IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	)	Chapter 11
NORTH AMERICAN PETROLEUM CORPORATION USA, *et al.*,[1]	)	Case No. 10-11707 (CSS)
Debtors.	)	(Joint Administration Requested)

DECLARATION OF TUCKER FRANCISCUS, CHIEF FINANCIAL OFFICER OF NORTH AMERICAN PETROLEUM CORPORATION USA, IN SUPPORT OF FIRST DAY MOTIONS

I, Tucker Franciscus, hereby declare under penalty of perjury:

1. I am the Chief Financial Officer of North American Petroleum Corporation USA, a corporation organized under the laws of the State of Delaware and one of the above-captioned debtors and debtors in possession (collectively, the "Debtors"). In this capacity, I am familiar with the Debtors' day-to-day operations, businesses, financial affairs and books and records.

2. On May 25, 2010 (the "Petition Date"), North American Petroleum Corporation USA and one of its affiliates, Prize Petroleum LLC, each filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"). The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. Concurrently herewith, the Debtors filed a motion seeking joint administration of these chapter 11 cases pursuant to Rule 1015(b) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules").

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtors' federal tax identification number, include: North American Petroleum Corporation USA (9766) and Prize Petroleum LLC (2460). The location of the Debtors' corporate headquarters and the Debtors' service address is: 1401 17th Street, Suite 310, Denver, Colorado 80202-1241, Attn: Tucker Franciscus.

3. I submit this declaration (this "First Day Declaration") to provide an overview of the Debtors and these chapter 11 cases and to support the Debtors' chapter 11 petitions and "first day" motions (each, a "First Day Motion," and collectively, the "First Day Motions"). Except as otherwise indicated herein, all facts set forth in this First Day Declaration are based upon my personal knowledge of the Debtors' operations and finances, information learned from my review of relevant documents, information supplied to me by other members of the Debtors' management and the Debtors' advisors, or personal opinion based on my experience, knowledge and information concerning the Debtors' operations and financial condition. I am authorized to submit this First Day Declaration on behalf of the Debtors, and, if called upon to testify, I could and would testify competently to the facts set forth herein.

Preliminary Statement

4. As discussed in further detail below, due to the state of the capital markets and the oil and natural gas industry, it became necessary for the Debtors to effectuate a balance-sheet restructuring. The Debtors operate an independent exploration & production company which predominantly engages in unconventional well drilling operations for natural gas extraction in certain locations in Oklahoma (specifically, the "Hunton Resource Play"). Over the past several years, virtually all of the Debtors' operations have been pursuant to a 2006 farm-out agreement (the "Farmout Agreement") with Enterra Energy Corp. and certain of its affiliates (collectively, "Enterra"). Under the Farmout Agreement, the Debtors agreed to provide certain drilling services to Enterra, in return for a 70% interest in Enterra's working interest in the underground natural gas reserves. Generally, once the Debtors drill a well and necessary infrastructure improvements to the premises have been made, Enterra operates the wells and revenues are split between the Debtors and Enterra on a 70/30 ratio. The Debtors have "spud"

over 60 wells in the Hunton Resource Play under the Farmout Agreement, many of which remain producing wells today (the "Wells").

5. To support their drilling activities, the Debtors entered into that certain senior secured credit agreement originally dated August 25, 2005 (as amended, supplemented or otherwise modified from time to time and as in effect prior to the Petition Date, the "Prepetition Credit Agreement" and together with any security, pledge or guaranty agreements and all other documentation executed in connection with any of the foregoing, each as amended, supplemented or otherwise modified, in each case as of the Petition Date, the "Prepetition Loan Documents") with Texas Capital Bank, N.A., as Administrative Agent, and Guaranty Bank, FSB, as Co-Agent Bank, on behalf of the lender parties thereto (the "Lenders"), to provide the Debtors with a $200 million credit facility. Approximately $103 million remains outstanding under the Prepetition Credit Agreement.

6. The Debtors required the construction of certain waste-water disposal and other infrastructure improvements to complement their drilling activities. To that end, under a reimbursement agreement (the "Cost Recovery Agreement") between Altex Energy Corporation, a wholly-owned subsidiary of Enterra, and the Debtors, Enterra agreed to provide up-front funding for the construction of such infrastructure improvements for the Wells. Under the Cost Recovery Agreement, the Debtors were obligated (a) to reimburse Enterra for 110% of the costs of the up-front funding and (b) to pay a service fee for Enterra's use of such infrastructure as operator of the Wells. Although the Debtors were required pursuant to the Cost Recovery Agreement to ultimately fund more than the entire cost of the infrastructure improvements, all such improvements remained property of Enterra, and the Debtors had no interest in such

improvements. Enterra claims that approximately $15 million remains to be paid by the Debtors under the Cost Recovery Agreement.

7. Alleging that the Debtors had not met certain timing deadlines regarding the drilling of certain of the Wells, Enterra purported to send notice of termination of the Farmout Agreement to the Debtors on December 14, 2009. (The Debtors dispute Enterra's allegations and purported termination, as well as Enterra's subsequent attempts to submit the parties' dispute to arbitration.) Moreover, in mid-February, 2010, Enterra filed certain state law mechanics and materialman's liens against the Debtors' interests in Enterra's working interests in the Wells arising from certain infrastructure and operational expenses allegedly assumed and/or paid by Enterra under the Cost Recovery Agreement. To date, Enterra has asserted liens in an approximately amount of $9.2 million. Enterra also provided notice of these alleged liens to the Debtors' customers, largely consisting of major oil and gas distributors who purchase natural gas produced by the Wells. Moreover, Enterra directed these customers to withhold revenues from the Debtors. In response, the customers began holding back funds -- totalling approximately $2.4 million per month -- owed to the Debtors until the parties' disputes were resolved. The customers' holdbacks shut off all of the Debtors' revenue, liquidity and ability to service their debt. The Debtors estimate that there currently was approximately $7 million of revenue in suspense as of March 30, 2010. Accordingly, the Debtors have commenced these chapter 11 cases with the goal of restoring cash flow deriving primarily from accounts receivable while simultaneously implementing a balance sheet restructuring with minimal disruption to their operations.

8. To familiarize the Court with the Debtors and the relief they will seek on the first day of these chapter 11 cases, this First Day Declaration is organized as follows: Part I describes

the Debtors' corporate history, business operations, and organizational and prepetition capital structure. Part II describes the events leading to the commencement of these chapter 11 cases. Finally, part III sets forth the relevant facts in support of each First Day Motion.

I. The Debtors' Corporate History, Business Operations and Prepetition Organizational Structure and Prepetition Capital Structure.

A. Corporate History.

9. North American Petroleum Corporation USA ("NAPCUS") was incorporated pursuant to the laws of the State of Delaware on April 14, 2005. Its registered office is located at 1209 Orange Street, Wilmington, Delaware, 19801, and its head office is located at 1401 17th Street, Suite 310, Denver, Colorado 80202. NAPCUS has one wholly-owned subsidiary, Prize Petroleum LLC, which was incorporated in September 2006 pursuant to the laws of the state of Oklahoma. Its registered office is located at 1800 Canyon Park Circle, Suite 201, Edmond, Oklahoma, 73013 and its head office is located at 1401 17th Street, Suite 310, Denver, Colorado 80202. NAPCUS has one shareholder, its parent Petroflow Energy Ltd., a Canadian corporation.

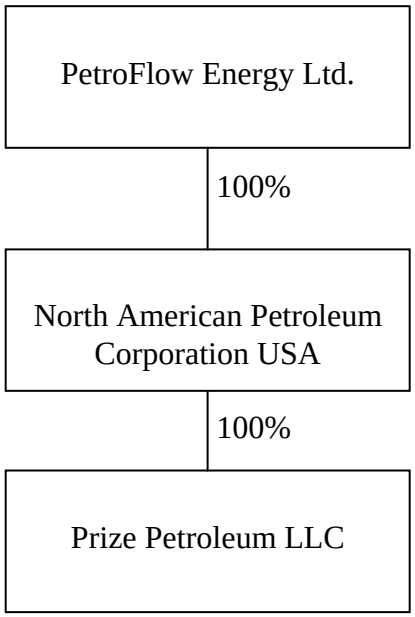
10. Effective June 1, 2005, NAPCUS acquired a 50% working interest in a coal bed methane development project in San Juan County, New Mexico for a purchase price of $8,080,000 (the "Juniper Assets"). The Juniper Assets included approximately 12,000 gross acres of land, of which approximately one third had been developed. The Juniper Assets were sold in June 2008. Effective December 1, 2005, NAPCUS acquired oil and gas assets located in the Midland area of Texas (the "Midland Assets") from an arm's length third party at a purchase price of $3,325,000, subject to certain post-closing adjustments. The Midland Assets included fourteen producing wells and approximately 5,000 acres of land. The Midland Assets were sold in December 2009.

11. On January 13, 2006, NAPCUS entered into a letter agreement (the "Letter Agreement") with Enterra respecting the acquisition of certain petroleum and natural gas interests in the State of Oklahoma (the "Oklahoma Assets"). Under the terms of the Letter Agreement, the parties agreed that the further development of the Oklahoma Assets would be governed by the Farmout Agreement pursuant to which NAPCUS would pay 110% of the infrastructure development costs necessary to drill a well, and, in return, earn 70% of the leasehold interests in such well. Effective March 1, 2006, NAPCUS and Enterra finalized the Farmout Agreement under which NAPCUS would drill wells in Hunton Resource Play. The Farmout Agreement encompassed approximately 65,000 acres held by Enterra (40,000 of which were undeveloped). The Farmout Agreement further specified that any additional lands acquired by Enterra within those seven counties in Oklahoma would be included under the terms of the Farmout Agreement. Enterra agreed to pay for all related infrastructure installations with such costs to be recouped by Enterra through a three year capital recovery fee schedule paid by NAPCUS pursuant to the Cost Recovery Agreement. Although Enterra maintained ownership of the facilities, NAPCUS earned a continuous right to use such facilities. Since entering into the Farmout, NAPCUS has drilled over 60 total Hunton Resource Play producers.

B. The Debtors' Business Operations and Prepetition Organizational Structure.

12. NAPCUS' principal assets are located in Oklahoma. While NAPCUS has owned producing properties in both New Mexico and Texas, as of January 1, 2010, NAPCUS' assets were all in Oklahoma, with the exception of one undeveloped lease in Texas. NAPCUS predominately engages in unconventional drilling in the Hunton Resource Play in Oklahoma where it is one of the most active producers in the area, producing daily. NAPCUS has used a combination of focused and experienced leadership and unique technology to achieve a near 100% success rate in its drilling activities.

13. NAPCUS is a wholly owned subsidiary of Petroflow Energy Ltd., which is incorporated and headquartered in Canada. In turn, NAPCUS owns Prize Petroleum LLC in its entirety. Prize Petroleum LLC is a holding company that retains title to all of the Debtors' Wells. The Debtors' organizational structure is straightforward and is illustrated as follows:



C. The Debtors' Prepetition Debt Structure.

14. As previously noted, the Debtors entered into the Prepetition Credit Agreement in an effort to support drilling activities and ongoing expansion thereof, by and among North American Petroleum Corporation USA and Prize Petroleum LLC, as borrowers, Texas Capital Bank, N.A. and Compass Bank, as successor to Guaranty Bank FSB, as administrative agents (collectively, the "Co-Agents," and each, a "Co-Agent"), and the Lenders. The Prepetition Credit Agreement, together with certain promissory notes issued thereunder, provides for aggregate borrowing of $200 million. As of the Petition Date, the outstanding principal and interest amount under the Prepetition Credit Agreement was approximately $103 million. Pursuant to the Prepetition Credit Agreement, the Lenders have asserted liens against substantially all of the Debtors' assets, including, *inter alia*: (a) all of the Debtors' oil and gas

property and mineral lease rights, as well as all wells, equipment and certain other properties relating to the Debtors' business, and all proceeds therefrom; and (b) any interest held by the Debtors in natural gas and other hydrocarbons in, under and produced from any oil and gas properties, and all proceeds therefrom (collectively, the "Prepetition Collateral").

15. In the ordinary course of their business, the Debtors contracted with Enterra for certain common infrastructure installations, injection facilities, tankage, disposal wells, compressors, centralized metering and power lines. Pursuant to the Cost Recovery Agreement, as noted above, Enterra agreed to provide up-front funding for construction of certain infrastructure improvements necessary to the Debtors' drilling activities. The Debtors then were obligated to reimburse Enterra for 110% of the costs of the up-front funding. The improvements remained property of Enterra. Further, pursuant to the Farmout Agreement, as noted above, the Debtors agreed to provide certain drilling services to Enterra in return for a 70% interest in Enterra's working interest in underground natural gas reserves. Generally, once the Debtors have drilled a well and necessary infrastructure improvements to the premises have been made, Enterra operates the wells and revenues are split between the Debtors and Enterra.

16. As noted above, upon its purported termination of the Farmout Agreement, Enterra directed the Debtors' customers to withhold payments belonging to the Debtors derived from Enterra's operation of wells that the Debtors had constructed pursuant to the Farmout Agreement. As set forth in the table below, the Debtors believe that the below customers (collectively, the "Customers") were holding as much as $7 million in revenues as of March 1, 2010 in various suspense accounts (collectively, the "Suspense Accounts") and that these Suspense Accounts further increase as revenues are generated by approximately $2.4 million per month.

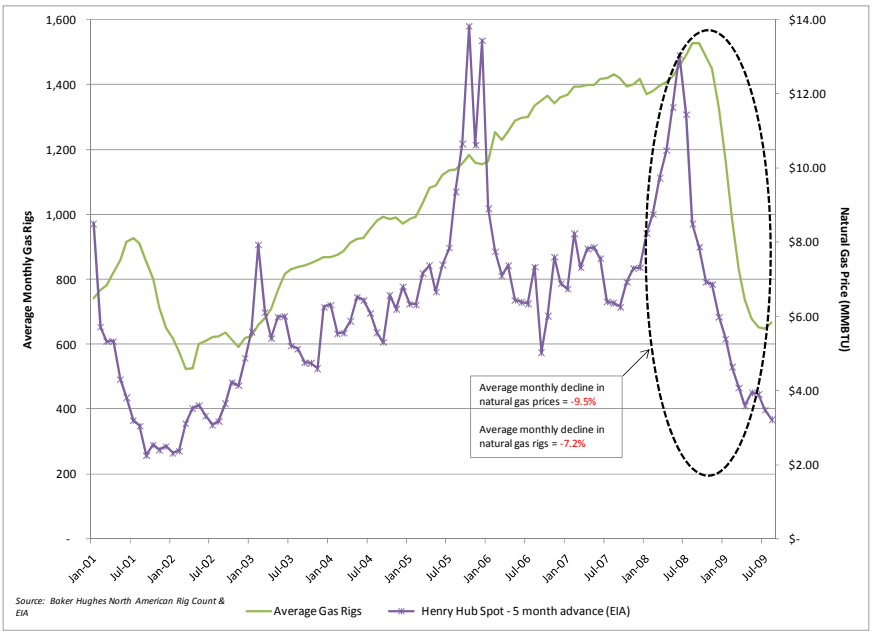
Customer	Approximate Suspense Account Amounts As of 3.30.2010
ConocoPhillips Company	$0
Texon Sanford	$18,605
DCP	$323,633
Patron	$4,000
SemGas	$261,624
SemGas Terrier & Afghan	$97,032
Scissortail Gas	$6,885,652
Scissortail Sanford	$0

II. Events Leading to these Chapter 11 Cases.

17. A series of unforeseen events placed significant strain on NAPCUS' ability to comply with certain of the financial covenants contained in the Prepetition Credit Agreement and the Capital Recovery Agreement. Those events include: (a) the unprecedented downturn in the United States oil and natural gas industry; (b) the resulting deterioration in NAPCUS' financial performance; (c) NAPCUS' unsuccessful out-of-court restructuring efforts; and (d) the dispute with Enterra.

A. The Downturn in the United States Oil and Natural Gas Industries.

18. Since June 2008, the United States oil and natural gas industry has experienced an unprecedented decline. Natural gas prices have plummeted nearly 75% during the period from June 2008, when natural gas was over $13/MMBTU, to just over $3/MMBTU in August 2009. With almost 70% of domestic drilling rigs aimed at natural gas reserves, the impact was substantial. Indeed, as illustrated in the chart below, total average domestic rig count decreased over 55% during the period from nearly 1,950 in September 2008 to less than 850 in June 2009.



19. Moreover, as noted above, despite the reduced rig count, technological advances in natural gas drilling practices caused domestic natural gas supplies to increase, further reducing natural gas prices and compounding the problem.

20. The substantial deterioration in the oil and gas markets was followed by the rapid softening of the economy and tightening of the U.S. financial markets in the second half of 2008, which resulted in the effective collapse of the U.S. credit markets. As has been widely reported, the U.S. financial markets did not show much sign of improvement through the first three quarters of 2009.

B. The Deterioration of the Debtors' Financial Performance.

21. The adverse market conditions have taken a toll on NAPCUS' financial position over the last year. With no immediate reduction in service costs, reduced revenues related to falling commodity prices and minimal growth, NAPCUS' profit margins eroded significantly.

C. NAPCUS' Unsuccessful Out-of-Court Restructuring Initiatives.

22. In response to the downturn in the oil and natural gas industry and NAPCUS' depressed financials, NAPCUS embarked on a comprehensive operational restructuring to right

size its balance sheet. These efforts included selling certain assets, closing facilities and reducing the size of the overall workforce. Specifically, and beginning in July of 2009, NAPCUS initiated workforce reductions at all levels, including cutting the size of management in half and eliminating all noncritical administrative and other employees. NAPCUS also closed its offices in Louisiana and Wyoming and cut all associated staff.

23. NAPCUS recognized, however, that such operational restructuring alone would not suffice. To that end, NAPCUS sold the Midland Assets at the end of December 2009 for $3,300,000. Additionally, NAPCUS sold its swap positions to raise another $4,400,000. The proceeds of such sales were used to pay down amounts outstanding under the Prepetition Credit Agreement. Despite such efforts, further balance sheet restructuring was required.

24. Over the course of the last six months, NAPCUS has engaged in extensive discussions with its Lenders regarding the terms of a consensual out-of-court restructuring. Notwithstanding such best efforts, however, NAPCUS was unable to effectuate an out-of-court restructuring. While these efforts did result in two Forbearance Agreements, the bankruptcy filing was nonetheless necessary.

D. Dispute with Enterra.

25. As noted above, in late 2009, Enterra provided notice of the purported termination of the Farmout Agreement. In addition, Enterra attempted to commence arbitration regarding claims asserted by it against the Debtors under the Farmout Agreement. The Debtors dispute both Enterra's purported termination as well as Enterra's attempts to commence arbitration.

26. Shortly after Enterra's purported termination of the Farmout Agreement, Enterra asserted certain mechanics liens under Oklahoma lien law statutes against the Debtors arising from infrastructure and operational costs allegedly paid for by Enterra pursuant to the Cost Recovery Agreement. To date, Enterra has asserted liens in an approximate amount of

$9.8 million. Pursuant to financing statements filed with the State of Oklahoma, Enterra has claimed a lien upon the Debtors' entire interest in Enterra's working natural gas interest on all lands comprising Enterra's leasehold, as well as the proceeds from the sale of all hydrocarbons produced from such lands. In addition, Enterra has asserted its lien against the Debtors' interest in the wells, equipment, buildings and other infrastructure on such lands, as well as all tools and supplies furnished thereto or located thereon.[2]

E. The Debtors' Default Under the Debt Instruments.

27. In light of Enterra's actions and after careful review, the Debtors determined that the most prudent alternative would be to seek to restructure their operations, potentially through a sale or other transaction in the context of a chapter 11 proceeding. To that end, on May 11, 2010, the Debtors successfully negotiated a second forbearance agreement with their Lenders (a prior forbearance having been executed on February 16, 2010), providing the Debtors with incremental funding to bridge their operations through to a sale or other restructuring transaction. However, on May 24, 2010, the Debtors' prepetition secured lenders terminated the forbearance. Recognizing the challenges facing them, the Debtors filed these chapter 11 cases to provide them the opportunity to restructure their operations and debt and implement a restructuring transaction in an orderly and value-maximizing manner under the auspices of a chapter 11 proceeding.

[2] It is the Debtors' understanding that Enterra and the Prepetition Lenders dispute, in total, or in part, both the validity and priority of their respective liens asserted against the Debtors. The Debtors have taken no position regarding the secured parties' relative priorities. However, as further set forth below, the Debtors' proposed adequate protection package acknowledges this dispute and takes into account the possibility that one or the other secured party may hold senior priority claims over the other.

III. Evidentiary Support for First Day Motions.

28. As discussed above, the Debtors have entered into the chapter 11 process with the goal of restoring cash flow deriving primarily from accounts receivable while simultaneously implementing a balance sheet restructuring with minimal disruption to their operations. To that end, concurrently with the filing of their chapter 11 petitions, the Debtors have filed a number of First Day Motions seeking relief that the Debtors believe is necessary to enable ongoing operations with minimal disruption and loss of productivity. The Debtors request that the relief requested in each of the First Day Motions be granted to ensure a smooth transition into bankruptcy, and to stabilize and facilitate the Debtors' operations during the pendency of these chapter 11 cases. I have reviewed each of the First Day Motions discussed below and the facts set forth in each First Day Motion are true and correct to the best of my knowledge and belief with appropriate reliance on corporate officers and advisors.[3]

A. Debtors' Motion for Entry of an Order Directing Joint Administration of Their Related Chapter 11 Cases (the "Joint Administration Motion").

29. The Debtors request entry of an order directing joint administration of these chapter 11 cases for procedural purposes only pursuant to Bankruptcy Rule 1015(b). Specifically, the Debtors request that the Court maintain one file and one docket for all of these chapter 11 cases under the NAPCUS case and also request that an entry be made on the docket of each of the Debtors' chapter 11 cases, other than NAPCUS, to reflect the joint administration of these chapter 11 cases.

30. Given the integrated nature of the Debtors' operations, joint administration of these chapter 11 cases will provide significant administrative convenience without harming the

[3] All capitalized terms used but otherwise not defined herein shall have the meanings set forth in the relevant First Day Motion.

substantive rights of any party in interest. Many of the motions, hearings and orders that will arise in these chapter 11 cases will jointly affect NAPCUS and Prize Petroleum LLC. The entry of an order directing joint administration of these chapter 11 cases will reduce fees and costs by avoiding duplicative filings and objections and will allow the U.S. Trustee and all parties in interest to monitor these chapter 11 cases with greater ease and efficiency.

31. I believe that the relief requested in the Joint Administration Motion is in the best interests of the Debtors' estates, their creditors and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption.

B. Debtors' Motion for Entry of an Order Granting an Extension of Time to File Schedules and Statements (the "Schedules and Statements Motion")

32. The Debtors request entry of an order granting additional time to file their schedules and statements (collectively, the "Schedules and Statements"). The Debtors estimate that they have approximately 400 creditors on a consolidated basis. The Debtors have begun compiling information that will be required to complete the Schedules and Statements. Nevertheless, as a consequence of the complexity of the Debtors' business operations, the number of creditors likely to be involved in these chapter 11 cases, the geographical spread of the Debtors' operations, the limited nature of the Debtors' human resources and the emergent nature of events leading to the commencement of these chapter 11 cases, the Debtors have not yet finished gathering such information. Given the size, complexity and sophistication of their business, I submit that the amount of information that must be assembled to prepare the Schedules and Statements and the substantial man-hours required to complete the Schedules and Statements would be unnecessarily burdensome to the Debtors during the period of time immediately following the Petition Date.

33. The relief requested in the Schedules and Statements Motion is in the best interests of the Debtors' estates, their creditors and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11 without disruption.

C. Debtors' Motion for Entry of an Order Under 11 U.S.C. §§ 363, 364, 1107, and 1108 (a) Authorizing Continued Use of Existing Cash Management System and Maintenance of Existing Bank Accounts; and (b) Authorizing Continued Performance Under Intercompany Arrangements and Historical Practices (the "Cash Management Motion").

34. The Debtors request the authority to: (a) continue to use, with the same account numbers, all of the Bank Accounts in its Cash Management System; (b) treat the Bank Accounts for all purposes as accounts of the Debtors as debtors in possession; (c) open new debtor in possession accounts, if needed; (d) use, in their present form, all correspondence, business forms (including, without limitation, letterhead, purchase orders and invoices) and other documents related to the Bank Accounts existing immediately before the Petition Date, without reference to their status as debtors in possession; (e) maintain their existing Investment Practices; and (vi) continue performing Intercompany Transactions in the ordinary course of business.

35. In addition, the Debtors further request that the Court authorize the Banks to: (a) continue to maintain, service and administer the Bank Accounts and (b) debit the Bank Accounts in the ordinary course of business on account of (i) checks drawn on the Bank Accounts that are presented for payment at the Banks or exchanged for cashier's checks prior to the Petition Date; (ii) checks or other items deposited in the Bank Accounts prior to the Petition Date that have been dishonored or returned unpaid for any reason (including associated fees and costs), to the same extent the Debtors were responsible for such items prior to the Petition Date; and (iii) undisputed, outstanding service charges owed to the Banks as of the Petition Date on account of the maintenance of the Debtors' Cash Management System, if any.

36. In the ordinary course of business, the Debtors utilize an integrated cash management system to collect, transfer and disburse funds generated by their operations and maintain current and accurate accounting records of all daily cash transactions. The Cash Management system was specifically tailored to meet the Debtors' operating needs—enabling the Debtors to centrally control and monitor corporate funds, ensure cash availability and liquidity, comply with the requirements of their financing agreements, reduce administrative expenses by facilitating the movement of funds, and enhance the development of accurate account balances and presentment information. These controls are crucial given the significant volume of cash transactions managed through the Cash Management system each day.

37. The principal components of the Cash Management System and the flow of funds among the various Bank Accounts are as follows:

a. Operating Account. The Debtors maintain a Bank Account (the "Operating Account") at Texas Capital Bank, N.A. ("TCB"), one of the two administrative agents (along with Compass Bank ("Compass"), as successor in interest to Guaranty Bank FSB) under the Debtors' prepetition credit facility. Prior to the Petition Date, Compass and TCB made advances to the Debtors under the prepetition credit facility through the Operating Account. In addition, any revenues received by the Debtors from their customers are deposited directly into the Operating Account.

b. Escrow Account. The Debtors maintain a general escrow account at TCB. The escrow account currently has no funds and the Debtors anticipate that they will not utilize this Bank Account during the chapter 11 cases.

c. Disbursement Accounts. The Debtors maintain two Bank Accounts at JPMorgan Chase, N.A. ("JPMorgan") that the Debtors use exclusively for disbursements (collectively, the "Disbursement Accounts"). The Debtors fund operating disbursements from the Disbursement Accounts through inter-account transfers from the Operating Account.

38. If the Debtors were required to comply with the U.S. Trustee Guidelines, the burden of opening new accounts, revising cash management procedures, instructing customers to redirect payments, and the immediate ordering of new checks with a "Debtor in Possession"

legend, would disrupt the Debtors' business at this critical time. The Debtors respectfully submit that parties in interest will not be harmed by its maintenance of the existing Cash Management System, including its Bank Accounts, because the Debtors have implemented appropriate mechanisms to ensure that unauthorized payments will not be made on account of obligations incurred prior to the Petition Date.

39. In addition, prior to November 2009, in the ordinary course of business, the Debtors engaged in certain intercompany transactions (the "Intercompany Transactions") among their affiliates, resulting in intercompany receivables and payables in the ordinary course (the "Intercompany Claims"). The Debtors will not engage in any Intercompany Transactions with non-debtor affiliates without obtaining prior approval from the Court after notice and a hearing. Further, the Debtors believe that they themselves will not engage in any Intercompany Transactions during the course of the chapter 11 cases. However, to the extent the Debtors do engage in any Intercompany Transactions subsequent to the Petition Date among the Debtor entities, the Debtors submit that the continuation of the Intercompany Transactions is in the best interests of the Debtors' estates and their creditors.

40. I believe that the relief requested in the Cash Management Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption.

D. Debtors' Motion for Entry of Interim and Final Orders Authorizing The Debtors to Pay Prepetition (A) Wages, Salaries, and Other Compensation; (B) Reimbursable Employee Expenses; and (C) Employee Medical and Similar Benefits (the "Wages and Benefits Motion").

41. The Debtors request the authority, in their sole discretion, to pay prepetition claims, honor obligations, and to continue programs, in the ordinary course of business and consistent with past practices, relating to the Employee Obligations. As of the Petition Date, the

Debtors employ approximately seven Employees. All of the Employees are paid on a salaried basis. As of the Petition Date, the Debtors estimate they owe approximately $67,000 on account of prepetition wages, salaries and other compensation, excluding reimbursable expenses and vacation pay. In addition to their Employees, the Debtors supplement their workforce with four independent contractors. The Debtors incur approximately $45,000 in Independent Contractor obligations per month, of which approximately $29,000 remains outstanding as of the Petition Date. In addition, the Debtors are seeking authority in the Wages and Benefits Motion to, *inter alia*, advance expenses to directors and officers under their indemnification agreements, as well as to continue the Debtors' various employee benefit plans and policies (including, without limitation, health care, prescription drug, dental and vision plans, workers compensation benefits, vacation time and other paid leaves of absence, employee savings plans, life insurance, accidental death and dismemberment insurance and short-term and long-term disability insurance (collectively, the "Employee Benefits")).

42. The majority of the Debtors' Employees rely exclusively on their compensation, benefits and expense reimbursements to satisfy their daily living expenses. Consequently, these Employees will be exposed to significant financial difficulties if the Debtors are not permitted to honor obligations for Unpaid Compensation, Employee Benefits and Reimbursable Expenses. Moreover, if the Debtors are unable to satisfy such obligations, Employee morale and loyalty will be jeopardized at a time when Employee support is critical to the success of the Debtors' restructuring efforts. In the absence of such payments, the Debtors believe their Employees may seek alternative employment opportunities, perhaps with the Debtors' competitors, thereby hindering the Debtors' ability to meet their customer obligations, and likely diminish creditors' confidence in the Debtors. Moreover, the loss of valuable Employees and such Employees'

institutional memory, and the costly recruiting efforts that would be required to replace such Employees would be a substantial distraction at a time when the Debtors should be focusing on stabilizing their operations.

43. I believe that the relief requested in the Wages and Benefits Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption.

E. Debtors' Motion for Entry of Interim and Final Orders (A) Authorizing Use of Cash Collateral, (B) Granting Adequate Protection to Certain Prepetition Secured Parties, (C) Granting Related Relief, and (D) Scheduling a Final Hearing Thereon (the "Cash Collateral Motion")

44. The Debtors request that the Court: (a) grant the Debtors with authority to use Cash Collateral on an interim basis pending a final hearing on the Motion; (b) permit the Debtors to grant adequate protection to certain prepetition secured creditors with respect to, *inter alia*, such use of Cash Collateral and any diminution in the value of such creditors' interests in the prepetition collateral, including Cash Collateral; (c) prescribe the form and manner of notice and setting the time for the final hearing, and (d) grant related relief.

45. In the normal course of business, the Debtors use cash on hand and cash flow from operations to fund working capital, capital expenditures and research and development efforts, and for other general corporate purposes. An inability to use these funds during the chapter 11 cases would cripple the Debtors' business operations. Indeed, the Debtors must use their cash to, among other things, continue the operation of their business in an orderly manner, maintain business relationships with vendors and customers, pay employees and satisfy other working capital and operation needs—all of which are necessary to preserve and maintain the Debtors' going-concern value and, ultimately, effectuate a successful reorganization.

46. As of the date hereof, neither Enterra nor the Prepetition Lenders have consented to the Debtors' use of Cash Collateral the Debtors continue to negotiate the terms of such consensual use. However, as required by section 363(c) of the Bankruptcy Code, the Debtors submit they have provided adequate protection against any diminution in value of the Prepetition Lenders' and Enterra's interests in the Prepetition Collateral. Specifically, the Debtors believe that the Prepetition Lenders and Enterra are adequately protected by an equity cushion. Moreover, the ability to fund their ongoing operations through Cash Collateral use will benefit all creditors by enhancing the Debtors' going concern value, making the Debtors a more attractive candidate for an in-court sale or other transaction. Finally, the Debtors also propose to provide certain replacement liens to the Prepetition Lenders and Enterra to protect against potential diminution in the value of the Prepetition Collateral, as further set forth in the Cash Collateral Motion.

47. In addition to requesting use of prepetition Cash Collateral, the Debtors also are requesting that the Court enter an order directing certain of the Debtors' customers to remit certain revenues to the Debtors, without which the Debtors will be unable to fund their operations. As noted above, upon its purported termination of the Farmout Agreement—which the Debtors contest—Enterra directed the Debtors' customers to withhold payments belonging to the Debtors derived from Enterra's operation of wells that the Debtors had constructed pursuant to the Farmout Agreement. As set forth in the table below, the Debtors believe that the Customers were holding as much as $7 million in revenues as of March 1, 2010 in various Suspense Accounts and that these Suspense Accounts further increase as revenues are generated by approximately $2.4 million per month.

48. I believe that the relief requested in the Cash Collateral Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption.

F. Debtors' Motion for Entry of an Order Authorizing the Debtors to (A) Continue Prepetition Insurance Policies and Insurance Bonds and (B) Obtain New Insurance Policies and Insurance Bonds (the "Insurance Motion").

49. The Debtors request authority to (a) continue their insurance coverage in effect prior to the commencement of these chapter 11 cases and (b) revise, supplement or change their insurance coverage and related arrangements as necessary by, among other things, obtaining new insurance policies and bonds through renewal or purchase of new insurance policies and bonds.

50. In the ordinary course of the Debtors' businesses, the Debtors have maintained and continue to maintain a number of insurance policies and surety bonds (collectively, the "Policies") that benefit the Debtors' estates. In addition, the Debtors are requesting authority to continue or renew Policies and to pay any, likely de minimis, prepetition amounts that may be due on account of the Policies. I believe that continuation of the Policies and authority to renew and enter into new Policies is essential to the preservation of the Debtors' businesses, property, and assets, and, in many cases, such coverage is required by various regulations, laws, and contracts that govern the Debtors' business conduct.

51. I believe that the relief requested in the Insurance Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption.

G. Debtors' Motion for Entry of an Order Authorizing The Debtors to Pay Certain Prepetition Taxes and Fees (the "Taxes and Fees Motion").

52. The Debtors request authority to pay any Taxes and Fees that, in the ordinary course of business, accrued or arose before the Petition Date. In the ordinary course of business,

the Debtors incur and/or collect certain Taxes and Fees and remit such Taxes and Fees to various Authorities. The Debtors must continue to pay the Taxes and Fees to continue operating in certain jurisdictions and to avoid costly distractions during these chapter 11 cases. Specifically, the Debtors' failure to pay the Taxes and Fees could affect adversely the Debtors' business operations because the Authorities could suspend the Debtors' operations, file liens or seek to lift the automatic stay. In addition, certain Authorities may take precipitous action against the Debtors' directors and officers for unpaid Taxes that undoubtedly would distract those individuals from their duties related to the Debtors' restructuring.

53. I believe that the relief requested in the Taxes and Fees Motion is in the best interests of the Debtors' estates, their creditors and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption.

H. Debtors' Motion for Entry of Interim and Final Orders Determining Adequate Assurance of Payment for Future Utility Services (the "Utilities Motion").

54. The Debtors request the entry of a final order: (a) determining adequate assurance of payment for future utility services. In the ordinary course of business, the Debtors incur expenses for water, electric, telecommunications and other similar utility services, provided by approximately five utility providers. Uninterrupted utility services are essential to the Debtors' ongoing operations and, therefore, to the success of their reorganization efforts. Indeed, any interruption of utility services, even for a brief period of time, would negatively affect the Debtors' operations, customer relationships, revenues and profits, seriously jeopardizing the Debtors' reorganization efforts and, ultimately, value and creditor recoveries. It is, therefore, critical that utility services continue uninterrupted during these chapter 11 cases.

55. I believe and am advised that the proposed procedures are necessary in these chapter 11 cases, because if such procedures were not approved, the Debtors could be forced to

address numerous requests by the Utility Providers in a disorganized manner during the critical first weeks of these chapter 11 cases. Moreover, a Utility Provider could blindside the Debtors by unilaterally deciding—on or after the 30th day following the Petition Date—that it is not adequately assured of future performance and discontinuing service or making an exorbitant demand for payment to continue service. Discontinuation of utility service could shut down operations, and any significant disruption of operations could jeopardize a successful reorganization in these chapter 11 cases.

56. I believe that the relief requested in the Utilities Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption.

I. Debtors' Motion for Entry of an Order Authorizing the Employment and Retention of Epiq Bankruptcy Systems, LLC as Notice, Claims, and Balloting Agent (the "Epiq Retention Motion").

57. The Debtors request entry of an order pursuant to section 156(c) of title 28 of the United States Code, section 503(b) of the Bankruptcy Code, and Local Bankruptcy Rule 2002-1(f) authorizing the employment and retention of Epiq Bankruptcy Systems, Inc. ("Epiq"), effective as of the Petition Date as the notice, claims and balloting agent in accordance with the terms and conditions set forth in the Services Agreement. I believe that by retaining Epiq in these chapter 11 cases, the Debtors' estates, and particularly their creditors, will benefit from Epiq's services. I understand that Epiq has developed efficient and cost-effective methods in its area of expertise, and I believe that Epiq is fully equipped to handle the volume of mailing involved in properly serving the required notices to creditors and other interested parties in these chapter 11 cases.

58. I believe that the relief requested in the Epiq Retention Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption.

J. Debtors' Application for Entry of an Order Authorizing the Employment and Retention of Kirkland & Ellis LLP as Attorneys for North American Petroleum Corporation USA, *et al., Nunc Pro Tunc* to the Petition Date (the "K&E Retention Application").

59. The Debtors seek to retain Kirkland & Ellis LLP ("K&E") as their lead restructuring attorneys. K&E has extensive experience and knowledge in and an excellent reputation for providing high-quality legal services in the field of debtor protections, creditor rights, and business reorganizations under chapter 11 of the Bankruptcy Code. In preparing for these chapter 11 cases, K&E has become familiar with the Debtors' business and the legal issues that may arise in these cases. I believe that K&E is well qualified and uniquely able to represent the Debtors in these chapter 11 cases.

60. I believe that the relief requested in the K&E Retention Application is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption.

K. Debtors' Application for Entry of an Order Authorizing the Retention and Employment of Klehr Harrison Harvey Branzburg LLP as Local Counsel to the Debtors *Nunc Pro Tunc* to the Petition Date (the "Klehr Harrison Retention Application").

61. The Debtors seek to retain Klehr Harrison Harvey Branzburg LLP ("Klehr Harrison") as their local restructuring counsel. Klehr Harrison has extensive experience, knowledge and an excellent reputation for providing high-quality legal services in the field of debtor protections, creditor rights and business reorganizations under chapter 11 of the Bankruptcy Code. Due to the extensive legal services that will be necessary during their bankruptcy cases, the Debtors submit that it is essential for them to employ Klehr Harrison as

their local bankruptcy counsel, in addition to retaining K&E. K&E and Klehr Harrison have discussed a division of responsibilities regarding representation of the Debtors and will make every effort to avoid and/or minimize duplication of services in the Debtors' cases.

62. I believe that the relief requested in the Klehr Harrison Retention Application is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption.

L. Debtors' Application for Entry of an Order Authorizing the Employment and Retention of Kinetic Advisors LLC as Restructuring Advisor to the Debtors Effective *Nunc Pro Tunc* to the Petition Date (the "Kinetic Retention Application").

63. The Debtors seek to retain and employ Kinetic Adviors LLC ("Kinetic") as their restructuring advisor based upon, among other things, (a) the Debtors' need to retain a restructuring advisory firm to provide advice with respect to the Debtors' restructuring efforts and (b) Kinetic's professional standing, excellent reputation, and wealth of experience in providing restructuring advisory services in complex restructurings. Kinetic has been providing the Debtors with restructuring advisory services in the prepetition period and has led the Debtors' preparations for these chapter 11 cases.

64. I believe that the relief requested in the Kinetic Retention Application is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing statements are true correct.

Denver, Colorado

Dated: May 26, 2010

By: */s/ Tucker Franciscus*
Tucker Franciscus
Chief Financial Officer
North American Petroleum
Corporation USA