

COURT FILE NUMBER 1601-

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

APPLICANTS 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 **PRE-FILING REPORT OF FTI CONSULTING CANADA INC.,  
IN ITS CAPACITY AS PROPOSED MONITOR OF ARGENT  
ENERGY TRUST, ARGENT ENERGY (CANADA) HOLDINGS  
INC. and ARGENT ENERGY (US) HOLDINGS INC.**

**February 16, 2016**

ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
PARTY FILING THIS  
DOCUMENT

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## INTRODUCTION

1. FTI Consulting Canada Inc. ("FTI Consulting" or the "Proposed Monitor") has been advised that Argent Energy Trust (the "Trust"), Argent Energy (Canada) Holdings Inc. ("Argent Canada") and Argent Energy (US) Holdings Inc. ("Argent US") (collectively the "Applicants" or "Argent") intend to make an application under the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the "CCAA") for an initial order (the "Initial Order") granting, inter alia, a stay of proceedings against Argent until March 18, 2016, (the "Initial Stay Period") and appointing FTI Consulting as Monitor. The proceedings to be commenced by the Applicants under the CCAA will be referred herein as the CCAA proceedings (the "CCAA Proceedings"). The Proposed Monitor understands that Argent Canada and Argent US will also seek to have the CCAA Proceedings recognized under Chapter 15 in the United States Bankruptcy Court for the Southern District of Texas, Corpus Christi Division (the "US Proceedings") to ensure the Argent Canada and Argent US 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.
2. FTI Consulting is a trustee within the meaning of section 2 of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended, and is not subject to any of the restrictions on who may be appointed as monitor set out in section 11.7(2) of the CCAA. FTI has provided its consent to act as Monitor in these CCAA Proceedings a copy of which is attached to the Bovingdon Initial Order Affidavit (defined herein).
3. The Proposed Monitor is also prepared to act as foreign representative of Argent Canada and Argent US for purposes of having the CCAA Proceedings recognized in the US under Chapter 15.

## PURPOSE

4. The purpose of this report is to provide this Honourable Court with an overview of the state of the business and affairs of the Applicants, the causes of its financial difficulty and the Proposed Monitor's comments on:
  - (a) the Applicants' weekly cash flow forecast for the period of February 17, 2016 to June 3, 2016 (the "Forecast Period") and the reasonableness thereof, in accordance with s. 23(1)(b) of the CCAA;
  - (b) the proposed interim financing (the "Interim Loan");
  - (c) the proposed sales process (the "Sales Process");
  - (d) the proposed key employee retention plan ("KERP") and proposed key employee incentive program ("KEIP"). The confidential summary (the "Confidential Summary") of the KERP and KEIP contains sensitive commercial information, the disclosure of which may be harmful to the Applicants' commercial interests, the Sales Process, and the privacy interests of the Applicants' employees. Therefore the Applicants are asking that the Confidential Summary be sealed on the Court file;
  - (e) the following proposed court-ordered charges:
    - (i) the administrative charge (the "Administrative Charge");
    - (ii) the charge securing the Interim Loan (the "Interim Lender's Charge");
    - (iii) the directors & officers' charge (the "Directors Charge");

- (iv). the charge securing the KERP and the KEIP (the “KERP and KEIP Charge” and collectively, the "Court Ordered Charges"); and
- (v). the Applicants’ proposed authorization to pay certain amount to critical suppliers

## **TERMS OF REFERENCE**

- 5. In preparing this report, the Proposed Monitor has relied upon unaudited financial information of the Applicants, the Applicants’ books and records, certain financial information prepared by the Applicants and discussions with various parties, including senior management (“Management”) of the Applicants (collectively the “Information”).
- 6. Except as described in this report, the Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook.
- 7. The Proposed Monitor has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook. Future oriented financial information reported or relied on in preparing this report is based on Management’s assumptions regarding future events and actual results may vary from forecast and such variations may be material.
- 8. The Proposed Monitor has prepared this report in connection with the application for the proposed Initial Order to be filed by the Applicants (the “Initial Application”). This report should not be relied on for other purposes.

9. Unless otherwise stated, all monetary amounts contained herein are expressed in U.S. dollars.
10. This report should be read in conjunction with the affidavit of Sean Bovingdon sworn on February 16, 2016 (the “Bovingdon Initial Order Affidavit”) filed in support of the Applicants’ application for relief under the CCAA.

## **OVERVIEW OF BUSINESS**

11. The Trust is listed on the Toronto Stock Exchange and was created to provide investors with an 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 properties in established producing basins located primarily in the U.S.
12. 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.
13. Further details with respect to Argent’s legal structure and operations are included in the Bovingdon Initial Order Affidavit.
14. The decline in global oil and gas prices has resulted in a significant reduction in Argent’s operating income such that it can no longer meet its liabilities as they become due. Furthermore the Applicants are facing a liquidity crisis and are projecting an immediate need for additional financing, all of which is described in additional detail in the Bovingdon Initial Order Affidavit. The liquidity needs and proposed interim financing are described in further detail below.

## CASH FLOW STATEMENT

15. The Applicants have prepared a weekly cash flow projection for the Forecast Period (the “Cash Flow Statement”). A copy of the signed Cash Flow Statement, notes and a report containing the prescribed representations of Argent regarding the preparation of the Cash Flow Statement are attached to this report as Appendix “A”.
16. A summary of the Cash Flow Statement for the Initial Stay Period and the Forecast Period is summarized in the table below.

(US \$000s)	Initial Stay Period	Forecast Period
<b>Cash Receipts</b>		
Product Revenue	2,549	8,424
<b>Cash Disbursements</b>		
Royalty Expense	(503)	(1,706)
Severance Taxes	(43)	(241)
Ad Valorem	-	(1,000)
Operating Costs	(2,136)	(6,074)
G&A	(994)	(2,641)
Capital Expenditures	(208)	(876)
Bank debt interest payments	(233)	(938)
Interim Loan Interest/Fees	(167)	(232)
Professional Fees	(833)	(2,988)
<b>Total - Operating Disbursements</b>	<b>(5,117)</b>	<b>(16,697)</b>
<b>Net Cash flow before financing</b>	<b>(2,568)</b>	<b>(8,272)</b>
<b>Opening Cash before Interim Loan</b>	<b>1,047</b>	<b>1,047</b>
<b>Ending Cash before Interim Loan</b>	<b>(1,521)</b>	<b>(7,225)</b>
Cummulative Interim Loan Advances	1,600	7,300
<b>Ending Cash after Interim Loan Advances</b>	<b>79</b>	<b>75</b>

17. The Cash Flow Statement indicates the following for the Forecast Period:
- (a) total cash receipts excluding advances under the proposed Interim Loan of \$8.42 million;

- (b) total cash disbursements of \$16.70 million;
  - (c) total disbursements relating to the professional fees and restructuring costs of \$2.99 million; and
  - (d) total estimated draws under the Interim Loan of approximately \$7.30 million, as discussed in further detail below.
18. The Cash Flow Statement indicates the following for the period February 17, 2016 to March 18, 2016 (the “Initial Stay Period”):
- (a) total cash receipts excluding advances under the proposed Interim Loan of \$2.55 million;
  - (b) total cash disbursements of \$5.12 million;
  - (c) total disbursements relating to the professional fees and restructuring costs of \$0.83 million; and
  - (d) total estimated draws under the Interim Loan of approximately \$1.60 million.
19. The Proposed Monitor’s review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to information supplied by certain members of Management and other employees of Argent. Since hypothetical assumptions need not be supported, the Proposed Monitor’s procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Proposed Monitor has also reviewed the support provided by Management for the probable assumptions and the preparation and presentation of the Cash Flow Statement.

20. Based on the Proposed Monitor's review, nothing has come to its attention that causes the Proposed Monitor to believe that, in all respects:<sup>1</sup>
- (a) The Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Statement;
  - (b) As at the date of this report, the Probable Assumptions developed by Management are not Suitably Supported and consistent with the plans of Argent or do not provide a reasonable basis for the Cash Flow Statement, given the Hypothetical Assumptions; or
  - (c) The Cash Flow Statement does not reflect the Probable and Hypothetical Assumptions.
21. Since the Cash Flow Statement is based upon assumptions regarding future events, actual results will vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Statement will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by it in preparing this report.
22. The Cash Flow Statement has been prepared solely for the purposes of determining the liquidity requirements of the Applicants during the CCAA Proceedings, using Probable and Hypothetical Assumptions, and readers are cautioned that it may not be appropriate for other purposes.

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<sup>1</sup> All terms used but not defined in this section of the report have the meanings ascribed to them in the Canadian Association of Insolvency and Restructuring Professionals (“CAIRP”) Standard of Practice No. 09-1, Cash-Flow Statement, approved, ratified and confirmed by CAIRP members on August 21, 2009. A copy of Standard of Practice No. 09-1 is attached to the Cash Flow Statement at Appendix “B” to this report.



## PROPOSED INTERIM LOAN

23. As set out in the Bovingdon Initial Order Affidavit, Argent is currently suffering a liquidity crisis and will require funding to maintain its operations. Accordingly, Argent is seeking Court approval of the Interim Loan in the amount of \$7.30 million. The Cash Flow Statement indicates that \$1.60 million of the Interim Loan is required during the Initial Stay Period. A copy of the proposed Interim Loan agreement (the “Interim Loan Agreement”) is attached to the Bovingdon Initial Order Affidavit.
24. The party providing the Interim Loan (the “Interim Lender”) is the Applicants’ current banking syndicate (“Syndicate”), which is the only secured creditor of the Applicants.
25. Subject to the terms and conditions of the Interim Loan Agreement, the Interim Lender has agreed to lend up to \$7.30 million (the “Maximum Interim Loan Amount”) to Argent. The advances under the Interim Loan are to be advanced in accordance with the terms of the Interim Loan Agreement with the key terms as set out in the Bovingdon Initial Order Affidavit and summarized below.
- (a) The Interim Loan will bear interest at U.S. base rate plus 4% per annum (approximately 8%). Such interest shall accrue daily and is payable monthly in arrears;
  - (b) A commitment fee of \$146,000 (200 basis points) is payable from the first advance under the Interim Loan. In addition, Argent shall pay all reasonable out-of-pocket expenses, including legal expenses, incurred by the Interim Lender in connection with the Interim Loan Agreement;
  - (c) The Interim Loan is repayable in full on the earlier of:

- (i). the occurrence of an Event of Default which is continuing and has not been cured;
- (ii). the implementation of a plan of compromise or arrangement within the CCAA Proceedings (a "Plan") which has been approved by the requisite majorities and by order entered by this Honourable Court;
- (iii). the closing of a bankruptcy sale within the CCAA Proceedings and the U.S. Proceedings which has been approved by orders entered by the Court and the U.S. Bankruptcy Court;
- (iv). conversion of the CCAA Proceedings into a proceeding under the Bankruptcy and Insolvency Act (Canada) ("BIA") or conversion of the U.S. Proceedings into a Chapter 7 proceeding under the Bankruptcy Code (United States); and
- (v). June 3, 2016.

26. The Proposed Monitor is of the view that the assumptions and projections which underlie the Applicants' Cash Flow Projections are reasonable and that the Maximum Interim Loan Amount of \$7.30 million in available interim financing is reasonable and should be sufficient to fund the Applicants' operations in accordance with the Cash Flow Projections until June 3, 2016. The Maximum Loan Amount provides sufficient funding for approximately three months to close a transaction and obtain the required Court approvals which is consistent with the proposed Sales Process as described below. The Monitor notes that there will be additional work required to wind-up Argent after June 3, 2016 which is the outside maturity date of the Interim Loan. Clause 4.1 of the Interim Loan Agreement addresses this aspect with the following language:

- (a) the Interim Lender, in their sole and absolute discretion, shall advance to the Borrower or allow it to retain, subject to the terms hereof, reasonable amounts necessary to wind up the bankruptcy or insolvency proceedings to their appropriate conclusion as particularized in the agreed budget.
27. The Proposed Monitor is of the view that clause 4.1 of the Interim Loan Agreement addresses the need for funds past June 3, 2016 to wind-up Argent and provides a mechanism to allow Argent the required funds.
28. Subject to approval of this Honourable Court, the proposed Interim Loan contemplates inter alia, that the Interim Lender will be granted a first charge over all of Argent's assets subject to and subordinate only to the Administrative Charge and any existing statutory lien or purchase money security interests which have, by their terms, priority over the existing security interests of the Interim Lender over the assets of Argent as of the date of the Initial Order.
29. The Proposed Monitor has reviewed the Interim Loan Agreement, and conducted a comparison of the terms therein to other publicly disclosed Canadian Court approved interim financing transactions. In the view of the Proposed Monitor, the fees and terms of the Interim Loan Agreement are reasonable and comparable to other similar transactions.

## **PROPOSED SALES SOLICITATION PROCESS**

30. The Sales Process sets out the parameters of the marketing process pursuant to which the Oil & Gas Clearinghouse, LLC (“OGAC”), on behalf of Argent, will solicit offers to purchase Argent US and/or its Assets and the requirements for the submission of the offers by interested parties.

31. The following table summarizes the proposed timeline for the major steps contemplated in the Sales Process.

Task	Completion Date	Days from Launch
Kick-off Meeting	20-Jan-16	(29)
Finalize construction of VDR and marketing materials	17-Feb-16	(1)
Launch Marketing Process	18-Feb-16	-
Initial Bids Due	17-Mar-16	28
Final Bids due	24-Mar-16	35
Environmental and title due diligence	13-Apr-16	55
Sign Purchase and Sale Agreement	14-Apr-16	56
Seek Court Approval/Recognition and Close Transaction	17-May-16	89

### Marketing and Advertisement

32. The Sales Process contemplates that:
- (a) as soon as reasonably practicable after the granting of the Initial Order the Monitor shall cause a notice of the Sales Process and such other relevant information which the Monitor, in consultation with OGAC and the Applicants, considers appropriate to be published in the Daily Oil Bulletin and the Houston Chronicle;
  - (b) as soon as reasonably practicable after the granting of the Initial Order, but no later than February 19, 2016 the Trust shall issue a press release setting out the notice and such other relevant information as it may consider appropriate in form and substance satisfactory to the Monitor, following consultation with OGAC, with Canada Newswire designating dissemination in Canada and major financial centres in the United States;
  - (c) OGAC shall prepare and distribute a teaser with respect to Argent US and its Assets for distribution to potential bidders by no later than February 17, 2016 (the "Teaser"); and

- (d) A confidential virtual data room ("VDR") describing the opportunity to acquire all or a portion of the Assets will be made available by OGAC to prospective purchasers that have executed a non-disclosure agreement with the Applicants. The VDR will be available by February 17, 2016;

### **Participation Requirements**

- 33. In order to participate in the Sales Process, each potential bidder must deliver to OGAC an executed non-disclosure agreement in form and substance satisfactory to the Monitor, OGAC and the Applicants, at which time the potential bidder shall be deemed a qualified bidder ("Qualified Bidder").
- 34. OGAC shall provide any person deemed to be a Qualified Bidder with access to the VDR.

### **Timing and Status**

#### *Phase 1 – Qualified Bids*

- 35. A Qualified Bidder wishing to submit a bid, will deliver written copies of a binding proposal (a "Qualified Bid") by no later than 5:00 p.m. (Central Standard Time) on March 17, 2016, or such other date or time as may be agreed by OGAC, in consultation with the Monitor, the Applicants and the Syndicate (the "Bid Deadline");
- 36. A Qualified Bid will be considered as such only if the Qualified Bid complies at a minimum with the following:
  - (a) it contains a duly executed sale proposal;

- (b) it provides written evidence of financial commitment or other evidence of the ability to consummate the sale satisfactory to OGAC, in consultation with the Monitor and the Applicants;
  - (c) it is not conditional upon:
    - (i). the outcome of any unperformed due diligence, except confirmatory title and environmental due diligence;
    - (ii). obtaining financing; and/or
    - (iii). any other material conditions other than the receipt of the Approval Order and the Recognition Order (as described below); and
    - (iv). it is received by the Bid Deadline.
37. OGAC, in consultation with the Applicants, the Monitor and the Syndicate, may in its sole and unfettered discretion, waive compliance with any one or more of the requirements specified herein and deem such non-compliant bids to be Qualified Bids.
38. The Applicants, in consultation with the Monitor and OGAC, may, following the receipt of any Qualified Bid, seek clarification with respect to any of the terms or conditions of such Qualified Bid and/or request and negotiate one or more amendments to such Qualified Bid prior to determining the most favourable Qualified Bid(s) which are to be negotiated and finalized by March 24, 2016 (the “Successful Bid(s)”).

*Phase 2 – Title/Environment Due Diligence and Definitive Purchase Agreement*

39. Once a Successful Bid(s) have been chosen the bidder(s) (“Successful Bidder(s)”) will be informed that their bid(s) was selected as the winning bid(s) and will be required to pay a deposit (“Deposit”), to be held by the Monitor, equal to 10% of the total consideration outlined in their offer. The Deposit will be refundable only in the event that environmental and/or title deficiencies arise as a result of their further due diligence that would result in a negative financial impact to the Successful Bidder(s) above a certain agreed upon threshold. After being chosen the Successful Bidder(s) and submitting the required Deposit the Successful Bidder(s) will have until April 14, 2016 to:
- (a) Complete title and environmental due diligence;
  - (b) Negotiate and deliver a duly authorized definitive purchase agreement which shall be conditional only on the granting of the Approval Order and the Recognition Order, and provide for closing by May 13, 2016; and
  - (c) Upon signing a definitive purchase agreement the Deposit shall become non-refundable except in event; Court approval of the sale is not granted or if the Court approval of the sale is not recognized by the U.S. Proceedings.

*Phase 3 – Close Sale and Court Approval/Recognition*

40. Once Phase 2 has been completed the Applicants shall apply to the Court (the "Approval Motion") for an order approving the Successful Bid(s) and vesting title to the purchased property in the name of the Successful Bidder(s) (the "Approval Order"). The Approval Motion will be heard on a date to be scheduled by the Applicants and confirmed by the Court upon application by the Applicants, who shall use their best efforts to schedule the Approval Motion on or before April 30, 2016. As soon as practicable after the Approval Order is granted, the Monitor, as proposed foreign representative pursuant to the Initial Order, shall apply for an order recognizing the Approval Order or such further and other orders as may be necessary to give effect to the Approval Order in the United States (the "Recognition Order");
41. After the Approval Order and the Recognition Order are granted, the Applicants will endeavor to close the transaction. The target date to close the transaction is May 17, 2016.

**The Proposed Monitor's comments with respect to the proposed Sales Process**

42. In the Proposed Monitor's view the proposed Sales Process is fair and reasonable in the circumstances based on the following:
  - (a) The Sale Process was developed by OGAC, who has considerable experience marketing US oil and gas assets, and OGAC has advised, in its opinion, that the process is fair and reasonable in the circumstance;
  - (b) the marketing and advertisement contemplated in the Sales Process will ensure the Assets are adequately exposed to the market;



- (c) the bidding process provisions allows adequate assessments of the legitimacy of the bidders and their ability to close a transaction;
  - (d) the due diligence period and information available through the VDR, the ability to meet with Management of Argent and perform site visits provide potential purchasers with the time and information required to make an informed offer for Argent US and/or its assets; and
  - (e) the Sales Process allows for a fair transparent process to solicit offers for Argent US and/or its Assets. The timelines set out in the Sales Process provide a reasonable opportunity for all interested parties to put forward their best offers for Argent US and/or its Assets.
43. The Proposed Monitor notes that the Assets have already been exposed to market (as detailed in the Bovingdon Initial Order Affidavit) and the VDR is ready to go live and multiple parties have executed confidentiality agreements to date.

#### **PROPOSED KERP and KEIP**

44. Argent is seeking the approval of a KERP and KEIP as well as the granting of the KERP and KEIP Charge. If approved, certain of Argent's employees (the "KERP Employees"), each of whom is considered by Argent to be critical to the successful completion of the CCAA Proceedings, will participate in the KERP. Argent recently reduced its staffing level by approximately 40%.
45. 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 a sale of a material portion of the Applicants' Assets closes;

- (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 \$840,000;
  - (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 \$90,000; and
  - (e) the directors of Argent Energy Ltd. will be entitled to certain payments in respect of part of their previously deferred director fees and their ongoing duties and support of Argent in the CCAA proceedings, to a maximum amount of \$105,000 in the aggregate.
46. A smaller subset of employees whose ongoing efforts are expected to have a positive impact on the sales process have been included in the KEIP (the “KEIP Employees”). There are 6 KEIP Employees.
47. The KEIP provides a percentage recovery to the KEIP Employees based on the net proceeds obtained through the Sale Process, a completed re-financing or any similar transaction above a minimum threshold of proceeds that must be obtained before any amounts are payable under the KEIP. The percentage ranges from 2% to 4% of the amounts above the minimum threshold.

**The Proposed Monitor’s comments and recommendation with respect to the proposed KERP and KEIP**

48. The Proposed Monitor has reviewed information available in respect of approximately 40 CCAA cases where employee retention plans have been approved and compared these retention plans to the Proposed KERP and KEIP.

49. The Proposed Monitor agrees with the Applicants' assessment that the departure of the KERP Employees and KEIP Employees may be detrimental to its business and operations and could impair the likelihood of a successful outcome to the CCAA Proceedings. The approval of the KERP and KEIP should provide incentive for the employees to remain in their employment for the duration of the CCAA Proceedings. The Proposed Monitor understands from Argent that the current Houston job market (where a majority of the employees are located) is significantly better than the current job market in Calgary
50. From its review of prior court-approved retention plans, the Proposed Monitor is satisfied that the KERP and KEIP are consistent with current practice for retention plans in the context of a CCAA proceeding and that the quantum of the proposed payments under the KERP and KEIP, both to individuals and in the aggregate, are reasonable in the circumstances.
51. Based on the foregoing, the Proposed Monitor is of the opinion that the KERP and KEIP are reasonable in the circumstances and their implementation would be beneficial to the Applicants and its stakeholders.
52. The Proposed Monitor further advises that the Syndicate and its financial advisors have reviewed the details of the KERP and KEIP and are in support of such arrangements.
53. Accordingly, the Proposed Monitor respectfully recommends that the KERP and KEIP be approved by this Honourable Court. The Proposed Monitor also supports the granting of the KERP and KEIP Charges to secure the obligations thereunder, as discussed in further detail below.

## **AMOUNT AND PRIORITY OF COURT ORDERED CHARGES**

54. Certain Court-Ordered charges are contemplated in the Initial Order with the following proposed priority ranking:
- (a) Administration Charge;
  - (b) Interim Lender's Charge (discussed above);
  - (c) Directors Charge; and
  - (d) KERP & KEIP Charge (discussed above).

### **Administration Charge**

55. The proposed Initial Order provides for an Administration Charge in an amount not to exceed \$500,000, charging the assets of the Applicants to secure the fees and disbursements incurred in connection with services rendered to the Applicants both before and after the commencement of the CCAA Proceedings by counsel to the Applicants, the Proposed Monitor, and the Proposed Monitor's counsel as well as counsel and the financial advisor to the Syndicate.
56. The Proposed Monitor believes it is appropriate that the proposed beneficiaries of the Administration Charge be afforded the benefit of a charge as they will be undertaking a necessary and integral role in the CCAA Proceedings. The Proposed Monitor has reviewed the underlying assumptions upon which the Applicants have based the quantum of the proposed Administration Charge, the complexities of the CCAA Proceedings and the services to be provided by the beneficiaries of the Administration Charge and is of the view that the proposed quantum of the Administration Charge is reasonable and appropriate in the circumstances.

### **Interim Lender's Charge**

57. The proposed Initial Order provides for the Interim Lender's Charge in favour of the Interim Lender in the amount not to exceed \$7.30 million charging all of the assets of the Applicant. The Interim Lender's Charge is proposed to rank immediately subsequent the Administration Charge.
58. The Proposed Monitor has considered the above terms and the need for the proposed Interim Loan and understands that the Interim Lender is not prepared to make the Interim Loan without the benefit of the Interim Lender's Charge. Accordingly, the Proposed Monitor is of the view that the Applicants' request for the Interim Lender's Charge is reasonable and appropriate in the circumstances.

### **Directors Charge**

59. The Initial Order provides for a Directors Charge over the property of Argent in favour of the directors and officers of the Applicants and Argent Energy Ltd. as security for the indemnity contained in the Initial Order in respect of specified obligations and liabilities that they may incur after the commencement of the CCAA Proceeding. The Directors Charge will not exceed an aggregate amount of \$200,000 and will rank immediately subsequent to the Interim Lender's Charge. The amount and priority ranking of the Directors Charge have been negotiated and agreed upon with the Syndicate and the Interim Lender.

60. As described in the Bovingdon Initial Order Affidavit, the Applicants maintain certain insurance coverage for the directors and officers, but the deductibles and exclusions from the policies mean that the insurance may not fully cover the potential statutory liabilities of the beneficiaries of the Directors Charge. The Proposed Monitor notes that the directors and officers will only be entitled to the benefit of the Directors Charge to the extent that they do not have coverage under any existing insurance policy, or to the extent that such coverage is insufficient to pay amounts for which the directors and officers are entitled to be indemnified pursuant to the provisions of the Proposed Initial Order.
61. It is the Proposed Monitor's view that the continued support and service of the directors and officers during the CCAA Proceedings would be beneficial to the Applicants' efforts to preserve value and maximize recoveries for stakeholders through completion of CCAA Proceedings. The Proposed Monitor has reviewed the underlying assumptions upon which the Applicants have based the estimate of the potential liability in respect of directors' statutory obligations and is of the view that the Directors Charge is reasonable in relation to the quantum of the estimated potential liability and appropriate in the circumstances.
62. The Proposed Monitor is further of the view that it is appropriate for the directors and officers of Argent Energy Ltd. to have the benefit of the Directors Charge given their role as effective directors and officer of the Trust, as described in the Bovingdon Initial Order Affidavit. The Proposed Monitor also notes that similar authorizations have been granted in other CCAA Proceedings.

## **PRE-FILING PAYMENTS**

63. The Applicants have identified certain vendors who are considered critical to the ongoing operation of the business. If these vendors were to cease the supply services even for a short period of time, it would have a material negative impact on the Applicants' operations. The proposed Initial Order contemplates authorizing the Applicants, with the consent of the Monitor and the Syndicate, the ability, but not the requirement, to make certain payments (to a maximum of \$315,000) to these vendors to satisfy pre-filing obligations.
64. The Proposed Monitor is of the view that authorization to pay a limited amount of pre-filing obligations is reasonable in the circumstances; however the Applicants will first attempt to rely on the general provisions of the Proposed Initial Order to negotiate and compel vendors to continue to supply services. The pre-filing obligations should only be paid if these negotiations deteriorate or relate to emergency situations such that the Applicants' business and/or assets would suffer irreparable harm as a result of the vendor ceasing the supply of services.

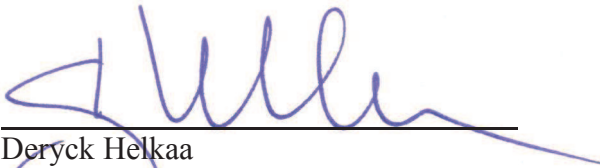
## **CONCLUSIONS AND RECOMMENDATIONS**

65. The Proposed Monitor is of the view that the assumptions and projections underlying the Applicants' Cash Flow Statement are reasonable and that the Interim Loan should be sufficient to fund the Applicants' operations to the end of the Initial Stay Period and throughout the Forecast Period.
66. The Proposed Monitor respectfully recommends that this Honourable Court grant the proposed Initial Order, which will, among other things, approve:
- (a) the Interim Loan, including the Interim Lender's Charge
  - (b) the proposed Sales Process;

- (c) the proposed KERP and KEIP, including the quantum and ranking of KERP and KEIP Charge;
- (d) the Confidential Summary be sealed on the Court file;
- (e) the quantum and ranking of the Administration Charge;
- (f) the quantum and ranking of the Directors Charge; and
- (g) authorization to pay certain pre-filing liabilities to a maximum of \$315,000.

All of which is respectfully submitted this 16<sup>th</sup> day of February, 2016.

FTI Consulting Canada Inc.  
in its capacity as the Proposed Monitor of  
Argent



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Deryck Helkaa  
Senior Managing Director,  
FTI Consulting Canada Inc.



# **Appendix A**

**Cash Flow Statement, Notes and report containing prescribed  
representations of Argent.**

Argent  
Consolidated Weekly Cash Flow Statement

	To Projected to Maturity Date																	Total Forecast Period 3-336	Notes	
	Initial Study Period		Week																	Total
US \$000	Week 1 19-Feb 3,517	Week 2 4-Mar 3,413	Week 3 11-Mar 3,413	Week 4 18-Mar 3,413	Week 5 25-Mar 3,413	Week 6 1-Apr 3,413	Week 7 8-Apr 3,413	Week 8 15-Apr 3,312	Week 9 22-Apr 3,312	Week 10 29-Apr 3,312	Week 11 6-May 3,223	Week 12 13-May 3,223	Week 13 20-May 3,223	Week 14 27-May 3,223	Week 15 3-Jun 3,142	Initial Study 3,455	Total Forecast Period 3,336			
Production (hoe/d)	-	1,915	-	-	1,429	476	-	-	-	1,503	501	-	-	-	1,475	492	2,549	8,424	1	
Cash Receipts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(503)	(1,706)	2	
Product Revenue	-	(43)	-	(31)	(31)	(31)	(31)	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(43)	(241)	3	
Royalty Expense	-	-	-	-	-	-	-	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	-	(1,000)	4	
Severance Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5
Ad Valorem	(384)	(729)	(341)	(341)	(341)	(341)	(408)	(408)	(408)	(408)	(408)	(406)	(406)	(406)	(406)	(406)	(2,136)	(6,074)	6	
Operating Costs	(238)	(89)	(266)	(21)	(380)	(17)	(234)	(38)	(383)	(21)	(238)	(112)	(30)	(383)	(45)	(146)	(994)	(2,641)	7	
G&A	(75)	(76)	(19)	(19)	(19)	(76)	(246)	(15)	(15)	-	(83)	(83)	(83)	(83)	(83)	(83)	(208)	(876)	8	
Capital Expenditures	-	(233)	-	-	-	-	(234)	-	-	-	(235)	-	-	-	-	(236)	(233)	(938)	9	
Bank debt interest payments	(164)	(0)	(1)	(1)	(2)	(2)	(3)	(4)	(5)	(5)	(6)	(8)	(9)	(10)	(11)	(11)	(167)	(232)	10	
Interim Loan Interest/Fees	(100)	(733)	-	-	-	-	(595)	-	-	(890)	-	-	-	(410)	(260)	(833)	(5,117)	(16,697)		
Professional Fees	(961)	(1,670)	(1,363)	(382)	(742)	(468)	(1,900)	(683)	(811)	(468)	(2,939)	(845)	(529)	(916)	(989)	(1,032)	(2,568)	(8,272)		
Total - Operating Disbursements	(961)	(1,670)	(1,363)	(382)	(742)	(468)	(1,900)	(683)	(811)	(468)	(2,939)	(845)	(529)	(916)	(989)	(1,032)	(2,568)	(8,272)		
Net Cash flow before financing	1,047	87	332	(398)	(780)	(1,521)	(560)	(1,984)	(2,667)	(3,478)	(2,444)	(4,882)	(5,726)	(6,255)	(7,171)	(6,685)	1,047	1,047	11	
Opening Cash before Interim Loan	87	332	(398)	(780)	(1,521)	(560)	(1,984)	(2,667)	(3,478)	(2,444)	(4,882)	(5,726)	(6,255)	(7,171)	(6,685)	(7,225)	(1,521)	(7,225)		
Ending Cash before Interim Loan	-	-	400	400	800	-	400	700	800	-	1,400	900	500	900	-	100	1,600	7,300		
Interim Loan Advances	-	-	400	400	800	-	400	700	800	-	1,400	900	500	900	-	100	1,600	7,300		
Cummulative Interim Loan Advances	-	-	400	800	1,600	1,600	2,000	2,700	3,500	3,500	4,900	5,800	6,300	7,200	7,200	7,300	1,600	7,300		
Ending Cash after Interim Loan	87	332	2	20	79	1,040	16	33	22	1,056	18	74	45	29	515	75	79	75		

  
Sean Bovingdon, President & Chief Financial Officer  
Argent Energy Trust

Notes:

Management of Argent has prepared this Projected Cash Flow Statement solely for the purposes of determining the liquidity requirements of Argent during the CCAA Proceedings. The Projected Cash Flow Statement is based on the probable and hypothetical assumptions detailed in Notes 1 - 12. Consequently, actual results will likely vary from performance projected and such variations may be material.

- 1 - Product revenue relates to proceeds from the sale of Argent's oil & gas production. Production forecast based on current production adjusted for natural production decline and planned downtime. The forecast sales price is based on third party strip pricing factoring in the companies typical quality discount to benchmark prices.
- 2 - Royalties relate to royalties paid to feehold land owners and the Government. Rates are based off of historical averages.
- 3 - Severance taxes relate to taxes paid monthly to the state based on a percentage of actual oil and gas sales.
- 4 - Ad Valorem relates to an annual tax paid to the state based on property valuation of the leases and tangible assets.
- 5 - Operating costs are based off of the Company's annual operating cost budget and relate to the costs to operate the Company's wells and facilities.
- 6 - G&A includes employee costs, rent and other miscellaneous office general and administrative expenses for Argent Energy Trust, Argent Canada and Argent US.
- 7 - Capital expenditures are based on planned maintenance capital projects.
- 8 - Bank debt interest payments relates to interest on Argent's current bank debt.
- 9 - Interim Loan interest/fees relates to fees and interest on Argent's proposed Interim Loan.
- 10 - Professional/legal fees include fee estimates provided by the proposed monitor, the proposed monitors counsel and Argent's counsel (Canadian and U.S.) and Argent's selling agent, as well as professional/legal fees for the Bank Syndicate's counsel (Canadian and U.S.) and financial advisor.
- 11 - Opening cash is based on the Argent's actual cash on hand as at February 11, 2015 with an estimate for anticipated operating receipts and disbursements which will occur prior to February 17, 2015.

February 16, 2016

FTI Consulting Canada Inc.  
720 - 440 2<sup>nd</sup> Ave S.W.  
Calgary, AB  
T2P 5E9

Attention: Deryck Helkaa, CA•CIRP

Dear Sir:

Re: Proceedings under the Companies' Creditors Arrangement Act ("CCAA")  
Responsibilities/Obligations and Disclosure with Respect to Cash Flow Projections

In connection with the application by Argent Energy Trust, Argent Energy (Canada) Holdings Inc. and Argent Energy (US) Holdings Inc. (collectively "Argent") for the commencement of proceedings under the CCAA in respect of Argent, the management of Argent ("Management") has prepared the attached Cash Flow Statement and the assumptions on which the Cash Flow Statement is based.

Argent confirms that:

- 1, The Cash-Flow Statement and the underlying assumptions are the responsibility of Argent;
2. All material information relevant to the Cash Flow Statement and to the underlying assumptions has been made available to FTI Consulting Canada Inc. in its capacity as proposed Monitor; and
3. Management has taken all actions that it considers necessary to ensure:
  - a. That the individual assumptions underlying the Cash Flow Statement are appropriate in the circumstances; and
  - b. That the individual assumptions underlying the Cash Flow Statement, taken as a whole, are appropriate in the circumstances.



Sean Bovington  
President & CFO

# **Appendix B**

**CAIRP Standards No. 09-01**

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CASH-FLOW STATEMENT

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*In this Standard, words importing the singular number or the masculine gender only include more persons, parties or things of the same kind than one, and females as well as males and the converse.*

## 1.00 SCOPE AND PURPOSE

- 1.01 The purpose of this Standard is to provide guidance to a Monitor fulfilling its statutory responsibilities under the **Companies' Creditors Arrangement Act (CCAA), R.S.C. 1985, c. C-36, as amended**, in respect of a Monitor's Report on a Cash-Flow Statement. This Standard only addresses the Monitor's obligations with respect to the cash-flow forecast filed in support of the initial application. If appropriate, the Monitor **should** file similar reports in respect of subsequent or revised cash-flow forecasts, notwithstanding that there is no statutory obligation to file such reports.
- 1.02 The Monitor's duties and obligations in respect of a particular **CCAA** proceeding **shall** be governed by the **Act**, the applicable orders issued by the court, and this Standard where applicable. To the extent that this Standard conflicts with any order issued by the court, the Monitor **shall** be governed by the order.

## 2.00 DEFINITIONS

- 2.01 In this Standard:

"**May**" means the Standard is simply intended to be helpful and the Monitor has full discretion to follow it or not.

"**Should**" means it is appropriate to do so in most circumstances. Where a Monitor judges it appropriate to do otherwise, the Monitor should consider the advisability of documenting the reasons for its decision.

"**Shall**" means the Standard is mandatory and the Monitor must follow it.

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2.02 In this standard:

“**Act**” means the Companies’ Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended;

“**Association**” means Canadian Association of Insolvency and Restructuring Professionals / Association canadienne des professionnels de l'insolvabilité et de la réorganisation;

“**Assumptions**” means the Hypothetical Assumptions and Probable Assumptions developed by the Company;

“**Cash-Flow Statement**” in respect of a Company, means a statement indicating, on a weekly basis (or such other basis as is appropriate in the circumstances), the projected cash-flow of the Company as defined in section 2(1) of the **Act** based on Probable and Hypothetical Assumptions that reflect the Company’s planned course of action for the period covered;

“**Company**” means a debtor company, as defined in Section 2 of the **Act**, that intends to commence or has commenced, as the case may be, a proceeding under the **Act** or in respect of whom a proceeding under the **Act** has been commenced;

“**Hypothetical Assumptions**” means assumptions with respect to a set of economic conditions or courses of action that are not necessarily the most probable in the Company's judgment, but are consistent with the purpose of the Cash-Flow Statement;

“**Material**” means that it is probable that a change in an item or an aggregate of items would influence or change a decision;

“**Material Adverse Change**” means a change that, in the Monitor’s opinion, materially and negatively impairs, or is reasonably expected to materially and negatively impair, the Company’s cash-flow, financial circumstances or likelihood of success of a plan of arrangement. Examples would include, but not be limited to a change that:

- has a significant adverse effect on the expected cash-flows compared to the Cash-Flow Statement; or
- impairs the ability of the Company to carry on operations; or
- significantly prejudices the rights or interests of one or more classes of creditors.

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“**Monitor**” in respect of a Company, means the person appointed by the court pursuant to Section 11.7 of the **Act** to monitor the business and financial affairs of the Company;

“**Monitor’s Report**” means a report on the Cash-Flow Statement issued by the Monitor in accordance with Section 23(1)(b) of the **Act**;

“**Probable Assumptions**” means assumptions that: (i) the Company believes reflect the most probable set of economic conditions and planned courses of action, suitably supported that are consistent with the plans of the Company; and (ii) provide a reasonable basis for the Cash-Flow Statement;

“**Review for Reasonableness**” means the review conducted by the Monitor pursuant to Section 23(1)(b) of the **Act**; and

“**Suitably Supported**” means that the Assumptions are based on either one or more of the following factors: the past performance of the Company, the performance of other industry / market participants engaged in similar activities as the Company, feasibility studies, marketing studies or any other reliable source of information that provides objective corroboration of the reasonableness of the Assumptions. The extent of detailed information supporting each Assumption, and an assessment as to the reasonableness of each Assumption, will vary according to circumstances and will be influenced by factors such as the significance of the Assumption and the availability and quality of the supporting information.

### 3.00 ASSISTING THE COMPANY

3.01 The Monitor **may** assist the Company in the preparation of the Cash-Flow Statement.

3.02 The Monitor **shall** remind the Company that the Cash-Flow Statement and the Assumptions on which it is based, are the responsibility of the Company.

3.03 The Monitor **shall** remind the Company that the Monitor has the statutory duty to file a report with respect to the Cash-Flow Statement.

3.04 The Monitor **should** advise the Company that any information given by the Company to the Monitor may be disclosed to the court and the creditors.



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- 3.05 The Monitor **should** document the foregoing in a letter to the debtor, a sample of which is attached as Appendix A to this standard.
- 4.00 DOCUMENTATION
- 4.01 The review performed by the Monitor in accordance with this Standard **shall** be documented.
- 4.02 The Monitor **should** obtain written confirmation (a sample letter is attached as Appendix B to this standard) from an authorized officer or director of the Company that:
- a) the Cash-Flow Statement and the Assumptions on which it is based, are the responsibility of the Company; and
  - b) the Company's responsibility extends beyond ensuring that individual Assumptions used in the preparation of the Cash-Flow Statement are appropriate in the circumstances, and includes the responsibility to ensure that such Assumptions as a whole are appropriate in the circumstances.
- 5.00 MONITOR'S REVIEW
- 5.01 The Monitor **shall** perform a Review for Reasonableness.
- 5.02 The review **shall** be performed by an individual or individuals having, when considered as a whole, adequate technical training and proficiency, with due care and with an objective state of mind.
- 5.03 The review **shall** be adequately planned and properly executed and if assistants are employed, they **shall** be properly supervised.
- 5.04 The Monitor **should**, as soon as practicable, acquire knowledge of the Company and an understanding of the practices and particulars of the industry within which the Company operates, sufficient to enable it to perform the Review for Reasonableness.
- 5.05 The Review for Reasonableness **shall** consist of enquiry, analytical procedures and discussions with the Company to determine whether there is anything that causes the Monitor to believe that, in all material respects:

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- a) the Hypothetical Assumptions are not consistent with the purpose of the Cash-Flow Statement;
  - b) as at the date of the Monitor's Report, the Probable Assumptions developed by the Company are not Suitably Supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash-Flow Statement, given the Hypothetical Assumptions; or
  - c) the Cash-Flow Statement does not reflect the Probable and Hypothetical Assumptions.
- 5.06 The Monitor **should** satisfy itself that the computations contained in or made in preparing the Cash-Flow Statement are consistent with the Assumptions and materially accurate.
- 5.07 Where practicable, the Monitor **should** reconcile the Cash-Flow Statement to the appropriate actual cash and loan balances in the financial records of the Company, as at the start date of the Cash-Flow Statement, and a description of such reconciliation process may be included in the Monitor's Report.
- 5.08 The Monitor **shall** periodically compare actual cash-flow results to those reflected in the Cash-Flow Statement and obtain reasonable explanations for significant variances. The Monitor **should** report the results of such comparisons and reviews to the court. Where the results of such comparisons and reviews indicate a Material Adverse Change in the Company's projected cash-flow or financial circumstances, the Monitor **shall** report the results of such comparisons and reviews to the court without delay.
- 6.00 MONITOR'S REPORT
- 6.01 After completing its Review for Reasonableness, the Monitor **shall** consider whether anything material has come to its attention that causes it to believe that:
- a) The Hypothetical Assumptions are not consistent with the purpose of the Cash-Flow Statement; or
  - b) As at the date of the report, the Probable Assumptions developed by the Company are not Suitably Supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash-Flow Statement, given the Hypothetical Assumptions; or

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- c) The Cash-Flow Statement does not reflect the Probable and Hypothetical Assumptions.
- 6.02 The Monitor **should** file the Monitor's Report with the court within 10 days of the granting of the Initial Order or at such other time as may be ordered by the court.
- 6.03 The Monitor's Report **shall** include an overview and review of the Cash-Flow Statement and a summary of its determinations as required by Section 5.05 of this Standard.
- 6.04 The Monitor **should** ensure that all material Assumptions are disclosed in the notes and **shall** include in the Monitor's Report a statement to this effect.
- 6.05 The Monitor **shall** prepare, sign and file the Monitor's Report with the court.
- 6.06 The Monitor **should** date the Monitor's Report as of the date of the completion of his Review for Reasonableness.
- 6.07 The form of the Monitor's Report **shall** be substantially as follows:

*The <attached> statement of projected cash-flow <attached as appendix \_\_\_ of this report/the debtors application material> (the "Cash-Flow Statement") of \_\_\_\_\_ (name of Company),(the "Company") as of the \_\_\_\_\_ day of \_\_\_\_\_, consisting of \_\_\_\_\_ (describe, including relevant dates), has been prepared by the management of the Company for the purpose described in Note \_\_\_\_\_, using the Probable and Hypothetical Assumptions set out in Notes \_\_\_\_\_.*

*Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by certain of the management and employees of the Company. Since Hypothetical Assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash-Flow Statement. We have also reviewed the support provided by management of the Company for the Probable Assumptions, and the preparation and presentation of the Cash-Flow Statement.*

*Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:*

- a) *the Hypothetical Assumptions are not consistent with the purpose of the Cash-Flow Statement;*

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- b) *as at the date of this report, the Probable Assumptions developed by management are not Suitably Supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash-Flow Statement, given the Hypothetical Assumptions; or*
- c) *the Cash-Flow Statement does not reflect the Probable and Hypothetical Assumptions.*

*Since the Cash-Flow Statement is based on Assumptions regarding future events, actual results will vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the Cash-Flow Statement will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by us in preparing this report.*

*The Cash-Flow Statement has been prepared solely for the purpose described in Note \_\_\_\_/on the face of the Cash-Flow Statement, and readers are cautioned that it may not be appropriate for other purposes.*

*Optional paragraph if the Monitor's report is to be included as part of another report:*

*Note: Date and signature of Monitor should be excluded if this report is included within another report prepared by the Monitor.*

*<Dated at \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_.*

\_\_\_\_\_  
*Monitor>.*

- 6.08 The Monitor's Report **should** be augmented with such additional comments as deemed appropriate by the Monitor in the circumstances.

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- 6.09 Where the Monitor concludes it is unable to issue the Monitor's Report in the form set out above, in accordance with the timeline detailed in paragraph 6.02, the Monitor:
- a) **Shall** advise the Company of the Assumptions and/or other matters that prevent the Monitor from issuing the Monitor's Report and **should** consider advising the Company of same in writing; and
  - b) **Shall** file a report with the court in accordance with the timeline detailed in paragraph 6.02 setting out the reasons therefore.