diminution in value; (b) the Cash Collateral Motion; (c) the Declaration of Vanessa Gomez LaGatta in Support of First Day Pleadings; (d) the declarations of Vanessa Gomez LaGatta and Stan Page submitted in support of the Cash Collateral Motion; (e) discussions with the Debtors' management concerning the Debtors' business and finances; (f) discussions with certain other professionals at Deloitte and other advisors to the Debtors and (g) my experience in the oil and gas industry.

4. I am not being compensated specifically for this testimony other than through payments received by Houlihan Lokey as a professional proposed to be retained by the Debtors in these chapter 11 cases. If called upon to testify, I would testify competently to the facts set forth in this declaration.

A. Qualifications

5. Houlihan Lokey is an internationally recognized investment banking and financial advisory firm, with eighteen offices worldwide and more than 1,000 professionals. Houlihan Lokey's Financial Restructuring Group, which has more than 170 professionals, is one of the leading advisors and investment bankers to unsecured and secured creditors, debtors, acquirers, and other parties-in-interest involved with financially troubled companies both in and outside of bankruptcy. Houlihan Lokey has been, and is, involved in some of the largest restructuring cases in the United States, including representing debtors in *Mark IV Industries*, *Buffets Holdings, Inc.*, *Bally Total Fitness Holding Corp.*, *XO Communications, Inc.*, *Six Flags, Inc.*, *Granite Broadcasting Corp.*, and *MS Resorts* and official committees in *Lehman Brothers Holdings Inc.*, *Arcapita Bank B.S.C(c)*, *Enron Corp.*, *WorldCom, Inc.*, *Delta Air Lines, Inc.*, *General Growth Properties*, *Capmark*. In addition, Houlihan Lokey has represented debtors or creditors in

numerous oil and gas restructuring cases, including, among others, with respect to the pre-petition first lien lenders and debtor in possession lenders in *ATP Oil & Gas Corporation*, the first and second priority noteholders in *Endeavour International Corporation*, the first lien lenders in *Southern Pacific Resources Corp.* and the debtors and debtors in possession in *BPZ Resources, Inc.*

6. I specialize in advising public and private companies and creditor groups in complex financial restructurings. Before joining Houlihan Lokey in 2001, I was a manager of alternative lending at Commonfund Mortgage Corp., where I structured whole loan and portfolio fundings, sales, and securitizations involving a variety of asset-backed lending transactions. Earlier in my career, I held a similar position at MoneyLine Lending. I began my career in finance, trading fixed income securities at NNJ, a private family wealth fund formerly based in San Francisco, California. I have an M.B.A., with a concentration in Finance, from the University of Maryland's Robert H. Smith School of Business and a dual B.A. degree, cum laude, in Italian and International Finance from Brigham Young University. I am FINRA certified with Series 7 and 63 licenses.

7. I have extensive experience as an advisor and investor in corporate restructurings, as well as public and private debt and equity offerings and mergers and acquisitions. I have advised companies, creditors and investors in connection with numerous in-court and out-of-court restructurings and recapitalizations, including *ATP Oil & Gas Corp.*; *Bennu Oil & Gas, LLC*; *Endeavour International Corporation*; *Trident Resources Corp.*; *Trident Exploration Corp.*; *Blue Mountain Energy, LLC*; *Beacon Power, LLC*; *U.S. Department of Energy Loan Program Office*; *U.S. Energy Corp.*; *GBGH Ltd.*; *Big West Oil, LLC*; *Solutia, Inc.*; *National Energy & Gas Transmission, Inc.* (formerly PG&E NEG); *Gas Transmission Northeast Corp.*;

and *Southaven Power, LLC*, among others within both the energy industry and a variety of other sectors. I have previously submitted declarations and/or affidavits or have had testimony proffered in multiple cases, including most recently in *ATP Oil & Gas Corp.*. I have authored, co-authored, and spoken on various topics, including: Trends in Financial Restructuring, Financing Markets in a Distressed Environment, Valuation Dynamics in Financial Restructuring, and Valuing Net Operating Losses, among others. I currently serve on the Board of Directors of Bennu Oil & Gas, LLC, an entity established for the purpose of acquiring and operating oil and gas properties in the Gulf of Mexico.

8. I have been one of the principal engagement personnel working on Houlihan Lokey's engagement with the Debtors and their non-debtor affiliates and subsidiaries (collectively, the "Company") since January 2014. In connection with the proposed use of cash collateral, I participated directly in discussions, due diligence and negotiations with the Company's management, outside counsel and other advisors.

B. Commodities Prices and the Adequate Protection Package

9. I understand that the Debtors propose to provide adequate protection to the Prepetition Secured Parties (collectively, the "Adequate Protection Package"), including first priority replacement liens in favor of the Prepetition Secured Parties on the Unencumbered Property. I further understand that the Adequate Protection Package is being provided to the Prepetition Secured Parties in exchange for their consent to use Cash Collateral and for the diminution in value of their respective interests in the Prepetition Collateral, and that the Barnett Shale, one of the Debtors' core natural gas production and development areas, comprises the substantial majority of the Prepetition Collateral.

10. As with any asset within the oil and gas industry, the value of the Barnett Shale is, at least in part, dependent on commodities prices and underlying hydrocarbon volumes. The

hydrocarbon volumes are a finite resource and therefore resulting in a natural limit to the value available to secured creditors. Absent significant discoveries / increases in hydrocarbon volumes associated with the Debtors' oil and gas reserves, or significant operating cost reductions, if natural gas prices experience further declines, the value of the Barnett Shale and the Debtors' assets located therein will suffer a corresponding decrease.

11. Natural gas and oil are commodities, the prices of which are traded on commodity exchanges and fundamentally driven by available supply versus and demand. Future natural gas prices are unknown, subject to significant volatility and can be unpredictable, even from one trading session to the next depending on factors such as general supply, weather patterns, gas available in storage and transportation constraints, among others. As demonstrated by Exhibit A hereto, although current prices are very low, they have not yet reached the historical low point. As demonstrated on Exhibit A, price declines in natural gas since peaks in 2005 and 2008, are a result of supply outstripping demand by a significant margin, which is largely the result of shale drilling, completion and production technologies that have been applied in recent years, including in the Barnett Shale, among other North American oil and gas basins. Additionally, with respect to natural gas prices specifically in 4Q 14 through April 2015, as a result of an initially warmer than forecasted winter, a greater amount of natural gas was stored than originally expected, which had the effect of reducing natural gas commodity price by approximately 40%, just since December 2014. Although, demand for natural gas is often higher in the height of the summer and the winter, natural gas pricing will continue to be volatile in view of the present supply versus the demand for natural gas.

12. Further demonstrating the volatility, unpredictability, and continued decline of natural gas prices, attached as Exhibit B are tables showing a Proved Reserve and PV-10

Comparison of the Debtors' assets using the reserve report as of January 1, 2015 and utilizing forward strip pricing at two different points in time—one before the Petition Date and one based on the current forward strip pricing. Specifically, the first table utilizes the strip pricing as of March 5, 2015, the second table utilizes forward strip pricing as of April 21, 2015, and the third table summarizes the differences between the two different points in time. As Exhibit B demonstrates, natural gas prices have continued to decline over this recent time period, thus reducing the value of Debtors' assets identified in Exhibit B. As stated before, supply and demand dynamics, availability of natural gas in storage facilities, and an unseasonably warm and late winter for much of North America have caused commodity prices to fall precipitously and continue to exert downward pressure on natural gas prices as of the date of this declaration.

13. Accordingly, I believe that there is a risk of diminution of the value of the Barnett Shale due to the daily production of the finite natural gas reserves and unknowable, unpredictable volatility in fluctuation of natural gas prices.

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 and belief. Executed on this 22nd day of April, 2015.

By: 

John-Paul Hanson
Managing Director
Houlihan Lokey Capital, Inc.

Exhibit A

Historical Henry Hub Pricing

Historical Henry Hub Pricing

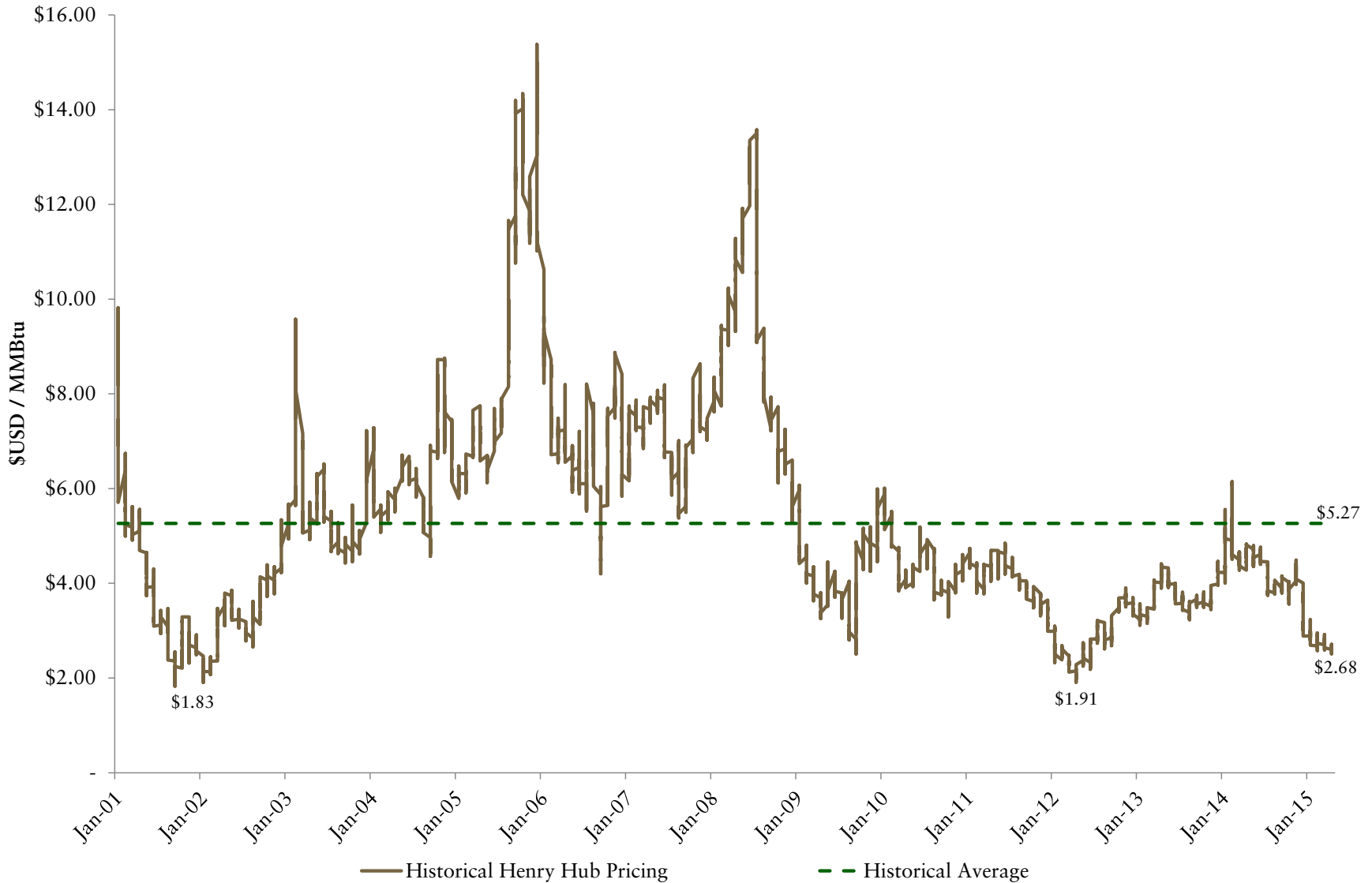


Exhibit B

Proved Reserve and PV-10 Comparison

Proved Reserve and PV-10 Comparison

Strip Case (Pricing as of March 5, 2015)

	Reserves (Bcfe)				PV-10 (\$MM)			
	PDP	PDNP	PUD	Total	PDP	PDNP	PUD	Total
Barnett	763	44	11	817	\$443	\$22	(\$0)	\$464
<i>Cowtown</i>	360	16	-	375	182	7	-	190
<i>Hill County + Other</i>	40	-	-	40	20	-	-	20
<i>Alliance</i>	272	25	11	307	202	13	-	214
<i>Lake Arlington</i>	92	3	-	95	39	2	(0)	40
Delaware	2	-	-	2	\$4	-	-	\$4
Total: U.S.	764	44	11	819	\$447	\$22	(\$0)	\$468

Strip Case (Pricing as of April 21, 2015)

	Reserves (Bcfe)				PV-10 (\$MM)			
	PDP	PDNP	PUD	Total	PDP	PDNP	PUD	Total
Barnett	760	44	11	814	\$420	\$20	(\$1)	\$439
<i>Cowtown</i>	357	15	-	372	172	7	-	179
<i>Hill County + Other</i>	39	-	-	39	18	-	-	18
<i>Alliance</i>	272	25	11	307	193	12	(1)	204
<i>Lake Arlington</i>	92	3	-	95	36	2	-	38
Delaware	2	-	-	2	\$4	-	-	\$4
Total: U.S.	762	44	11	816	\$424	\$20	(\$1)	\$443

Variance

	Reserves (Bcfe)				PV-10 (\$MM)			
	PDP	PDNP	PUD	Total	PDP	PDNP	PUD	Total
Barnett	(3)	(0)	(0)	(3)	(\$23)	(\$1)	(\$0)	(\$25)
<i>Cowtown</i>	(3)	(0)	-	(3)	(10)	(0)	-	(11)
<i>Hill County + Other</i>	(0)	-	-	(0)	(1)	-	-	(1)
<i>Alliance</i>	0	(0)	(0)	0	(8)	(1)	(1)	(10)
<i>Lake Arlington</i>	0	(0)	-	0	(3)	(0)	0	(3)
Delaware	(0)	-	-	(0)	-	-	-	-
Total: U.S.	(3)	(0)	(0)	(3)	(\$23)	(\$1)	(\$0)	(\$25)

Source: Company data

Note: For purposes of this analysis all assumptions except price remain constant from the January 1, 2015 reserve report. As a result of the decline in price, certain reserve volumes become uneconomic to produce which results in the elimination of those volumes from the applicable price case