

FORM 49
[RULE 13.19]

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COURT FILE NUMBER 1601 - 01675
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY

IN THE MATTER OF THE *COMPANIES'
CREDITORS ARRANGEMENT ACT*, R.S.C. 1985,
c. C-36, as amended

AND IN THE MATTER OF A PLAN OF
ARRANGEMENT OF ARGENT ENERGY TRUST,
ARGENT ENERGY (CANADA) HOLDINGS INC.
and ARGENT ENERGY (US) HOLDINGS INC.

DOCUMENT AFFIDAVIT

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

BENNETT JONES LLP
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AFFIDAVIT OF SEAN BOVINGDON

Sworn on February 16, 2016

I, SEAN BOVINGDON, of Calgary, Alberta, SWEAR AND SAY THAT:

1. Argent Energy Trust (the "Trust"), Argent Energy (Canada) Holdings Inc. ("Argent Canada"), and Argent Energy (US) Holdings Inc. ("Argent US", and together with the Trust and Argent Canada, the "Applicants" or "Argent"), bring an application seeking

relief under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”).

2. I am the President and Chief Financial Officer of each of the Applicants. As such, I have personal knowledge of the matters hereinafter deposed to, save where stated to be based on information and belief, in which case I verily believe the same to be true.
3. All references to dollar amounts contained herein are to Canadian Dollars unless otherwise stated.
4. For clarity, Argent Energy Ltd. (“**AEL**”), which is a company described and referred to below, is not a CCAA applicant in this proceeding and no relief is being sought in respect of AEL. Certain background information with respect to AEL is being provided in this Affidavit for additional context only.

I. RELIEF REQUESTED

5. This Affidavit is made in support of an application by Argent for an Order (the “**Initial Order**”) pursuant to the CCAA, among other things:
 - (a) declaring that the Applicants are entities to which the CCAA applies;
 - (b) staying all proceedings and remedies taken or that might be taken in respect of the Applicants or any of their property, except as otherwise set forth in the Initial Order or otherwise permitted by law;
 - (c) authorizing the Applicants to carry on business in a manner consistent with the preservation of their property and business;
 - (d) appointing FTI Consulting Canada Inc. as the Monitor (the “**Monitor**”) of the Applicants in these proceedings;
 - (e) granting the Administration Charge (as defined below), the Directors' Charge (as defined below), the Interim Lender's Charge (as defined below), and the KERP and KEIP Charge (as defined below);

- (f) authorizing Argent US to borrow funds under the Interim Loan (as defined below);
 - (g) approving the Applicants' Key Employee Retention Plan ("**KERP**") and Key Employee Incentive Plan ("**KEIP**"), each as described herein;
 - (h) authorizing the Applicants to, with the consent of the Monitor and the Syndicate (as defined below), pay for certain goods and services supplied to the Applicants prior to the date of the Initial Order;
 - (i) approving a proposed sale solicitation process (the "**Sale Solicitation Process**") and authorizing and directing The Oil & Gas Asset Clearinghouse, LLC ("**OGAC**"), the Monitor and the Applicants to perform their obligations thereunder;
 - (j) approving the Letter Agreement entered into between OGAC, Argent US and Argent Canada dated January 15, 2016;
 - (k) requesting the aid, recognition and assistance of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to the Initial Order;
 - (l) authorizing FTI Consulting Canada Inc. to act as the foreign representative in respect of the within proceedings for the purposes of having the CCAA proceedings of Argent US and Argent Canada recognized in the United States pursuant to Chapter 15 of Title 11 of the United States Bankruptcy Code ("**Chapter 15**");
 - (m) sealing on the Court file certain confidential information referred to herein; and
 - (n) deeming service of the Application for the Initial Order to be good and sufficient.
6. The Syndicate, which is the Applicants' only secured creditor, supports the relief sought in this application, including the charges proposed to be granted herein.

II. BACKGROUND

A. Corporate Structure

7. An organization chart of the Applicants is attached as **Exhibit “1”** to this Affidavit.

B. The Trust

8. The Trust, which is the parent entity in the Argent structure, is an unincorporated limited purpose open-ended trust established under the laws of Alberta on January 31, 2012.

9. The Trust was formed pursuant to a Trust Indenture dated January 31, 2012 between Computershare Trust Company of Canada, as trustee (the “**Trustee**”), and AEL (as amended and restated from time to time, the “**Trust Indenture**”). A copy of the Trust Indenture is attached as **Exhibit “2”** to this Affidavit.

10. The Trustee has been notified of the Applicants’ intention to bring this application and has reviewed, and has had the opportunity to comment upon, the materials.

11. The Trust was established to indirectly acquire an interest in Argent US through its acquisition of the shares of Argent Canada. The Trust currently constitutes a “mutual fund trust” under the *Income Tax Act*.

12. The Trust's units (the “**Units**”) are currently listed for trading on the Toronto Stock Exchange (“**TSX**”) under the symbol “AET.UN” and the Trust’s Subordinated Debentures (as defined and described below) are traded on the TSX under the symbol “AET.DB” and “AET.DB.A”. On February 2, 2016, the TSX issued a notice that the TSX is reviewing the Units and the Subordinated Debentures with respect to the meeting of the TSX's continued listing requirements. A copy of the TSX notice is attached as **Exhibit “3”** to this Affidavit.

13. The beneficiaries of the Trust are the holders of the Units (the “**Unitholders**”). The Unitholders are entitled to receive non-cumulative distributions from the Trust if, as and when declared by the Trust. As described below, the last distribution declared and paid

was in respect of the period from and including March 1, 2015 to March 31, 2015 for Unitholders of record on March 31, 2015.

14. While the Trustee is the trustee of the Trust, pursuant to the terms of an administrative services agreement dated May 9, 2012 between the Trustee and AEL (the “**Administrative Services Agreement**”), the Trustee has delegated a number of the management, administrative and governance duties relating to the Trust to AEL, as the administrator of the Trust. As a result, the directors of AEL fulfill the majority of the oversight and governance role for the Trust, with the balance of those duties remaining with the Trustee. A copy of the Administrative Services Agreement is attached as **Exhibit “4”** to this Affidavit.

C. Argent Canada

15. Argent Canada is a corporation incorporated under the laws of the Province of Alberta on May 4, 2012. A copy of Argent Canada's certificate of incorporation is attached as **Exhibit “5”** to this Affidavit.
16. Argent Canada is a direct wholly-owned subsidiary of the Trust. It was created to form, acquire, and hold all of the issued and outstanding shares of Argent US and to pass distributions from Argent US through to the Trust, to the extent available. Argent Canada is a holding company, and does not carry on any operations.
17. The principal and head office of the Trust and Argent Canada is located at Suite 500, 321 – 6th Avenue S.W. Calgary, Alberta, T2P 3H3. The registered office of Argent Canada is located at 4500 Bankers Hall East, 855 – 2nd Street S.W., Calgary, Alberta, T2P 4K7.

D. Argent US

18. Argent US is a corporation incorporated under the laws of the State of Delaware on May 4, 2012. The sole shareholder of Argent US is Argent Canada. Argent US was created to acquire, operate and manage long-life petroleum properties in the United States. A copy of Argent US's certificate of incorporation is attached as **Exhibit “6”** to this Affidavit.

19. Argent US is the only Applicant that has active operations, and it directly owns all of the Applicants' petroleum properties.
20. The principal office of Argent US is located at 909 Fannin Street, 10th Floor, Houston, Texas 77010. Its registered office is located at The Corporate Trust Center, 1209 Orange Street, Wilmington, County of New Castle, Delaware, 19801.

E. Directors and Executive Officers

21. The officers of each of AEL (and therefore effectively the Trust) and Argent Canada are:
 - (a) Sean Bovington – President & Chief Financial Officer;
 - (b) R. Steven Hicks – Chief Operating Officer; and
 - (c) Mathew Wong - Vice President of Finance.
22. The officers of Argent US are the same individuals as for AEL and Argent Canada; however, Mr. Wong also holds the title of Secretary for Argent US.
23. The directors of each of Argent Canada and Argent US are myself and Mr. Hicks.
24. The Trust does not have directors; the Trustee is the trustee of the Trust, and as discussed above, the Trustee has delegated a number of the management, administrative and governance duties relating to the Trust to AEL. The directors of AEL are John Brussa, William D. Robertson, and Glen C. Schmidt.

F. Employees

25. The Applicants have 46 employees. With the exception of 2 employees that are employed by AEL and the Trust, all of the employees are employed by Argent US.
26. Argent previously had more than 75 employees but it has proactively reduced its workforce over the past 12 months in connection with cost-reduction measures to reduce ongoing operating, general and administrative expenses.
27. Argent does not operate a pension plan for its employees.

III. BUSINESS OF THE APPLICANTS

A. General

28. The Trust is an energy trust created to provide investors with a publicly traded, oil and natural gas focused, distribution-producing investment. The strategy of the Trust is to acquire, exploit, and develop, indirectly through Argent US, long-life crude oil and natural gas reserves in established producing basins located primarily in the US.

B. Oil and Gas Properties

29. Argent owns interests in oil and gas assets (the “Assets”) in three states: Texas, Wyoming and Colorado. The Assets include: (i) the Austin Chalk and Eagle Ford Shale Oil Assets, (ii) the South Texas Natural Gas Assets, (iii) the South Texas Oil Assets, (iv) the Wyoming Oil Assets, and (v) the Colorado Assets.

i. Austin Chalk and Eagle Ford Shale Oil Assets

30. The Austin Chalk and Eagle Ford Shale Oil Assets include interests in approximately 16,376 gross (10,319 net) acres in the Austin Chalk and Eagle Ford Shale oil formation in Texas, mainly in Fayette and Gonzales Counties. As per Argent's 2014 Reserve Report, proved plus probable reserves attributed to the Austin Chalk and Eagle Ford Shale Oil Assets totalled 3,283 Mboe.
31. Argent operates 8 producing horizontal oil wells in the Austin Chalk oil formation and 12 producing horizontal oil wells in the Eagle Ford Shale oil formation, all of which were drilled prior to 2015. Argent owns a 100% interest in the 20 wells.
32. In December 2015, production from the Austin Chalk and Eagle Ford Shale Oil Assets averaged 576 boe/d to Argent's working interest before royalties.

ii. South Texas Natural Gas Assets

33. The South Texas Natural Gas Assets include interests in 4,388 gross (3,472 net) acres located in South Texas. These assets are primarily natural gas weighted and are anchored

by the South Escobas Field in Zapata County, Texas. Proved plus probable reserves attributed to the South Texas Natural Gas Assets in Argent's 2014 Reserve Report totalled 10,478 Mboe.

34. The South Texas Natural Gas Assets consist of 23 producing wells, 16 of which are operated by Argent, with various working interests of between 20% and 100%. Most of these assets produce from the Wilcox/Lobo formations, with some of the production from the Frio/Vicksburg formation.
35. Production from the South Texas Natural Gas Assets in December 2015 averaged approximately 966 boe/d before royalties.

iii. South Texas Oil Assets

36. The South Texas Oil Assets are comprised of the Newton, Livingston, Double A Wells North, Baffin Bay and Peeler Ranch Fields in southern Texas. The South Texas Oil Assets include operated interests in 25,333 gross (16,947 net) acres. All of the leases are held by production with an average working interest for Argent US of 100% in Newton, 99.25% in Livingston, 61% in Double A Wells North, and between 9% and 43% for the Baffin Bay and Peeler Ranch Fields. Proved plus probable reserves to Argent's gross working interest attributed to the South Texas Oil Assets in Argent's 2014 Reserve Report total 9,077 Mboe.
37. There are 73 producing wells in the South Texas Oil Assets, and 11 active water disposal wells. In December 2015, the average production attributable to Argent's working interest before royalties was approximately 1,078 boe/d.

iv. Wyoming Oil Assets

38. The Wyoming Oil Assets are comprised of high operated working interests in the Mellott Ranch, Reno, Reel and certain other minor fields and non-operated interests at House Creek and House Creek North fields in Wyoming. The Wyoming Oil Assets include operated interests in approximately 66,000 gross (46,850 net) acres. Proved plus probable

reserves to Argent's gross working interest attributed to the Wyoming Oil Assets in Argent's 2014 Reserve Report total 9,141 Mboe.

39. Argent operates 51 gross producing wells and 21 gross active injection wells in Wyoming. Argent owns further interests in approximately 216 gross non-operated wells in the Wyoming Oil Assets. In December 2015, the average production attributable to Argent's working interest before royalties was approximately 1,073 boe/d.

v. Colorado Assets

40. The Colorado Assets consist of 17 gross active producing wells and 2 gross active injection wells in the non-operated Mull Unit, and 3,546 gross (1,855 net) acres of land in Cheyenne County. Argent has a 19% working interest in the Mull Unit which is operated by Mull Drilling Company. Proved plus probable reserves to Argent's gross working interest attributed to the Colorado Assets in Argent's 2014 Reserve Report total 395 Mboe.
41. In December 2015, the average production attributable to Argent's working interest before royalties from the Colorado Assets was approximately 86 boe/d.

C. Bank Accounts and Cash Management

42. All of the Applicants' bank accounts are either with a member of the Syndicate or an affiliate of a member of the Syndicate. Each of the Applicants has a bank account in Canada.
43. All of Argent's revenues are received by Argent US, which, together with funds borrowed under the Credit Facility (as defined below) and the Intercompany Notes (as defined below), are used to pay all of Argent US's operating and administrative costs and expenses.

IV. CURRENT CIRCUMSTANCES

44. Argent prepares its public financial disclosure on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"), which assumes that Argent

will continue in operation and will be able to realize its assets and discharge its liabilities in the normal course of business. The financial statements are prepared on a consolidated basis in accordance with IFRS.

45. A copy of Argent's audited financial statements for the year ended December 30, 2014 are attached as **Exhibit "7"** to this Affidavit. Argent's most recent interim unaudited financial statements, as at September 30, 2015, are attached as **Exhibit "8"** to this Affidavit.

A. Assets

46. As at September 30, 2015, Argent had total assets with a book value of \$262,210,000. The assets included current assets with a book value of \$33,608,000 and non-current assets with a book value of \$228,602,000.

47. Current assets included cash (\$1,334,000), trade and other receivables (\$11,150,000), risk management (representing the then mark-to-market value of hedges) (\$19,981,000) and prepaid expenses and deposits (\$1,143).

48. Non-current assets included primarily the Applicants' oil and gas properties (\$222,624,000).

49. As referred to above, the asset value is substantially owned by Argent US.

50. With respect to the oil and gas property assets, I do not believe that the current book values of the assets bears any resemblance to the realistic realization value of those assets as a result of the significant deterioration of commodity prices that has occurred since September 30, 2015.

B. Liabilities

51. As at September 30, 2015, Argent had total liabilities of \$180,790,000. Although that is less than the book value of Argent's assets, I believe that it is materially higher than the realizable value of Argent's assets today.

52. Of those liabilities, \$80,067,000 was in respect of the Credit Facility (as defined below) and \$44,625,000 was in respect of the Subordinated Debentures (as defined below) (representing the then mark-to-market value of the Subordinated Debentures).
53. Given that, as described below, Argent is in default under its Credit Facility and its Subordinated Debentures, I believe that the full amount of the Credit Facility (which is now approximately USD \$51.9 million) and the Subordinated Debentures (which is now approximately \$153.44 million, inclusive of due but unpaid interest), as opposed to just the current portions, should be considered current liabilities.
54. Other significant liabilities as at September 30, 2015 included trade and other payables (\$30,792,000) and a decommissioning liability (\$19,081,000).

i. Credit Facility

55. Pursuant to the Amended and Restated Credit Agreement dated October 25, 2012 (as amended from time to time, the "**Credit Agreement**"), Argent US entered into a credit facility with a lending syndicate comprised of The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, and Wells Fargo Bank, N.A., Canadian Branch (collectively, the "**Syndicate**"), with The Bank of Nova Scotia acting as the Administration Agent. A copy of the Credit Agreement (without exhibits and schedules) is attached as **Exhibit "9"** to this Affidavit.
56. The Credit Agreement provides for two tranches of financings which rank *pari passu* to one another:
 - (a) a revolving term credit facility provided by the Syndicate for acquisition, exploration, development, and production of oil and gas properties in the United States; and
 - (b) a revolving operating term credit facility provided by The Bank of Nova Scotia for general corporate purposes (collectively, the "**Credit Facility**").
57. The Credit Facility is subject to a borrowing base valuation of Argent US's oil and gas assets, and may be drawn in either US or Canadian dollars.

58. The Credit Facility is guaranteed by the Trust and Argent Canada. It is secured by a first priority security interest on substantially all of the property and assets of Argent US, including all of its oil and natural properties, and substantially all of the property and assets of the Trust and Argent Canada, including the shares of Argent US owned by Argent Canada.
59. The current amount owing under the Credit Facility is approximately USD \$51.9 million.
60. The Credit Agreement is governed by the laws of the Province of Alberta.

ii. Convertible Subordinated Debenture Indenture

61. The Trust issued \$75 million of 6.00% convertible debentures on June 4, 2013 and an additional \$11.25 million of 6.00% convertible debentures on June 12, 2013 (collectively, the “**6.00% Subordinated Debentures**”). On October 31, 2013, the Trust issued \$60 million of 6.50% convertible debentures and an additional \$3 million of 6.50% convertible debentures on November 29, 2013 (collectively, the “**6.50% Subordinated Debentures**”, and together with the 6.00% Subordinated Debentures, the “**Subordinated Debentures**”). The interest payable on the Subordinated Debentures is payable in equal installments semi-annually on June 30 and December 31 in each year, and the Subordinated Debentures mature on December 31, 2018.
62. The 6.00% Subordinated Debentures were issued pursuant to a convertible debenture indenture dated as of June 4, 2013 between the Trust and Computershare Trust Company of Canada (the “**Debenture Indenture**”). The 6.50% Subordinated Debentures were issued pursuant to a first supplemental indenture dated as of October 31, 2013 (the “**Supplemental Debenture Indenture**”). Copies of the Debenture Indenture and the Supplemental Debenture Indenture are attached as **Exhibit “10”** to this Affidavit.
63. The Subordinated Debentures are unsecured obligations of the Trust and rank equally with one another. Neither Argent Canada nor Argent US is an obligor in respect of the Subordinated Debentures.

64. On July 9, 2014, \$500,000 of the 6.00% Subordinated Debentures were converted at the option of the debentureholder into 35,971 Units.
65. Pursuant to the Debenture Indenture, (i) the Subordinated Debentures are subordinate to the full and final payment of the Credit Facility and all other Senior Indebtedness (as defined in the Debenture Indenture, which includes ordinary trade debt of the Trust), and (ii) in the event of a default under the Credit Facility, the holders of the Subordinated Debentures are prohibited by the terms of the Debenture Indenture from taking any enforcement proceedings against the Trust until the default under the Credit Facility has been cured, waived or ceases to exist.
66. The closing prices of the 6.00% Subordinated Debentures and the 6.50% Subordinated Debentures on February 12, 2016 were \$1.20 per \$100.00 and \$1.50 per \$100.00, respectively.
67. The Debenture Indenture and the Supplemental Debenture Indenture are governed by the laws of the Province of Alberta.

iii. Intercompany Notes

68. Argent US issued four series of intercompany notes (the “**Intercompany Notes**”) to Argent Canada from time to time in 2012. As at the date hereof, the total principal amount of Intercompany Notes outstanding is approximately \$183.1 million.
69. Although the Intercompany Notes were initially issued to Argent Canada, they were distributed to the Trust concurrently or immediately following each issuance, such that, at all material times, the indebtedness owing under the Intercompany Notes has been owing by Argent US to the Trust.
70. The Intercompany Notes mature ten years after issuance with principal payments amortized over the ten year period. They bear interest at the rate of 9.50%, payable monthly, in arrears.
71. Payment of the principal amount and interest on the Intercompany Notes is subordinated in right of payment to the prior payment in full of the principal of and accrued and unpaid

interest on, all other amounts owing in respect of all senior indebtedness, which is defined as all indebtedness, liabilities and obligations of Argent US (other than trade payables) that, by the terms of the instrument creating or evidencing such indebtedness, is not expressed to rank in right of payment in subordination to or *pari passu* with the Intercompany Notes. The Intercompany Notes rank *pari passu* with Argent US's trade payables.

72. Effective as of October 1, 2015, the Trust, in its capacity as holder of the Intercompany Notes, executed a Waiver pursuant to which the Trust waived, in advance, all future interest that would have otherwise, but for the Waiver, accrued and become payable under each Intercompany Note. Pursuant to the Waiver, the Trust has no legal right to any accrual or payment of such waived interest and interest will no longer accrue and be payable on the indebtedness evidenced by the Intercompany Notes until the date the Trust provides a notice to Argent US that the Waiver is no longer in effect. In all other respects, the Trust expressly reserved all of its rights under each Intercompany Note, and the indebtedness evidenced by the Intercompany Notes remains in full force and effect.

iv. No Equipment Lessors or Other Secured Parties

73. The Syndicate is the only secured creditor of the Applicants. Alberta Personal Property Security Act registrations (“**PPSA Registrations**”) do not reveal the existence of any Canadian secured equipment lessors or other secured interests. The PPSA Registrations, which are attached as **Exhibit “11”** to this Affidavit, do not list any secured creditors of the Applicants apart from the Syndicate.
74. Searches were also conducted under the Uniform Commercial Code (“**UCC**”) in Delaware, Texas and Wyoming, and the only registrations are in respect of the Syndicate. Copies of the UCC searches are attached as **Exhibit “12”** to this Affidavit.

C. Commodity Hedges

75. As part of Argent US's strategy to mitigate the impact of fluctuating commodity prices on its funds flowing from operations, it from time to time entered into various hedging

agreements with The Bank of Nova Scotia and Wells Fargo Bank, N.A., both of which are members of the Syndicate.

76. Given the recent plummeting of commodity prices, the hedges provided significant and important cash flow to Argent. At current prices, Argent remained cash flow positive from operations with the hedges in place, but cash flow negative without them.
77. On January 28, 2016, in accordance with the terms of the hedge agreements, each of The Bank of Nova Scotia and Wells Fargo Bank, N.A. terminated the hedges. The aggregate termination payment that was owing to Argent US as a result of the terminations was approximately USD \$12.38 million, which amount was set-off by the Syndicate against the Credit Facility. Copies of the termination notices received are attached as **Exhibit "13"** to this Affidavit.
78. Accordingly, as at the date hereof, Argent no longer has any hedges and is cash flow negative.

D. Legal Proceedings

79. To the best of my knowledge, the Applicants are not parties to any lawsuits, claims, or proceedings.

V. EVENTS LEADING TO THE APPLICANTS' CURRENT CIRCUMSTANCES

A. Decline in the Oil Industry

80. The global decline of oil and gas prices is what has caused Argent to become insolvent. The severe decline in commodity prices has led to a significant reduction in the value of Argent's reserves, such that the current market value of the assets is now significantly less than Argent's outstanding liabilities.
81. In addition, the oversupply of global oil production, coupled with weakened demand for fuel in the global economy, has compressed the margins that oil and gas suppliers like Argent can command. Consequently, earnings are down for historically profitable oil and

gas companies, leading to a reduction in drilling activity, payroll cuts, and in some instances, insolvency.

B. Strategic Review Process, Asset Sales and Other Initiatives

82. On October 1, 2014, Argent announced a decision to initiate a process to explore a range of strategic alternatives (the “**Strategic Review Process**”). BMO Capital Markets was engaged to assist Argent with that process. A copy of the October 1, 2014 press release announcing the Strategic Review Process is attached as **Exhibit “14”** to this Affidavit.
83. As part of the Strategic Review Process, Argent considered all alternatives, including (i) a sale of a material portion of Argent's assets, (ii) a sale of Argent, either in one transaction or in a combination of transactions, (iii) a merger or other business combination, (iv) or a joint venture or a farmout on a material portion of Argent's assets.
84. As a result of the Strategic Review Process, effective January 1, 2015 Argent sold its interests in the Manvel Field, Texas for gross proceeds of USD \$20.5 million, which proceeds were used to pay down the Credit Facility.
85. On March 31, 2015, Argent announced that the Strategic Review Process was a well-attended process which resulted in the receipt of a significant number of bids ranging from individual fields to the entire set of assets. However, with the then-recent plunge in commodity prices, bid levels failed to achieve an acceptable level and the Strategic Review process was concluded. The March 31, 2015 press release also announced that in order to preserve cash and maintain compliance and liquidity in the low commodity price environment, the Trust was suspending all monthly distributions to Unitholders commencing with the month of April, 2015. A copy of the March 31, 2015 press release is attached as **Exhibit “15”** to this Affidavit.
86. Notwithstanding the conclusion of the Strategic Review Process, Argent continued to market a combination of certain assets with the goal to utilize proceeds to pay down the Credit Facility. On July 1, 2015, Argent announced the sale of its interests in Oklahoma and Kansas for gross proceeds of USD \$20 million. The proceeds of the sale were used to further pay down the Credit Facility.

87. In addition to the asset sales completed, Argent implemented various other cost-savings initiatives, including:
- (a) reducing its technical and administrative staff by approximately 30% between April, 2015 and August, 2015;
 - (b) reducing its capital expenditure budget for 2015 to USD \$12 million from an original amount of USD \$39.5 million announced in November 12, 2014;
 - (c) reducing its operating costs from USD \$12.57 per boe in Q3, 2014 to USD \$9.37 per boe in Q3, 2015; and
 - (d) the members of AEL's board of directors agreed to, and did, defer all of their compensation since March 2014. The directors of Argent Canada and Argent US were never entitled to, and never received, compensation in their capacities as directors.
88. In or around August, 2015, Argent and its counsel began to engage with an ad hoc committee of holders of Subordinated Debentures (the “**Ad Hoc Committee**”) and its counsel with respect to various alternatives, including a potential debt-for-equity transaction and different sale alternatives.
89. Argent proposed certain transactions which had the support of Argent and the Syndicate, but Argent and the Ad Hoc Committee were not able to agree on any transaction.
90. Argent has continued to have discussions with the Ad Hoc Committee and its counsel from time to time, but the Ad Hoc Committee has to date not been prepared to provide further financing to Argent in order to provide additional liquidity and runway to the Applicants.
- C. Defaults under the Credit Agreement and the Debenture Indenture**
91. On November 27, 2015, Argent US received a notice from The Bank of Nova Scotia, as administration agent under the Credit Agreement, that the borrowing base had been re-determined in accordance with the Credit Agreement to be USD \$45.0 million, effective

immediately. That was an immediate reduction in the borrowing base, in the amount of USD \$35.0 million. At such time, Argent US's borrowings were USD \$66.3 million (inclusive of a letter of credit), which meant that there was a borrowing base shortfall of USD \$21.3 million. Argent US had 60 days to cure the borrowing base shortfall, failing which there would be an Event of Default under the Credit Agreement.

92. On December 31, 2015, the Trust failed to make its semi-annual interest payments due in respect of the Subordinated Debentures. As a result of Argent's borrowing base shortfall under the Credit Facility, the Trust was prohibited by the terms of the Credit Agreement from making the interest payments in respect of the Subordinated Debentures. The Debenture Indenture provides for a 30 day cure period in which the Trust may make the interest payments.
93. The 60 day cure period under the Credit Agreement expired on January 26, 2016 without the borrowing base shortfall having been cured. The 30 day cure period under the Debenture Indenture expired on January 31, 2016 without the interest payments having been made. Accordingly, there is now an Event of Default under both the Credit Agreement and the Debenture Indenture.

D. Re-financing Process

94. In anticipation of the borrowing base redetermination that Argent received formal notice of on November 27, 2015, the Trust sought proposals in or around October, 2015, from a number of investment bankers to assist Argent in seeking new financing to either (i) refinance the Credit Facility in full, or (ii) provide a new second lien facility that would, among other things, cure the borrowing base shortfall.
95. After considering various proposals and consulting with the Ad Hoc Committee, the Trust engaged Durham Capital Canada Corporation (“**Durham**”) for that role pursuant to an agreement dated October 30, 2015.
96. Durham ran a targeted process and contacted approximately 36 parties regarding the potential refinancing, and 16 of those parties signed non-disclosure agreements and conducted significant due diligence.

97. However, there has been significant volatility in oil prices since the start of the Durham process (when oil was at approximately USD \$46/bbl). Almost immediately after the announcement from OPEC in early-December that it would not cut production, all but one of the parties in the Durham process lost interest in the refinancing opportunity and declined to make a proposal.
98. The Durham process has not resulted in any satisfactory refinancing offers to date, but Durham remains engaged and available to assist Argent if circumstances change such that a re-financing becomes a viable option again.
99. Given the inability to sell assets or refinance the Credit Facility, and the fact that Argent is now cash flow negative at current commodity prices (after the termination of the hedges), Argent has no ability to continue to operate without additional funding, which the Syndicate has said that it is not willing to provide other than in the context of a sales process within the contemplated insolvency proceedings. As provided above, the Ad Hoc Committee has not expressed any interest in providing additional funding.
100. In an effort to preserve option value for the Subordinated Debentures and other stakeholders that rank junior to the Syndicate, and notwithstanding Argent's recognition of the Syndicate's legal rights, Argent, along with its legal and financial advisors, attempted to convince (i) The Bank of Nova Scotia and Wells Fargo Bank, N.A. not to terminate the hedges, and (ii) the Syndicate to forbear from exercising remedies until commodity prices improve and/or to provide a non-confirming tranche to the Credit Facility to cure the borrowing base shortfall. But the Syndicate, in accordance with my understanding of its legal rights, was not prepared to do so.
101. Instead, the Syndicate has worked co-operatively with Argent with respect to these consensual CCAA proceedings, including agreeing to fund the process by way of the Interim Loan.
102. On February 16, 2016, the Syndicate accelerated the Credit Facility, demanded repayment thereof, and issued notices of intention to enforce security to the Trust and Argent Canada. As at that date approximately USD \$51.9 million is outstanding under

the Credit Facility, and Argent is unable to repay the amounts owing. Attached as **Exhibit "16"** to this Affidavit are copies of the demand letters and the notices of intention to enforce security received by the Applicants.

103. If the Applicants did not bring this CCAA application, the Syndicate would be in a position to initiate enforcement steps to sell the Assets in accordance with its legal rights, and I believe that such an enforcement would have resulted in worse recoveries for Argent's creditors than the process being proposed in this CCAA application. Accordingly, given the current circumstances, I believe the Applicants had no choice but to initiate these proceedings and attempt to complete a sale transaction.

VI. SUMMARY OF THE APPLICANTS' EXPECTED CCAA PROCEEDING

104. The Applicants have been working cooperatively with their first-ranking creditor (the Syndicate) in order to best maximize value in the circumstances. The Applicants of course would have preferred to keep the hedges in place and not to be attempting to realize on the assets in this environment; however, Argent acknowledges that it is in default under the Credit Facility (and in respect of the Subordinated Debentures) and that it has no available option to cure those defaults.
105. The Applicants are therefore proposing to run a comprehensive and transparent sale process through coordinated insolvency proceedings in Canada and the United States that is intended to yield the best offer(s) available in these difficult circumstances.
106. The immediate objective of the proceeding is to repay the Syndicate in full, and Argent is hopeful that there could be value for other junior creditors.

VII. THE APPLICANTS MEET THE CCAA STATUTORY REQUIREMENTS

A. The Applicants are "Companies" under the CCAA

107. The Trust is an "income trust" to which the CCAA applies, and Argent Canada is a corporation incorporated under the ABCA. Accordingly, both the Trust and Argent Canada are "companies" to which the CCAA applies. Lastly, Argent US is a corporation incorporated in Delaware and has assets in Canada.

B. The Applicants have Claims Against them in Excess of \$5 Million

108. As discussed above, each of the Trust, Argent Canada and Argent US have claims against them well in excess of \$5 million.

C. The Applicants are Insolvent

109. I am advised by Sean Zweig of Bennett Jones LLP that under section 2 of the *Bankruptcy and Insolvency Act* ("BIA"), an insolvent person is one whose liabilities to creditors exceeds \$1,000 and (i) is for any reason unable to meet his obligations as they generally become due, (ii) has ceased paying his current obligations in the ordinary course of business as they generally become due, or (iii) the aggregate of whose property is not, at a fair valuation, sufficient, or, if disposed of at a fairly conducted sale under legal process, would not be sufficient to enable payment of all his obligations, due and accruing due.

110. As a result of the Credit Facility becoming due and owing (in addition to other liabilities), each of the Applicants is unable to meet its obligations as they come due.

VIII. URGENT NEED FOR RELIEF UNDER THE CCAA

111. The Applicants do not have sufficient liquid assets to repay all amounts owing in respect of the Credit Facility, which is now due and owing. Accordingly, a stay of proceedings is essential to maintain the *status quo* in order to preserve the value of the Applicants' business and assets, and to ensure that no creditor of the Applicants obtains preferred treatment relative to other creditors.

112. On February 16, 2016, the respective directors of the Applicants (and the directors of AEL in the case of the Trust), resolved to grant authority to management to, among other things, approve the commencement of these proceedings under the CCAA.

A. Stay of Proceedings

113. The Applicants need a stay of proceedings to (i) maintain the *status quo* in order to preserve the value of the Applicants and to ensure that no creditor of the Applicants

obtains preferred treatment relative to other creditors, and (ii) provide the Applicants with the opportunity to complete the Sale Solicitation Process for the benefit of all of the Applicants' stakeholders.

B. Appointment of Monitor

114. I believe that FTI Consulting Canada Inc. is qualified and competent to act as Monitor in the CCAA proceedings of the Applicants and as the foreign representative for Argent US and Argent Canada in the Chapter 15 proceedings.
115. Attached as **Exhibit "17"** to this Affidavit is a copy of a Consent to Act as Monitor signed by FTI Consulting Canada Inc.
116. I understand that FTI Consulting Canada Inc. will be filing a Pre-Filing Report with this Honourable Court as proposed Monitor in conjunction with the Applicants' request for relief under the CCAA.

C. Payments During CCAA Proceeding

117. During the course of this CCAA proceeding, the Applicants intend to make payments for goods and services supplied post-filing as set out in the cash flow projections referred to below and as permitted by the Initial Order.
118. Additionally, the Applicants seek the Court's approval to pay certain critical suppliers for the provision of goods and services prior to the date of the Initial Order in an aggregate amount not to exceed USD \$315,000. Any such payments would only be made with the consent of the Monitor and the Syndicate.
119. There are a small number of goods and services suppliers that are critical to the ongoing operations of the Applicants, and whose continued, uninterrupted provision of goods and services is crucial to allowing the Applicants to continue their business operations and preserve the value of the business operations.
120. In my view, given the importance of these critical suppliers in allowing the Applicants to continue operations, the potential disruption to the business operations should they not

continue to be paid in the ordinary course (and possibly withhold their goods and services while C.O.D. terms or other arrangements were put in place) could be material and could affect the cash flow forecast in a very material and negative way.

121. The Interim Lender and the Syndicate are prepared to support such payments being made, if required and approved by the Monitor.

D. Administration Charge

122. It is contemplated that the Monitor, counsel to the Monitor, counsel to the Applicants and the Syndicate's advisors would be granted a first priority Court-ordered charge on the assets, property and undertakings of the Applicants in priority to all other charges (the "**Administration Charge**") up to the maximum amount of USD \$500,000 in respect of their respective fees and disbursements in connection with these proceedings. The Applicants believe the Administration Charge is fair and reasonable in the circumstances.
123. The Applicants require the expertise, knowledge and continuing participation of the proposed beneficiaries of the Administration Charge in order to complete a successful restructuring. I believe the Administration Charge is necessary to ensure their continued participation.

E. Interim Financing & Interim Lender's Charge

124. As set out in the cash flow forecast attached as **Exhibit "18"** to this Affidavit, the Applicants' principal use of cash during these proceedings will consist of the payment of ongoing day-to-day operational expenses, office related expenses, and the professional fees and disbursements in connection with the CCAA and Chapter 15 proceedings. As indicated in the cash flow forecast, it is projected that the Applicants will require additional credit during the CCAA proceedings, notwithstanding that the Applicants are seeking to complete these proceedings as quickly as reasonably possible in order to minimize costs and maximize recoveries for their stakeholders.
125. Argent US proposes to obtain such additional credit pursuant to an interim financing loan facility (the "**Interim Loan**") from the Syndicate, including The Bank of Nova Scotia, in

its capacity as agent for and on behalf of the Syndicate (collectively, in such capacities, the "**Interim Lender**") pursuant to the Interim Financing Credit Agreement attached as **Exhibit "19"** to this Affidavit (the "**Interim Financing Credit Agreement**"), the material terms of which include, among other things:

- (a) An initial maximum credit amount of up to USD \$7,300,000 (the "**Maximum Amount**");
- (b) An interest rate equal to the U.S. Base Rate (as defined in the Credit Agreement) plus 4.00%;
- (c) A maturity date of June 3, 2016;
- (d) An upfront fee equal to 200 bps of the Maximum Amount; and
- (e) Secured guarantees provided by each of the Trust and Argent Canada.

126. It is contemplated that the Interim Lender would be granted a second priority Court-ordered charge on the assets, property and undertakings of the Applicants in priority to all other charges other than the Administration Charge (the "**Interim Lender's Charge**"). I have been advised by the Interim Lender that it will not provide the Interim Loan if the Interim Lender's Charge is not granted.

127. The financing provided by the Interim Lender is essential to a successful restructuring of the Applicants. Given the current financial situation of the Applicants (including its cash position and the lack of availability of alternate financing), the Applicants believe the Interim Loan is the best alternative for the Applicants and its stakeholders in the circumstances. Accordingly, the directors of the Applicants (including the directors of AEL in respect of the Trust) exercised their business judgment to accept the terms in the Interim Financing Credit Agreement. The Applicants believe the Interim Financing Credit Agreement and the Interim Lender's Charge is fair and reasonable in the circumstances.

F. Directors' Charge

128. It is contemplated that the Applicants' directors and officers (including the directors of AEL given their role, as discussed above) would be granted a third priority Court-ordered charge (the "**Directors' Charge**") on the assets, property and undertakings of the Applicants in priority to all other charges other than the Administration Charge and the Interim Lender's Charge up to the maximum amount of USD \$200,000. The Applicants believe the Directors' Charge is fair and reasonable in the circumstances.
129. A successful restructuring of the Applicants will only be possible with the continued participation of the beneficiaries of the Directors' Charge. These individuals have specialized expertise and relationships with Argent's stakeholders. In addition, the directors and officers have gained significant knowledge that cannot be easily replicated or replaced.
130. The Applicants maintain an insurance policy in respect of the potential liability of their directors and officers (the "**D&O Insurance Policy**"). Although the D&O Insurance Policy insures the directors and officers for certain claims that may arise against them in their capacity as directors and/or officers, coverage is subject to several exclusions and limitations and there is a potential for insufficient coverage in respect of potential director and officer liabilities. The directors and officers have expressed their desire for certainty with respect to potential personal liability if they continue in their current capacities in the context of a CCAA proceeding.

G. KERP, KEIP and KERP and KEIP Charge

131. In connection with my appointment as President and Mr. Hicks's appointment as Chief Operating Officer, on April 19, 2015, we were each entitled to a retention payment that would be payable on July 1, 2016.
132. In addition, in or around June, 2014, the Trust and Argent US put in place a key employee retention plan for other Canadian and US employees (which for certainty does not include myself or Mr. Hicks).

133. The retention plans were designed to incentivize key employees to remain in their employment during an anticipated restructuring. Without the retention of key employees, the Applicants' ability to successfully maintain their business operations and preserve asset value while they restructure, would be seriously compromised.
134. The total amount of retention payments that could become payable under the retention plans put in place in June, 2014 and April, 2015 to all current employees (including myself and Mr. Hicks) is approximately USD \$840,000.
135. In addition, pursuant to employment agreements for each of myself, Mr. Hicks and Mr. Wong entered into upon commencement of our respective employments, and separate severance agreements entered into on or around June, 2015 by Argent US with certain other US employees, severance amounts are payable in the event of termination for any reason other than cause.
136. In anticipation of the Applicants' insolvency proceedings, the Applicants and the Syndicate agreed to the following KERP and KEIP to replace the Applicants' current retention and severance programs.
137. The key elements of the KERP are:
 - (a) eligible participants will receive a specific cash retention payment on the earlier of June 1, 2016, the date on which they are terminated without cause, and the date on which there is a sale of a material portion of the Applicants' assets;
 - (b) employees who resign or who are terminated with cause are not eligible to participate;
 - (c) the maximum aggregate amount of cash retention payments to all beneficiaries is USD \$840,000, and if an employee quits or is terminated for cause, such employee's retention payment will be re-allocated to other beneficiaries of the KERP in recognition of the additional work that will be required of the remaining employees;

- (d) the Applicants will fund their insurance provider to provide health benefits for the 90 days following the termination of each of Argent US's employees, the amount of which shall not exceed USD \$90,000; and
 - (e) the directors of AEL will be entitled to certain payments in respect of part of their previously deferred fees (as described below) and their ongoing duties and support of Argent in the CCAA proceedings, to a maximum amount of USD \$105,000 in the aggregate.
138. The KEIP provides a percentage recovery to the beneficiaries of the KEIP based on the proceeds obtained by Argent through the Sale Solicitation Process, a completed refinancing or any similar transaction. The percentage ranges from 2% - 4%, and there is a minimum threshold of sale or other proceeds that must be obtained before any amount is payable under the KEIP.
139. Now shown to me and marked as **Exhibit "20"** to this Affidavit is a copy of a spreadsheet that contains further details about the KEIP and details of the names of key employees, their annual salaries and the payments that will be made to them under the KERP (the "**Confidential Summary**"). The Confidential Summary contains sensitive commercial information, the disclosure of which would be very harmful to the Applicants' commercial interests, the Sale Solicitation Process, and the privacy interests of the Applicants' employees. Therefore, the Applicants are asking that the Confidential Summary in **Exhibit "20"** be sealed on the Court file.
140. The Syndicate and the Monitor have indicated their support for the KERP and KEIP.
141. It is contemplated that the beneficiaries under the KERP and KEIP would be granted a fourth priority Court-ordered charge on the assets, property and undertakings of the Applicants in priority to all other charges other than the Administration Charge, the Interim Lender's Charge and the Directors' Charge up to the maximum amount of USD \$1,035,000 in respect of the KERP plus any additional amounts that become payable under the KEIP (the "**KERP and KEIP Charge**"). The Applicants believe the KERP and KEIP Charge is fair and reasonable in the circumstances.

142. Based on the books and records of the Applicants and the PPSA Registrations and UCC searches conducted by counsel to the Applicants, the only secured creditor which is likely to be affected by the Administration Charge, the Interim Lender's Charge, the Directors' Charge and the KERP and KEIP Charge is the Syndicate, which in the circumstances supports the charges being sought.

H. Sale Solicitation Process

143. In or around mid-December, 2015, Argent contacted eight parties who specialize in acquisition and divestiture services to solicit proposals to assist Argent with a potential sale process to be run either in or outside of a formal insolvency proceeding. Three parties declined to submit proposals due to Argent's size. The other five parties submitted proposals.
144. Argent considered all proposals received and on or about January 15, 2016, Argent US, Argent Canada and The Oil & Gas Asset Clearinghouse, LLC ("OGAC") entered into a letter agreement whereby OGAC will assist Argent in soliciting and evaluating offers for a sale of (i) all of the equity interests of Argent US held by Argent Canada, or (ii) some or all of Argent US's oil and gas properties. A copy of the letter agreement is attached as **Exhibit "21"** to this Affidavit.
145. The Sale Solicitation Process will include broad marketing to all potential purchasers.
146. I believe it is critically important that the Sale Solicitation Process be approved at this time, primarily because the Applicants' financing under the Interim Financing Credit Agreement is conditional on the Sale Solicitation Process being approved at this time and Argent has no alternative source of financing or liquidity.
147. The Sale Solicitation Process will be a fair and transparent process run by OGAC, under the oversight of the Monitor. It is intended to maximize value for the Applicants and all of their stakeholders.

148. The marketing of the assets began formally on February 11, 2016, with initial bids due to be received by OGAC on or before March 17, 2016. The timeline contemplated by the Sale Solicitation Process is as follows:

| | |
|---------------------------------|--|
| March 17, 2016 | Initial bid deadline |
| March 24, 2016 | Final bid deadline |
| March 25, 2016 – April 13, 2016 | Confirmatory title and environmental diligence |
| April 14, 2016 | Sign purchase and sale agreement(s) |
| On or around April 25, 2016 | Obtain CCAA sale approval order |
| On or around May 10, 2016 | Obtain order in Chapter 15 proceeding recognizing CCAA sale approval order |
| On or around May 13, 2016 | Close sale transaction(s) |

149. I am advised by Harrison Williams of OGAC, who has over 25 years of experience selling oil and gas assets, that the timeline for the Sale Solicitation Process is reasonable and consistent with other current sale processes in the US oil and gas market.
150. I also understand that the Monitor, who had input into the development of the Sale Solicitation Process, believes it is reasonable in the circumstances.

I. Chapter 15 Proceedings

151. Argent US and Argent Canada anticipate seeking a recognition order under Chapter 15 in the United States Bankruptcy Court for the Southern District of Texas, Corpus Christi Division (the "US Court") to ensure that they are protected from creditor actions in the United States and elsewhere and to assist with the implementation of any sale transaction to be completed pursuant to these CCAA proceedings. Given that substantially all of Argent's assets are in the United States, the Applicants expect that a purchaser will likely require approval from the US Court to be comfortable that it is getting good and clean title to the assets.
152. The Applicants are accordingly seeking authorization in the Initial Order under the CCAA for FTI Consulting Canada Inc. to act as a foreign representative for the purposes of having the proceedings of Argent US and Argent Canada recognized in the United States pursuant to Chapter 15.

153. The Applicants intend that the initial relief that would be requested in the Chapter 15 proceeding will include, among other things:
- (a) recognition of each of the CCAA proceedings of Argent US and Argent Canada as a "Foreign Main Proceeding", or in the alternative as a "Foreign Non-Main Proceeding";
 - (b) confirmation of FTI Consulting Canada Inc. as foreign representative;
 - (c) a stay of execution;
 - (d) interim recognition of the DIP Loan and the DIP Lender's Charge; and
 - (e) recognition of the Initial Order in the United States.


IX. CASH FLOW PROJECTIONS

154. As set out in the cash flow forecast previously attached, the Applicants' principal uses of cash during the next 13 weeks will consist of the payment of ongoing day-to-day operational expenses, such as payroll and office related expenses, and professional fees and disbursements in connection with the CCAA and Chapter 15 proceedings.
155. As at February 16, 2016, the Applicants had approximately USD \$1.1 million available cash on hand. The Applicants' cash flow forecast projects that, subject to obtaining the relief outlined herein (including approval of the Interim Loan), it will have sufficient cash to fund its projected operating costs until the end of the stay period.
156. The Monitor has reviewed the cash flow forecast and I expect that the Monitor will report on the forecast in its Pre-Filing Report.

X. CONCLUSION

157. I swear this Affidavit in support of an application for the relief set out in paragraph 5 of this Affidavit.

SWORN (OR AFFIRMED) BEFORE ME)
 at Calgary, Alberta this 16th)
 day of February, 2016.)
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 A Commissioner for Oaths
 in and for the Province of Alberta


 SEAN BOVINGTON

Kelsey Meyer
 Barrister & Solicitor