

COURT FILE NUMBER 1301-06644  
COURT COURT OF QUEEN'S BENCH OF ALBERTA  
JUDICIAL CENTRE CALGARY

IN THE MATTER OF THE *BANKRUPTCY AND  
INSOLVENCY ACT*, R.S.C. 1985, c. B-3, AS  
AMENDED

PLAINTIFF NATIONAL BANK OF CANADA

DEFENDANT ARGOSY ENERGY INC. AND RADIUS  
RESOURCES CORP.

DOCUMENT **FIRST REPORT OF FTI CONSULTING  
CANADA INC., IN ITS CAPACITY AS  
COURT-APPOINTED RECEIVER AND  
MANAGER OF ARGOSY ENERGY INC. AND  
RADIUS RESOURCES CORP.**

**July 24, 2013**

ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
PARTY FILING THIS  
DOCUMENT

**RECEIVER**

FTI Consulting Canada Inc.  
1000, 888-3<sup>rd</sup> Street S.W.  
Calgary, AB T2P 5C5  
Deryck Helkaa/Brett Wilson  
Telephone: (403) 444-5362/(403) 444-5373  
Fax: (403) 444-6758  
E-mail: deryck.helkaa@fticonsulting.com  
brett.wilson@fticonsulting.com

**COUNSEL**

Blake, Cassels & Graydon LLP  
3500, 855 – 2<sup>nd</sup> Street SW  
Calgary, AB T2P 4J8

Kelly J. Bourassa/Ryan Zahara  
Telephone: (403) 260-9697/9628  
Fax: (403) 260-9700  
Email: [kelly.bourassa@blakes.com](mailto:kelly.bourassa@blakes.com)/  
[ryan.zahara@blakes.com](mailto:ryan.zahara@blakes.com)

## INTRODUCTION

1. FTI Consulting Canada Inc. was appointed Receiver and Manager (the “Receiver”) of the property, assets and undertakings (the “Assets”) of Argosy Energy Inc. and Radius Resources Corp. (collectively referred to as “Argosy” or the “Company”) pursuant to an Order of this Honourable Court granted on May 30, 2013 (the “Receivership Order”).
2. The Receivership Order authorized the Receiver, among other things, to carry on the business of the Company, to market and solicit offers to purchase the assets of the Company, and to make such arrangements or agreements as deemed necessary by the Receiver.
3. On May 30, 2013, the Court of Queen’s Bench of Alberta made a further Order authorizing and directing the Receiver to finalize an asset purchase agreement (the “LTA APA”) with Long Term Asset Management Inc. (“LTA” or the “Purchaser”) on such terms and conditions that the Receiver considers commercially reasonable and thereafter execute and deliver the LTA APA to the Purchaser and conclude the transaction contemplated by the LTA APA (the “Transaction”). The details of the Transaction are discussed in further detail below.
4. The purpose of this first report (the “First Report”) of the Receiver is to advise this Honourable Court with respect to:
  - a) the activities of the Receiver since its appointment;
  - b) An update on the closing of the Transaction;
  - c) the Receiver’s statement of receipts and disbursements since its appointment to July 23, 2013;

- d) the Receiver's analysis of certain liens and priority payments;
  - e) the Receiver's estimated recovery analysis;
  - f) the Receiver's recommended interim distribution; and
  - g) the Receiver's comments on its efforts to market and sell the remaining assets of Argosy.
5. All references to currency in the First Report are in Canadian Dollars.

## **BACKGROUND**

6. Argosy is an oil and gas company engaged in the production, exploration, development and acquisition of petroleum and natural gas properties in the Province of Alberta. Argosy is a public company listed on the TSX Venture Exchange with its head office located in Calgary, Alberta. Radius Resources Corp. is a wholly owned subsidiary of Argosy which has limited assets and operations and is therefore incorporated in the operations of Argosy herein.
7. Argosy's operations included the following core oil and gas exploration and production areas:
- a) oil and natural gas properties located in Southern Alberta in the Claresholm area (the "Claresholm Properties");
  - b) natural gas properties located in the Atlee Buffalo region; and
  - c) certain properties located in the Alberta Bakken region which were excluded from the LTA Transaction.

8. Argosy's unaudited September 30, 2012 financial statements indicated the following:
  - a) Book value of oil and gas assets totaling approximately \$44.8 million;
  - b) Secured debt of \$21.9 million primarily owed to the National Bank of Canada ("National Bank" or the "Bank"). National Bank provided Argosy with an operating line of credit and is the most significant secured creditor with respect to this Receivership; and
  - c) Unsecured creditors totaling \$2.9 million.
9. As discussed above, the LTA APA was approved by this Honourable Court on May 30, 2013 which approved the sale of substantially all of Argosy's assets to LTA except for the Excluded Assets which are summarized in Appendix A.

## **ACTIVITIES OF THE RECEIVER**

### ***CUSTODY & CONTROL***

10. On May 30, 2013, the Receiver attended the leased head office of Argosy located at 1414-8<sup>th</sup> Street SW in Calgary, Alberta to meet with the Company's employees and consultants in order to discuss the transition of operations from management to the Receiver.

### ***INSURANCE***

11. The Receiver reviewed the adequacy of the insurance coverage and has continued Argosy's policy which is valid through September 29, 2013.

### ***EMPLOYEES AND CONTRACTORS***

12. On May 30, 2013, Argosy employed two full-time head office employees, one consultant and three contract field operators. The Receiver retained both of the full-time office employees to assist with operations management. Additionally, a land consultant was hired to help facilitate the closing of the LTA Transaction after Argosy's employed Land Manager resigned. The Receiver further retained one additional consultant to assist with accounting and financial reporting on an hourly and as needed basis and the contract field operators each on a monthly rate.

### ***OFFICE LEASE AGREEMENT***

13. At the time of the Receivership, Argosy was leasing its head office space located at 1414-8th Street S.W. in Calgary, Alberta. The Receiver has made arrangements with the current landlord to allow the Receiver to continue to occupy the space until August 31, 2013.

### ***STATUTORY NOTICES***

14. On June 10, 2013, the Receiver mailed the notice and statement of Receiver in accordance with subsections 245(1) and 246(1) of the *Bankruptcy and Insolvency Act*.

### ***OPERATIONAL REVIEW***

15. On May 30, 2013 the Receiver met with certain of Argosy's employees and contractors to discuss any operational, safety or environmental issues. No significant operational, safety or environmental issues were noted.

***ENGAGEMENT OF SELLING AGENT AND SALE OF ASSETS***

16. On about February 25, 2013, Argosy had retained Sayer Energy Advisors (“Sayer”) to conduct a sale process in respect of the oil and gas assets. The Sayer sale process included:
  - (i) in late February and early March 2013, Sayer sent teaser information regarding the opportunity to acquire Argosy’s assets to approximately 3,500 industry contacts;
  - (ii) in early March 2013, advertisements were placed in the *Daily Oil Bulletin* regarding the opportunity to acquire Argosy’s assets; and
  - (iii) Sayer completed a Confidential Information Memorandum and established an electronic data room.
17. The sale process is more fully set out in the May 29, 2013 affidavit of Elizabeth Pineda, manager with the National Bank, filed in these proceedings.
18. In addition to the Sayer sale process, Argosy had retained Avonlea Ventures Inc. (“Avonlea”) to assist in seeking parties interested in investing and/or refinancing Argosy.
19. As a result of the Sayer and Avonlea sale process, a total of 21 persons entered into confidentiality agreements and 8 offers were received for Argosy’s assets.
20. The highest and best offer was received from LTA in an amount of \$6.4 million for all of Argosy’s assets except for the Excluded Assets. As set out above, the Court approved the terms of the LTA Transaction on May 30, 2013.

21. Subsequent to the granting of the Receivership Order, the Receiver completed the LTA APA and the Transaction was closed on July 3, 2013. The Receiver has now received the net funds from the Transaction (less closing adjustments).
22. The Receiver is currently in negotiations for the sale of the Excluded Assets and will return to Court for approval of any sale once the negotiations are completed.

## SUMMARY OF RECEIPTS AND DISBURSEMENTS

22. The table below summarizes the receipts and disbursements of the Receiver from May 30, 2013 to July 22, 2013.

<b>Schedule of Receipts and Disbursements</b>		
<b>May 30, 2013 to July 23, 2013</b>		
		Note
Sale of Assets	5,721,770	a
Oil and gas revenues	285,714	b
Deposits Received	200,000	c
GST Collected	14,286	d
<b>Total receipts</b>	<b>6,221,770</b>	
Operating expenses	224,924	e
Utilities	15,359	f
Royalty/Lease Payments	44,702	g
Contractors/employees	28,787	h
Receiver and legal fees	79,863	i
Commission	130,736	j
Repayment of Receiver's Certificate	200,000	k
Bank/interest charges	429	
Insurance	315	
Rent (July and August)	6,530	
GST paid	10,859	
<b>Total Disbursements</b>	<b>742,504</b>	
<b>Net cash on Hand</b>	<b>5,479,266</b>	l

23. The following is a description of the major cash receipts and disbursements in the above table:

a) Sale of assets – net proceeds relating to the sale of Argosy’s core assets as approved by this Honourable Court on May 30, 2013 as set out in the table below:

<b>Net Proceeds from Argosy Asset Sale</b>		<b>Note</b>
Base Purchase Price	6,400,000	
Statement of Adjustments	(553,205)	i
<b>Subtotal</b>	<b>5,846,795</b>	
GST	64,000	
<b>Total Due to Vendor</b>	<b>5,910,795</b>	
Avonlea Commission	(189,000)	ii
Wire Transfer fee	(25)	
<b>Net Proceeds</b>	<b>5,721,770</b>	iii

(i) Material amounts included on the statement of adjustments relate to:

- Revenues collected by the Receiver in June and therefore deducted from purchase price (collected after effective date of April 1, 2013, but before closing); and
- Unpaid property taxes from 2012 that were paid by LTA;

(ii) fee paid to Avonlea for the successful sale of the assets as agreed to by the Bank and the Company; and

(iii) net proceeds available for interim distribution.

b) Oil and gas revenues – receipts received by the Receiver from Argosy’s operating oil and gas assets (as discussed above in the statement of adjustments);



- c) Deposits received – a \$200,000 Receiver’s Certificate was deposited into Receiver’s account on June 11, 2013, funded by the National Bank;
- d) GST collected – relates to GST received on oil and gas revenues;
- e) Operating expenses – to date, the Receiver has disbursed \$224,924 in operating expenses relating to Argosy’s assets;
- f) Utilities – \$15,359 for utilities have been disbursed relating to Argosy’s gas processing plant;
- g) Royalty/lease payments – \$44,702 has been disbursed for royalties and surface and mineral lease payments;
- h) Contractors/employees – \$28,787 has been disbursed by the Receiver relating to payments to contracted Argosy employees;
- i) Receiver and legal fees – \$79,863 in receiver and legal fees have been incurred to date, including the payment of pre-receivership fees to FTI Consulting Canada Inc;
- j) Commission – \$130,736 relate to commissions paid to Sayer with respect to the closing of the sale of the Argosy assets;
- k) Repayment of Receiver’s Certificate – on July 19, 2013 the Receiver wired \$200,000 to National Bank in repayment of the Receiver’s Certificate; and
- l) As at July 23, 2013, the Receiver holds \$5,479,265 in funds.

## **ANALYSIS OF SECURED AND/OR PRIORITY CLAIMS**

### ***VALIDITY AND ENFORCEABILITY OF NATIONAL BANK'S SECURITY***

24. National Bank's security has been reviewed by the Receiver's counsel and counsel advised that the security creates a valid security interest in favour of National Bank in the right, title and interest of Argosy in its personal property and a floating charge over the Mortgaged Property (as defined in the security).

### **LIENS AND PRIORITY CLAIMS**

25. The Receiver has determined that, while there are 3 builders' liens registered as against Argosy's assets, none of the liens are registered against those assets that were conveyed as part of the LTA Transaction. The three liens registered against the Excluded Assets, are as follows:

<b>Claimant</b>	<b>Type</b>	<b>Amount</b>
Rapid Rod Services Ltd.	Builders' Lien	\$8,582.39
Hallmark Tubulars Ltd.	Builders' Lien	\$166,000.00
Ensign Drilling Partnership	Builders' Lien	\$203,032.09

#### ***Canada Revenue Agency***

26. The Receiver is not aware of any source deductions or deemed trust claims owed to the Canada Revenue Agency ("CRA").

#### ***Alberta Energy***

27. On July 19, 2013 the Receiver received a letter from Alberta Energy regarding an alleged claim it may have against the Company. The Receiver has since discussed the claim with Alberta Energy and has been advised that the claim considered is unsecured with the exception of the Minister holding a non-interest bearing deposit of \$46,073.70. Accordingly, no further funds are required to be held with respect to claims by Alberta Energy.

## PROPOSED INTERIM DISTRIBUTION OF PROCEEDS FROM REALIZATION

28. The Receiver proposes the distribution of the proceeds from realization as follows:

<b>Proposed Distribution</b>		<b>Note</b>
Cash on hand	<u>5,479,265</u>	a
Funds held back by the Receiver	750,000	b
<b>Proposed Interim Distribution to National Bank</b>	<u><b>4,729,265</b></u>	c

- (a) cash on hand per summary of receipts and disbursements above;
- (b) amounts held back by the Receiver to pay for final closing adjustments, remaining operating costs, administrative costs, potential revisions in the Alberta Energy Regulator (formerly the ERCB) Licensee Liability Rating of the Excluded Assets and professional fees; and
- (c) the amount of the proposed distribution to National Bank.

29. Per the schedule above the Receiver recommends an interim distribution to National Bank in the amount of \$4.7 million (“National Bank Interim Distribution”).

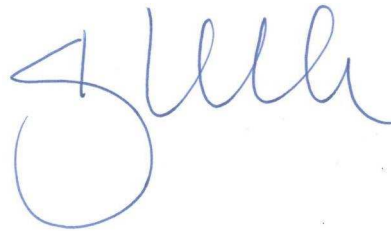
30. Based on the amount of the National Bank’s secured loan and estimated remaining recoveries, the Receiver does not anticipate any distributions to unsecured creditors.

## RECEIVER'S RECOMMENDATIONS

31. The Receiver recommends that this Honourable Court approve the National Bank Interim Distribution.

All of which is respectfully submitted this 24 day of July, 2013.

FTI Consulting Canada Inc.  
in its capacity as Receiver of  
the assets, property and undertaking of Argosy  
Energy Inc. and Radius Resources Corp.



---

Name: Deryck Helkaa  
Title: Senior Managing Director,  
FTI Consulting Canada Inc.

**Appendix A**  
**Schedule of Excluded Assets**

## **Excluded Assets**

1. Sections (16, 18, 20, 21, 22, 31)-9-24W4, all Petroleum and Natural Gas rights.  
Including the wells at:
  - a) 7-21-9-24W4 and 2-31-9-24W4
  - b) Surface location at 5-22-9-24W4
2. Section 35-10-26W4. All Petroleum and Natural Gas rights below the base of the Manville. Including the well at:
  - a) 13-35-10-26W4
3. One copy of the geological and geophysical interpretations related to the Excluded Assets; and
4. All other interpretations, evaluations, valuations, forecasts, analyses and similar items relating to the Excluded Assets, including any economic valuations or reserve forecasts prepared or acquired by or on behalf of the Debtor, or its Affiliates or a Third Party with respect to the Excluded Assets.