

COURT FILE NUMBER 1601 -
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY
APPLICANTS IN THE MATTER OF AN APPLICATION UNDER
SECTION 192 OF THE *CANADA BUSINESS
CORPORATIONS ACT*, RSC 1985, c C-44, AS AMENDED
AND IN THE MATTER OF A PROPOSED
ARRANGEMENT OF LIGHTSTREAM RESOURCES LTD.
AND 9817158 CANADA LTD.

DOCUMENT **AFFIDAVIT**

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

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AFFIDAVIT OF PETER D. SCOTT

Sworn on July 12, 2016

I, Peter D. Scott, of Calgary, Alberta, SWEAR AND SAY THAT:

1. Lightstream Resources Ltd. ("LTS") and 9817158 Canada Ltd. ("ArrangeCo" and together, the "Applicants"), bring an application seeking relief under Section 192(4) of the *Canada Business Corporations Act*, RSC 1985, c C-44, as amended (the "CBCA"), as set out in greater detail below.
2. I am the Senior Vice President and Chief Financial Officer of LTS and a director of ArrangeCo. As such, I have personal knowledge of the matters deposed to in this

Affidavit, except where stated to be based upon information, in which case I believe the same to be true.

3. All references to dollar amounts contained herein are to Canadian Dollars unless otherwise stated.
4. This Affidavit covers the following matters:

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I. RELIEF REQUESTED

5. This Affidavit is made in support of an application by the Applicants for an Order (the "**Preliminary Interim Order**") pursuant to the CBCA, among other things:
- (a) authorizing the Applicants to bring an application before the Court on or before August 5, 2016 for an interim order (the "**Interim Order**"), permitting the Applicants to, among other things, call, hold and conduct special meetings of Second Lien Noteholders (as defined below), Unsecured Noteholders (as defined below) and Shareholders (as defined below) to consider and vote on the proposed Arrangement (as defined below);
 - (b) staying any person, other than the Agent (as defined below) from terminating, making any demand, accelerating, amending or declaring in default or taking any enforcement steps under any contract or other agreement to which the Applicants are a party and declaring that no default or event of default shall have occurred or be deemed to have occurred under any such contract or agreement, as described in greater detail below;
 - (c) deeming service of the application for the Preliminary Interim Order to be good and sufficient;
 - (d) setting out the persons entitled to notice of, and to appear and be heard in the Arrangement proceedings;
 - (e) requesting the aid, recognition and assistance of any court, tribunal, regulatory or administrative body having jurisdiction in Canada to give effect to the Preliminary Interim Order; and
 - (f) such further and other relief as this Court deems just.

II. OVERVIEW

6. As described in greater detail below, LTS and its subsidiaries, 1863359 Alberta Ltd. ("**1863359**"), 1863360 Alberta Ltd. ("**1863360**"), Lightstream Resources Partnership ("**LTS Partnership**") and Bakken Resources Partnership ("**Bakken Partnership**") and together with LTS Partnership, 1863360, 1863359, ArrangeCo and LTS, the

"**Lightstream Group**") conduct a light oil focused exploration and production business with operations in Alberta, British Columbia and Saskatchewan.

7. The Lightstream Group has been significantly affected by the sustained decline in global commodity prices since mid-2014.
8. This application is made in support of an arrangement (the "**Arrangement**") involving the Applicants and holders (the "**Second Lien Noteholders**") of 9.875% secured second lien notes issued by LTS pursuant to the Second Lien Note Indenture (as defined below) (collectively, the "**Second Lien Notes**"), holders (the "**Unsecured Noteholders**") of 8.625% unsecured notes issued by LTS pursuant to the Unsecured Notes Indenture (as defined below) (collectively, the "**Unsecured Notes**") and holders (the "**Shareholders**") of common shares of LTS (collectively, the "**Common Shares**"). The proposed Arrangement is part of a proposed recapitalization of LTS' capital structure, as described in more detail below (collectively, the "**Recapitalization**").
9. The effect of the proposed Recapitalization will be a reduction of LTS' overall debt by approximately US \$904 million in principal and a reduction in cash interest payments of over US \$86.1 million per year.
10. The Lightstream Group has substantially finalized and is very close to entering into a restructuring support agreement (the "**Noteholder Support Agreement**") with an *ad hoc* committee of Second Lien Noteholders (the "**Ad Hoc Committee of Second Lien Noteholders**") representing approximately 91.5 percent of the total outstanding principal amount of Second Lien Notes. I anticipate that the Noteholder Support Agreement will be executed before the application for the Preliminary Interim Order and will be provided to the Court in advance of that hearing. The Noteholder Support Agreement and term sheet attached as Schedule "B" thereto (the "**Term Sheet**") set out the principal terms upon which the Applicants will seek to restructure the debt outstanding under the Second Lien Notes and the unsecured Notes.
11. The Lightstream Group (other than ArrangeCo) have negotiated a substantially final form of forbearance agreement with the First Lien Lenders (the "**Forbearance Agreement**") providing for a forbearance period until July 28, 2016, which forbearance also covers certain of LTS' Risk Management Contracts (as defined below). LTS is currently in the

process of negotiating the terms of an extension to the Forbearance Agreement and forbearance period contemplated therein beyond July 28, 2016. I anticipate that the Forbearance Agreement will be executed before the application for the Preliminary Interim Order.

12. The Applicants are continuing to negotiate the final documentation of the proposed Arrangement with the *Ad Hoc* Committee of Second Lien Noteholders and are actively engaged in finalizing and executing additional documentation and definitive documents that are necessary to bring an application for an Interim Order, implement the proposed Arrangement (which will qualify as a plan of arrangement under Section 192 of the CBCA) and effect the proposed Recapitalization.

III. CORPORATE STRUCTURE

13. An organization chart of the Applicants and their subsidiaries is attached as **Exhibit "A"** to this Affidavit.

A. LTS

14. LTS is the parent corporation of the Lightstream Group.
15. LTS is a corporation formed pursuant to the *Alberta Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9 (the "ABCA") having its head office at Suite 2800, 525 – 8th Avenue S.W., Calgary, Alberta, T2P 1G1 (the "**Calgary Head Office**"). A copy of LTS' certificate of amalgamation is attached as **Exhibit "B"** to this Affidavit.
16. LTS was initially incorporated on July 30, 2009, as PetroBakken Energy Ltd. pursuant to the laws of Alberta.
17. On December 31, 2012, PetroBakken Energy Ltd. amalgamated with Petrobank Energy and Resources Ltd. pursuant to the ABCA and continued under the name PetroBakken Energy Ltd. On May 22, 2013, PetroBakken Energy Ltd. changed its name to Lightstream Resources Ltd.
18. LTS is the managing partner of both LTS Partnership and Bakken Partnership.
19. The authorized capital of LTS consists of an unlimited number of Common Shares without nominal or par value and an unlimited number of preferred shares. Shareholders

are entitled to one vote per Common Share at meetings of Shareholders. Currently, there are no issued or outstanding preferred shares.

20. The Common Shares of LTS are currently (i) listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol "LTS", and (ii) trading over-the-counter under the symbol "LTSMF".
21. LTS has adopted a shareholder rights plan effective as of January 1, 2013 (the "**Shareholder Rights Plan**"), which provides, among other things, that following an acquisition by any person or entity of 20% or more of the issued and outstanding Common Shares of LTS (except pursuant to certain permitted or excepted transactions) and upon the occurrence of certain other events, each Shareholder shall be entitled to acquire additional Common Shares at a discounted price. Computershare Trust Company of Canada acts as agent of the Shareholder Rights Plan.
22. On January 2, 2015, the Lightstream Group completed an internal reorganization (the "**2015 Reorganization**") involving LTS Partnership (formerly PBN Partnership) ("**LRP**"), a general partnership wholly-owned by both LTS and Lightstream Capital Ltd. (formerly known as PetroBakken Capital Ltd.) ("**Lightstream Capital**"), also a wholly-owned subsidiary of LTS. As part of the 2015 Reorganization, LRP and Lightstream Capital transferred certain assets to LTS Partnership and Bakken Partnership, as set out in greater detail below.
23. Immediately following completion of the 2015 Reorganization, both LRP and Lightstream Capital were dissolved.

B. ArrangeCo

24. ArrangeCo is a corporation incorporated pursuant to the CBCA having its head office at the Calgary Head Office. A copy of ArrangeCo's certificate of incorporation is attached as **Exhibit "C"** to this Affidavit.
25. ArrangeCo is a direct wholly-owned subsidiary of LTS and does not carry on any operations or have any liabilities.

C. Subsidiaries

i. 1863359

26. 1863359 is a corporation incorporated pursuant to the ABCA, having its head office at the Calgary Head Office. A copy of 1863359's certificate of incorporation is attached as **Exhibit "D"** to this Affidavit.
27. 1863359 is a wholly-owned subsidiary of LTS and owns 0.01% of LTS Partnership.

ii. LTS Partnership

28. LTS Partnership is a general partnership formed and registered as a general partnership pursuant to the laws of Alberta, having its head office at the Calgary Head Office. A copy of LTS Partnership's partnership registration is attached as **Exhibit "E"** to this Affidavit.
29. LTS Partnership is a direct and indirect wholly-owned subsidiary of LTS. LTS owns 99.99% of LTS Partnership and 1863359 owns the remaining 0.01%.
30. As part of the 2015 Reorganization, all of Lightstream Group's oil and natural gas properties and assets located in Alberta and British Columbia were transferred to and are currently owned by LTS Partnership (collectively, the "**LTS Partnership Assets**").
31. As set out above, LTS is the managing partner of LTS Partnership.

iii. 1863360

32. 1863360 is a corporation incorporated pursuant to the laws of Alberta, having its head office at the Calgary Head Office. A copy of 1863360's certificate of incorporation is attached as **Exhibit "F"** to this Affidavit.
33. 1863360 is a wholly-owned subsidiary of LTS and owns 0.01% of Bakken Partnership.

iv. Bakken Partnership

34. Bakken Partnership is a general partnership formed and registered as a general partnership pursuant the laws of Alberta, having its head office at the Calgary Head

Office. A copy of Bakken Partnership's partnership registration is attached as **Exhibit "G"** to this Affidavit.

- 35. Bakken Partnership is a direct and indirect wholly-owned subsidiary of LTS. LTS owns 99.99% of Bakken Partnership and 1863360 owns the remaining 0.01%.
- 36. As part of the 2015 Reorganization, all of the Lightstream Group's oil and natural gas properties and assets located in Saskatchewan were transferred to and are currently owned by Bakken Partnership (collectively, the "**Bakken Partnership Assets**").
- 37. As set out above, LTS is the managing partner of Bakken Partnership.

D. Directors and Executive Officers

- 38. The officers of LTS are as follows:

Name	Title
John D. Wright	President & Chief Executive Officer
Peter D. Scott	Senior Vice President & Chief Financial Officer
Rene LaPrade	Senior Vice President & Chief Operating Officer
Doreen M. Scheidt	Vice President & Controller
Andrea Hatzinikolas	Corporate Secretary
Annie Belecki	General Counsel
Mary Bulmer	Vice President, Corporate Services
Lawrence Fisher	Vice President, Land
Peter Hawkes	Vice President, Geosciences
Brad Malley	Vice President, Development Services

- 39. The directors of LTS are:

Name
John D. Wright
Ian S. Brown
Kenneth R. McKinnon
Corey C. Ruttan
W. Brett Wilson
Martin Hislop

40. The directors of ArrangeCo are:

Name
John D. Wright
Peter D. Scott
Annie Belecki
Rene LaPrade

IV. BUSINESS OF THE APPLICANTS

A. General

41. The Lightstream Group is engaged in the exploration, development and production of oil and natural gas reserves in the provinces of Alberta, British Columbia and Saskatchewan, with a focus on light oil.
42. The Lightstream Group's business consists of three business units: (i) the "**Bakken Business Unit**", which is comprised of the Bakken Partnership Assets located in southeastern Saskatchewan in the Bakken and Mississippian formations; (ii) the "**Cardium Business Unit**", which is comprised of certain of the LTS Partnership Assets in central Alberta, with the majority of the assets in the Cardium formation; and (iii) the "**Alberta/BC Business Unit**" which is comprised of the balance of the LTS Partnership Assets in British Columbia and north-central Alberta, with the majority of the assets in the Swan Hills formation of the Deer Mountain region.
43. The Lightstream Group's operations strategy is to (i) develop resource plays that have large oil-in-place through a detailed technical analysis of information including reservoir characteristics, oil-in-place, recovery factors and the application of enhanced recovery techniques and optimization, and (ii) strive to lower decline rates and operating costs and increase the efficiency of its oil production through a number of techniques and technological advancements, including, but not limited to, the application of horizontal drilling and multi-stage fracturing completion techniques, enhanced oil recovery techniques through the injection of natural gas and other fluids, optimization through millouts, cleanouts, high volume lift installations or casing gas compressor installations and slick-water fracturing.

B. Business Units & Oil and Gas Properties

44. As set out above, the Lightstream Group owns interests in oil and gas properties, lands and assets in Alberta, British Columbia and Saskatchewan consisting of proved producing crude oil and natural gas reserves and proved plus probable crude oil and natural gas reserves not yet in production and assets related thereto, including, without limitation, the LTS Partnership Assets and the Bakken Partnership Assets (collectively, the "Assets").

i. Bakken Business Unit

45. The Bakken Business Unit consists of over 284 gross (253 net) sections of undeveloped land containing 1014 identified drilling locations, of which 805 are in the Bakken formation and 209 are in the Mississippian formation (collectively, the "**Bakken Locations**"). The Bakken Locations lie within mature oilfields with extensive infrastructure and a majority of them are tied into operated gathering systems and processing facilities with pipeline access.
46. Bakken Partnership's ownership of mineral rights in the Bakken Business Unit is through a combination of Crown leases, private freehold leases, fee title mineral ownership and a First Nations lease. These holdings encompass the Bakken Business Unit's production base as well as its undeveloped land wherein its drilling inventory lies. This ownership base was achieved by the Lightstream Group and its predecessors through direct leasing efforts, asset and land purchases, corporate transactions, as well as beneficial ownership in mineral rights derived from farmin agreements, option agreements, pooling agreements and other normal course petroleum land management strategies.
47. The independent engineering evaluation of the Lightstream Group's crude oil and natural gas reserves prepared by Sproule Associates Limited effective as of December 31, 2016 (the "**Sproule Report**") has assigned reserves to 293 of the Bakken Locations as proved plus probable undeveloped reserves, consisting of 168 proved undeveloped locations and 125 probable undeveloped locations.
48. In 2015, the Bakken Business Unit had average production of 11,765 barrels of oil equivalent ("**boe**") per day ("**boepd**"). During the first quarter of 2016, average production was 9,530 boepd, representing a 31% decrease from first quarter 2015. This

decrease was due to a reduction of investment in the Bakken Business Unit given the depressed economic environment and decision by the Lightstream Group to preserve financial flexibility.

49. As part of initiatives and strategic alternatives being pursued by the Lightstream Group to reduce debt and transform its balance sheet (described in greater detail below), the Lightstream Group has been exploring opportunities to sell all or a portion of the Bakken Business Unit since December, 2014. A copy of the December 15, 2014 press release announcing the intention to monetize the Bakken Business Unit is attached as **Exhibit "H"** to this Affidavit.

ii. Cardium Business Unit

50. The Cardium Business Unit consists of over 433 gross (302 net) sections of land containing 432 identified drilling locations, 397 of which are in the Cardium formation spanning from southwest of Calgary to northwest of Edmonton and 35 are in the Mannville, Falher and Notikewan formations (collectively, the "**Cardium Locations**").
51. LTS Partnership's ownership of mineral rights in the Cardium Business Unit is primarily through Crown leases, and some private freehold leases most notably in the Lochend area. These holdings encompass the Cardium Business Unit's production base as well as its undeveloped land wherein its drilling inventory lies. This ownership base was achieved by the Lightstream Group and its predecessors through direct leasing efforts, asset and land purchases, corporate transactions, as well as beneficial ownership in mineral rights derived from farmin agreements, option agreements, pooling agreements and other normal course petroleum land management strategies.
52. The Sproule Report has assigned reserves to 151 of the Cardium Locations as proved plus probable undeveloped reserves, consisting of 90 proved undeveloped locations and 61 probable undeveloped locations. The remaining Cardium Locations are unbooked locations with possible reserves which would be based on well control, seismic data, drilling results and mapping.
53. In 2015, the Cardium Business Unit had average production of 16,569 boepd. During the first quarter of 2016, average production was 15,105 boepd, representing a 17% decrease from first quarter 2015. This decrease was primarily due to natural declines from

reduced spending on new wells given the current economic environment, as well as the decision by the Lightstream Group to preserve financial flexibility.

iii. Alberta/BC Business Unit

54. The Alberta/BC Business Unit primarily consists of over 599 gross (509 net) undeveloped sections of land in emerging oil and liquid-rich gas focused resource plays containing 120 identified drilling locations, of which 78 are in the Swan Hills formation and 42 are in other areas (collectively, the "**Alberta/BC Locations**"). An additional 214 drilling locations are in the upper Cretaceous and Mannville formations in southern Alberta. The majority of investment by the Lightstream Group in connection with the Alberta/BC Business Unit is focused on developing the Swan Hills formation of the Deer Mountain Region.
55. LTS Partnership's ownership of mineral rights in the Alberta/BC Business Unit is through a combination of Crown leases, private freehold leases, and First Nations leases. These holdings encompass the Alberta/BC Business Unit's production base as well as its undeveloped land wherein its drilling inventory lies. This ownership base was achieved by the Lightstream Group and its predecessors through direct leasing efforts, asset and land purchases, corporate transactions, as well as beneficial ownership in mineral rights derived from farmin agreements, option agreements, pooling agreements and other normal course petroleum land management strategies.
56. The Sproule Report has assigned reserves 39 of the Alberta/BC Locations as proved plus probable undeveloped reserves, consisting of 15 proved undeveloped locations and 24 probable undeveloped locations. The remaining Alberta/BC Locations are unbooked locations with possible reserves which are based on well control, seismic data, drilling results and mapping.
57. In 2015, the Alberta/BC Business Unit had average production of 3,058 boepd with over half of such production coming from the Swan Hills formation. During the first quarter of 2016, average production was 2,144 boepd, representing a 22% decrease from first quarter 2015. This decrease was primarily due to downtime caused by a third party pipeline outage and natural declines from reduced spending on new wells given the

current economic environment, as well as the decision by the Lightstream Group to preserve financial flexibility.

C. Employees

58. LTS has 297 non-unionized permanent employees.
59. LTS does not maintain or contribute to a pension plan for its employees.
60. The shareholders of LTS have previously approved employee incentive plans (collectively, the "**Employee Incentive Plans**") which provide for the issuance of Common Shares up to a maximum amount that is equal to 8 percent of issued Common Shares, pursuant to the terms of the Employee Incentive Plans and determination by the board of directors of LTS.

D. Bank Accounts and Cash Management

61. All of the Applicants' bank accounts are in Canada and are with either one of the First Lien Lenders (as defined below) or an affiliate of one of the First Lien Lenders.
62. All of the Lightstream Group's revenues, together with funds borrowed under the Credit Facility (as defined below) are used to pay all of Lightstream Group's operating and administrative costs and expenses.

V. CURRENT CIRCUMSTANCES

63. LTS prepares its public financial disclosure on a going concern basis in accordance with International Financial Reporting Standards ("**IFRS**"), which assumes that LTS will continue in operation and will be able to realize its assets and discharge its liabilities in the normal course of business. The financial statements are prepared on a consolidated basis in accordance with IFRS.
64. A copy of Lightstream Group's consolidated audited financial statements for the year ended December 31, 2015 is attached as **Exhibit "I"** to this Affidavit. A copy of Lightstream Group's consolidated unaudited financial statements for the first quarter of 2016 ended March 31, 2016 are attached as **Exhibit "J"** to this Affidavit.

A. Assets

65. Lightstream Group's capital assets include batteries, processing facilities, wellsite production equipment and gathering lines and compressors. A majority of this infrastructure is located in Southeast Saskatchewan and forms part of the Bakken Business Unit.
66. As at March 31, 2016, the Lightstream Group had total Assets with a book value of \$2,492,094,000, consisting of current assets with a book value of \$48,043,000 and non-current assets with a book value of \$2,444,051,000.
67. Current assets included cash, trade and other accounts receivables (\$36,016,000), Risk Management Contracts (as defined below) (\$6,725,000) (representing the then mark-to-market value) and prepaid expenses (\$5,302,000).
68. Non-current assets included the Applicant's long-term investments (\$389,000), exploration and evaluation assets (\$255,620,000) and property, plant and equipment assets (\$2,188,042,000).
69. Currently, the Lightstream Group's oil and gas assets have an annual base decline rate in the low to mid 20 percent range.

B. Liabilities

70. As at March 31, 2016, the Lightstream Group had total liabilities of \$2,016,493,000 of which, \$343,192,000 (excluding issued letters of credit or hedging liabilities) was in respect of the Credit Facility (as defined below), \$843,115,000 was in respect of the Second Lien Notes, \$324,151,000 was in respect of Unsecured Notes, \$233,551,000 was in respect of Decommissioning Liabilities (as defined below), \$175,481,000 was in respect of Deferred Tax Liabilities (as defined below) and \$6,028,000 was in respect of other long term liabilities.

i. Credit Facility

71. Pursuant to the Third Amended and Restated Credit Agreement dated May 29, 2012, as amended by a consent and first amending agreement made as of July 2, 2015, and as further amended by a second amending agreement made as of December 2, 2015

(collectively, as amended, restated, supplemented, replaced or otherwise modified from time to time, the "**Credit Agreement**"), LTS, as borrower, entered into a credit facility with The Toronto-Dominion Bank, as administrative agent (the "**Agent**") for a syndicate of lenders (collectively, the "**First Lien Lenders**"), and the First Lien Lenders, among others. Now shown to me but not attached in accordance with Rule 13.21 of the Alberta *Rules of Court* and marked as **Exhibit "K"** is a copy of the Credit Agreement.

72. The Credit Agreement provides for two tranches of facilities which rank *pari passu* with one another (collectively, the "**Credit Facility**"):
 - (a) a revolving term credit facility provided by the First Lien Lenders; and
 - (b) a revolving operating term credit facility provided by The Toronto-Dominion Bank.
73. The Credit Facility is guaranteed by 1863359, LTS Partnership, 1863360 and Bakken Partnership. It is secured by a first priority security interest over substantially all of the property and assets of the Lightstream Group (other than ArrangeCo), including the shares and ownership interests of LTS in 1863359, LTS Partnership, 1863360 and Bakken Partnership.
74. As of the date hereof, the aggregate amount of principal outstanding under the Credit Facility (the "**Aggregate Principal Amount**") is approximately \$371 million (including issued letters of credit but excluding hedging liabilities).
75. The amounts available to LTS under the Credit Facility are subject to a lending value (the "**Borrowing Base**"), which is redetermined on a semi-annual basis on or before October 31 and April 30 of each calendar year. If the First Lien Lenders are unable to agree on a Borrowing Base at any redetermination, the Borrowing Base is deemed to be the lowest Borrowing Base value proposed by any First Lien Lender.
76. If at any time, the Aggregate Principal Amount exceeds the Borrowing Base (a "**Borrowing Base Shortfall**"), among other things, (i) LTS has 90 days from the date of receipt of notice by the Agent of a Borrowing Base Shortfall, to eliminate such Borrowing Base Shortfall, failing which an event of default occurs under the Credit Agreement, (ii) the First Lien Lenders have no obligation to make any further advances

to LTS until such Borrowing Base Shortfall has been eliminated, and (iii) additional fees and interest apply to amounts advanced under the Credit Facility until such Borrowing Base Shortfall has been eliminated.

77. On April 29, 2016, LTS received notice from the Agent (the "**Borrowing Base Shortfall Notice**") advising LTS that (i) further to the semi-annual Borrowing Base redetermination due to have occurred on or before April 30, 2016, the Borrowing Base was reduced from \$550 million to \$250 million, (ii) failure to eliminate such Borrowing Base Shortfall within 90 days of such notice (being July 28, 2016) would result in an event of default under the Credit Agreement, and (iii) until such time that the Borrowing Base Shortfall is eliminated, no new advances would be made to LTS under the Credit Facility and there would be an increase in interest rates and fees in accordance with the terms of the Credit Agreement. A copy of the Borrowing Base Shortfall Notice is attached as **Exhibit "L"** to this Affidavit.
78. As set out above, the Credit Agreement provides that upon a redetermination, the Borrowing Base is deemed to be the lowest Borrowing Base value proposed by any First Lien Lender. The Borrowing Base range used for the redetermination to arrive at the \$250 million Borrowing Base in the Borrowing Base Shortfall Notice was \$250 million to \$380 million.
79. As described in greater detail below, an event of default under the Second Lien Notes Indenture, the Unsecured Notes Indenture, or any of the Risk Management Contracts (as each are defined below), triggers an event of default under the Credit Agreement (each, a "**Credit Agreement Cross-Default**" and collectively, the "**Credit Agreement Cross-Defaults**").
80. Upon the occurrence of an event of default under the Credit Agreement (which has not been waived), all obligations owing under the Credit Facility, together with unpaid interest accrued thereon, become immediately due and payable.
81. The Credit Agreement is governed by the laws of the Province of Alberta.

ii. Second Lien Notes Indenture

82. During the third quarter of 2015, LTS issued a total of US \$650 million of Second Lien Notes, of which US \$450 million Secured Lien Notes were issued under the Second Lien Notes Indenture in exchange for US \$546 million of outstanding Unsecured Notes, which Unsecured Notes were then cancelled (the "**Second Lien Notes Transaction**"). The remaining balance of US \$200 million in secured notes was issued for new cash proceeds. The cash proceeds were used to reduce amounts then outstanding under the Credit Facility.
83. The Second Lien Notes were issued pursuant to an indenture dated as of July 2, 2015 (the "**Second Lien Notes Indenture**"), among LTS, as issuer, and 1863359, 1863360, Bakken Partnership, and LTS Partnership, as guarantors, and Computershare Trust Company of Canada, as Canadian trustee and collateral agent (the "**Second Lien Indenture Trustee**"). Now shown to me but not attached in accordance with Rule 13.21 of the *Alberta Rules of Court* and marked as **Exhibit "M"** is a copy of the Secured Notes Indenture.
84. Interest is payable on the Second Lien Notes in equal semi-annual installments on June 15 and December 15 of each year.
85. The Second Lien Notes mature on June 15, 2019.
86. The Second Lien Notes are secured by a second priority lien over all of Lightstream Group's assets (other than ArrangeCo) which Second Lien Notes rank equally with one another and are subordinate to indebtedness under the Credit Facility.
87. The respective rights, obligations and remedies of the First Lien Lenders and holders of the Second Lien Notes are set out in an Intercreditor and Priority Agreement dated as of July 2, 2015 (the "**Intercreditor and Priority Agreement**") between the Agent, Second Lien Indenture Trustee, LTS, 1863359, LTS Partnership, 1863360 and Bakken Partnership. Now shown to me but not attached in accordance with Rule 13.21 of the *Alberta Rules of Court* and marked as **Exhibit "N"** is a copy of the Intercreditor and Priority Agreement.
88. The Intercreditor and Priority Agreement provides, among other things, that:

- (a) the obligations of the Lightstream Group (other than ArrangeCo) under the Second Lien Notes Indenture are subordinate to the full and final payment of the Credit Facility and all other First Priority Obligations (as defined in the Intercreditor and Priority Agreement);
 - (b) the Second Lien Indenture Trustee and/or holders of Second Lien Notes Indenture may, within 45 days following the occurrence of, among other things, an acceleration of the Credit Facility or upon the First Lien Lenders taking steps to enforce the amounts owing under the Credit Facility, unconditionally and irrevocably purchase in full, all of the First Priority Obligations (as defined in the Intercreditor and Priority Agreement); and
 - (c) in the event of a default under the Second Lien Notes Indenture, the Second Lien Indenture Trustee and holders of the Second Lien Notes are prohibited from commencing any enforcement proceedings against the Lightstream Group until at least 180 days after notice of such event of default has been provided to the First Lien Lenders.
89. Events of default under the Second Lien Notes Indenture occur, among other things, upon the failure of LTS to pay interest within 30 days of the date specified for doing so in the Second Lien Notes Indenture. If any event of default occurs, in addition to all other rights and remedies, the Second Lien Indenture Trustee is entitled to accelerate all amounts owing under the Second Lien Notes Indenture.
90. On May 2, 2016, following receipt of the Borrowing Base Shortfall Notice, LTS publicly announced that unless it was able to execute on an appropriate strategic or restructuring transaction in a timely manner, its funds flow from operations was not expected to be sufficient to fund the June 15, 2016 interest payment pursuant to the Second Lien Notes Indenture, based on the then current commodity prices. A copy of the May 2, 2016 press release announcing the potential inability to fund the June 15, 2016 Second Lien interest payment is attached as **Exhibit "O"** to this Affidavit.
91. On June 14, 2016, LTS determined not to make the interest payment in the amount of US \$32.1 million payable to the Second Lien Noteholders on June 15, 2016 and to obtain the

benefit of the grace period. A copy of the June 14, 2016 press release announcing the decision to defer this interest payment is attached as **Exhibit "P"** to this Affidavit.

92. As set out above, the Second Lien Notes Indenture provides for a 30 day grace period to cure the failure to make the interest payment on the date it is payable under the Second Lien Notes Indenture. Failure to make such interest payment by July 15, 2016 will cause an event of default under the Second Lien Notes Indenture, which will in turn (i) cause a Credit Agreement Cross-Default, and (ii) cause an Unsecured Notes Cross-Default (as defined below).
93. The Second Lien Notes Indenture is governed by the laws of the State of New York. The Intercreditor and Priority Agreement is governed by the laws of the Province of Alberta.

iii. Unsecured Notes Indenture

94. As at March 31, 2016, LTS had a total of US \$254 million of issued and outstanding Unsecured Notes pursuant to an indenture dated as of January 30, 2012 (as supplemented by the supplemental indenture dated as of February 25, 2015, collectively, the "**Unsecured Notes Indenture**") among LTS (then known as PetroBakken Energy Ltd.), as issuer, Lightstream Capital (then known as PetroBakken Capital Ltd.), LRP (then known as PBN Partnership), 1863359, 1863360, LTS Partnership, Bakken Partnership, U.S. Bank National Association, as trustee and Computershare Trust Company of Canada, as Canadian trustee. Now shown to me but not attached in accordance with Rule 13.21 of the Alberta *Rules of Court* and marked as **Exhibit "Q"** is a copy of the Unsecured Notes Indenture.
95. As noted above, Lightstream Capital and LRP transferred all of their assets to LTS Partnership and Bakken Partnership as part of the 2015 Reorganization and were thereafter dissolved. Each member of the Lightstream Group (other than ArrangeCo) is party to and has guaranteed the obligations of LTS under the Unsecured Notes Indenture.
96. The interest payable on the Unsecured Notes is payable in equal semi-annual installments on August 1 and February 1 of each year. The next interest payment in the amount of US\$ 10,951,421.26 is due on August 2, 2016.

97. Pursuant to the Unsecured Notes Indenture, the failure to make the interest payment owing under the Second Lien Notes Indenture by the expiration of the grace period on July 15, 2016 will trigger an event of default under the Unsecured Notes Indenture (the "**Unsecured Notes Cross-Default**") and together with the "**Credit Agreement Cross-Defaults**", the "**Cross-Defaults**").
98. The Unsecured Notes mature on February 1, 2020.
99. The Unsecured Notes are unsecured obligations of LTS and rank equally with one another.
100. The Unsecured Notes Indenture is governed by the laws of the State of New York.

iv. Equipment Lessors and Other Security Registrations

101. Based on searches conducted under the Alberta *Personal Property Security Act*, British Columbia *Personal Property Security Act* and Saskatchewan *Personal Property Security Act* on July 11, 2016 (collectively, the "**PPSA Searches**"), the First Lien Lenders, the Second Lien Indenture Trustee and the Second Lien Noteholders are the only secured creditors of the Applicants, other than (i) secured lenders with security over specific equipment and vehicles, (ii) Aree Holdings Ltd. who has registered security as lessor over a specific field office in Alberta, and (iii) registrations which are disputed by LTS, as described below.
102. The PPSA Searches reveal the following registrations which relate to disputes between LTS and third parties and do not constitute voluntary grants of security by LTS: (i) a registration in favour of Sidewinder Coil Services Inc. ("**Sidewinder**") in Saskatchewan which relates to a legal dispute between LTS and Sidewinder in connection with work performed at a wellsite in 2013 following a mechanical failure, the cause and responsibility of which remain in dispute, and (ii) registrations in favour of Painted Pony Petroleum Ltd. in Saskatchewan and Alberta which relate to a dispute arising in June 2016 over proper accounting for jointly owned facility costs and payment for certain services.

103. Now shown to me but not attached in accordance with Rule 13.21 of the Alberta *Rules of Court* and marked as **Exhibit "R"** is a copy of the PPSA Searches. A summary of the PPSA searches is attached as **Exhibit "S"** to this Affidavit.

v. Decommissioning Liabilities

104. The Lightstream Group's environmental management plan and operating guidelines focus on minimizing the environmental impact of its operations by, among other things, maintaining an active and comprehensive integrity monitoring and management program for its surface, piping, facilities, storage tanks and underground pipelines.
105. In 2015, the Lightstream Group's expenditures for abandonment and site reclamation costs for its existing properties were \$2.1 million and it is anticipated that the abandonment and site reclamation expenditures for 2016 will be approximately \$1.7 million.
106. As at March 31, 2016, the total abandonment and reclamation costs, net of salvage values for all of Lightstream Group's operations, on a consolidated basis (the "**Decommissioning Liabilities**"), are estimated to be approximately \$233.6 million.
107. As at July 2, 2016, the Liability Management Rating of LTS with the Alberta Energy Regulator was 3.71.

vi. Deferred Tax Liabilities

108. As set out above, LTS currently has approximately \$175.5 million in respect of deferred tax liabilities resulting from the after-tax difference between the carrying value and tax basis of LTS' assets and liabilities (the "**Deferred Tax Liabilities**").
109. As at December 31, 2015, LTS had a Canadian tax pool balance of approximately \$1.5 billion, which can be used to shelter future taxable income.
110. Subsequent to March 31, 2016, LTS received certain notices of reassessment from the Canada Revenue Agency, which seek to disallow approximately \$277 million of tax pools in 2010 and subsequent years. LTS intends to file Notices of Objection in response to these reassessments. It is not expected that any taxes will become payable in cash as a result of this reassessment.

C. Commodity & Foreign Exchange Hedges

111. The price that the Lightstream Group receives for a majority of its oil and natural gas is based upon United States denominated benchmarks, and the interest payments due on the Second Lien Notes and Unsecured Notes are payable in United States currency. Therefore, the prices received and amounts payable by the Lightstream Group are affected by the exchange rate between Canadian and United States currencies.
112. As part of the Lightstream Group's risk management strategy to mitigate the impact of fluctuating commodity prices and exchange rates on funds flow, LTS enters into (i) commodity price derivative contracts ("**Commodity Hedges**") to limit exposure to declining commodity prices, and (ii) foreign exchange contracts ("**Foreign Exchange Contracts**") and together with the Commodity Hedges, the "**Risk Management Contracts**") to limit exposure to variability in exchange rates.
113. Since having received the Borrowing Base Shortfall Notice, LTS has not entered into any additional Risk Management Contracts.
114. All of LTS' Risk Management Contracts are with certain of the First Lien Lenders.
115. The following table summarizes the fair market value of LTS' Risk Management Contracts as at March 31, 2016:

Type	Asset	Liability	Net \$
Commodity Hedge – Crude Oil	\$5,023,000	\$145,000	\$4,878,000
Commodity Hedge – Natural Gas	\$1,702,000	Nil	\$1,702,000
Foreign Exchange Contracts	Nil	\$514,000	-\$514,000
Total	\$6,725,000	\$659,000	\$6,066,000

i. Commodity Hedges

116. The Lightstream Group's risk management strategy for crude oil and natural gas production is to hedge up to a maximum of 50 percent of existing production, after royalties, on a rolling two-year basis and up to a maximum of 25 percent of existing production for the third year.

117. The Commodity Hedges that are option based have their fair market value at any particular point in time based on underlying commodity prices, expected commodity price volatility and their remaining term. The Commodity Hedges that are fixed have their fair market value at any particular point in time based on expected future settlements of the underlying commodity.

ii. Foreign Exchange Contracts

118. The Lightstream Group recognizes foreign exchange gains/losses primarily due to the appreciation/depreciation of the Canadian dollar relative to the US dollar and uses derivative instruments to reduce its exposure to fluctuations in US dollar interest payments.

D. Legal Proceedings

119. On July 9, 2015, holders of certain Unsecured Notes commenced an action in the Court of Queen's Bench of Alberta (the "**Unsecured Noteholder Action**") against LTS claiming oppression, misrepresentation and breach of contract in connection with the Second Lien Notes Transaction. The relief sought in the Unsecured Noteholder Action includes (i) injunctive relief restraining the Second Lien Notes Transaction (which has already closed) and, alternatively, permitting certain holders of Unsecured Notes to participate in the Second Lien Notes Transaction on the same basis as the Second Lien Noteholders, and (ii) damages in the amount of approximately US \$4.5 million. LTS has filed a statement of defence in the Unsecured Noteholder Action and the legal proceeding is ongoing.
120. To the best of my knowledge, the Applicants are not parties to any lawsuits, claims, or proceedings involving claims for damages in an amount exceeding 10% of the Lightstream Group's current assets.

VI. EVENTS LEADING TO THE APPLICANTS' CURRENT CIRCUMSTANCES

A. Decline in the Oil Industry

121. The global decline of oil and gas prices has caused the Lightstream Group financial difficulty and liquidity constraints. The severe decline in commodity prices has also led to a significant reduction in the current value of the Lightstream Group's reserves.
122. In addition, the oversupply of global oil production, coupled with weakened demand for fuel in the global economy, has compressed the margins that oil and gas producers like the Lightstream Group can command. Consequently, earnings are down or negative for historically profitable oil and gas companies, leading to a reduction in drilling activity, and payroll cuts, among other cost-saving measures.
123. Further, fluctuations in foreign currency exchange rates and a weakened Canadian dollar have negatively affected the Lightstream Group's business by increasing the Lightstream Group's interest obligations on its US denominated debt.

B. Strategic Review Process and Other Initiatives

124. As set out above, on December 15, 2014, the Lightstream Group announced its 2015 capital program, as well as certain strategic initiatives, including plans to sell all or parts of its Bakken Business Unit.
125. On May 1, 2016 and May 26, 2016, Evercore Capital L.L.C. and TD Securities Inc., respectively, were engaged by Lightstream as financial and sale advisors (collectively, the "**Financial & Sale Advisors**") to assist the Lightstream Group with its Strategic Review Process (as defined below).
126. On May 2, 2016, the Lightstream Group announced a decision to initiate a process to explore a range of strategic alternatives (the "**Strategic Review Process**") and commenced the Strategic Review Process with the assistance of its Financial & Sale Advisors.
127. On June 1, 2016, the board of directors of LTS engaged RBC Dominion Securities Inc. as an independent financial advisor to the board.

128. As part of the Strategic Review Process, the Lightstream Group considered a number of alternatives, including (i) alternative first lien financing to replace the Credit Facility, (ii) the sale of certain Assets, and (iii) negotiated restructuring and/or recapitalization alternatives.
129. In addition to the Strategic Review Process, the Lightstream Group implemented various cost-savings initiatives, including:
 - (a) reducing its permanent employee count from 433 as of December 31, 2014 to 297 as of July 4, 2016, representing a 31 percent decrease;
 - (b) reducing its capital expenditures in 2014 from \$472 million to \$107 million in 2015, representing a 77 percent decrease. The capital expenditures of the Lightstream Group for first quarter 2016 were \$7 million, a 38 percent decrease from fourth quarter 2015; and
 - (c) reducing its operating costs from \$14.14 per boe at year end 2014 to \$12.59 per boe at year end 2015, representing an 11% decrease. There has been an additional 4% reduction in operating costs from fourth quarter 2015 to first quarter 2016.
130. On or around March 30, 2016 the Lightstream Group and its advisors began to engage with the *Ad Hoc* Committee of Second Lien Noteholders and its counsel with respect to exploring various strategic alternatives, including a potential debt-for-equity transaction as well as other restructuring and recapitalization alternatives.
131. On or around the end of April 2016, the Lightstream Group and its advisors began to engage with the First Lien Lenders and their counsel with respect to the various strategic alternatives, including refinancing alternatives with the First Lien Lenders and other third party financing sources.
132. The Lightstream Group and its advisors have initiated preliminary discussions with certain Unsecured Noteholders regarding potential restructuring and/or recapitalization alternatives. Given concerns regarding disclosure of material non-public information, LTS required that Unsecured Noteholders execute non-disclosure agreements before such discussions could advance beyond preliminary stages. LTS and such Unsecured Noteholders attempted to negotiate the terms of such non-disclosure agreements.

However, as of the date hereof, LTS and has not been able to agree on terms of non-disclosure agreements with the Unsecured Noteholders and accordingly, discussions have not advanced with those parties.

C. Defaults under the Credit Agreement and the Unsecured Notes Indenture

133. As described in greater detail above, the failure by LTS (i) to make an interest payment with respect to the Second Lien Notes by July 15, 2016 will cause certain Cross-Defaults, and (ii) to eliminate the Borrowing Base Shortfall by July 28, 2016 will cause an event of default under the Credit Agreement.
134. In response to the foregoing and following extensive negotiations, the Lightstream Group (other than ArrangeCo with respect to the Forbearance Agreement) have (i) negotiated a substantially final form of Forbearance Agreement to July 28, 2016 and are in the process of negotiating an extension to the forbearance period provided for therein after July 28, 2016, and (ii) negotiated and substantially finalized the Noteholder Support Agreement (as set out in greater detail below).

D. Forbearance Agreement

135. As set out above, the Lightstream Group have negotiated a substantially final form of Forbearance Agreement providing for a forbearance period until July 28, 2016. I anticipate that the Forbearance Agreement will be executed before the application for the Preliminary Interim Order.
136. As part of the Forbearance Agreement, the First Lien Lenders will agree to, among other things, forbear from demanding repayment of the Credit Facility and enforcing their rights and remedies pursuant to the terms of the Credit Agreement until July 28, 2016, as a result of the Credit Agreement Cross-Defaults, the commencement of the CBCA proceedings, or the entering into of the Noteholder Support Agreement. The Forbearance Agreement will also cover certain of the risk Management Contracts.
137. LTS and the First Lien Lenders are currently negotiating the terms of an extension to the forbearance period beyond July 28, 2016.

E. Noteholder Support Agreement

138. On July 12, 2016, the Applicants' respective board of directors reviewed the substantially final draft of the Noteholder Support Agreement and approved that it be entered into in substantially the form thereof. I anticipate that the Lightstream Group and the members of the *Ad Hoc* Committee of Second Lien Noteholders will enter into the Noteholder Support Agreement in advance of the hearing for the Preliminary Interim Order and an executed copy will be provided to the Court.
139. Pursuant to the Noteholder Support Agreement, the members of the *Ad Hoc* Committee of Second Lien Noteholders will agree to, among other things, (i) support and vote in favour of the proposed Arrangement, and (ii) consent to a stay of all existing and potential events of default under the Second Lien Notes Indenture, including any as a result of a failure to make the interest payment by July 15, 2016.
140. Pursuant to the Noteholder Support Agreement, the Applicants will agree to, among other things, pursue the proposed Arrangement in accordance with the timetable set out therein, which timetable requires that the Applicants obtain (i) the Preliminary Interim Order and stay of proceedings by no later than July 13, 2016, and (ii) the Interim Order by no later than August 5, 2016, provided that each of the foregoing deadlines may be extended with the express written consent of the Applicants and the *Ad Hoc* Committee of Second Lien Noteholders.

VII. SUMMARY OF THE APPLICANTS' PROPOSED ARRANGEMENT AND RECAPITALIZATION

A. The Proposed Arrangement

141. The Applicants have been working cooperatively with the First Lien Lenders and the *Ad Hoc* Committee of Second Lien Noteholders in order to best maximize value for all stakeholders in the circumstances.
142. The Applicants have developed the proposed Arrangement and Recapitalization, in the belief that the proposed structure has the best chance to restore the long term profitability of the Lightstream Group for the benefit of all of the Lightstream Group's stakeholders.

143. The implementation of the proposed Arrangement and Recapitalization includes a series of interrelated steps leading to a significantly improved capital structure of the Applicants. The key features of the proposed Arrangement, include, among other things:
- (a) Second Lien Noteholders, Unsecured Noteholders and Shareholders will each be placed in their own voting class for the purposes of considering and voting on the proposed Arrangement;
 - (b) Prior to the Arrangement, LTS will seek to continue as a CBCA company;
 - (c) The Shareholder Rights Plan, will be terminated and all rights thereunder cancelled and extinguished;
 - (d) On implementation of the proposed Arrangement, the capital structure of the reorganized LTS will be as follows:
 - (i) All existing Shareholders will hold a total of 2.25 percent of the number of Common Shares and existing Shareholders will receive Series 2 warrants equal to 7.75 percent of the total number of issued Common Shares (the "**Series 2 Warrants**"), exercisable at the exercise prices set forth in the Term Sheet;
 - (ii) Second Lien Noteholders will hold a total of 95 percent of the Common Shares in full and final satisfaction of their Second Lien Notes and claims in connection therewith; and
 - (iii) Unsecured Noteholders will hold a total of 2.75 percent of the number of issued Common Shares in addition to Series 1 warrants equal to 5 percent of the total number of issued Common Shares (the "**Series 1 Warrants**"), exercisable at the exercise prices set forth in the Term Sheet, in full and final satisfaction of their Unsecured Notes and claims in connection therewith;
 - (e) It is a condition of the proposed Arrangement that LTS' existing Credit Facility be replaced with a new credit facility;

- (f) Except as otherwise set out below, on implementation of the proposed Arrangement, (i) all outstanding grants of incentive shares and deferred compensation shares under Employee Incentive Plans will be adjusted to reflect the capital reorganization contemplated by the Arrangement, immediately vest, and remain exercisable for a period of up to 6 months from the date that the proposed Arrangement is implemented, and (ii) all outstanding stock options will immediately vest and will either be repurchased for nominal consideration or will otherwise be terminated;
- (g) The Employee Incentive Plans will remain in place and Common Shares to be issued thereunder (as adjusted), if any, will be issued in accordance with their terms at the discretion of the board of directors of the reorganized LTS;
- (h) LTS will amalgamate with ArrangeCo and continue as a CBCA company;
- (i) Following implementation of the proposed Arrangement, the ownership percentages in the capital structure set out at Subparagraphs 143(d)(i)-(iii) are subject to post-implementation dilution to the extent (i) any Series 1 Warrants, Series 2 Warrants or existing options, incentive shares and deferred compensation shares existing under equity based compensation plans are exercised, and (ii) Common Shares, if any, are issued pursuant to the Employee Incentive Plans; and
- (j) All priority claims, including, without limitation, taxes payable and unpaid wages, will remain unaffected by the proposed Arrangement.

B. Application of the CBCA

144. I am advised by John Eamon of Blake, Cassels & Graydon LLP, counsel to the Applicants, that LTS and ArrangeCo are permitted to apply to this Court under Section 192 of the CBCA for granting of the Preliminary Interim Order as the proposed Arrangement will involve (i) a continuance of LTS as a CBCA corporation and an amalgamation of LTS and ArrangeCo, qualifying as an arrangement within the meaning of Subsection 192(1)(c) of the CBCA, and (ii) an exchange of securities for other securities, qualifying as an arrangement within the meaning of Subsections 192(1)(f) of the CBCA.

145. ArrangeCo is not insolvent and upon completion of the proposed Arrangement, the Applicants will be a solvent entity with a robust balance sheet.

C. Notice to the Director of CBCA

146. In accordance with Section 192(5) of the CBCA, on July 6, 2016, the director appointed under Section 260 of the CBCA (the "**Director**") was given notice of the within application, and has been provided with a copy of the draft Preliminary Interim Order. A copy of the July 6, 2016 letter sent to the Director providing notice of the within application and enclosing the draft Preliminary Interim Order is attached as **Exhibit "T"** to this Affidavit.
147. On July 12, 2016, the Director acknowledged notice of the within application and advised that the Director has determined that it does not have standing to review or take a position at the present application for the Preliminary Interim Order as there is no arrangement to be reviewed at this time. A copy of the July 12, 2016 letter sent on behalf of the Director is attached as **Exhibit "U"** to this Affidavit.

D. Impact on Stakeholders

i. Trade Debt

148. The trade debt of the Applicants will not be affected by the proposed Arrangement and shall continue to be paid and satisfied in the ordinary course during these proceedings.

ii. Employee Obligations

149. As set out above, the Employee Incentive Plans will not be affected by the proposed Arrangement (other than the adjustment of incentive shares and deferred compensation shares issued thereunder) and Common Shares may continue to be issued thereunder at the discretion of the board of directors of the reorganized LTS.
150. On implementation of the proposed Arrangement, (i) all outstanding grants of incentive shares and deferred compensation shares under Employee Incentive Plans will be adjusted to reflect the capital reorganization contemplated by the Arrangement, immediately vest, and remain exercisable for a period of up to 6 months from the date that the proposed Arrangement is implemented, and (ii) all outstanding stock options will

immediately vest and will either be repurchased for nominal consideration or will otherwise be terminated.

151. The terms of existing employee agreements shall be modified, to the extent necessary, to specifically confirm that no amounts shall be payable to any employee, officer or director in connection with any change of control that arises solely in connection with or as a result of the implementation of the proposed Arrangement.
152. Except as set out above, the obligations of the Lightstream Group to their employees will not be affected by the proposed Arrangement and shall continue to be paid and satisfied in the ordinary course during these proceedings.

iii. Other Obligations

153. All other obligations of the Applicants not otherwise mentioned in this Affidavit will either remain unaffected by the proposed Arrangement and continue to be paid and satisfied in the ordinary course or be treated in a manner acceptable to the Applicants, the *Ad Hoc* Committee of Second Lien Noteholders, and holders of such other obligations.

E. Alternative CCAA Proceedings

154. In the event that the proposed Arrangement is not implemented in the manner contemplated above under the CBCA, the Lightstream Group may apply to the Court for an order seeking relief under the *Companies' Creditors Arrangement Act*, RSC 1985, c C-36, as amended (the "CCAA") for the purposes of implementing a transaction for the sale of all or substantially all of the Assets in a manner consistent with the Term Sheet and the Noteholder Support Agreement.

VIII. NEED FOR RELIEF UNDER THE CBCA AND A PRELIMINARY INTERIM ORDER

155. Due to the impending expiry of the grace period with respect to the interest payment owing under the Second Lien Notes Indenture, the contemplated CBCA proceedings and accompanying stay of proceedings are required as they are the only efficient and practicable means of completing a recapitalization of the Applicants' capital structure through the proposed Arrangement.

156. The proposed Arrangement is necessary in order to complete the proposed Recapitalization and to complete the multi-step restructuring of the Applicants which is required for the long term viability and success of the Lightstream Group.
157. On July 12, 2016, the respective directors of the Applicants determined that the proposed Arrangement and proceedings in connection therewith are in the best interests of the Lightstream Group and their stakeholders and resolved to grant authority to the management team to, among other things, enter into the Noteholder Support Agreement and commence these proceedings under the CBCA.

A. Stay of Proceedings

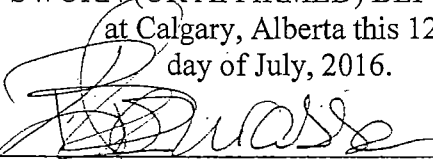
158. The draft Preliminary Interim Order includes a provision prohibiting any person (other than the Agent), including, without limitation, (i) the Second Lien Noteholders, (ii) Unsecured Noteholders, or (iii) any administrative agent, collateral agent, indenture trustee or similar person, from terminating, making any demand, accelerating, amending or declaring in default or taking any enforcement steps under any contract or other agreement to which any of the Applicants are a party, borrower or guarantor, and declaring that no default or event of default shall have occurred or be deemed to have occurred under any such contract or agreement by reason of:
- (a) any of the Applicants having made an application to this Court pursuant to Section 192 of the CBCA;
 - (b) any of the Applicants being a party to the Arrangement proceedings or being a party to the Arrangement;
 - (c) any default or cross-default arising from the failure to make (i) any interest payment(s) under the Second Lien Notes and/or the Unsecured Notes, or (ii) any payment(s) under LTS' existing Credit Facility; or
 - (d) any of the Applicants taking any step contemplated by or related to the Arrangement,

without further order of the Court.

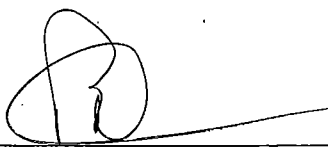
- 159. As discussed above, LTS has not made the interest payment due June 15, 2016 under the Second Lien Notes Indenture, which, if not remedied by July 15, 2016, constitutes a default under same and triggers the Cross-Defaults.
- 160. The Applicants require a stay of proceedings to (i) maintain the *status quo* with respect to the Second Lien Noteholders that are not party to the Noteholder Support Agreement, the Unsecured Noteholders, and other stakeholders, and (ii) provide necessary stability, in order to (A) preserve the value of the Applicants, (B) provide the Applicants with an opportunity to finalize the proposed Arrangement and allow the Applicants to seek an Interim Order to, among other things, call, hold and conduct special meetings of Second Lien Noteholders, Unsecured Noteholders and Shareholders to consider and vote on the proposed Arrangement, and (C) successfully implement the proposed Arrangement and Recapitalization on terms that are fair and reasonable to all stakeholders.
- 161. In determining the scope of the stay provision, the Applicants attempted to minimize the impact on, and material prejudice to, affected parties to no more than is necessary to achieve the objectives of the proposed Arrangement.
- 162. To further minimize any negative impact and prejudice on affected parties, the following safeguards have been built into the Preliminary Interim Order: (i) the stay of proceedings expires on August 12, 2016, unless extended by further order of the Court, and (ii) any party that objects to the stay of proceedings may appear at the application for the Interim Order to argue against the extension of the stay of proceedings.

IX. CONCLUSION

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

SWORN (OR AFFIRMED) BEFORE ME)
 at Calgary, Alberta this 12th)
 day of July, 2016.)
)
 _____)
 A Commissioner for Oaths)
 in and for the Province of Alberta)

KELLY J. BOURASSA
Barrister and Solicitor

)
 _____)
PETER D. SCOTT