IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	§	Chapter 11
	§	
PARALLEL ENERGY LP, *et al.*	§	Case No. 15-_____ (__)
	§	(Joint Administration Requested)
Debtors.	§	
	§	

DECLARATION OF RICHARD N. MILLER IN SUPPORT OF VOLUNTARY PETITIONS AND FIRST DAY MOTIONS

Pursuant to 28 U.S.C. § 1746, Richard N. Miller declares as follows:

I, Richard N. Miller, being duly sworn, declare the following under penalty of perjury:

1. My name is Richard N. Miller. I am the Chief Financial Officer of Parallel Energy GP LLC ("GP"), which is the general partner of Parallel Energy LP ("LP," collectively with GP, the "Debtors" or "U.S. Parallel Entities," and with their non-debtor affiliates, "Parallel"). I have held this position since April 2011.

2. I submit this Declaration based on personal knowledge in support of (a) the voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") filed by the Debtors on November 9, 2015 (the "Petition Date"); and (b) the motions filed contemporaneously with the voluntary petitions (collectively the "First Day Motions"), a summary of which is available on the attached **Exhibit A** (which is incorporated as if fully set forth herein).

3. I further submit this Declaration to assist this Court and parties-in-interest in understanding the circumstances that compelled the commencement of the Debtors' Chapter 11 cases (collectively, the "Cases").

4. The relief sought in the First Day Motions should enable the Debtors to effectively administer their estates. I have reviewed the First Day Motions, and I believe the requested relief is necessary to continue operations of the Parallel enterprise and, as much as possible, preserve value for all stakeholders.

5. Except as otherwise indicated, all facts as set forth in this Declaration are based upon my personal knowledge, my review of relevant documents, or my opinion based upon experience, knowledge, and information concerning Parallel. If called upon to testify, I would testify competently to the facts set forth in this Declaration.

INTRODUCTION

6. The Debtors are oil and gas businesses engaged in acquiring, owning, developing and operating long-life oil and natural gas properties in Texas and Oklahoma.

7. The Debtors' oil and gas interests in Texas are located in the West Panhandle Field, the Cargray Area and the SE Roberts Area. With approximately 400 operated active wells, the Texas region accounts for substantially all of the Debtors' interests and production of natural gas, natural gas liquids and condensate. In Garfield and Jefferson Counties, Oklahoma, the Debtors own a small number of non-operated horizontal wells which account for approximately 1% of the Debtors' estimated total production.

8. The global decline of oil and gas prices and the oversupply of global oil production has had a significant negative impact on the Debtors' business, and, consequently, the Debtors cannot continue operations due to the inability to obtain a significant capital infusion. Accordingly, the Debtors have engaged in a significant pre-petition marketing process for its assets and businesses which has resulted in an

agreement by the Debtors to (a) sell substantially all of their assets and (b) file the Cases to effectuate such a sale. The filing of the Cases is the result of extensive negotiations between the Debtors and their Pre-Petition Lenders, and between the Debtors and the prospective buyer. A successful sale of the Debtors' assets to the prospective buyer (or highest bidder) is expected to maximize the value of the Debtors' assets for the benefit of their estates and all of their creditor constituencies.

RELEVANT BACKGROUND

A. Parallel's Corporate Structure

9. The Debtors are Delaware legal entities with corporate offices in Tulsa, Oklahoma.

10. GP is a Delaware limited liability company owned by Parallel Energy Commercial Trust (the "Commercial Trust"). The Commercial Trust is an Alberta, Canada legal entity and the sole member of GP.

11. LP is a Delaware limited partnership owned 99.999% by the Commercial Trust and .001% by GP. GP acts as the general partner of LP pursuant to a Limited Partnership Agreement between GP and the Commercial Trust effective April 14, 2011 (the "LP Agreement"). The LP Agreement established LP (with GP acting as the general partner and the Commercial Trust acting as the limited partner of LP), and authorized GP to conduct, manage and direct all activities of LP.

12. Contemporaneously with the Petitions, the Commercial Trust and two other Canadian entities affiliated with the Debtors, Parallel Energy Trust (the "Public Trust") and Parallel Energy Inc., ("PEI," and, collectively, with the Commercial Trust

and the Public Trust, the "Canadian Parallel Entities") have filed applications seeking relief under the *Companies' Creditors Arrangement Act* of Canada ("CCAA").

13. All or substantially all of Parallel's operating assets are located in the United States. The Canadian Parallel Entities provide management and administrative services. A chart reflecting the relationship between the U.S. Parallel Entities and the Canadian Parallel Entities is attached as **Exhibit B**. Information regarding the Canadian Parallel Entities and their transactions and business dealings with the Debtors is available on the attached **Exhibit C** (which is incorporated as if fully set forth herein).

B. Parallel's Business

i. Natural Gas, Natural Gas Liquids and Condensate

14. The Debtors have oil and gas assets in five locations: the West Panhandle Field (Texas), the Cargray Area (Texas), Roberts County (Texas), Garfield County (Oklahoma), and Jefferson County (Oklahoma).

a. The West Panhandle Field

15. LP owns a 100% working interest in approximately 139,000 acres in the West Panhandle Field in Texas. The West Panhandle Field is part of the larger Hugoton Gas Field, which is the largest conventional gas field in North America. Within its ownership interest in the West Panhandle Field, LP currently operates approximately 380 active wells in the West Panhandle Field, accounting for approximately 94% of Parallel's estimated total production of natural gas, natural gas liquids and condensate.

16. LP's interest in the West Panhandle Field is comprised of two areas: (a) the Carson area (encompassing Carson and Hutchinson Counties); and (b) the Sneed area (encompassing Moore and Potter Counties).

17. In the Carson area, LP uses pipelines to transport unprocessed natural gas to a natural gas processing plant in the West Panhandle Field owned by Badger Midstream Energy, LP ("Badger"). Pursuant to a plant processing agreement between LP and Badger, Badger processes LP's natural gas liquids and natural gas. LP's natural gas liquids are then sold by LP to Phillips 66 Company ("Phillips 66") and transported through a leased third party pipeline from the Badger processing plant to Phillips 66. Natural gas processed at Badger's processing plant is transported by pipeline from the processing plant to Chicago Citygate, where it is subsequently sold by LP to a number of third-party purchasers for commercial and consumer use.

18. LP also has arrangements in place if Badger's processing plant is unavailable to process LP's oil and gas; namely, a back-up interruptible agreement with Regency Energy Partners ("Regency"). If the Badger plant is unavailable, and the Regency plant has available capacity, LP transports its products to Regency's processing plant by pipeline where such products are then processed into natural gas liquids and natural gas, and subsequently purchased by Regency.

19. In the Sneed area, LP has a plant processing agreement with Regency whereby Regency processes LP's gas into natural gas liquids and natural gas. LP's processed natural gas liquids are sold by LP to Phillips 66 and transported by pipeline from Regency's processing plant to Phillips 66. LP's natural gas processed by Regency is sold at the tailgate of the Regency Processing Plant to a variety of purchasers.

20. LP also has arrangements in place if Regency's processing plant is unavailable to process LP's gas; namely, a back-up interruptible agreement with DCP Midstream LP ("DCP"). If the Regency plant is unavailable and the DCP plant has

available capacity, LP transports its products to DCP's processing plant by pipeline where it is then processed into natural gas liquids and natural gas, and subsequently purchased by DCP.

21. Additionally, LP has condensate facilities in both the Carson and Sneed areas. In the Carson area, condensate, which drips out of the pipeline during transportation, is gathered in approximately 300 drip tanks and sent to LP's main facility in Carson. LP sells condensate to CP Energy LLC ("CP Energy") at specified prices and terms; the condensate is transported to CP Energy by truck.

22. In the Sneed area, during the transportation of unprocessed gas to Regency, condensate is gathered in approximately 300 drip tanks and sent to LP's main Sneed facility. At the Sneed facility, LP sells low gravity condensate to CP Energy and high gravity condensate to Murphy Energy Corporation, in both cases, at specified prices and terms.

b. The Cargray Area

23. LP owns assets in Carson and Gray Counties, Texas, adjacent to the Carson area in the West Panhandle Field. The "Cargray area" is located in the Hugoton field and has similar geological characteristics as the West Panhandle Field. LP currently operates approximately 35 active wells in the Cargray area, accounting for approximately 3% of Parallel's estimated total production of natural gas and natural gas liquids. LP does not produce condensate in the Cargray area.

24. At the Cargray property, LP has a plant processing agreement with DCP pursuant to which LP's gas products are transported to DCP's processing plant where they are processed into natural gas liquids and natural gas and sold to DCP at specified prices and terms.

c. Roberts County

25. LP owns assets in Roberts County, Texas, which is adjacent to the West Panhandle Field. LP currently operates approximately 20 active vertical wells in Roberts County, accounting for approximately 2% of the Parallel's estimated total production of natural gas, natural gas liquids and oil.

26. At the Roberts County property, LP has a plant processing agreement with Regency pursuant to which LP's gas products are transported to Regency's processing plant where they are processed into natural gas liquids and natural gas and sold to Regency at specified prices and terms. Oil is sold at the wellhead.

d. Garfield County

27. LP owns assets in the Mississippian Lime fairway in Garfield County, Oklahoma. LP currently owns 8 non-operated horizontal wells producing from the area (the wells are operated by another operator), accounting for approximately 1% of Parallel's estimated total production of natural gas, natural gas liquids and oil.

28. At the Garfield County property, LP has a plant processing agreement with Mustang Gas Products, LLC ("Mustang") pursuant to which LP's gas products are transported to Mustang's processing plant where they are processed into natural gas liquids and natural gas and sold to Mustang at specified prices and terms. Oil is sold to Conoco Phillips.

e. Jefferson County

29. LP owns assets in Jefferson County, Oklahoma. LP currently owns one non-operated horizontal well producing from the area (the well is operated by another operator), accounting for less than 1% of Parallel's estimated total production of natural gas, natural gas liquids and oil.

ii. Employees

30. The Debtors' workforce consists of forty-five (45) exempt and non-exempt employees (the "Employees"). Non-exempt employees can be salaried or hourly and are eligible for overtime pay. Most, if not all, of the Debtors' non-exempt employees work in field operations.

31. Of the 45 Employees, 1 officer and 9 Employees work out of the Tulsa Oklahoma corporate office, 33 field personnel work out of the West Panhandle Field, 1 field employee works out of Cargray, 1 field employee works out of Roberts County, and no field personnel work out of Garfield County or Jefferson County.

iii. Compensation and Benefits Structure

a. Payroll and Related Obligations

32. The Debtors outsource their payroll and related obligations to Southwestern Payroll Service, Inc. ("Southwestern") pursuant to a Services Agreement dated July 19, 2012 (the "Payroll Agreement"). Under the Payroll Agreement, Southwestern administers a number of employee related services for the Debtors including the Employees' wages, salaries, and withholdings (*i.e.*, amounts which employers are required by law to withhold from employee payroll checks with respect to federal, state and local income taxes, social security taxes, and Medicare taxes).

33. The Debtors, through Southwestern, ordinarily pay Employees semi-monthly, with a pay cycle of the 15th and last workday of the month. The amount of the semi-monthly payroll for the Debtors fluctuates each pay period, and the most recent net pay (after deductions) for employees was approximately $125,000. Approximately two business days before every payday, Southwestern withdraws an amount calculated to cover all compensation obligations from LP's operating account. Because of the manner

in which overtime payments are calculated and paid (one pay period in arrears), all Employees do not receive the same paycheck amount for each pay period.

34. The Employees were most recently paid on October 30, 2015. November 15, 2015 is the next pay-date for the Debtors and the Debtors funded this payroll before filing. As such, as of the Petition Date, the Debtors are current on payroll through November 13, 2015.

b. Payroll Taxes and Other Withholding Obligations

35. During each pay period, the Debtors, through Southwestern, make a deduction from the Employees' pay for certain obligations, including, but not limited to, federal and state income taxes, federal and state unemployment and disability taxes, social security and Medicare taxes (collectively, the "Payroll Tax Obligations") and subsequently remit the amount withheld to the appropriate governmental authorities. The total amount of deductions from the employees' pay plus the company's portion of the deductions for the most recent pay period was approximately $45,000. As of the Petition Date, the Debtors are current for Payroll Tax Obligations through November 13, 2015.

iv. Employee Benefits

36. The Debtors provide a 401(k) matching contribution program and other employee benefits to its Employees through Southwestern (the "401(k) Program"). The Debtors, through the 401(k) Program, match 100% of the first 3% contributed and 50% of contributions between 3% and 5%.

37. Because the Debtors pre-funded payroll, November 13, 2015 is the last 401(k) Contribution Payment made by the Debtors before the Petition Date and was for a total of $15,345.43, of which the Debtors contributed approximately $5,000.

November 30, 2015 is the next expected contribution payment date for the 401(k) Program.

38. Additionally, the Debtors provide paid vacation and various insurance benefits to their Employees. As discussed in **Exhibit A**, the Debtors also seek authorization to satisfy all obligations related to the Employees' insurance benefits and continue the programs in the ordinary course of business.

v. Reimbursement Obligations

39. The Debtors, in the ordinary course of business, reimburse Employees for a variety of expenses incurred in the course of their employment (the "Reimbursement Obligations"). These Reimbursement Obligations include, among other things, business-related travel and business-related expenses.

40. The Debtors maintain thirty-eight (38) company credit cards with Wells Fargo Bank with a $100,000.00 combined spending limit (the "Wells Fargo Card"). The Wells Fargo Card is used for routine business charges such as fuel, parts (vehicle and compressor), and tires. Although charges may fluctuate from month to month, the Debtors expend approximately $30,000.00 per month to pay off the charges made to the Wells Fargo Card. As of the Petition Date, the Debtors are current for charges that have been incurred but either not yet billed, or billed, but not yet paid. Pursuant to a Security Agreement with Wells Fargo, Wells Fargo currently holds a $100,000 security deposit on the Debtors' Wells Fargo Card.

C. The Debtors' Liabilities

i. Parallel's Credit Facility

41. Pursuant to a Credit Agreement dated April 21, 2011, as amended by ten Amending Agreements (collectively, the "Credit Agreement"), the Commercial Trust (by

its trustee, PEI), as Canadian borrower, and LP, as U.S. borrower, entered into a credit facility with a lending syndicate comprised of Canadian Imperial Bank of Commerce ("CIBC"), Royal Bank of Canada ("RBC"), The Bank of Nova Scotia ("BNS") and Wells Fargo Bank, N.A. Canadian Branch ("Wells Fargo," and together with CIBC, RBC and BNS, the "Pre-Petition Lenders"), with CIBC acting as the Administrative Agent.

42. The Credit Agreement provides for two tranches of financing which rank *pari passu* to one another:

(a) In Canada, the Credit Agreement provides for a USD $10 million revolving operating term credit facility provided by CIBC as the lender to the Commercial Trust for general trust purposes (the "Operating Facility"); and

(b) In the U.S., the Credit Agreement provides for a USD $155 million revolving syndicated term credit facility provided by the Prepetition Lenders to LP for the acquisition, exploration, development and production of oil and gas properties in the U.S. (the "Syndicated Facility," and together with the Operating Facility, the "Credit Facility").

43. The Syndicated Facility is subject to a borrowing base valuation of LP's oil and gas assets.

44. The tranches of the Credit Facility are secured by:

(a) a CDN $250 million demand debenture dated April 21, 2011, as supplemented by a supplemental debenture dated March 25, 2013 governed by the laws of Alberta, issued by the Parallel Energy Trust and the Commercial Trust (collectively, the "Canadian Trusts"), granting a first priority security interest to the Prepetition Lenders over all present and after-acquired personal property of the Canadian Trusts registered in Alberta and all other jurisdictions in which the Canadian Trusts carry on business;

(b) a Securities Pledge Agreement dated April 21, 2011, governed by the laws of Alberta, executed by the Commercial Trust, granting a pledge of all voting shares of GP and LP held by the Commercial Trust to the Prepetition Lenders;

(c) a Subordination Agreement dated April 21, 2011, governed by the laws of Alberta, executed by CIBC (as Agent), Computershare (as trustee of the Parallel Energy Trust), the Canadian Trusts and Parallel subordinating any inter-company debt obligations owing to the Canadian Trusts in favor of the Prepetition Lenders' Credit Facility and any future Prepetition Lenders' secured debt, along with a Convertible Debenture Subordination Confirmation and Agreement dated April 12, 2012 executed by CIBC (as Agent), the Parallel Energy Trust and Computershare;

(d) a Security Agreement date April 21, 2011, governed by the laws of Texas, executed by each of the Debtors, granting a first priority security interest to the Prepetition Lenders over all present and after-acquired personal property of the Debtors, including a pledge of any voting shares held by the Debtors and a Uniform Commercial Code Financing Statement describing such personal property as collateral;

(e) a Control Agreement dated April 21, 2011, governed by the laws of Texas, executed by the Debtors and the Commercial Trust, acknowledging that the Commercial Trust has pledged its partnership interests in GP and LP and agreeing to comply with all of CIBC's (as Agent) instructions and directions regarding the partnership interests;

(f) a Mortgage (Deed of Trust) dated April 21, 2011, as supplemented by a Supplement to and Ratification of Deed of Trust dated May 3, 2011, a Second Supplement to and Ratification of Deed of Trust dated April 12, 2012, and amended by a First Amendment to Deed of Trust dated June 4, 2012 governed by the laws of Texas, granted by LP, creating a first priority deed of trust lien over all the U.S. oil and gas properties to the Prepetition Lenders; and

(g) separate deed of trust mortgages dated August 11, 2015, registered in Garfield County (OK), Jefferson County (OK), Grey County (TX) and Roberts County (TX) respectively, and a Control Agreement dated August 6, 2015 from GP in favor of CIBC (as Agent) in respect thereof.

45. Additionally, the Debtors and the Canadian Trusts entered into Guarantee Agreements with the Prepetition Lenders on April 21, 2011, along with multiple Consent Agreements dated November 4, 2011, April 12, 2012, June 25, 2012, March 25, 2013, April 28, 2014 and April 27, 2015, respectively (collectively, the "Guarantee Agreements"). Pursuant to the Guarantee Agreements, Debtors and the Canadian Trusts guaranteed the Credit Facility.

46. As of the date hereof, $153.5 million of the Syndicated Facility has been drawn and the full balance of the Operating Facility has been drawn.

ii. Other Obligations

47. Other than the obligations to the Pre-Petition Lenders described herein, the Debtors pre-petition obligations consist of obligations arising in the ordinary course of business relating to Debtors' oil and gas operations, including obligations to their employees, vendors and other third parties who perform services related to the Debtors' operations and obligations to royalty owners. Notably, the Debtors have posted a performance bond in the face amount of USD $9.919 million (the "Performance Bond") relating to historic well plugging and abandonment obligations which may arise in the future. Pursuant to the transaction with Scout Energy Group II, LP (as described herein), the Performance Bond will be replaced by Scout Energy Group II, LP, and the Debtors' obligations under the Performance Bond will be released.

D. Cash Management

48. Before commencing these Cases, the Debtors managed their cash receipts and payments through a cash management system (the "Cash Management System") maintained by Wells Fargo Bank ("Wells Fargo") and Canadian Imperial Bank of Commerce ("CIBC") (collectively, the "Cash Management Banks"). In particular, the Debtors maintain five bank accounts: (a) LP maintains two bank accounts at Wells Fargo, Account No. XXXXXX6774 as an operating account (the "Wells Fargo Operating Account") and Account No. XXXXXX6790 as the revenue account (the "Wells Fargo Revenue Account"); (b) LP maintains one account at CIBC, Account No. XXXXXX6918 (the "LP CIBC Account"); and (c) GP maintains two operating accounts at CIBC, Account No. XXXXXX9113 and Account No. XXXXXX6617.

49. In connection with its debtor-in-possession financing (the "DIP Financing") and to ensure that the Debtors' revenue remains in its bank accounts (the "Bank Accounts") and is not transferred to non-debtor foreign affiliates, shortly before the Petition Date, the Debtors converted the LP CIBC Account into a lender-controlled controlled account (the "DIP Account") and upon approval of the DIP Financing, all of the proceeds from the DIP Financing will be deposited into the LP CIBC Account. Additionally, the Debtors established a sixth bank account at CIBC (the "CIBC Operating Account"). A chart demonstrating the cash flows and Cash Management System is attached to the Cash Management Motion**.**

50. Most of the revenues from LP's oil and gas sales are deposited into the LP CIBC Account, although some of the purchasers pay directly into the Wells Fargo Revenue Account. Funds from the LP CIBC Account/DIP Account are transferred to the CIBC Operating Account and from there transferred to either the GP CIBC Accounts or the Wells Fargo Operating Account, from which the Debtors make all of their disbursements, other than royalties, which are paid from the Wells Fargo Revenue Account.

51. Historically, funds were transferred from the Commercial Trust's CIBC bank account to the LP's CIBC bank account, following which funds were transferred from the LP's CIBC bank account to its Wells Fargo bank account in Tulsa in order to pay all of LP's operating expenses (collectively, the "Cross-Border Transfers"). In advance of the filing of these Cases, the Cross-Border Transfers have ceased. Some of LP's direct expenses, however, (primarily the allocation of the Calgary Head Office overhead costs), are incurred by GP in accordance with the GP Services Agreement for

management and administrative services, and are paid directly out of PEI's CIBC bank account. PEI receives reimbursements from GP's CIBC bank account prior to releasing cheques for such payments. The Debtors intend to continue these reimbursements in accordance with the GP Services Agreement.

E. Events Leading to Chapter 11 Filing

i. Decline in the Oil Industry and Revenues

52. The global decline of oil and gas prices has had a significant negative impact on Parallel. The oversupply of global oil production, coupled with weakened demand for fuel in the global economy, has compressed the margins that oil and gas producers obtain for their product. Consequently, earnings are down even for historically profitable oil and gas companies like Parallel, which has led to a reduction in drilling activity, payroll cuts, and, in some instances, insolvency.

53. Until the summer of 2015, Parallel had positive cash flow. The continued decline in commodity prices, however, led to a further reduction in the value of Parallel reserves, such that the value of the assets is now significantly less than outstanding liabilities and Parallel does not have available capital to continue indefinitely as a going concern.

ii. Assets, Liabilities and Net Income

54. As of September 30, 2015, LP and GP combined had, based on internally prepared financial statements that are not prepared according to U.S. GAAP, assets with book value of approximately $221 million in assets, and approximately $161 million in liabilities to non-related parties. For the nine months ended September 30, 2015, LP and GP combined had, based on internally prepared financial statements that are not prepared

according to U.S. GAAP, approximately $38.6 million in gross revenue, approximately $31.3 million in net revenue and an approximate net loss of $88.6 million (of which natural gas accounted for 25%, natural gas liquids accounted for 35% and condensate accounted for 40% of the Debtors' revenues before royalties).[1]

iii. Stalking Horse Solicitation Process

55. As a result of continued low commodity prices, Parallel commenced a formal review of strategic alternatives in April 2015. Parallel considered, among other things: (a) a sale of Parallel or substantially all of its assets, (b) a sale of one or more of Parallel's significant assets, (c) a merger or other business combination, and (d) alternative financing to reduce the amount of indebtedness under the Credit Facility or otherwise to increase Parallel's available working capital. Despite a robust effort to identify a sale or refinancing transaction that could be completed outside of a Chapter 11 case (and corresponding CCAA proceedings in Canada), no such transaction was forthcoming.

56. Building on this effort, in September 2015, Parallel initiated a marketing effort designed to solicit bids that, potentially, might culminate in the identification of a stalking horse bid for the Debtors' assets in contemplation of a sale and marketing process that would be completed in Chapter 11.

57. As a result, Parallel and its professionals, in consultation with the Pre-Petition Lenders, have collectively determined that the proposal submitted by Scout Energy Group II, LP ("Scout" or the "Stalking Horse"), and the corresponding marketing process to be completed as part of the Debtors' Chapter 11 Cases, would maximize the

[1] The Debtors' financial numbers referenced herein are preliminary, unaudited, and may not be pursuant to IFRS.

financial return to the Debtors' creditor constituencies with minimal closing risk. Scout has entered into a stalking horse purchase and sale agreement with LP. As part of its bankruptcy process, the Debtors intend, among other things, to seek an order from the Bankruptcy Court approving Scout as the stalking horse bidder and a corresponding marketing process that would culminate in an auction designed to maximize the sales price for the Debtors' assets.

iv. Restructuring Support Agreement

58. Parallel's strategic review process also culminated in a Restructuring Support Agreement with the Bank Lenders, dated November 8, 2015 (the "RSA"). The RSA is the product of extensive negotiations between Parallel – with the assistance of its legal and financial advisors – and the Pre-Petition Lenders and its legal and financial advisors.

59. The RSA requires Parallel to sell all of its oil and gas assets free and clear of all liens, claims, and encumbrances, pursuant to section 363 of the Bankruptcy Code, no later than February 4, 2016. The Bank Lenders have agreed to: (a) waive compliance with certain sections of the Credit Agreement, the application of which would have triggered a default under the Credit Agreement (provided that the Bank Lenders are permitted to charge interest at a default rate in accordance with the Credit Agreement); (b) not object to the 363 sale; (c) not vote for any plan of reorganization or liquidation that is inconsistent with the 363 sale; (d) not solicit any sale, liquidation or reorganization of any Parallel entity (except as provided for under the RSA); (e) not commence or support the appointment of a trustee or receiver; (f) not object to the D&O Trustee using funds under the D&O Trust in accordance with the terms of the D&O Trust; (g) not

object to a key employee retention plan being presented in the CCAA proceedings and a key employee incentive plan being presented in the Cases; (h) to the extent that a plan of reorganization is filed, not object to the Parallel directors and officers seeking customary releases thereunder; (i) if required, agree to fund both the CCAA proceedings and the Cases through two separate debtor-in-possession facilities until their appropriate conclusion; and (j) agree that both the Trust Services Agreement and the GP Services Agreement shall remain in force.

CONCLUSION

60. Approval of the First Day Motions is in the best interest of the Debtors, their estates and their creditors.

61. The Debtors filed these Cases to effectuate a sale of their assets. The filing of these Cases are the Debtors' best option to preserve and maximize the value of their assets and businesses.

62. I have reviewed this Declaration and hereby declare under penalty of perjury that the foregoing is true and correct and within my own personal knowledge.

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Executed this 9th day of November, 2015.

RICHARD N. MILLER,
as Chief Financial Officer of Parallel Energy GP LLC

Exhibit A

EXHIBIT A

1. Concurrent with the filing of their chapter 11 petitions, the Debtors have filed the First Day Motions,[1] which I believe are necessary to enable them to operate in chapter 11 with minimum disruption. I am familiar with the contents of each First Day Motion, including the exhibits thereto, and I believe that the relief sought in each First Day Motion: (a) is necessary to enable the Debtors to operate in chapter 11 with minimal disruption or loss of value to their assets; (b) is necessary to provide the Debtors with a reasonable opportunity for a successful reorganization; and (c) best serves the interests of the Debtors' stakeholders. The following paragraphs set forth the relief requested and supporting facts:

A. Motion of the Debtors For Entry of An Order Directing Joint Administration of Related Chapter 11 Cases for Procedural Purposes Only (the "Joint Administration Motion")

2. By their Joint Administration Motion, the Debtors request that the Court (a) jointly administer the Debtors' Cases for procedural purposes only pursuant to Bankruptcy Rule 105(b); and (b) authorize the Debtors to file the monthly operating reports required by the U.S. Trustee Operating Guidelines on a consolidated basis.

3. Joint administration of the Cases will be an efficient use of this Court's and the Debtors' resources. Numerous matters affecting all of the Debtors can be handled by the use of combined notice, motion, order or hearing. Joint administration will permit the use of a single, general docket for the Cases and combine notices to creditors and other parties-in-interest of the Debtors' respective estates.

[1] All capitalized terms not herein defined shall have the meanings ascribed to them in the *Declaration of Richard N. Miller in Support of Voluntary Petitions and First Day Motions* (the "Miller Declaration").

B. Motion to (A) Permit Filing of Consolidated Creditor Matrix; and (B) Implement Certain Notice Procedures (the "Notice Procedures Motion")[2]

4. The Debtors request that the Court approve the Debtors' use of a consolidated Creditor Matrix, updated periodically, as appropriate and sufficient notice in these Cases. The Debtors have identified approximately 2,500 persons and/or entities to whom notice must be given under the Bankruptcy Code, the Bankruptcy Rules, and/or the local rules. Compliance with such notice would be extremely burdensome to the Debtors, costly to their estates, and, in many instances, unnecessary as many parties are not adversely affected by certain matters.

5. Approval of the notice procedures requested in the Notice Procedures Motion would afford due and adequate notice to all parties-in-interest and will not impair the right of a party whose interest is directly affected by a particular matter to receive all filings related to that matter. It would also promote the Debtors' reorganization efforts by preserving estate assets that would otherwise be consumed by unnecessary copying, postage and related expenses.

C. Application to Employ Prime Clerk LLC as Claims and Noticing Agent for the Debtors Pursuant to 28 U.S.C. § 156(c), 11 U.S.C. § 105(a), and Local Rule 2002-1(f) (the "Section 156(c) Application")[3]

6. The Debtors request the entry of an order appointing Prime Clerk as the Claims and Noticing Agent for the Debtors in the Section 156(c) Application. If appointed, Prime will assume Cases full responsibility for the distribution of notices and the maintenance, processing and docketing of proofs of claim filed in the Debtors' Chapter 11 Cases.

7. Based on all engagement proposals obtained and reviewed, Prime Clerk's rates are competitive and reasonable given Prime Clerk's quality of services and expertise. The terms

[2] All capitalized terms used in this Section not expressly defined in this Declaration shall have the same meaning as ascribed in the Notice Procedures Motion, which is incorporated herein by reference.

[3] All capitalized terms used in this Section not expressly defined in this Declaration shall have the same meaning as ascribed in the Section 156(c) Application, which is incorporated herein by reference.

of Prime Clerk's retention are set forth in the Engagement Agreement attached as **Exhibit C** to the Section 156(c) Application.

8. The Debtors anticipate that over 2,500 entities will be noticed. In view of the number of anticipated claimants and the complexity of the Debtors' businesses, the Debtors submit that the appointment of a claims and noticing agent is in the best interests of both the Debtors' estates and their creditors.

D. Motion to Approve (A) Maintenance of Pre-Petition Bank Accounts and Cash Management System; and (B) Continued Use of Existing Checks and Business Forms (the "Cash Management Motion")[4]

9. In their Cash Management Motion, the Debtors request permission to: (a) continue to use their Cash Management System; (b) honor certain pre-petition obligations related to the use of the Cash Management System; (c) maintain certain existing bank accounts and existing forms; and (d) continue to perform intercompany transactions amongst the Debtors consistent with historical practices (the "Intercompany Transactions").[5] The Cash Management System facilitates the Debtors' cash monitoring, forecasting and reporting, and enables the Debtors to maintain control over the administration of their Bank Accounts. Without the requested relief, the Debtors would be unable to maintain their financial operations effectively and efficiently, which would cause significant harm to the Debtors and to their estates.

[4] All capitalized terms used in this Section not expressly defined in this Declaration shall have the same meaning as ascribed in the Cash Management Motion, which is incorporated herein by reference.

[5] Because the Debtors engage in intercompany transactions on a regular basis and such transactions are common among similar enterprises, the Debtors believe the intercompany transactions are ordinary course transactions within the meaning of Section 363(c)(1) of the Bankruptcy Code and, therefore, do not require this Court's approval. Nevertheless, out of an abundant of caution, the Debtors are seeking authority to engage in such transactions on a post-petition basis. The continued performance of the ordinary course intercompany transactions is necessary to ensure the Debtors ability to operate their businesses during these Bankruptcy Cases.

i. Cash Management System

10. Before commencing these Cases, the Debtors managed their cash receivables and payables through a Cash Management System maintained by Wells Fargo Bank ("Wells Fargo") and Canadian Imperial Bank of Commerce ("CIBC") (collectively, the "Cash Management Banks").

11. Additionally, the Debtors have recently established a sixth bank account at CIBC (the "CIBC Operating Account"). A list of the accounts in the current Cash Management System is attached to the Cash Management Motion as **Exhibit C** and a chart demonstrating the cash flows is attached as **Exhibit D.**

12. In the Cash Management Motion, the Debtors have also requested authority to (a) maintain and continue to use any or all of their existing accounts in the names and with the account numbers existing immediately before the Petition Date; provided, however, that the Debtors have reserved the right to close some or all of their existing accounts and operate new debtor-in-possession accounts; (b) deposit funds in and withdraw funds from any such accounts by all usual means, including checks, wire transfers, automatic clearinghouse transfers, electronic funds transfers, or other debits; and (c) treat their existing Bank Accounts (and all accounts opened post-petition) for all purposes as debtor-in-possession accounts.

13. The Debtors' Cash Management System constitutes an ordinary course and essential business practice and provides significant benefits to the Debtors and their estates, including, among other things, the ability to control corporate funds, ensure the maximum availability of funds when necessary, and reduce borrowing costs and administrative expenses by facilitating the movement of funds and by providing more timely and accurate account balance information.

14. Having to replace the current Cash Management System would be costly and disruptive of the orderly collection of revenues by the Debtors, resulting in a significant adverse effect on the Debtors' sale efforts.

15. In addition, the Debtors, in the Cash Management Motion, have requested that the Court grant further relief from the U.S. Trustee Guidelines to the extent they require the Debtors to make all disbursements by check as the Debtors conduct many transactions through ACH and wire transfers and other similar methods. If the Debtors' ability to conduct transactions by debit, wire, ACH transfer, or other similar methods is impaired, the Debtors may be unable to perform under certain contracts, their business operations may be unnecessarily disrupted, and their estates will incur additional costs.

16. The Debtors also have requested that the Court authorize the Cash Management Banks to (i) continue to maintain, service, and administer the Bank Accounts as accounts of the Debtors as debtors in possession, without interruption and in the ordinary course of business and only to the extent authorized by order of the Court and (ii) accept and honor all representations from the Debtors as to which checks, drafts, wires, or ACH transfers should be honored or dishonored consistent with any order of the Court and governing law, whether such checks, drafts, wires, or ACH transfers are dated before or subsequent to the Petition Date and that such bank not be deemed to be liable to the Debtors or their estates on account of such pre-petition check or other item honored post-petition.

17. As part of the Cash Management System, the Debtors utilize numerous Business Forms in the ordinary course of their business.

18. To preserve funds and assist in the efficient administration of these estates, the Debtors have sought authority to use pre-existing business forms and check stock; provided,

however, that once the Debtors' current stock of business forms has been exhausted, the Debtors will, when reordering, require the designation "Debtor-in-Possession," the corresponding case number, and all other related information required by the Guidelines.

19. The U.S. Trustee has approved one of the Cash Management Banks, Wells Fargo, as an authorized depository and Wells Fargo is backed by the Federal Deposit Insurance Corporation (the "FDIC").

20. CIBC, the other Cash Management Bank, is one of the five largest financial institutions in Canada and holds more than $400 billion in assets. CIBC has more than 1,100 domestic branches that offer a range of consumer and business financial services, including deposits, loans, investments, and insurance. Deposits in Canada are backed by the Canada Deposit Insurance Corporation. My understanding is that CIBC intends to executes a depository agreement with the U.S. Trustee and take any necessary steps to comply with section 345 of the Bankruptcy Code.

21. The Debtors maintain special business relationships with the Canadian Parallel Entities, resulting in intercompany receivables and payables in the ordinary course of business (i.e. the "Intercompany Transactions"). Such Intercompany Transactions are frequently conducted among the Debtors and their affiliates pursuant to pre-petition shared services and informal intercompany trade arrangements, among others. Intercompany Transactions are made, through direct deposits and checks either to (a) reimburse for various expenditures associated with their business; (b) fund certain expenditures, as needed; or (c) transfer funds to the company's main operating account when such revenue is available.

22. Historically, the Debtors maintained an integrated cash management system, which included Intercompany Transactions to obtain accounting, cash management,

administrative, and operations services (the "Management and Administrative Services") from PEI pursuant to a *Services Agreement* (the "Services Agreement") dated April 7, 2011. A copy of the Services Agreement is attached as **Exhibit E** to the Cash Management Motion. The Debtors historically paid the Management and Administrative Services with transfers funds between GP and PEI. The Debtors intend to continue this business relationship, which will result in Intercompany Transactions between the Debtors and PEI and request permission to continue making payments pursuant to the Services Agreement in accordance with the DIP Budget.

23. The Debtors track all fund transfers in their respective accounting systems and can ascertain, trace, and account for all intercompany transactions. If the Intercompany Transactions were discontinued, the Cash Management System and the Debtors' operations would be disrupted unnecessarily to the detriment of the Debtors, their creditors and other stake holders.

E. Motion for an Interim Order Authorizing (A) Payment of Pre-petition Accrued Employee Wages, Salaries and Payroll Taxes, (B) Reimbursement of Employees for Pre-petition Business Expenses, and (C) Honoring of Existing Employee Benefit Plans and Policies at Its Discretion in The Ordinary Course of Business (the "Wage Motion")[6]

24. As more fully outlined in the Wage Motion, the Debtors' workforce consists of forty-five (45) exempt and non-exempt employees (the "Employees"). In the Motion, the Debtors seek Court authority to: (a) pay any and all pre-petition wages due to the Debtors' Employees for work performed pre-petition, whether accrued or currently due and payable (collectively, the "Compensation Obligations"); (b) honor any and all of Debtors' pre-petition Employee Benefit Obligations (the "Benefit Obligations"), including but not limited to,

[6] All capitalized terms used in this Section not expressly defined in this Declaration shall have the same meaning as ascribed in the Wage Motion, which is incorporated herein by reference.

insurance payments, 401(k) matches, cell phone plans, credit cards, and any benefit premiums incurred in connection with the various Employee Benefit Obligations (the "Benefit Programs"); and, (c) continue paying the Benefit Obligations, payroll taxes, Employee Reimbursement Obligations and all fees and costs incident to the foregoing, including amounts owed to third-party administrators and continuing administering all of the Benefit Obligations and Benefit Programs, the "Employee Obligations") in the ordinary course of business. The Debtors further seek an order directing all relevant banks and financial institutions (collectively, the "Banks") to receive, process, honor, and pay any and all checks, electronic fund transfers, and automatic payroll transfers drawn on the Debtors' disbursement accounts (collectively, the "Disbursement Accounts"), whether such checks were presented or fund transfer requests were submitted before or after the Petition Date, to the extent that such checks or transfers related to any of the Employee Obligations.

25. The Debtors seek to minimize the personal hardship that would be visited upon Employees if they are not paid when due and to maintain the morale of its essential workforce at this critical time. The Debtors will have sufficient funds to pay all requested amounts as and when due, assuming they are granted authority to use Cash Collateral.[7] All payments made on account of the employee obligations and programs will be made in accordance with any budget approved by this Court with respect to the use of Cash Collateral.

26. In the ordinary course of business, the Debtors outsource their payroll and related obligations to Southwestern Payroll Service, Inc. ("Southwestern") pursuant to a Services Agreement dated July 19, 2012 (the "Agreement"). A copy of the Agreement is attached to the Wage Motion as **Exhibit C**.

[7] Contemporaneously with the filing of the Wage Motion, the Debtors have sought authority to use cash collateral.

27. The Debtors, through Southwestern, ordinarily pay Employees semi-monthly, with a pay cycle of the 15th and last workday of the month. The amount of the semi-monthly payroll for the Debtors fluctuates each pay period, and the most recent payroll was approximately $123,821.48.

28. The Employees were most recently paid on October 30, 2015. November 13, 2015 is the next pay-date for the Debtors and the Debtors funded this payroll by depositing funds with Southwest before the Petition Date. Consequently, the Debtors are current on payroll through November 13, 2015.

29. The Payroll Tax Obligations for the most recent pay period was $43,869.28. As of the Petition Date, the Debtors are current for Payroll Tax Obligations through November 13, 2015.

30. The Debtors provide a 401(k) matching contribution program and other employee benefits to its Employees through Southwestern (the "401(k) Program"). The Debtors, through the 401(k) Program, match 100% of the first 3% contributed and 50% of contributions between 3% and 5%.

31. Because the Debtors pre-funded payroll, November 13, 2015 is the most recent 401(k) Contribution Payment made by the Debtors and was for a total of $15,345.43, of which the Debtors contributed $5,133.56. November 30, 2015 is the next expected Contribution Payment date for the 401(k) Program.

32. Additionally, the Debtors provide various vacation and insurance benefits to their Employees.

33. The Debtors, in the ordinary course of business, reimburse Employees for a variety of expenses, which include, among other things, business-related travel and business-related expenses.

34. The Debtors maintain thirty-eight (38) company credit cards with Wells Fargo Bank with a $100,000.00 combined spending limit (the "Wells Fargo Card"). The Wells Fargo Card is used for routine business charges such as fuel, parts (vehicle and compressor), and tires. Although charges may fluctuate from month to month, the Debtors expend approximately $30,000.00 per month to pay off the charges made to the Wells Fargo Card. As of the Petition Date, the Debtors are current for charges that have been incurred but either not yet billed, or billed, but not yet paid. Wells Fargo currently holds a $100,000 security deposit on the Debtors' Wells Fargo Card.

35. The Debtors' Employees are central to the company's operation and vital to these Cases. A significant deterioration in employee morale at this critical time undoubtedly would have a devastating impact on the Debtors, their customers and vendors, the value of the Debtors' assets and business, and the ability to continue operations. The total amount sought to be paid herein is relatively modest compared with the size of the Debtors' overall business and the importance of the Employees to these Cases.

F. Motion for Interim and Final Orders Authorizing (A) Continued Workers' Compensation, Liability, Property, and Other Insurance Programs, (B) Payment of All Obligations in Respect Thereof, and (C) The Ability to Enter into Premium Financing Agreements in the Ordinary Course of Business (the "Insurance Motion")[8]

36. In the Insurance Motion, the Debtors request authorization to (a) continue or renew various Insurance Programs and to honor their undisputed obligations thereunder; and (b)

[8] All capitalized terms used in this Section not expressly defined in this Declaration shall have the same meaning as ascribed in the Insurance Motion, which is incorporated herein by reference.

enter into Premium Financing Obligations in the ordinary course of business.

37. In connection with the operation of their businesses, the Debtors maintain several insurance programs, including, workers' compensation, general liability and property insurance programs, which provide the Debtors with insurance coverage for claims relating to, among other things, workers' compensation, automobile losses and liability, and general liability (the "Insurance Programs") through several different insurance carriers (the "Insurance Carriers"). A brief summary of the Debtors' insurance policies is attached as **Exhibit B** to the Insurance Motion. The Debtors procure workers' compensation insurance through Chubb Insurance Company. To my knowledge, the Debtors do not have any outstanding or pending workers-compensation claims.

38. The Debtors procure certain general liability and automobile insurance through Federal Insurance Company. As part of their ordinary course of business, the Debtors have pre-paid the premiums for insurance such that the insurance policies have been pre-paid through July 1, 2016.

39. The nature of the Debtors' businesses and the extent of their operations make it essential to maintain their Insurance Programs on an ongoing and uninterrupted basis. The nonpayment of any premiums, deductibles, or related fees under any of the Insurance Programs could result in one or more of the Insurance Carriers terminating their existing policies, declining to renew their insurance policies or refusing to enter into new insurance agreements in the future.

G. Motion for Interim and Final Orders (a) Authorizing Adequate Assurance of Payments to Utilities; (b) Prohibiting Utilities from Altering, Refusing, or Discontinuing Services; and (c) Establishing Procedures for Resolving Requests for Additional Assurance of Payment (the "Utilities Motion")[9]

40. In the Utilities Motion, the Debtor's request authority to make adequate assurance payments to utility companies currently providing or that will provide services to the Debtors, prohibiting the utility companies from altering, refusing, or discontinuing services to the Debtors on account of the bankruptcy filing or the non-payment of pre-petition amounts owed and establishing certain procedures for resolving utility company requests for additional assurance of payment.

41. A list of all identified utility companies for each Debtor is attached as **Exhibit C** to the Utility Motion. To my knowledge, the Debtors have been current since the company's inception on all utility bills and, consequently, all pre-petition security deposits have been returned by the utility companies. As of the Petition Date, no defaults or arrearages with any utility company exist and upon information and belief, no outstanding amounts are owed to any utility company. On average, the Debtors' current aggregate monthly utility usage is approximately $217,000.

42. Uninterrupted utility services are critical to the Debtors' ability to operate and maintain the value of their businesses and to maximize value for the benefit of their creditors. The Debtors have proposed adequate assurance of payment to each identified Utility Company. In most cases, payment of additional amounts above the proposed Adequate Assurance is unnecessary. The Debtors have a good payment history with all of the Utility Companies and have a long history of timely payment to these entities.

[9] All capitalized terms used in this Section not expressly defined in this Declaration shall have the same meaning as ascribed in the Utilities Motion and incorporated herein by reference.

43. I anticipate that the cash flow from operations, cash on hand, and the assets described in this Declaration will be sufficient to pay all post-petition obligations to the Utility Companies.

H. Motion to Authorize the Payment of Pre-Petition Taxes and Related Obligations; and Continue Such Payments Post-Petition in the Ordinary Course of Business (the "Tax Motion")[10]

44. The Tax Motion seeks (a) authority, but not direction, to pay pre-petition taxes, including, but not limited to, employment withholding, payroll and unemployment taxes (the "Employment Taxes"); franchise and/or income taxes (the "Franchise Taxes"); property taxes (the "Property Taxes"), severance and production taxes (the "Severance Taxes"); sales and use taxes (the "Sales and Use Taxes"), and all other applicable taxes (together with any applicable Sales and Use Taxes, Severance Taxes, Property Taxes, Employment Taxes, and Franchise Taxes, the "Taxes") to the respective taxing authorities listed on **Exhibit B** of the Tax Motion; (b) authority to pay any pre-petition Taxes for which the applicable payment was remitted, but had not cleared the Debtors' bank accounts as of the Petition Date; and (c) authorization for the Debtors' banks to receive, honor, process and pay any and all checks drawn, or electronic fund transfers requested relating to the Taxes.

45. The relief is being requested as certain taxes may constitute "trust fund" taxes and thus are not property of the Debtors' estates, and the failure to pay certain taxes could result in a lien being placed on the Debtors' property and/or such taxes constitute priority claims. The failure to pay the Taxes could disrupt the Debtors' operations and reorganization efforts and impair their successful reorganization.

[10] All capitalized terms used in this Section not expressly defined in this Declaration shall have the same meaning as ascribed in the Tax Motion, which is incorporated herein by reference.

46. To my knowledge, the Debtors have sufficient liquidity to pay such amounts as they become due in the ordinary course of business. The relief sought in the Tax Motion is necessary to the continued operation of the Debtors' businesses and preserve the value of the Debtors' estates.

I. Motion For Entry of Interim and Final Orders (a) Authorizing the Payment of Pre-Petition (i) Operating Expenses, (ii) Joint Interest Billings, (iii) Transportation and Warehousing Claims, and (iv) 503(b)(9) Claims, and (b) Confirming Administrative Expenses Priority of Outstanding Orders (the "Critical Vendor Motion")[11]

47. In the Critical Vendor Motion, the Debtors seek entry of orders: (a) authorizing, but not directing, the Debtors to pay in the ordinary course of business all undisputed, liquidated, pre-petition amounts owing on account of (i) operating expenses, (ii) joint interest billings, (iii) transportation and warehousing claims, and (iv) 503(b)(9) Claims (as defined herein); (b) confirming the administrative expense priority status of outstanding orders. As more particularly described below, based on the dire consequences that potentially could arise if the Debtors fail to honor the pre-petition Obligations, the relief requested in the Critical Vendor Motion is necessary to avoid immediate and irreparable harm to the Debtors' estates.

48. The Debtors hold "working interests" in various oil and gas leases in Texas and Oklahoma. A listing of the Debtors' Oil and Gas Leases where they are parties to Joint Operating Agreements is attached as **Exhibit C** to the Critical Vendor Motion. In most of the Oil and Gas Leases, the Debtors serve as the Operator. The Debtors serve as the Non-Operator under only a small number of oil and gas leases where they share working interests with third parties.

49. In their capacity as Operator, the Debtors incur in Operating Expenses. Lease Operating Expenses typically are not uniform and are not entirely predictable on a month-to-

[11] All capitalized terms used in this Section not expressly defined in this Declaration shall have the same meaning as ascribed in the Critical Vendor Motion, which is incorporated herein by reference.

month basis. For the first seven months of the year, the Debtors averaged approximately $812,000 per month in Lease Operating Expenses and $181,000 per month in work-over expenses (collectively, "Operating Expenses"). In the seven months preceding the Petition Date, the Debtors paid a total of approximately $6.8 million in Operating Expenses.

50. By the Critical Vendor Motion, the Debtors seek only to pay undisputed, pre-petition Operating Expenses owed in the Debtors' ordinary course of business utilizing a $600,000 critical vendor basket (the "Critical Vendor Basket") in accordance with their approved DIP Budget (as defined below). As of the Petition Date, the Debtors estimate that they will have approximately $940,0000 of Operating Expenses outstanding.

51. As a holder of Non-Operating Working Interests in the Oklahoma Wells, the Debtors are invoiced for their proportionate share of Joint Interest Billings. Failure to timely pay Joint Interest Billings owed by the Debtors is likely to result in an Operator's asserting lien rights under applicable state laws on the Debtors working interest in the oil and gas leases or the productions therefrom. To continue to receive their share of these properties and maintain their relationships with the Operators of the properties, both during and after the pendency of these Cases, the Debtors request authority, but not direction, to pay all undisputed, liquidated, pre-petition Joint Interest Billings in the ordinary course when due. Granting the relief will merely affect the timing of the payment to the Operators, these Operators will not receive more than they otherwise would likely have been entitled to under the Bankruptcy Code.

52. Joint Interest Billings are not uniform and are not entirely predictable on a month-to-month basis. In the nine months preceding the Petition Date, the Debtors paid approximately $240,000 in Joint Interest Billings. As of the Petition Date, the Debtors estimate that they will have approximately $26,000 of pre-petition Joint Interest Billings outstanding. To preserve and

protect their share of production from such oil and gas properties and to maintain their relationships with their operator, both during and after the pendency of these Chapter 11 Cases, the Debtors request approval to utilize the Critical Vendor Basket to pay any pre-petition Joint Interest Billings (in addition to any Operating Expenses or Shipping and Warehousing Claims), and to continue paying such Joint Interest Billings in the ordinary course of business on a post-petition basis.

53. In the ordinary course of business, the Debtors, as Operators, engage certain vendors (the "Shippers") to transport or deliver their oil and gas products, or other property, including oil and gas equipment (the "Materials") to and from the field, or to a processing plant. The Shippers regularly possess Materials belonging to the Debtors and the holders of Non-Operating Working Interests in an oil and gas property. The Materials are integral in the exploration and production process. The Debtors commonly require timely, and sometimes immediate, access to the Materials while drilling or operating a well. On average, the Debtors pay the Shippers approximately $480,000 per month in arrears. As of the Petition Date, the Debtors estimate that they will have approximately $370,000 of Shipping claims outstanding.

54. Additionally, while the Debtors have two condensate facilities, they rely on third party processing plants and storage facilities (collectively, the "Warehousemen") in the ordinary course of business to process and/or store Materials when not being used. On average, the Debtors pay the Warehousemen approximately $400,000 per month in arrears (fees are either paid in cash or gas is taken-in-kind). If the Debtors were to default on any obligation to the Warehousemen, they may assert a lien, attempt to take possession of the Debtors' property, and/or bar the Debtors' access to Materials stored at the Warehousemen's plants and facilities.

As of the Petition Date the Debtors estimate that they will have approximately $390,000 in Warehouseman claims outstanding.

55. Under most state laws, a Shipper or a Warehouseman may have a lien on the goods in its possession, which lien secures the charges or expenses incurred in connection with the transportation or storage of such goods. As a result, certain Shippers and Warehousemen may refuse to deliver or release Materials or other property in their possession or control, as applicable, before the pre-petition amounts owed to them by the Debtors (collectively, the "Shipping and Warehousing Claims") have been satisfied and their liens redeemed.

56. In the seven months preceding the Petition Date, the Debtors paid approximately $6.1 million in Shipping and Warehousing Claims. The Debtors average $880,000 per month in Shipping and Warehousing Claims. As of the Petition Date, the Debtors estimate that they will have approximately $760,000 of pre-petition Shipping and Warehousing Claims outstanding. To continue using the Shippers' and Warehousemen's transportation and storage services and have access to the Materials held or controlled thereby, the Debtors request approval to utilize the Critical Vendor Basket to pay any pre-petition Shipping Claims (in addition to any Operating Expenses or Joint Interest Billings) and request approval to pay up to $400,000 in pre-petition Warehousing Claims, and to continue paying such Shipping and Warehousing Claims in the ordinary course of business on a post-petition basis.

57. The Debtors may have received certain goods or materials from various vendors (collectively, the "503(b)(9) Claimants") within the 20 days before the Petition Date. As a result, a 503(b)(9) Claimant may refuse to supply new orders without payment of its pre-petition claims.

58. The Debtors also believe certain 503(b)(9) Claimants could reduce the Debtors' existing trade credit—or demand payment in cash on delivery—further exacerbating the Debtors' limited liquidity. The Debtors believe that as of the Petition Date, they owe approximately $250,000 on account of goods delivered within the 20 days before the Petition Date, the value of which may be entitled to administrative priority under section 503(b)(9) of the Bankruptcy Code.

59. Before the Petition Date and in the ordinary course of business, the Debtors may have ordered goods that will not be delivered until after the Petition Date (the "Outstanding Orders"). To avoid becoming general unsecured creditors of the Debtors' estates with respect to such goods, certain suppliers may refuse to ship or transport such goods (or may recall such shipments) with respect to such Outstanding Orders unless the Debtors issue substitute purchase orders post-petition. To prevent any disruption to the Debtors' business operations, and given that goods delivered after the Petition Date are afforded administrative expense priority under section 503(b) of the Bankruptcy Code, the Debtors seek an order: (a) granting administrative expense priority under section 503(b) of the Bankruptcy Code to all undisputed obligations of the Debtors arising from the acceptance of goods subject to Outstanding Orders; and (b) authorizing the Debtors to satisfy such obligations in the ordinary course of business.

60. I believe that payment of the critical vendors as described in the Critical Vendor Motion represents a sound exercise of the Debtors' business judgment, and is necessary to avoid immediate and irreparable harm to the Debtors' estates.

J. Motion To Establish Consolidated Bar Dates for (A) Filing Proofs of Claim and Interests and (B) Approving (I) Procedures for Notifying Creditors; and (II) the Form and Manner of Notice of the Bar Dates (the "Bar Date Motion")[12]

61. In the Bar Date Motion, the Debtors request entry of an order (a) establishing deadlines for filing proofs of claim against the Debtors for claims that arose prior to the Petition Date (as defined below), and (b) approving the forms and manner of noticing thereof.

62. To facilitate an orderly and efficient distribution to creditors or interest holders, the Debtors require complete and accurate information regarding the nature, validity, amount and status of all claims against the Debtors. The Debtors request that the Bar Date be 45 days from the Petition Date and do not request that the governmental bar date change.

K. Motion (A) for Interim and Final Orders (I) Authorizing the Debtors to Obtain Post-petition Secured Financing Pursuant to 11 U.S.C. § 354, (II) Authorizing the Debtors' Limited Use of Cash Collateral Pursuant to 11 U.S.C. § 363, and (III) Granting Adequate Protection to Pre-petition Senior Lender Pursuant to 11 U.S.C. §§ 361, 362, 363 and 364, and (B) Scheduling a Final Hearing Pursuant to Bankruptcy Rule 4001 (the "DIP Motion")[13]

63. The Debtors (a) seek entry of the Interim Order and a Final Order, (i) authorizing the LP (in its capacity as postpetition borrower, the "Borrower") to obtain senior secured post-petition financing in an aggregate principal amount not to exceed the Maximum Amount and authorizing the GP to unconditionally guaranty the Borrower's obligations under the Postpetition Facility; (ii) authorizing use of cash collateral; (iii) authorizing the Debtors to execute, deliver and enter into the Postpetition Facility and perform such other and further acts as may be required in connection with the Postpetition Facility; (iv) granting certain security interests, liens and superpriority claims (including a superpriority administrative claim pursuant to section 364(c)(1) of the Bankruptcy Code, liens pursuant to section 364(c)(2) and 364(c)(3) of the

[12] All capitalized terms used in this Section not expressly defined in this Declaration shall have the same meaning as ascribed in the Bar Date Motion, which is incorporated herein by reference.
[13] All capitalized terms used in this Section not expressly defined in this Declaration shall have the same meaning as ascribed in the DIP Motion, which is incorporated herein by reference.

Bankruptcy Code, and priming liens pursuant to section 364(d) of the Bankruptcy Code) to the Postpetition Lender to secure repayment of all obligations of the Debtors with respect to the Postpetition Facility; (v) authorizing the Debtors' limited use of cash collateral; (vi) granting adequate protection to the Pre-Petition Lender, whose liens and security interests are being primed by the Post-Petition Facility; and (vii) modifying the automatic stay imposed under section 362 of the Bankruptcy Code; (b) request that an interim hearing on the Motion be held before the Court to consider entry of the Interim Order, which authorizes the Debtors to borrow or guarantee, as applicable, the Postpetition Facility on an interim basis up to an aggregate principal amount not to exceed $5,100,000.00; and (c) request that the Court (i) schedule a final hearing (the "Final Hearing") on the Motion to consider entry of the Final Order authorizing the balance of the borrowings and guarantees, as applicable, on a final basis, and (ii) approve notice procedures with respect thereto.

64. The Debtors have an immediate need to use the Pre-Petition Lenders' cash collateral (the "Cash Collateral") to continue the operation of their business. Without such funds, the Debtors will not be able to pay costs and expenses, including but not limited to wages, salaries, rent, professional fees, general and administrative operating expenses, lease operating expenses, and maintenance costs that arise in administration of these Cases and in the ordinary course of the Debtors' business.

65. The Debtors are without sufficient funds, other than the Cash Collateral, to continue operations until a final Cash Collateral hearing. Absent the ability to use the Cash Collateral, the Debtors will be forced to shut down their operations abruptly, which will negatively impact the value of their assets and reduce or eliminate any prospect for a successful reorganization.

66. To protect the Pre-Petition Lenders' interest in the Cash Collateral, the interim order proposes to grant them adequate protection in the form of valid and perfected additional and replacement security interests and liens and a super priority administrative expense claim to the extent of any diminution of value in their collateral, subject to the terms and conditions of the proposed interim order.

67. Beyond the use of Cash Collateral, the Debtors have an urgent need for additional capital to continue their operations and preserve the value of their assets as a going concern. While the Debtors have negotiated a proposed sale to Scout (subject to higher and better offers), the Debtors have no unencumbered cash, and their available cash collateral is insufficient to pay operating expenses and to provide for other cash needs during the course of the Debtors' bankruptcy Cases. As a result, new borrowings are essential to preserve the Debtors' value pending the advancement and consummation of the sale of the Debtors' assets.

68. I do not believe that the Debtors would be able to enter into a post-petition lending facility on an unsecured basis or on a secured basis on more favorable terms than set forth in the Postpetition Facility. In fact, the Debtors have attempted for the past several weeks to solicit additional financing or capital infusions, including new debt or equity financing, with no success. Currently, the Post-Petition Lenders are the only parties that offered to provide the Debtors with post-petition financing and are only willing to lend to the Debtors on a senior secured basis.

69. Given the Debtors' financial condition and performance and existing capital structure, I believe the terms of the Postpetition Facility are fair, reasonable and adequate. First, the Post-Petition Facility allows the Debtors to borrow in accordance with the Initial Approved Budget up to $5,400,000.00 on an interim basis and up to an aggregate of $9,400,000.00 on a

final basis. I believe that these amounts will allow the Debtors to continue their operations pending the closing of a sale. Second, I believe that the financial terms of the Postpetition Facility are reasonable for borrowings by a distressed company. Third, the other terms of the Post-Petition Facility, including the protections provided to the Post-Petition Lenders to secure repayment of the Post-Petition Obligations are consistent with provisions included in other secured debtor-in-possession financing facilities. Finally, the Postpetition Facility was negotiated between the Debtors and the Post-Petition Lenders at arm's-length with the parties represented by counsel.

L. Motion Pursuant to 11 U.S.C. §§ 105, 363, 365, 503 And 507 and Bankruptcy Rules 2002, 6004 and 6006 for (I) Entry of an Order (A) Establishing Bid and Auction Procedures Related to the Sale of Substantially All of the Debtors' Property; (B) Approving Related Bid Protections; (C) Scheduling an Auction and Sale Hearing; (D) Establishing Certain Notice Procedures for Determining Cure Amounts for Executory Contracts and Unexpired Leases to be Assumed and Assigned; and (E) Granting Related Relief; and (II) Entry of an Order (A) Approving the Sale of Substantially All of the Debtors' Property Free and Clear of All Liens, Claims, Encumbrances and Interests; (B) Authorizing the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases (the "Sale Motion")[14]

70. In the Sale Motion, the Debtors seek entry of the Bid Procedures Order: (a) approving the Bid Procedures; (b) approving the Bid Protections in accordance with the purchase and sale agreement (the "Purchase and Sale Agreement"); (c) scheduling the Auction and a Sale Hearing with respect to any bid accepted by the Debtors, and approving the form and manner of notice thereof; and (d) establishing the Cure Procedures (as defined below). The Debtors also request that this Court set a Sale Hearing on or about January 8, 2016. At the Sale Hearing, pending the outcome of the Auction and as set forth in the Bid Procedures, the Debtors intend to seek entry of a Sale Order (a) approving the Sale, free and clear of all Interests and (b)

[14] All capitalized terms used in this Section not expressly defined in this Declaration shall have the same meaning as ascribed in the Sale Motion, which is incorporated herein by reference.

authorizing the assumption and assignment of certain Executory Contracts and Real Property Leases.

71. As a result of the continued low commodity prices, the Debtors in conjunction with RBC Capital Markets and Evercore considered: (a) a sale of Parallel, (b) a sale of all the assets of Parallel, (c) a sale of one of Parallel's significant assets, (d) a merger or other business combination, and (e) alternative financing to reduce the amount of indebtedness under the Credit Facility. No satisfactory offers were received.

72. On September 24, 2015, Evercore received a number of stalking horse proposals for the Debtors' assets. The Debtors and Evercore, in connection with the Pre-Petition Lenders and their legal and financial advisors, thoroughly assessed these stalking horse bids and collectively determined that the stalking horse bid submitted by Scout Energy Partners ("Scout") maximizes the Debtors' financial return while minimizing closing risk.

73. Pursuant to Section 2.4(c) of the Purchase and Sale Agreement, the Proposed Purchaser may terminate the Purchase and Sale Agreement if the Bid Procedures Order shall not have been entered within thirty (30) calendar days of the Petition Date.

74. Consistent with these requirements, the Debtors propose the following timeline (the "Timeline") for conducting the sale process:

Event	**Deadline**
Bid Procedures Hearing……..	December 9, 2015
Proposed Bid Deadline ……..	December 22, 2015
Auction…….	January 6, 2016
Sale Hearing……..….....	January 8, 2016
Closing……	January 25, 2016

75. Given the Debtors' pre-petition marketing efforts, I believe that the Timeline is more than sufficient to complete a fair and open sale process and maximize the value received

for the Assets. The Timeline will provide the Debtors and Evecore sufficient time to solicit (and/or re-solicit) prospective purchasers in advance of the Proposed Bid Deadline, while respecting the necessity to consummate a sale as quickly as possible to maximize the net value obtained for the Debtors' Assets for the benefit of their estates and all constituencies.

76. The Bid Procedures, attached to **Exhibit A** to the Sale Motion, are designed to maximize the value for the Debtors' estates by ensuring that a marketing and sales process is undertaken by the Debtors in accordance with the timeline required by the Proposed Purchaser. The Bid Procedures are the result of good faith, arm's-length negotiations between the Debtors, the Proposed Purchaser and the Pre-Petition Lenders.

77. The Bid Procedures facilitate a competitive bidding process in which all potential bidders are encouraged to participate and submit competing bids, taking into account the financial constraints facing the Debtors and the marketing efforts undertaken before the Petition Date. At the same time, the Bid Procedures provide the Debtors with the opportunity to consider all competing offers and to select the highest or best offer for the completion of the sale.

78. The Purchase and Sale Agreement provides the Debtors with a firm commitment that is not subject to any financing or due diligence contingencies, and, thereby, provides the Debtors with a floor against which other bidders can submit competing bids for the Assets through an auction process. Although the Debtors have determined, in their reasonable business judgment, that the property to be acquired should be subject to auction, the Debtors' ability to maximize value to their estates and creditors through such auction may be impaired absent approval of the Purchase and Sale Agreement and the Bid Procedures. As a result, the Debtors also request authority to pay the Proposed Purchaser a break-up fee in the amount of three

percent (3%) of the Purchase Price as an administrative expense if the conditions set forth in the Purchase and Sale Agreement are satisfied.

79. A sale of the Debtors' assets will result in the transfer of the business on a going concern basis to a financially stable buyer that will be able to satisfy the Debtors' going-forward capital requirements. Accordingly, a sale consistent with the timeframe proposed herein is necessary to maximize the value of their Debtors' assets for the benefit of all constituencies in these Cases.

M. Motion for Interim and Final Orders to (A) Honor Certain Pre-Petition Obligations to Working Interest Owners and Royalty Interest Owners; and (B) Continue Such Payments Post-Petition in the Ordinary Course of Business (the "Royalty Motion")[15]

80. In the Royalty Motion, the Debtors request authority to pay or apply in the ordinary course of business any and all amounts owed to royalty owners and working interest owners (collectively, the "Royalty Owners") in the ordinary course of business, whether such obligations were incurred pre-petition or will be incurred post-petition.

81. In the ordinary course of its business and in connection with the Debtors' oil and gas assets, the Debtors received production proceeds from oil and gas wells in Texas. The Debtors received income attributable to the production from their oil and gas purchasers, with the concomitant duty to disburse applicable proceeds to the Working Interest Owners and the owners of Royalty Interest. As of the Petition Date, the Debtors estimate that they owe approximately $856,000 to Royalty Owners in "pay" status. Additionally, the Debtors' books and records show approximately $219,780.23 owed to Royalty Owners in suspense.

[15] All capitalized terms used in this Section not expressly defined in this Declaration shall have the same meaning as ascribed in the Royalty Motion, which is incorporated herein by reference.

82. The Debtors have Working Interest in approximately 451 oil and gas properties. On average for the first seven months of 2015, the Debtors generated approximately $3,570,000 of net revenue each month on account of their working interest in the oil and gas properties.

83. Though the payment of their obligations to the Working Interest and Royalty Owners (the "Mineral Payments"), are subject to variation due to many factors such as specific terms of underlying agreements, change in ownership, change in amount of minerals captured, the Debtors are expected to make approximately one mineral payment totaling up to $690,000 per month. These payments are made by the Debtors to Working Interest Owners on the 4th day of each month. As a result of the time required to market and sell production and the significant accounting process required each month to accurately disburse the resulting proceeds, Mineral Payments are made approximately 60 days in arrears.

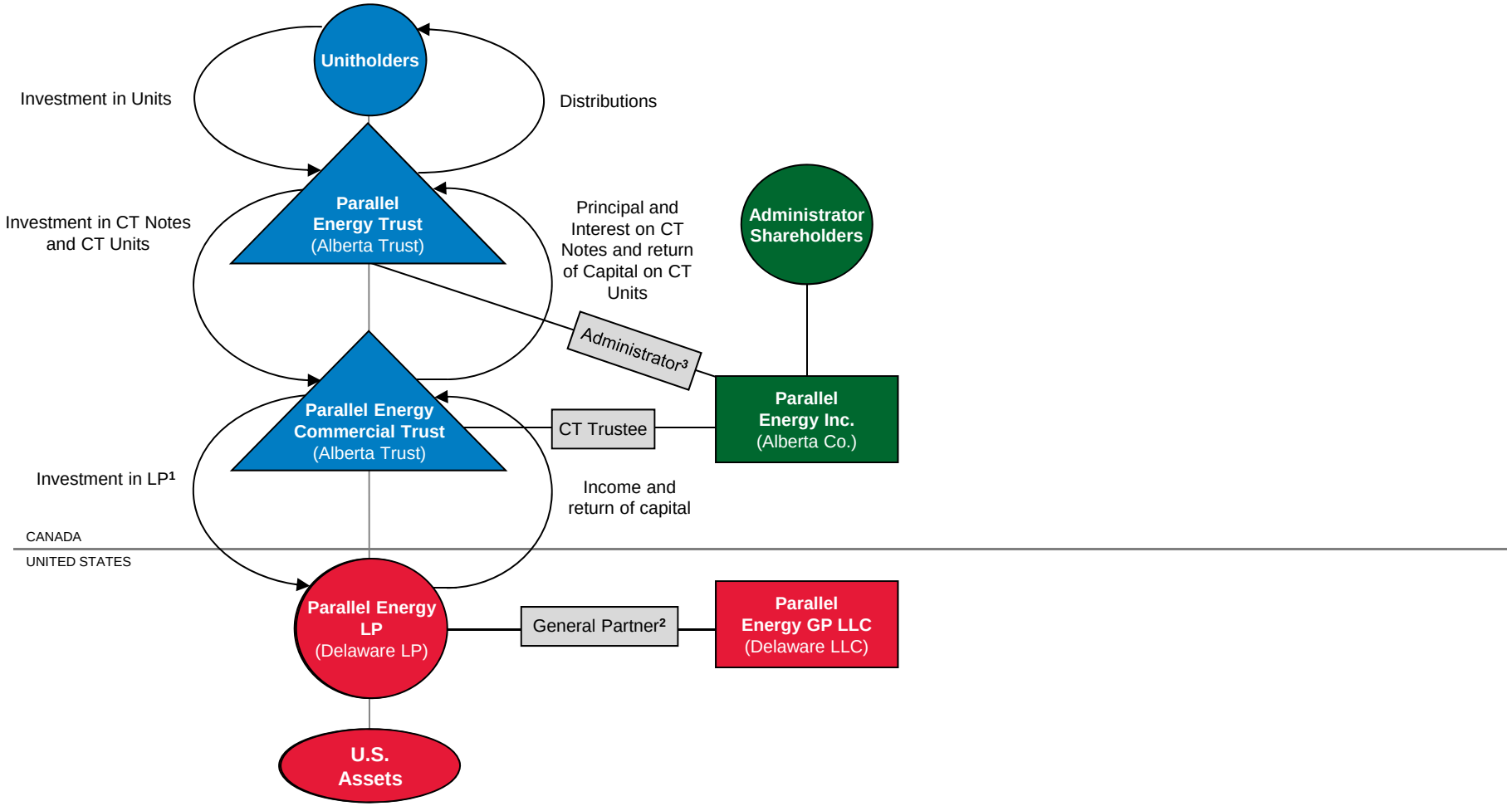
84. The Debtors estimate that as of the Petition Date, approximately $856,000 and as-yet unpaid Mineral Payments are due to be paid over the next 60 days. Shortly before the Petition Date, the Debtors made approximately $625,000 in Mineral Payments. Although the Debtors do not anticipate any additional Mineral Payments due in the next two weeks, because many of the payments were made by check, the Debtors request approval to pay up to $625,000 in pre-petition Mineral Payment Obligations on an interim basis, and up to $ 856,000 upon entry of the final order, and to continue making such payments in the ordinary course of business on a post-petition basis. Granting the relief requested will merely affect the timing of the Mineral Payments, the Royalty Owners and Working Interest Owners (collectively, the "Mineral Interest Owners") are not likely to receive more than they would have otherwise be entitled to under the state law or the Bankruptcy Code.

85. The Debtors' oil and gas leases are the lifeblood of their business. If the Debtors do not pay and continue to pay amounts owed to Mineral Interest Owners in the normal course of business, they risk statutory liens, litigation and other potentially precipitous action. Liens would burden the Debtors' assets, diminish their value and put at risk the success of this reorganization.

86. Fundamentally, the Debtors' have sought the relief requested in the Royalty Motion because payment of Mineral Interest Owners is essential to preserving the value of the oil and gas leases and ensuring the success of the sale of the Debtors' assets and business.

Exhibit B

Parallel Energy Structure



(1) A 99.999% interest in the Partnership.
(2) A 0.001% interest in the Partnership.
(3) Pursuant to the terms of the Administrative Services Agreement, the Administrator will perform all general and administrative services that are or may be required by the Trust on a simple cost reimbursement basis. Unitholders elect 100% of directors.

Exhibit C

EXHIBIT C

A. Parallel's Canadian Corporate Structure

1. Parallel Energy Trust (the "Public Trust")[1] and Parallel Energy Commercial Trust (the "Commercial Trust") were formed in Alberta (collectively, the "Canadian Trusts"). Parallel Energy Inc. ("PEI") serves as the administrator of the Public Trust. PEI was formed in Alberta and is owned by certain managers and directors of PEI.

i. The Public Trust

2. The Public Trust is the parent in the Parallel structure and was formed pursuant to a Trust Indenture dated March 10, 2011 between Computershare Trust Company of Canada ("Computershare"), as trustee, and PEI (the "Public Trust Indenture").

3. The Public Trust is considered to be a "mutual fund trust" under the *Income Tax Act* (Canada); however, it is not subject to "SIFT" (specified investment flow through) trust taxes, as all of its properties are held outside of Canada. The situs, mind and management of the Public Trust is in the Province of Alberta.

4. The Public Trust has issued units to the public (the "Units"). The Units are traded on the Toronto Stock Exchange ("TSX") under the symbol "PLT.UN" and the Public Trust's Debentures (as defined and described below) are traded on the TSX under the symbol "PLT.DB."

5. The beneficiaries of the Public Trust are the holders of the Public Trust Units (collectively, the "Unitholders"); such beneficiaries are entitled to non-cumulative distributions from the Public Trust if, as and when declared by the Public Trust. Each Unit represents an equal, undivided beneficial interest in the net assets of the Public Trust. All Units rank equally

[1] All capitalized terms not herein defined shall have the meanings ascribed to them in the *Declaration of Richard N. Miller in Support of Voluntary Petitions and First Day Motions* (the "Miller Declaration").

and rateably amongst themselves without preference or priority. Upon a liquidation or termination of the Public Trust, each Unitholder is entitled to participate equally with respect to the distribution of the remaining assets of the Public Trust after payment of the Public Trust's debts, liabilities and liquidation or termination expenses.

ii. PEI

6. PEI is a corporation incorporated under the laws of Alberta. Although PEI is not owned by the Public Trust, it acts as the directing and operating mind of Parallel pursuant to an administrative services agreement.

7. In particular:

(a) PEI is the Administrator of the Public Trust pursuant to the terms of an Administrative Services Agreement between Computershare, as the Public Trust trustee, and PEI, dated March 10, 2011 (the "Trust Services Agreement"). Pursuant to the Trust Services Agreement, PEI provides the Public Trust with administrative, governance, advisory and operational services, including making all determinations necessary for the discharge of the trustee's obligations. However, the trustee did not delegate the following services to PEI: issuing, certifying, exchanging or cancelling the Units; maintaining Unitholder registers; distributing payments and property to Unitholders; mailing materials to Unitholders; executing amendments to the Public Trust Indenture; and any matters ancillary or incidental to the foregoing. As the Public Trust trustee, Computershare is entitled to reasonable compensation for its services and to reimbursement of its reasonable out-of-pocket expenses incurred in acting as the trustee, either directly or indirectly.

(b) PEI is the trustee of the Commercial Trust and performs the duties of trustee in respect of the Commercial Trust; and

(c) PEI provides administrative services to the GP pursuant to a Services Agreement between PEI and the GP dated April 7, 2011 (the "GP Services Agreement"). These services include accounting, administrative, legal, operations, engineering and geophysical services (the "Management and Administrative Services"). PEI is entitled to be paid all reasonable costs and expenses in respect of the Management and Administrative Services.

iii. The Commercial Trust

8. The Commercial Trust was formed pursuant to a Trust Indenture dated March 10, 2011 between PEI, as trustee, and the Public Trust, by its Administrator (the "Commercial Trust Indenture"). The Commercial Trust is a wholly owned subsidiary of the Public Trust.

9. The Commercial Trust Indenture establishes the Commercial Trust as a private trust intended to qualify as a "unit trust" and a "portfolio investment entity" under the *Income Tax Act* (Canada). The Commercial Trust Indenture provides for the issuance of Commercial Trust units ("Private Units"), all of which have been issued to the Public Trust. The issuance of Private Units to the Public Trust (along with the issuance of Private Notes, which is defined and described in greater detail below) provides a mechanism for the Public Trust to fund the Commercial Trust, which in turn, funds the operating expenses of the remaining Parallel entities.

10. The Commercial Trust holds a 99.999% interest in the LP. The Commercial Trust is also a borrower under the Credit Agreement.

11. The principal and head office of the Public Trust, PEI and the Commercial Trust is located at 840, 519 10th Avenue S.W., Calgary, Alberta (the "Calgary Head Office").

B. Parallel's Canadian Business

i. Overview

12. The Public Trust is an energy trust created to provide investors with a publicly traded, oil and natural gas focused, distribution producing investment, with favorable tax treatment relative to taxable Canadian corporations. The Public Trust's strategy is to acquire and exploit conventional long-life hydrocarbon reserves in established onshore producing basins in the U.S. and to distribute a portion of available cash to Unitholders of the Public Trust.

13. To achieve its goal of providing Unitholders with a steady income stream, the Public Trust focused on:

(a) U.S. Asset Location: Parallel restricted its investments to assets located in the U.S. to ensure that the Public Trust is not subject to SIFT taxes.

(b) Investment in Long-Life Assets: Long-life, low decline conventional oil and gas assets typically have lower development risk and higher exploitation potential.

(c) Control Over Capital Expenditures: Parallel focused its investments on properties where it had material control over the pace and degree of capital spending.

(d) Development and Exploitation: Although Parallel undertook lower risk activities that might qualify as exploration, it did not engage in high-risk exploration, resource or unconventional plays, or any offshore activities.

(e) Commodity Balance: Parallel only invested in opportunities that met its investment criteria, regardless of commodity (*i.e.*, oil was not favoured over natural gas or vice versa).

ii. Oil and Gas Properties

14. Parallel holds the long-life assets it acquires through the LP. A description of these assets, their location, and production can be found in the Miller Declaration.

iii. Employees

15. Of Parallel's 51 employees, 6 employees (2 officers and 4 other employees) are employed by the Canadian Parallel Entities and work out of the Calgary Head Office.

16. Certain employees and managers participate in a severance and retention program which was established in April 2015 when the Public Trust announced a review of strategic alternatives to reduce indebtedness and maximize unitholder value (the "Severance and Retention Program").

17. On July 14, 2015, PEI and Osler, Hoskin & Harcourt LLP, as Trustee (the "D&O Trustee"), entered into a Declaration of Trust, as amended and restated by an Amended and Restated Declaration of Trust dated September 15, 2015, whereby PEI agreed to convey CDN $250,000 to be held by the D&O Trustee in trust for the directors, managers, officers and employees of the Parallel Entities to pay pre-filing: (i) accrued and unpaid wages and vacation

pay; (ii) accrued and unpaid statutory withholdings and deductions; (iii) any applicable sales taxes; and (iv) any deductible in respect of any insurance claims made under any director and officer insurance policies.

18. Parallel does not operate a pension plan for its employees; however, Parallel does contribute a percentage of each employee's gross pay into a Registered Retirement Savings Plan which is administered by Parallel's employees directly.

C. Secured Creditors and Significant Unsecured Creditors

19. Parallel has one secured creditor – a syndicate of Canadian bank lenders who provided financing pursuant to a credit agreement. In addition, Parallel has several significant unsecured creditors, each of which is discussed below.

i. The Public Trust's Convertible Debenture Indenture

20. The Public Trust issued CDN $60 million in convertible debentures on April 12, 2012, (the "Debentures") and $3 million in convertible debentures on April 23, 2012 which will mature on June 30, 2017, pursuant to a Convertible Debenture Indenture (the "Convertible Debenture Indenture"). The Debentures bear interest at 6.50% per annum, payable semi-annually in arrears on June 30 and December 31 of each year.

21. The Debentures are unsecured obligations of the Public Trust and rank equally with one another and with all other existing and future subordinated and unsecured indebtedness of the Public Trust.

22. Pursuant to the Convertible Debenture Indenture, the Debentures are subordinate to the full and final payment of the Bank Lenders' Credit Facility and all other Senior Indebtedness (as defined in the Convertible Debenture Indenture) of the Public Trust in the event of any insolvency or bankruptcy proceeding. In such an event, the Bank Lenders, or their enforcement agents, may sell or otherwise dispose of the Public Trust's assets in whole or in

part, free and clear of all Debenture liabilities and without approval of the Debenture holders or Computershare, in its capacity as trustee under the Convertible Debenture Indenture (the "Convertible Debenture Trustee").

23. Furthermore, the Convertible Debenture Indenture provides that in the case of an event of default under the Credit Facility or any other Senior Indebtedness, no payment shall be made by the Public Trust with respect to the Debentures and neither Computershare (as the Convertible Debenture Trustee) nor the Debenture holders shall be entitled to demand, accelerate, or institute proceedings (including insolvency and creditor proceedings) or receive any payment or benefit (including set-off) on account of the Debentures after the happening of such an event of default until such default has been cured or waived or ceases to exist, and such payments shall be held in trust for the benefit of the Bank Lenders or the other holders of the Senior Indebtedness, as applicable.

24. Currently, CDN $62.9 million is owing under the Debentures, which had a closing price on November 6, 2015 of $0.005 per $100.00 debenture.

ii. The Commercial Trust's Private Notes

25. The Commercial Trust Indenture permits the Commercial Trust to issue Private Notes.

26. Pursuant to the Public Trust Indenture, the Public Trust may hold, transfer or invest in equity or debt securities issued by the Commercial Trust or any affiliate thereof and may own and hold other investments.

27. Under the Parallel Energy Commercial Trust Notes Indenture dated April 21, 2011, the Commercial Trust issued USD $230,898,520 in series 1 notes, bearing interest at 11% per annum, payable monthly (the "Private Notes"). All of the Private Notes were issued to the Public Trust to provide a mechanism for the Public Trust to partially fund the Commercial Trust

(which in turn, provided funding to the remaining Parallel entities). The current balance of the Private Notes is USD $46,489,740.

iii. Other Obligations

28. The Bank Lenders are the only secured creditors of the Canadian Parallel Entities. The Canadian Trusts have few suppliers. The suppliers are primarily related to the operation of the Public Trust, including services related to the provision of office supplies, data supplies, phone lines, internet, legal services, and courier services at the Calgary Head Office. There are also a few suppliers who have relationships with PEI who provide services to the LP. As of the date hereof, the Canadian Parallel Entities owe approximately $11,500 to their Canadian supplier.

D. Canadian Cash Management System

29. Parallel's cash management system is used by both the Canadian and U.S. Parallel entities.

30. Each of the Parallel entities have separate bank accounts with either CIBC or Wells Fargo. The Canadian Parallel Entities' bank accounts are located in Canada; the U.S. Parallel Entities' bank accounts at CIBC are located in Canada and the bank accounts at Wells Fargo are located in the United States. Except as provided in the Miller Declaration, all of the CIBC bank accounts are controlled by employees of PEI at the Calgary Head Office. The LP bank account and the Wells Fargo bank account are controlled by the Tulsa operations office.

31. Prior to the filing of these Cases, the Commercial Trust's CIBC account was used as the operating account for the Parallel entities and was funded through the Operating Facility as well as transfers from the LP that were applied against the Operating Facility.

32. Most of the revenues from the LP's oil and gas sales were deposited into the LP's CIBC bank account. These funds would be transferred to the Commercial Trust's CIBC bank

account to reduce the Operating Facility (and any overdraft) and to fund the Public Trust's CIBC bank account to make interest payments to the Debenture holders under the Convertible Debenture.

33. Given the Debtors' bankruptcy filing and the Canadian Parallel Entities' insolvency proceeding under the *Companies' Creditors Arrangement Act*, these transfers have ceased and will no longer occur because the funds generated by the operations of the U.S. Parallel Entities will not flow up to Canada. PEI, however, will continue to be compensated for the costs associated with providing services to the Debtors pursuant to the GP Services Agreement.

E. Assets, Liabilities and Net Income

34. For the year ended December 31, 2014, Parallel had CDN $373,553,000 in assets, CDN $256,088,000 in liabilities and a net loss of CDN $175,155,000 (of which natural gas accounted for 23%, natural gas liquids accounted for 39% and condensate accounted for 38% of Parallel's revenues before royalties).

35. As of the six months ended June 30, 2015, compared against the six months ended June 30, 2014, Parallel's cash flow from operations declined from CDN $19,251,000 in 2014 to $3,824,000 in 2015, and gross revenue before royalties declined from CDN $62,220,000 in 2014 to $26,951,000 in 2015. These significant declines in operating cash flows and gross revenues reflect the plummeting prices of oil and gas on the world markets.

36. Given the inability to sell assets or refinance the Credit Facility in an amount acceptable to the Bank Lenders, Parallel has no ability to continue to operate without additional funding from the Bank Lenders, which they are not willing to provide other than in the context of insolvency proceedings.