

COURT FILE NUMBER 1601-01675

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 **FIRST REPORT OF FTI CONSULTING CANADA INC., IN  
ITS CAPACITY AS MONITOR OF ARGENT ENERGY  
TRUST, ARGENT ENERGY (CANADA) HOLDINGS INC. and  
ARGENT ENERGY (US) HOLDINGS INC.**

**March 4, 2016**

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## INTRODUCTION

1. On February 17, 2016 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”) sought and obtained protection under the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the “CCAA”) pursuant to an order granted by this Honourable Court (the “Initial Order”).
2. The Initial Order granted, inter alia, a stay of proceedings against Argent until March 18, 2016, (the “Initial Stay Period”) and appointed FTI Consulting Canada Inc. (“FTI”) as Monitor (the “Monitor”). The proceedings commenced by the Applicants under the CCAA will be referred to herein as the CCAA proceedings (the “CCAA Proceedings”).
3. Also on February 17, 2016, the Monitor and duly appointed Foreign Representative for Argent Canada and Argent US (the “Chapter 15 Debtors”) filed petitions under Chapter 15 (the “US Proceedings”) in the United States Bankruptcy Court for the Southern District of Texas, Corpus Christi Division (the “US Court”).
4. In connection with the US Proceedings, the Monitor also filed, among other pleadings, an Emergency Application for Provisional Relief Pursuant to Sections 105(a) and 1519 of the US Bankruptcy Code (the “Application for Provisional Relief”) and an Expedited Petition for Recognition as a Foreign Main Proceeding, or in the Alternative Foreign Non-main Proceeding, Pursuant to Sections 1515 and 1517 of the Bankruptcy Code and Related Relief (the “Petition for Recognition”). A hearing on the Application for Provisional Relief and to consider the Monitor’s expedited request for a hearing on the Petition for Recognition was originally set by the US Court for February 19, 2016 (the “Chapter 15 Recognition Hearing”).

5. However, due to certain concerns expressed by counsel for an ad hoc committee of debenture holders (the “Ad Hoc Committee”) to the Monitor in respect of the CCAA proceedings and US Proceedings, the Monitor, in its capacity as Foreign Representative delayed the Chapter 15 Recognition Hearing from February 19, 2016 to February 22, 2016.
6. On February 22, 2016, an objection was filed by the Ad Hoc Committee in relation to the US Proceedings that are discussed in further detail below. Due to the objection filed and pursuant to an agreement of the parties, the US Court granted a modified version of the provisional order for relief that was originally requested by Argent Canada and Argent US as discussed in further detail below. The US Court has scheduled a final hearing to be held on March 9, 2016.

## **PURPOSE**

7. The purpose of this first report of the Monitor (the “First Report”) is to advise this Honourable Court and provide the Monitor’s comments with respect to:
  - (a) Activities of the Monitor since granting of the Initial Order;
  - (b) Certain objections raised by Goodmans LLP (“Goodmans”), Chapman and Cutler LLP (“Chapman”) and Vorys, Sater, Seymour and Pease LLP (“VSSP LLP”), who act as counsel for the Ad Hoc Committee. The Monitor understands that the Ad Hoc Committee is owed approximately CAD\$47.67 million or 31% of the unsecured subordinate debentures issued by the Trust (total unsecured subordinate debentures owed by the Trust total CAD\$153.4 million);
  - (c) The Monitor’s comments with respect to the issues and objections raised by the Ad Hoc Committee; and

- (d) the Applicants' request for an extension to the Initial Stay Period.
8. Further background and information regarding the Applicants and these CCAA proceedings can be found on the Monitor's website at <http://cfcanada.fticonsulting.com/argent/>.

## **TERMS OF REFERENCE**

9. In preparing this report, the 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").
10. The 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.
11. The 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.

12. The Monitor has prepared this report in connection with the application for an extension to the Initial Stay Period to be filed by the Applicants (the “Stay Extension Application”) and should be read in conjunction with the materials filed by the Applicants with respect to their Stay Extension Application, the affidavit of Sean Bovingdon dated February 29, 2016 (“Bovingdon Feb 29<sup>th</sup> Affidavit”) and the affidavit of Harrison Williams dated February 29, 2016 (“Williams Affidavit”). This report should not be relied on for other purposes.
13. Unless otherwise stated, all monetary amounts contained herein are expressed in U.S. dollars.
14. Capitalized terms not otherwise defined herein have the meaning given to them in the Bovingdon Initial Order Affidavit, the Initial Order and the Proposed Monitor’s report dated February 16, 2016 (“Proposed Monitor’s Report”).

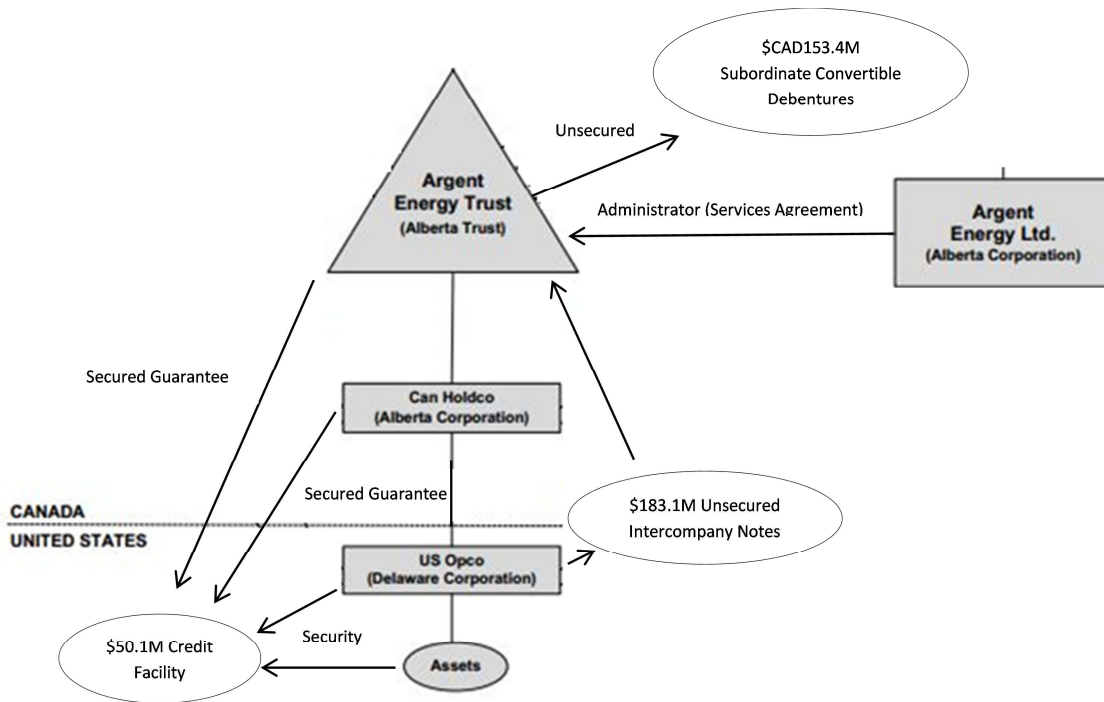
#### **ACTIVITIES OF THE MONITOR SINCE THE GRANTING OF THE INITIAL ORDER**

15. In order to inform the general public and the Applicants’ stakeholders, the Applicants issued a press release on February 17, 2016 describing the commencement of its CCAA Proceedings.
16. Pursuant to the Initial Order, the Monitor:
  - (a) arranged for a notice containing the information prescribed in the CCAA to be published in the Calgary Herald on February 23, 2016 and March 1, 2016, and in the Houston Chronicle on February 24, 2016 and March 2, 2016;
  - (b) arranged for an advertisement advising of the Sale Solicitation Process in the Daily Oil Bulletin on February 23, 2016 and in the Houston Chronicle on February 29, 2016;

- (c) made a copy of the Initial Order and the application materials available on the Monitor's website;
  - (d) sent, in prescribed manner, a notice to every known creditor who has a claim against the Applicants of more than \$1,000; and
  - (e) prepared a list of those creditors and the estimated amounts of those claims, and made such list publicly available on the Monitor's website.
17. In addition, the Monitor has made available on the Monitor's website responses to 'frequently asked questions' directed at answering potential questions in connection with the CCAA Proceedings. Furthermore, the Monitor has established a 1-800 number to address any questions from creditors or other stakeholders.

## **CORPORATE DEBT STRUCTURE**

18. For reference, the Monitor provides the following graphic that outlines Argent's corporate debt structure and summarizes the various major liabilities including the Argent entities that owe or have guaranteed/secured the liabilities to the various creditors. The organizational chart is meant to assist in identifying the various stakeholders of each of the Applicants and other members of the Argent corporate structure.



19. The Monitor has provided the following comments with respect to the various stakeholders/creditors within the Argent group of companies:

- (a) The Trust is a Canadian entity and has issued approximately \$500 million in trust units and is listed on the Toronto Stock Exchange. The Trust is registered in Alberta and has its head office in Calgary, Alberta. The Trust also issued approximately CAD\$153.4 million of subordinated debentures, including the CAD\$47.67 million held by the Ad Hoc Committee. The Trust has also guaranteed the amounts borrowed by the Argent US from the Syndicate which total facility is \$45 million with \$50.6 million drawn and \$1.3 million letters of credit (the “Syndicate Debt”). The Trust’s main assets are its ownership of Argent Canada (discussed below) and intercompany notes of \$183.1 million owing by Argent US.

- (b) Argent Energy Limited (“AEL”) is an Alberta registered entity but is not a party to the CCAA proceedings or the US Proceedings as it has no liabilities or assets and its role is primarily to provide management services to the Trust as set out the Administrative Services Agreement as described in the Bovingdon Initial Order Affidavit. AEL has three directors comprising John Brussa, Willam D. Robertson and Glen C. Schmidt.
- (c) Argent Canada is registered in Alberta and is a holding company. Its main assets are its equity ownership in Argent US. Argent Canada also guaranteed the Syndicate Debt. Argent Canada’s directors are Sean Bovingdon and Steve Hicks.
- (d) Argent US is registered in the State of Delaware and is the operating company that holds all the operating and producing assets which are located in the US. Argent US has its office located in Houston and employs the majority of the employees other than the President and CFO (Mr. Bovingdon) and VP Finance (Mathew Wong) who are employed by the Trust and AEL. Argent US’s assets comprise oil and gas assets as set out in the Bovingdon Initial Order Affidavit. Argent US liabilities comprise various trade liabilities relating to the oil and gas operations, an intercompany note payable to the Trust of \$183.1 million and the approximately \$50.6 million owing plus \$1.3 million letters of credit in relation to the Syndicate Debt.
- (e) The Syndicate debt is held by the following banks:
  - i. The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, and Wells Fargo Bank, N.A.



## **OBJECTIONS RAISED BY THE AD HOC COMMITTEE**

20. Immediately prior to the application to approve the Initial Order on the morning of February 17, 2016, the Monitor was contacted by Goodmans who advised that they acted on behalf of the Ad Hoc Committee. Goodmans advised that they had not received any notice of the CCAA proceedings and became aware of the application through the press release issued by the Trust. The Monitor advised Argent's counsel of the contact made by the Ad Hoc Committee, and as set out in the Bovingdon Feb 29<sup>th</sup> Affidavit, the Applicants advised the Monitor and the Court that the Ad Hoc Committee was not provided notice of the CCAA proceedings. The Bovingdon Feb 29<sup>th</sup> Affidavit sets out the Applicants' rationale in this regard.
  
21. Immediately following the application, after the Ad Hoc Committee had reviewed the materials filed in connection with seeking the Initial Order, Goodmans, on behalf of the Ad Hoc Committee, advised the Monitor that it was not supportive of and had several objections to the relief sought by the Applicants in the Initial Order and the intention of Argent US and Argent Canada to seek the commencement of ancillary Chapter 15 proceedings before the US Court.
  
22. Immediately following the granting of the Initial Order, the Monitor commenced several dialogues with the legal representatives of the Ad Hoc Committee in relation to its concerns over of the CCAA proceedings and planned US Proceedings. Based on these discussions, it is the Monitor's understanding that the Ad Hoc Committee's primary concerns/objections are as follows:
  - (a) The Ad Hoc Committee received no notice of the initial application for the CCAA Proceedings;

- (b) The Ad Hoc Committee objects to the CCAA Proceedings being the foreign main proceedings and believes that although relief under the US Bankruptcy Code may be warranted it should come in the form of a Chapter 11 rather than a Chapter 15 proceeding;
  - (c) The Ad Hoc Committee objects to the Sale Solicitation Process as approved in the Initial Order;
  - (d) The Ad Hoc Committee objects to the KERP and KEIP and related KERP and KEIP Charges as approved in the Initial Order; and
  - (e) The Ad Hoc Committee objects to the Interim Loan and related Interim Lender's Charge as approved in the Initial Order.
23. Attached at Appendix A are copies of the Goodmans' letters dated February 17, 2016 and February 18, 2016 and a letter sent by the Monitor's counsel to Goodmans dated February 22, 2016 in response to the Goodmans' letters.
24. The following provides the Monitor's comments and views with respect to each of the Ad Hoc Committee's concerns/objections outlined above.

## US Proceedings

### *Adjournment of the Chapter 15 Hearing*

25. After becoming aware of the Ad Hoc Committee's concerns, the Monitor felt it prudent and sought to adjourn the Chapter 15 application seeking provisional relief originally scheduled for February 19, 2016. The goal of adjourning the Chapter 15 provisional relief hearing was to permit further dialogue between the major stakeholders being Argent, the Syndicate and the Ad Hoc Committee. The Monitor noted that the length of adjournment of the US Proceedings would have to be balanced with the Applicants' immediate liquidity needs (the cash flow forecast indicated a draw on the Interim Loan in week 3 of the CCAA Proceedings). In the Monitor's view, only a short adjournment could be tolerated due to Argent's immediate liquidity need. A condition of the Interim Loan Agreement required Argent's CCAA Proceedings to be provisionally recognized by the US Court under Chapter 15 before Argent could make any draws under the facility. Therefore adjourning the Chapter 15 application for an extended period of time without access to financing would likely cause significant harm to Argent's operations.
  
26. The Monitor attempted to adjourn the Chapter 15 application to mid-week during the week of February 22, 2016 however it was advised by its US counsel, Norton Rose Fulbright US LLP ("US Counsel") that the US Court's only available court time for a return date for a hearing in Houston the following week was Monday, February 22, 2016.

27. Due to Argent's immediate liquidity need and the requirement for the CCAA Proceedings to be recognized under Chapter 15 in order to allow draws under the Interim Loan, the Monitor determined that it would be inadvisable to delay the Chapter 15 application past the week of February 22, 2016 as doing so would have destabilized Argent's business and created operational risk. Accordingly, the Chapter 15 provisional recognition hearing was scheduled for the afternoon of February 22, 2016.
28. The adjournment of the Chapter 15 application from February 19<sup>th</sup> to February 22<sup>nd</sup> nevertheless created the opportunity for the Ad Hoc Committee, Argent and the Syndicate to have discussions in an attempt to address the Ad Hoc Committee's concerns and attempt to facilitate a consensual resolution to various issues or concerns. The Monitor participated and observed the discussions; however, it was evident to the Monitor that given the number and magnitude of the issues the parties would be incapable of coming to a consensual resolution in a timely manner.

***Chapter 15 hearing for provisional relief held on February 22, 2016***

29. On February 22, 2016, the Ad Hoc Committee officially filed an objection to the Application for Provisional Relief arguing that (i) recognition of the Canadian Proceedings as a foreign main proceeding was highly unlikely; (ii) recognition of the Canadian Proceedings as a foreign nonmain proceeding was highly unlikely; and (iii) equity prohibited recognition due to certain issues relating to the Interim Loan, the KERPs and the KEIPs previously approved as part of the Initial Order.

30. Later that day on February 22, 2016, the US Court held a hearing to consider the Monitor's Application for Provisional Relief and the Ad Hoc Group's objection thereto. At that hearing, the Monitor, the Chapter 15 Debtors, the Syndicate, and the Ad Hoc Committee negotiated the terms of an agreed Order Granting Emergency Application for Provisional Relief Pursuant to Sections 105(a) and 1519 of the Bankruptcy Code (the "Provisional Relief Order"), which was ultimately entered by the US Court on February 24, 2016.
31. Among other things, the US Court found and concluded that the Monitor was a duly appointed foreign representative for the Chapter 15 Debtors; the Chapter 15 cases were properly commenced; provisional relief was urgently needed to protect the assets of the Chapter 15 Debtors or the interests of the creditors; and provisional relief was necessary and appropriate, in the interest of the public and international comity, consistent with United States public policy, and would not cause any hardship to any party in interest that was not outweighed by the benefits of granting the requested relief.
32. Accordingly, among other things, the US Court gave full force and effect to the terms and provisions of the Initial Order that concern the Interim Loan Agreement, the Interim Loan, and the Interim Lender's Charge and to the validity and priority of the Administration Charge, Interim Lender's Charge, and Directors' Charge; the US Court imposed a stay similar to that imposed in the Initial Order; the US Court allowed the Chapter 15 Debtors to continue their existing cash management system; the US Court authorized the Chapter 15 Debtors to continue to honour and maintain certain credit card agreements; and the US Court set a final hearing on the Petition for Recognition for March 9, 2016, with such hearing to continue to March 10, 2016, if necessary. As part of the US Court granting the above relief, the Applicants agreed not to draw more than \$650,000 under the Interim Loan Agreement prior to the final hearing scheduled for March 9, 2016.

### **Objection to the Chapter 15 and CCAA Proceedings**

33. The Ad Hoc Committee has advised that they believe the CCAA Proceedings are not the proper forum for this restructuring and therefore this is not an appropriate case for Chapter 15 proceedings. The Ad Hoc Committee's position is that the US proceeding should be a Chapter 11 proceeding.
34. The Monitor has taken cognizance of the authorities cited by the Applicants in support of seeking plenary relief under the CCAA. While ultimately it is for the CCAA Court to determine whether circumstances exist that make the granting of the Initial Order in respect of the Applicants appropriate, the Monitor's view as supported by the authorities and the Monitor's experience in cross-border matters is that the manner in and direction which the Applicants determined to proceed is appropriate.

### **Objection to the Sale Solicitation Process**

35. The Monitor understands the Ad Hoc Committee's main concerns with respect to the Sale Solicitation Process to be as follows:
  - (a) The current market for oil and gas assets is depressed and it is difficult to sell in this environment. Given the current depressed oil and gas price environment, now is not the appropriate time to be selling Argent's oil and gas assets and other creative options need to be considered in order to maximize value;
  - (b) The time line in the Sale Solicitation Process is too condensed and not appropriate; and
  - (c) Texas-based Oil & Gas Asset Clearing House ("OGAC") may not be the appropriate party to run the Sale Solicitation Process.

*Current marketplace*

36. The Monitor maintains and reiterates its view expressed in its Proposed Monitor's Report dated February 16, 2016 ("Proposed Monitor's Report") that the Sale Solicitation Process is fair and reasonable in the circumstances and provides the following additional comments in this regard.
37. The Monitor acknowledges that the current oil and gas price environment is depressed. However, the Applicants' operations are not sustainable at current price levels and are currently operating at a negative cash flow at the field level, and such operations are currently cash flow negative at \$1.0 million per month before considering interest and professional fees.
38. The Applicants do not have the available liquidity to delay the sales process or implement a protracted sales process. Furthermore, it is uncertain whether oil and gas prices will increase or decrease in the near term. In particular future strip price for West Texas Intermediate ("WTI"), which has the most relevance to Argent's operations, shows only modest recovery in oil prices over the next 5 years. Argent does not have the funding available to cover operating losses to bridge to better market times.
39. Furthermore, oil and gas exploration and production companies such as Argent require continuous capital reinvestment as production levels from existing wells are continuously declining. Drilling new wells is and will be required to maintain production levels. Argent does not have the capital required to reinvest in additional drilling and therefore its current production is declining at a rate of approximately 24% per year, eroding security for all stakeholders.

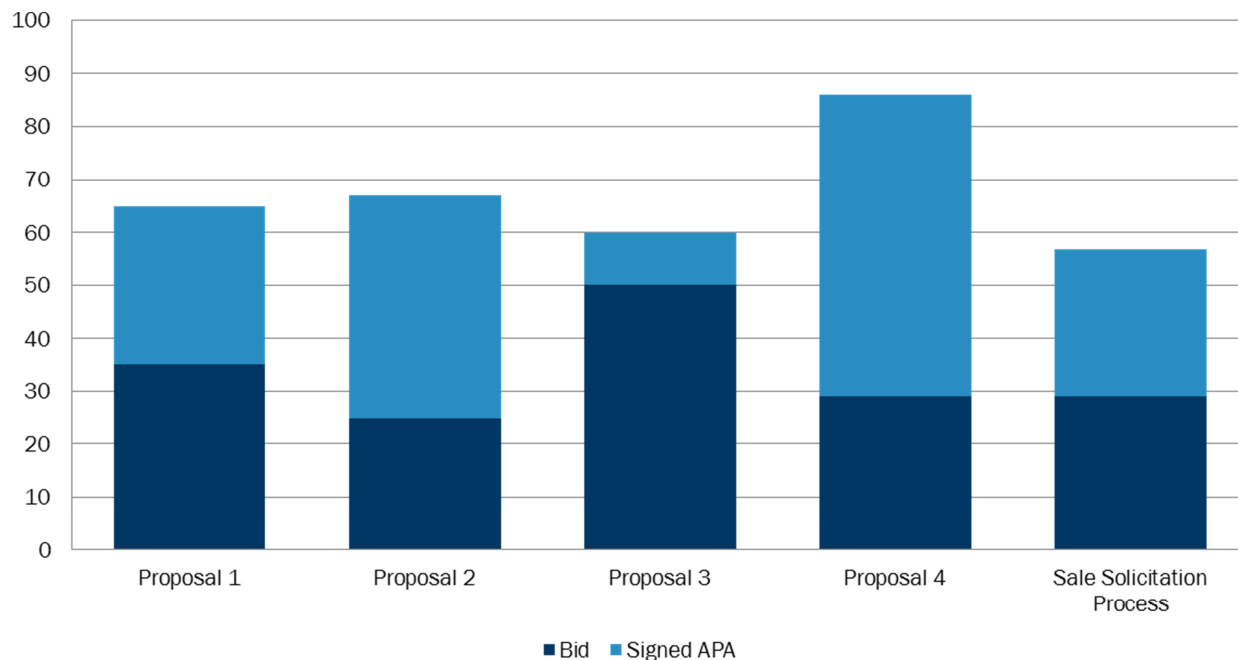
40. The Bovington Initial Affidavit and the Bovington Feb 29<sup>th</sup> Affidavit summarize the various sale and refinancing efforts undertaken by the Applicants prior to the filing of the Initial Order which illustrate the efforts undertaken by the Applicants leading up to the granting of the Initial Order.
41. The Monitor is of the view that the significant negative cash flow being generated by the Applicants combined with the high production decline rate supports the need for an immediate implementation of the Sale Solicitation Process.

*Sale Solicitation Process Timeline*

42. The Monitor maintains the view that the timeline outlined in the Sale Solicitation Process is reasonable in the circumstances. Argent completed a process in January 2016 for the selection of a selling agent and received 5 proposals from various investment banks and selling agents. An additional 3 investment banks declined to participate in the proposal due to the deal size.
43. The Monitor has reviewed the proposals received and notes that although the processes differ in each proposal with respect to when certain steps in the selling process occur, the overall timelines suggested are consistent with the timeline proposed by OGAC and ultimately proposed by Argent in the Sale Solicitation Process.
44. The chart below illustrates the proposed timelines from the ‘launch date’ to the ‘signing of APA’ set out in each of the proposals as compared the timeline set out in the Sale Solicitation Process.



## Proposal Timeline (launch to signed APA)



45. Accordingly, while the Sale Solicitation Process is on the shorter end of the timeline of the proposals, it is not materially shorter than the other processes.
  
46. The Monitor further notes that the Affidavit of Harrison Williams dated February 29, 2016 (“Williams Affidavit”) further supports the appropriateness of the timeline and OGAC was significantly involved in developing the overall Sale Solicitation Process including the timelines.
  
47. The Monitor understands that the Ad Hoc Committee is also concerned with respect to the bidding procedures in the Sale Solicitation Process such that potential bidders are required to provide a marked up asset purchase agreement and a deposit at the end of the first phase (March 24, 2016). The Ad Hoc Committee feels this process will discourage bidding. However, the Monitor notes that OGAC was significantly involved in establishing the bidding process as well as the timeline.

48. OGAC strongly recommended this process as it indicated declaring a ‘winning bid(s)’ at the end of phase 1 (March 24, 2016), subject to only title and environmental diligence, would maximize bidder interest, activity, and overall recoveries. OGAC designed the Sale Solicitation Process to mimic a typical oil and gas transaction that potential bidders in this process would be familiar with and would therefore be more likely to participate. Furthermore, OGAC advised that bidders would be reluctant to put in any bid and participate (and fund costs) in the phase 2 (title and environmental diligence) without being identified as the ‘winning’ bid.

*OGAC not appropriate to run the Sale Solicitation Process*

49. The Monitor reviewed the proposals submitted by various investment banks and selling agents provided to Argent. The Monitor has also read the Williams Affidavit. Based on its review the Monitor is of the view that OGAC has appropriate credentials, experience and knowledge of the oil and gas market where Argent operates to be in charge of the Sale Solicitation Process.

*Marketing Efforts and Activity thus far*

50. The Monitor has kept in constant communication with Argent and OGAC with respect to monitoring the Sale Solicitation Process. The Monitor makes the following comments with respect to OGAC and the Argent’s efforts to date:
- (a) Marketing materials, virtual data room and physical data room were all professionally done and completed in time for proposed launch dates as approved in the Initial Order;
  - (b) Marketing efforts have resulted in OGAC’s view, a high level of activity from interested parties:

- i. Teaser sent to 12,000 industry players;
  - ii. Approximately 80 confidentiality agreements signed;
  - iii. Approximately 70 companies have accessed the virtual data room;  
and
  - iv. 11 companies have requested management presentations;
- (c) OGAC has advised that potential bidders have not expressed any concerns over the timelines proposed in the Sale Solicitation Process.

**Objection to the KERP and KEIP and related KERP and KEIP Charges**

51. The Monitor maintains and reiterates its view expressed in its Proposed Monitor's Report that the KERP, KEIP and the related KERP and KEIP Charges are reasonable and appropriate in the circumstances. However, the Monitor provides the following additional comments for this Honourable Court.

*KERP*

52. With respect to the KERP as approved in the Initial Order, the Monitor's review included comparing the proposed KERP to other key employee retention plans approved in recent CCAA cases for companies in a similar industry. Details around key employee retention plans are difficult to compile as the specific details of the plans are often kept confidential.

53. Additionally, each case presents individual nuances that make each situation unique. Therefore assessing the reasonableness of key employee retention plan requires a certain level of judgement considering: the size and complexity of the operations, the historical facts leading up to the case and their effects on employees and employee morale, the tasks and workload that will be required of employees throughout the case, and the future prospects and potential outcome of the company.
54. Despite the specific nuances, it is important for a key employee retention plan to be reasonable and comparable to other similar cases at a high level. The Monitor has compiled a high level summary of six other similar CCAA cases with Court approved employee retention plans and compared them to Argent’s KERP, considering the total key employee retention plan payment, the payment as a percentage of the company’s total book value of assets at the time of filing and the payment as a percentage of total debt. The table below presents the summary of this analysis.

Debtor	Filing Date	Industry	Total KERP (\$)	% of Total Assets (Book	% of Total Debt	Complexity of Case
Argent Energy Trust	17-Feb-16	Oil & Gas E&P	1.04	0.39%	0.44%	Cross Border - CCAA/Ch.15
Parallel Energy Trust	09-Nov-15	Oil & Gas E&P	0.31	0.08%	0.11%	Cross Border - CCAA/Ch.11
Poseidon Concepts Corp. et al.	09-Apr-13	Oil & Gas Services	0.29	0.20%	0.37%	Cross Border - CCAA/Ch.15
GasFrac Energy Services	15-Jan-15	Oil & Gas Services	1.83	0.95%	2.07%	Cross Border - CCAA/Ch.15
Laricina Energy Ltd.	26-Mar-15	Oil & Gas E&P	2.30	0.21%	1.30%	CCAA
Lone Pine Resources Ltd	25-Sep-13	Oil & Gas E&P	2.50	0.42%	0.62%	Cross Border - CCAA/Ch.15
Oilsands Quest et al	29-Nov-11	Oil & Gas E&P	0.60	0.36%	1.77%	CCAA
Average			1.27	0.37%	0.95%	

55. The book value of a company's assets is often significantly higher than the amount realized from the sale of the assets in a CCAA case. It could be argued that presenting the retention plan payment on a percentage of the book value of assets does not correlate to the value that may be realized for the assets. However, the book value does provide an indicator of the size of investment made in a company's operations and/or overall complexity. Additionally the Monitor notes that most retention plans are approved early on in a CCAA case when the true value of the assets is not yet known.
56. Based on the analysis completed above, the Monitor concluded that from a quantitative perspective the magnitude of the Argent KERP was reasonable as compared to other similar CCAA cases. Furthermore the Monitor considered the following qualitative facts in its analysis of the proposed Argent KERP:
- (a) Argent had recently reduced its staffing level by approximately 42%. Insolvency cases often put an additional burden on staff dealing with additional reporting requirements and supplier issues;
  - (b) Argent intended to launch the Sale Solicitation Process immediately upon initiating the CCAA Proceedings. Marketing and selling a company puts additional work on its staff. Given the reduction in staff and increased work load it was important to maintain the existing staff;
  - (c) Argent announced that it intended to launch a Sale Solicitation Process immediately upon entering CCAA. Therefore employees are aware that there is a high likelihood that the company will be sold and their positions will likely eliminated upon completing the CCAA Proceedings; and

- (d) The Argent KERP was effectively honouring an employee retention and bonus plan that had been approved by its board of directors prior to the CCAA Proceedings (approved in 2014, half was paid out in 2015 and the other half was supposed to be paid out in 2016). Not honouring this plan may have had a significant negative impact on employee morale and willingness to assist in the Sale Solicitation Process and throughout the CCAA Proceedings.

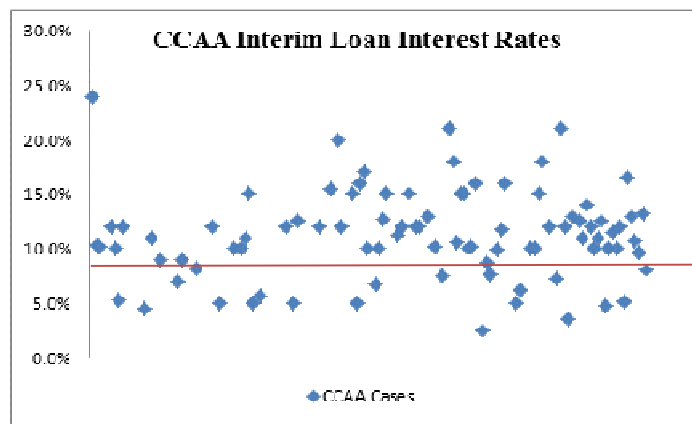
### *KEIP*

57. The KEIP is contingent on Argent realizing sales proceeds from the Sale Solicitation Process above a certain threshold (“KEIP Threshold”). The KEIP threshold was maintained as confidential as disclosing the amount may have a negative effect on potential offers. The Monitor reviewed the threshold as compared to the value of the assets considering the net present value of Argent’s reserves and the cash flow generated from the assets to form a view of whether or not it was likely the KEIP Threshold would be achieved. Additionally, the Monitor discussed potential value with OGAC to understand their view of the expected value of Argent’s oil and gas assets.
58. After considering its own view of value and consulting with OGAC, the Monitor determined that it would be a positive achievement if Argent realized sales proceeds above the KEIP Threshold. If the KEIP Employees do achieve the KEIP Threshold and benefit financially it will also benefit the Applicants’ stakeholders as value will have been maximized above expectations. As such, the Monitor is of the view that the KEIP is reasonable in the circumstances.
59. The Monitor further understands that the Syndicate was supportive of the KEIP.

## **Objection to the Interim Loan and Interim Lenders' Charge**

60. The Monitor maintains and reiterates its view expressed in its Proposed Monitor's Report that Interim Loan and related Interim Lenders' Charge is reasonable and necessary in the circumstances. The Monitor provides the following additional comments.
61. The Applicants had an immediate liquidity need due to the depressed commodity price environment. The Interim Loan provided the funding necessary to avoid negative operational impacts and a level of funding sufficient to stabilize operations through the CCAA Proceedings considering the timelines proposed in the Sale Solicitation Process.
62. The Interim Loan was funded by Argent's existing Syndicate. The Applicants did not undertake a competitive bid process to seek alternative lenders to provide the funds necessary for the CCAA Proceedings, however as is set out in the Bovington Affidavits, the Applicants sought alternative financing options prior to commencing the CCAA Proceedings and such efforts were unsuccessful. The Applicants may have been able to access an alternative lender to satisfy its interim financing needs, however, the Syndicate has advised and steadfastly maintained that it would object to a priming loan particularly given the decline rate of Argent's production. Therefore the Monitor's focus with respect to the Interim Loan centered around determining if the quantum of the funding was sufficient to provide the necessary funding to run a reasonable sales process and whether the terms of the funding were reasonable in the circumstances.

63. The Monitor determined that the financial terms of the Interim Loan are reasonable in the circumstances and competitive with other similar CCAA cases. The following graph shows the interest rates for 89 CCAA cases surveyed by the Monitor that had approved interim financing arrangements dating back to 2008. The red horizontal line demonstrates 8% which is currently the interest rate for Argent’s Interim Loan. Dots above the line represent interest rates above Argent’s Interim Loan while dots below the line represent interest rates below Argent’s Interim Loan.



64. The graph demonstrates that the interest rate for Argent’s Interim Loan is in the lower range of interest rates when compared to historical CCAA cases.

65. The Monitor also notes that the upfront fee included in the Interim Loan is competitive with the CCAA cases surveyed.

66. The Monitor reviewed the reporting requirements and covenants in the Interim Loan Agreement and determined that they were standard for this type of financing arrangement and would not be overly onerous on the Applicants.



67. Furthermore, the Monitor notes that the timing and amount of the Interim Loan was designed in conjunction with and to support the Sale Solicitation Process. As discussed above, the Sale Solicitation Process was designed by OGAC (with input from the Applicants, the Syndicate and the Monitor). The Monitor notes that the Sale Solicitation Process and timeline was not designed based on the Interim Loan expiry, rather the covenant package in the Interim Loan was designed to accommodate the Sale Solicitation Process.

## SUMMARY COMMENTS

68. The Monitor appreciates the concerns of the Ad Hoc Committee and has attempted to address these concerns; however, the fundamental issues of the Applicants are that its operations are generating \$1.0 million of negative cash flow per month (before interest and professional fees) and its production is declining at approximately 2% per month. The only current funding available is the \$7.3 million Interim Loan. Any discussion regarding the timelines in the Sale Solicitation Process or pursuing other restructuring alternatives needs to consider the negative cash flow and high production depletion of 24% per annum. The table below summarizes the cash forecast filed at the Initial Application on a monthly basis to demonstrate the expected cash burn.

(US\$ 1000's)	February	March	April	May	Total
Revenue	2,549	1,906	2,004	1,966	8,424
Royalties	(503)	(450)	(362)	(390)	(1,706)
Operating Costs	(1,454)	(1,364)	(1,631)	(1,625)	(6,074)
Taxes	(43)	(63)	(1,068)	(67)	(1,241)
G&A	(593)	(652)	(680)	(716)	(2,641)
Capital Expenditures	(170)	(359)	(15)	(332)	(876)
<b>Operating Cash Loss</b>	<b>(215)</b>	<b>(983)</b>	<b>(1,753)</b>	<b>(1,163)</b>	<b>(4,115)</b>
Bank debt interest payments	(233)	-	(234)	(471)	(938)
Interim Loan Interest	(164)	(8)	(20)	(39)	(232)
Professional Fees	(833)	(595)	(890)	(670)	(2,988)
<b>Net Cash Loss</b>	<b>(1,445)</b>	<b>(1,586)</b>	<b>(2,897)</b>	<b>(2,344)</b>	<b>(8,272)</b>
Opening Cash	1,047	2	16	18	1,047
DIP Draws	400	1,600	2,900	2,400	7,300
Ending Cash	2	16	18	75	75

69. Furthermore, Argent had previously pursued various restructuring and sale processes prior to the CCAA Proceedings as outlined in the Bovingdon Feb 29<sup>th</sup> Affidavit which ultimately, for various reasons, were unsuccessful.
70. The process to select OGAC was a detailed process which involved receiving 5 proposals. OGAC was selected and was significantly involved in developing the process and timeline with a goal to maximizing value to all stakeholders. OGAC has advised that the early activity from the Sale Solicitation Process has been positive.

### COMPARISON OF CASH FLOW PROJECTION TO ACTUAL RESULTS

71. The table below provides a summary of the Company's actual receipts and disbursements for February 17, 2016 to February 26, 2016 ("Reporting Period") as compared to the cash flow projection previously provided to this Honourable Court in the Bovingdon Initial Order Affidavit.

(US\$000's)	Reporting Period		
	Budget	Actual	Variance
Production (boe/d)	3,517	3,601	84
<b>Cash Receipts</b>			
Product Revenue	1,915	1,716	(199)
<b>Cash Disbursements</b>			
Royalty Expense	-	(736)	(736)
Severance Taxes	(43)	(16)	27
Ad Valorem	-	-	-
Operating Costs	(1,113)	(35)	1,078
G&A	(327)	(280)	47
Capital Expenditures	(151)	-	151
Bank debt interest payments	-	-	-
Interim Loan Interest/Fees	(164)	-	164
Professional Fees	(833)	(96)	737
<b>Total - Operating Disbursements</b>	<b>(2,631)</b>	<b>(1,163)</b>	<b>1,468</b>
<b>Net Cash flow before financing</b>	<b>(715)</b>	<b>553</b>	<b>1,268</b>
<b>Opening Cash before Interim Loan</b>	1,047	1,047	-
<b>Ending Cash before Interim Loan</b>	<b>332</b>	<b>1,600</b>	<b>1,268</b>
Interim Loan Advances	-	-	-
Cumulative Interim Loan Advances	-	-	-
<b>Ending Cash after Interim Loan</b>	<b>332</b>	<b>1,600</b>	<b>1,268</b>

72. Production – oil and gas production was approximately 84 barrels per day greater than budget. Actual production results for the Reporting Period are materially in line with budget.
73. Cash Receipts – Product revenue was approximately \$199,000 less than budget due to slightly lower than expected sales revenue for January production (which was received by Argent on or around February 21).
74. Royalty Expense – royalty expense is greater than budget mainly due to timing, as royalty payments were expected to be paid in the week ending March 4, 2016, but were paid a week early, bringing the payment into the Reporting Period.
75. Other Expenses – All other expenses are significantly lower than budget due to timing. The Applicants’ budget was completed under the assumption that suppliers may demand prepayment or cash on demand payments for services. To date the Applicants have been successful in negotiating with suppliers to continue to provide services under normal credit terms resulting in a timing variance as services have been provided. However Argent has not received invoices for these services.
76. No variances that occurred during the Reporting Period are expected to have a material impact on the liquidity needs of the Applicants.

## CASH FLOW PROJECTION

77. The Applicants, in consultation with the Monitor, have prepared a revised weekly cash flow forecast (the “Cash Flow Forecast”) for the period February 27, 2016 to May 17, 2016 (the “Stay Extension Period”). A copy of the Cash Flow Forecast is provided at Appendix B.
78. A summary of the Cash Flow Forecast for the Stay Extension Period is summarized in the table below.

(US\$ 000's)	<b>Stay Extension Period</b> <b>Feb 27 to Mar 17, 2016</b>
<b>Cash Receipts</b>	
Product Revenue	4,923
<b>Cash Disbursements</b>	
Royalty Expense	(893)
Severance Taxes	(190)
Ad Valorem	(1,000)
Operating Costs	(5,633)
G&A	(2,170)
Capital Expenditures	(793)
Bank debt interest payments	(702)
Interim Loan Interest/Fees	(220)
Professional Fees	(2,222)
<b>Total - Operating Disbursements</b>	<b>(13,823)</b>
<b>Net Cash flow before financing</b>	<b>(8,900)</b>
<b>Opening Cash before Interim Loan</b>	<b>1,600</b>
<b>Ending Cash before Interim Loan</b>	<b>(7,300)</b>
Interim Loan Advances	7,300
Cummulative Interim Loan Advance:	7,300
<b>Ending Cash after Interim Loan</b>	<b>0</b>

79. The Cash Flow Statement indicates the following for the Stay Extension Period:
- (a) total cash receipts excluding advances under the proposed Interim Loan of \$4.9 million;

- (b) total cash disbursements of \$13.8 million;
  - (c) total disbursements relating to the professional fees and restructuring costs of \$2.2 million; and
  - (d) total estimated draws under the Interim Loan of approximately \$7.30 million, as discussed in further detail below.
80. Significant assumptions made by Argent in preparing the Cash Flow Forecast are as follows:
- (a) Revenue based on current production levels of approximately 3,400 barrels of oil equivalent per day which declines at a rate of approximately 1.8% per month over the Stay Extension Period multiplied by historical realized price for February production, received in March and current future strip pricing less \$2 per barrel for future product sales.
  - (b) Royalty expenses relate to royalties paid to freehold landowners. Rates are based on historical averages.
  - (c) Severance taxes relate to taxes paid monthly to US States based on a percentage of actual oil and gas sales.
  - (d) Ad Valorem relates to an annual tax paid to the US States based on property valuation of leases and tangible assets.
  - (e) Operating costs based on the Company's annual operating cost budget.
  - (f) G&A relates to employee costs, rent and other miscellaneous office and general administration costs for Argent Energy Trust, Argent Canada and Argent US.

- (g) Capital expenditures are based on planned capital maintenance projects.
  - (h) Bank debt interest payments relate to interest on Argent's pre-filing credit facility.
  - (i) Interim loan interest/fees relate to the fees and interest on Argent's Interim Loan.
  - (j) Professional/legal fees include estimates for the Monitor, Monitor's counsel (Canadian and U.S.), Argent's counsel (Canadian and U.S.), OGAC and for the Syndicate's counsel (Canadian and U.S.) and financial advisor.
81. The Monitor notes that the financing available through the Interim Loan is expected to provide Argent with adequate funding to operate through the Stay Extension Period.
82. The Monitor has reviewed the assumptions supporting the Cash Flow Forecast and is of the view that the assumptions are reasonable.

#### **THE APPLICANTS' REQUEST FOR AN EXTENSION TO THE STAY PERIOD**

83. The Initial Order provided for the Initial Stay Period to expire on March 18, 2016. The Applicants are seeking an extension to the stay period up to and including May 17, 2015 ("Stay Extension").
84. As discussed above, with the funding provided by the Interim Loan, the Cash Flow Forecast demonstrates that the Applicants will have sufficient liquidity to operate their business through the Stay Extension Period. It is the Monitor's view that the Stay Extension is necessary to allow the Company to continue its sale process as approved by this Honourable Court in the Initial Order.

85. In the Monitor's view, the Applicants are acting with due diligence and in good faith.

## **CONCLUSIONS AND RECOMMENDATIONS**

86. The Monitor respectfully recommends that this Honourable Court grant the Applicants' request for the Stay Extension.

All of which is respectfully submitted this 4<sup>th</sup> day of March, 2016.

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



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Deryck Helkaa  
Senior Managing Director,  
FTI Consulting Canada Inc.

# **Appendix A**

**Correspondence with Ad Hoc Committee**



February 17, 2016

**VIA EMAIL**

**McCarthy Tétrault LLP**  
Suite 4000, 421 7th Avenue SW  
Calgary AB T2P 4K9  
**Attention: Sean F. Collins**

**FTI Consulting**  
1000, 888-3<sup>rd</sup> Street SW  
Calgary, AB T2P 5C5  
**Attention: Deryck Helkaa**

**Bennett Jones LLP**  
4500 Bankers Hall East  
855 2nd Street SW  
Calgary, AB T2P 4K7  
**Attention: Harinder S. Basra / Sean Zweig**

Dear Sirs

**Re: Argent Energy Trust (“Argent” or the “Trust”)**

We write to you in connection with the Trust’s commencement of proceedings under the *Companies’ Creditors Arrangement Act* (the “**CCAA**”) this morning. As you know, we represent an *ad hoc* committee (the “**Ad Hoc Committee**”) of holders (the “**Debentureholders**”) of Argent’s convertible unsecured debentures (the “**Debentures**”), who are key stakeholders of the Trust.

The Ad Hoc Committee and its advisors have been engaged with the Trust since August in an effort to find consensual solutions and transactions to address its liquidity needs for the benefit of the Trust and all of its various stakeholders. Despite this and the significant interests of our clients, we received no advance notice of Argent’s commencement of CCAA proceedings this morning and have not been provided with the Trust’s materials in connection with such proceedings. You also were aware that we were located in Toronto and would need to travel for any CCAA initial hearing. We request that you provide the Trust’s CCAA materials to us as soon as possible (which materials were just received concurrently with delivery of this letter).

Our clients would expect that the relief sought by Argent this morning would be limited to a stay of proceedings. In addition, it has come to our attention that a sales process in respect of the

Trust's assets was commenced and a timeline set prior to the CCAA filing and without consultation. This is an unacceptable path for a Company seeking CCAA protection from the Court. No further material steps should be taken, including, without limitation, the commencement of any ancillary Chapter 15 proceedings in the United States or the approval of a sale process, without prior consultation with the Ad Hoc Committee and in advance of a comeback hearing before the CCAA Court. Subject to our review of the Trust's CCAA materials, we will attend the comeback hearing to inform the court of the significant concerns of the Ad Hoc Committee. We would like to discuss with the Monitor a proper comeback hearing date.

We expect that the Trust and the Monitor will take all available time and means to ensure that the best path is fully analyzed and considered with the Ad Hoc Committee and its advisors, and that the Trust will not take – and the Monitor will not support – any unilateral action that could prejudice or impair the interests of the Debentureholders. We request a meeting with the Monitor and its counsel to discuss these matters immediately, and we look forward to hearing from you as soon as possible.

Yours very truly,

**GOODMANS LLP**

Robert J. Chadwick

6543519

February 18, 2016

**VIA EMAIL**

**McCarthy Tétrault LLP**  
Suite 4000, 421 7th Avenue SW  
Calgary AB T2P 4K9  
**Attention: Sean F. Collins**

**FTI Consulting**  
1000, 888-3<sup>rd</sup> Street SW  
Calgary, AB T2P 5C5  
**Attention: Deryck Helkaa**

**Bennett Jones LLP**  
4500 Bankers Hall East  
855 2nd Street SW  
Calgary, AB T2P 4K7  
**Attention: Harinder S. Basra / Sean Zweig**

Dear Sirs

**Re: Argent Energy Trust (“Argent” or the “Trust”)**

We write to you further to our letter and discussions of yesterday to confirm and again express the significant concerns of the Ad Hoc Committee with the unacceptable path the Trust has taken in connection with its commencement of restructuring proceedings, including its stated intention to seek the commencement of ancillary Chapter 15 proceedings before the United States Bankruptcy Court for the Southern District of Texas tomorrow, now adjourned until next week. The Ad Hoc Committee was not provided with any draft Chapter 11 materials and, despite our request yesterday, we were only provided with copies of the Chapter 15 materials this afternoon after they were filed with the Texas Court last night.

Our view based on our knowledge of Argent, and which we expressed to Argent’s counsel prior to the commencement of the CCAA proceedings, is that a Chapter 15 proceeding is not appropriate in the circumstances. This view is supported by the following information contained in Argent’s public filings and in its CCAA materials provided to us late yesterday:

- substantially all of Argent’s assets are in the United States with no material assets in Canada;

- Argent US, the only CCAA Applicant with ongoing operations and the owner of all of the Applicants' petroleum properties, is a Delaware corporation with its head office located in Texas;
- Argent's stated strategy is to acquire, exploit and develop oil and gas properties through its US subsidiary;
- Argent's operations are substantially affected by US federal, state and local laws and regulators;
- substantially all of Argent's expenses are incurred in the US to fund the operations of Argent US;
- all of Argent's revenues are generated and received by Argent US, and are used, along with the borrowings under the Credit Facility and the intercompany notes, to fund the US operations;
- all of the Argent's trade debt is located in the US;
- substantially all of Argent's employees (including its Chief Operating Officer) are employed by Argent US and located in the United States, with only two employees in Canada;
- Argent US owes significant intercompany obligations to the Trust; and
- in previous discussions with the Trust, the CEO confirmed to us that the Trust was of the view that the US obligations could only be dealt with in a full US proceeding outside of a consensual resolution with the stakeholders.

These are only certain preliminary matters which have been publicly outlined by Argent. We expect there are more significant additional factors and circumstances relevant to such matters.

Despite the fact that the Trust is a Canadian entity, it is clear from the foregoing that Argent's true seat and principal place of business actually is, consistent with the expectations of those stakeholders who dealt with it, in the United States. In these circumstances, a Chapter 15 is not the appropriate forum for a contested proceeding, including to address the significant intercompany obligations of Argent US.

We expect that the Monitor, as the proposed foreign representative under any Chapter 15, will carefully consider the concerns we have outlined herein. Our clients are prepared to take all necessary steps to protect their significant interests and ensure the Trust follows the proper path in the circumstances.

Yours very truly,

**GOODMANS LLP**

Robert J. Chadwick

6543826

A large, stylized handwritten signature in black ink, which appears to be "Robert J. Chadwick", is written over the typed name and extends across the page.



McCarthy Tétrault LLP  
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421-7th Avenue S.W.  
Calgary AB T2P 4K9  
Canada  
Tel: 403-260-3500  
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**Sean F. Collins**  
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February 22, 2016

**Via Email (rchadwick@goodmans.ca)**

Robert J. Chadwick  
Partner  
Goodmans LLP  
Bay Adelaide Centre  
333 Bay Street, Suite 3400  
Toronto ON M5H 2S7

Dear Sirs:

**Re: Companies' Creditors Arrangement Act proceedings in respect of Argent Energy Trust et al (collectively, "Argent")**

As you are aware, we are counsel to FTI Consulting Canada Inc. in its capacity as monitor ("**Monitor**") of Argent. We acknowledge receipt of Goodmans LLP's letters on behalf of the ad hoc Committee (the "Ad Hoc Committee") of holders of Argent's convertible unsecured debentures dated February 17, 2016 (the "**First Letter**") and February 18, 2016 (the "**Second Letter**") addressed to us, the Monitor and counsel to Argent.

This letter sets out the Monitor's written advice in respect of and in response to the letters under reply. Having said this, in the real-time environs of the early days of these proceedings, the Monitor's resources are required to assist Argent with the operational and other issues that have arisen since the commencement of the CCAA proceedings. As such, the Monitor does not propose to respond "chapter and verse" to each and every issue that has been raised by the Ad Hoc Committee. We shall highlight in this correspondence the Monitor's position with respect to what it understands the Ad Hoc Committee's major points of contention to be. If an issue that has been raised by the Ad Hoc Committee is not addressed herein and for which the Ad Hoc Committee wishes to hear from the Monitor, then please advise and the Monitor will do its best to respond.

### ***Preliminary Information Requests***

The Ad Hoc Committee has made certain information and document requests of the Monitor. Specifically, the Ad Hoc Committee has requested that the Monitor provide:

- (a) Non-consolidated CCAA cash-flows;
- (b) Details surrounding Argent US' Assets in Canada; and
- (c) A transcript of the Court proceedings in connection with Argent's application for the initial order on February 17, 2016.



In this regard, we respond as follows:

- (a) The rationale for the request for non-consolidated cash-flows appears to the Monitor, at least, to be driven by the Ad Hoc Committee's position that Chapter 15 proceedings are inappropriate in this case given that Argent's revenue producing petroleum and natural gas properties (the "**P&NG Properties**") are located in the United States and the desire on the part of the Ad Hoc Committee to have the evidentiary basis to make such assertion in court. If this is in fact the case, then we suggest that the Monitor facilitate an agreement by and between the parties that would have the effect of Argent agreeing to a factual stipulation that Argent US's revenue is derived solely from US based assets. If, on the other hand, the Monitor is mistaken and there is a different reason for seeking a non-consolidated cash-flow, then please advise and the Monitor will give further consideration to the request;
- (b) The Monitor notes that a request has been made by your office directly to Canadian counsel to Argent by way of a letter dated February 19, 2016 for "information regarding the Canadian assets of Argent US." We understand from counsel to Argent that they will respond to such request but, as in the case of the non-consolidated cash-flow, query if the rationale for the request is to provide the evidentiary foundation for the Ad Hoc Committee's Chapter 15 argument and, if that is the case, we reiterate the offer to facilitate a factual stipulation that would have Argent agree that the Canadian asset of Argent US is a nominal sum on deposit in a Canadian bank account; and
- (c) A copy of the transcript of proceedings from February 17, 2016 has been ordered and we will provide a copy to the service list upon receipt of same.

The First Letter demands that "no further material steps should be taken, including, without limitation, the commencement of ancillary Chapter 15 proceedings in the United States or the approval of a sales process, without prior consultation with the Ad Hoc Committee and in advance of a comeback hearing before the CCAA Court." As you are aware, the Monitor considered the Ad Hoc Committee's request to defer the commencement of the Chapter 15 Proceedings. In the first instance, the Monitor agreed to adjourn the Chapter 15 application from the original return date of February 19, 2016 in order to permit further dialogue between Argent, the Syndicate and the Ad Hoc Committee. While the Monitor had hoped to adjourn the Chapter 15 application until mid-week of February 22, 2016 to facilitate further dialogue, the Monitor's US counsel advised that the only return date available in Houston is Monday, February 22, 2016 at 3:00 p.m local time.

The adjournment of the Chapter 15 application nevertheless created the opportunity for the Ad Hoc Committee, Argent and the Syndicate to have discussions in an attempt to facilitate a consensual resolution. The Monitor participated in and observed the discussions and it is evident that, at this time, the matters in issue are incapable of a consensual resolution. As the case advances, doubtless there will be further opportunity for the parties to consider whether an agreed upon path forward presents and the Monitor will be pleased to attempt to facilitate further dialogue in this regard.

The Monitor has considered the admonition of the Ad Hoc Committee as articulated in the First Letter that it not "support any unilateral action that could prejudice or impair the interests of the

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debenture holders” as well as the assertion in the Second Letter that “a Chapter 15 proceeding is not appropriate in the circumstances” together with the Ad Hoc Committee’s demand that the Monitor “carefully consider the concerns [the Ad Hoc Committee has] outlined [in the Second Letter].”

The Monitor has considered the concerns of the Ad Hoc Committee and, as advised on February 19, 2016, is proceeding to seek recognition of the CCAA proceedings under and pursuant to Chapter 15. In the exercise of its judgment and in determining to proceed in this fashion the Monitor notes the following:

1. The Monitor is acting in accordance with the authority conferred upon it under and pursuant to the duly entered CCAA initial order. The initial order is in full force and effect. The Monitor has taken cognizance of the fact that the Ad Hoc Committee has advised that it will seek to set aside certain provisions of the initial order at the comeback hearing scheduled for March 8, 2016. The Monitor will abide by any further orders or directions provided by the CCAA Court following the hearing of the comeback application, or otherwise. In the meantime, however, given the exigencies of this case (in particular, Argent’s immediate need for access to drawings under the interim financing facility) the Monitor has determined it is necessary and advisable to seek recognition by the US Bankruptcy Court of the CCAA proceedings;
2. The sales process that is underway was designed by Argent in consultation with The Oil & Gas Asset Clearing House, LLC (“OGAC”). The Monitor has formed the view that the sales process will yield the best possible value for Argent’s assets in the circumstances of this case. The Monitor’s view has in part been informed by OGAC who has advised the Monitor that, in OGAC’s experience (including recent experience in dealing with disposition of distressed P&NG Assets located in the United States), the sales process represents the optimal way to proceed. In particular, OGAC has advised the Monitor;
  - (a) The one month timeframe within which to select the successful bid is reasonable. In this regard, OGAC notes the fact that Argent’s P&NG Assets have been on the market in public M&A processes since October 1, 2014. This fact leads to the conclusion that the universe of potential purchasers is relatively well acquainted with the assets to be acquired. OGAC advises that 30 days is a sufficient period of time for prospective purchasers to evaluate the data in the data room and to form an opinion as to the purchase price;
  - (b) Affording the successful bidder the opportunity to complete confirmatory title and environmental due diligence in the one month following being selected as successful bidder is a market practice being utilized in the sale of distressed oil and gas producing assets located in the United States. Far from chilling the sales process or circumscribing the universe of potential bidders, OGAC advises that its experience in this deal-space is such that potential bidders are reluctant to enter a process that requires them to expend material resources on performing confirmatory title and environmental due diligence unless and until such potential bidders have been selected as the presumptive purchaser.



It is noteworthy that preliminary interest in the sales process has been robust. OGAC advises that since the formal launching of the process on February 17, 2016 over 60 parties have made enquiries, over 50 parties have executed confidentiality agreements, 40 parties have accessed the virtual data room, and 2 parties are currently attending in the physical data room and have attended at OGAC for a presentation. The Monitor enquired of OGAC whether any party has expressed concern over the timelines in the sales process and OGAC has confirmed that no such concern has been expressed. The Monitor has requested OGAC to immediately advise the Monitor of any concern that may be articulated by any participant in the sales process and OGAC has assured the Monitor that it will do so.

The Monitor will be pleased to provide further information relative to the process that Argent undertook to select OGAC in addition to facilitating a meeting between OGAC and the Ad Hoc Committee in an attempt to answer any questions and assuage concerns that the Ad Hoc Committee may have.

3. It is a condition precedent to the availability of draws under the interim financing facility that the Chapter 15 recognition order is granted. Argent urgently requires access to the interim lending facility given its cash-flow position in order to meet its post-filing obligations.
4. Argent has encountered operational issues with creditors, suppliers and counter-parties in the immediate aftermath of announcing that it had obtained relief under the CCAA. Recognition of the initial order in the United States will stabilize Argent's US operations;
5. Production is declining in Argent's producing petroleum and natural gas properties at an exceptionally fast rate (i.e. in the order of magnitude of approximately 20% - 25% per annum). The current pricing environment when combined with the decline rate mandates that offers be solicited as soon as practically possible together with imperative that an executable transaction be entered into with an effective date occurring within the next quarter; and
6. The Ad Hoc Committee's proposal seemingly is to defer the sales process for an undefined period of time on the hope that commodity prices will rebound. The Ad Hoc Committee has not proposed or offered an alternative to address the urgent liquidity crisis that Argent finds itself in nor has the Ad Hoc Committee offered a solution to the rapidly deteriorating and decline in Argent's producing petroleum and natural gas assets.

The Monitor joins issue with the Ad Hoc Committee's contention that a Chapter 15 process will not provide adequate safeguards to participants in the process. Stakeholders on both sides of the border have recourse to sophisticated and responsive bankruptcy courts located in Calgary and Houston. As it pertains to the interest of the Ad Hoc Committee, the Ad Hoc Committee is a creditor of Argent Trust. The plenary CCAA proceedings involving Argent Trust have been duly commenced in Canada and the Ad Hoc Committee has access to the Calgary Court to seek relief and redress with respect to the matters in issue.

In conclusion, the Monitor has always been and remains of the view that the process that has been undertaken by Argent will maximise recovery available to Argent stakeholders under the factual circumstances that present in relation to this case. Notwithstanding the fact that the Monitor and the Ad Hoc Committee are in disagreement with respect to the current process, the Monitor assures the Ad Hoc Committee that it will continue to make itself available to hear

further concerns of the Ad Hoc Committee and, where possible, the Monitor will attempt to address such concerns.

Yours truly,

McCarthy Tétrault LLP



Sean F. Collins

SFC/ac

c: **FTI Consulting Canada Inc.** – Attention: Deryck Helkaa / Dustin Olver  
**Bennett Jones LLP** – Attention: Sean H. Zweig / Kelsey J. Meyer  
**Norton Rose Fullbright LLP** – Attention: Louis R. Strubeck, Jr / William Greendyke /  
Bob Bruner / Jason Lee Boland

# **Appendix B**

## **Revised Cash Flow Forecast**

**Argent et al**  
**Consolidated Weekly Cash Flow Statement**  
**Stay Extension Period**

(US\$ 000's)	Week Ending	Stay Extension Period											Total Stay Extension Period	
		Week 3 4-Mar	Week 4 11-Mar	Week 5 18-Mar	Week 6 25-Mar	Week 7 1-Apr	Week 8 8-Apr	Week 9 15-Apr	Week 10 22-Apr	Week 11 29-Apr	Week 12 6-May	Week 13 13-May		Week 14 20-May
Production (boe/d)		3,413	3,413	3,413	3,413	3,413	3,312	3,312	3,312	3,312	3,223	3,223	3,223	3,332
<b>Cash Receipts</b>														
Product Revenue		564	-	-	1,629	476	-	-	1,753	501	-	-	-	4,923
<b>Cash Disbursements</b>														
Royalty Expense		-	-	-	-	(490)	-	-	-	(402)	-	-	-	(893)
Severance Taxes		(27)	-	-	(27)	(28)	-	-	(34)	(34)	-	-	(39)	(190)
Ad Valorem		-	-	-	-	-	-	-	-	(1,000)	-	-	-	(1,000)
Operating Costs		(557)	(557)	(557)	(557)	(557)	(408)	(408)	(408)	(408)	(406)	(406)	(406)	(5,633)
G&A		(276)	(31)	(389)	(27)	(243)	(38)	(383)	(21)	(238)	(112)	(30)	(383)	(2,170)
Capital Expenditures		(49)	(49)	(49)	(106)	(276)	-	(15)	-	-	(83)	(83)	(83)	(793)
Bank debt interest payments		(233)	-	-	-	-	(234)	-	-	-	(235)	-	-	(702)
Interim Loan Interest/Fees		(164)	(1)	(2)	(2)	(3)	(4)	(5)	(5)	(6)	(8)	(9)	(10)	(220)
Professional Fees		(369)	(369)	-	-	(595)	-	-	-	(890)	-	-	-	(2,222)
<b>Total - Operating Disbursements</b>		<b>(1,674)</b>	<b>(1,006)</b>	<b>(997)</b>	<b>(719)</b>	<b>(2,193)</b>	<b>(683)</b>	<b>(811)</b>	<b>(468)</b>	<b>(2,979)</b>	<b>(845)</b>	<b>(529)</b>	<b>(921)</b>	<b>(13,823)</b>
<b>Net Cash flow before financing</b>		<b>(1,110)</b>	<b>(1,006)</b>	<b>(997)</b>	<b>910</b>	<b>(1,716)</b>	<b>(683)</b>	<b>(811)</b>	<b>1,285</b>	<b>(2,478)</b>	<b>(845)</b>	<b>(529)</b>	<b>(921)</b>	<b>(8,900)</b>
<b>Opening Cash before Interim Loan</b>		1,600	490	(516)	(1,512)	(602)	(2,318)	(3,002)	(3,813)	(2,528)	(5,006)	(5,851)	(6,379)	1,600
<b>Ending Cash before Interim Loan</b>		<b>490</b>	<b>(516)</b>	<b>(1,512)</b>	<b>(602)</b>	<b>(2,318)</b>	<b>(3,002)</b>	<b>(3,813)</b>	<b>(2,528)</b>	<b>(5,006)</b>	<b>(5,851)</b>	<b>(6,379)</b>	<b>(7,300)</b>	<b>(7,300)</b>
Interim Loan Advances		-	600	1,000	-	800	700	800	-	1,200	800	500	900	7,300
Cummulative Interim Loan Advances		-	600	1,600	1,600	2,400	3,100	3,900	3,900	5,100	5,900	6,400	7,300	7,300
<b>Ending Cash after Interim Loan</b>		<b>490</b>	<b>84</b>	<b>88</b>	<b>998</b>	<b>82</b>	<b>98</b>	<b>87</b>	<b>1,372</b>	<b>94</b>	<b>49</b>	<b>21</b>	<b>0</b>	<b>0</b>