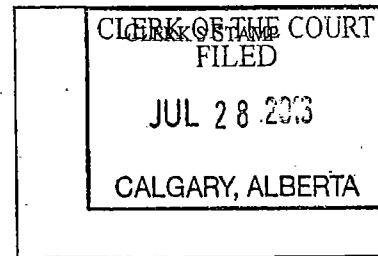


FORM 49
[RULE 13.19]



COURT FILE NUMBER 1601 - 08725
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

BLAKE, CASSELS & GRAYDON LLP
Barristers and Solicitors
3500 Bankers Hall East
855 - 2nd Street SW
Calgary, Alberta T2P 4J8

Attention: Kelly Bourassa / Milly Chow
Telephone No.: 403-260-9697
Email: kelly.bourassa@blakes.com / milly.chow@blakes.com
Fax No.: 403-260-9700

AFFIDAVIT OF PETER D. SCOTT

Sworn on July 28, 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 Subsection 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. I have previously sworn one Affidavit in these proceedings on July 12, 2016 (the "**Preliminary Interim Order Affidavit**"), in connection with the Originating Application for a preliminary interim order in these proceedings, which preliminary interim order was granted by the Court (as defined below) on July 13, 2016 (the "**Preliminary Interim Order**"). A copy of the Preliminary Interim Order is attached as Exhibit "A" to this Affidavit.
4. Capitalized terms used in this affidavit, but not otherwise defined herein have the meaning ascribed to them in the Preliminary Interim Order Affidavit.
5. All references to dollar amounts contained herein are to Canadian Dollars unless otherwise stated.
6. This Affidavit covers the following matters:

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I. RELIEF REQUESTED

7. The Applicants make this application in support of an arrangement (the "**Arrangement**") involving the Applicants, (i) holders of 9.875% secured second lien notes maturing on June 15, 2019 (the "**Secured Notes**", and the holders, the "**Secured Noteholders**"), (ii) holders of 8.625% unsecured notes maturing on February 1, 2020 (the "**Unsecured Notes**", and the holders, the "**Unsecured Noteholders**"), and (iii) holders of common shares of LTS (the "**Common Shares**", and the holders, the "**Shareholders**"). The Arrangement is part of a recapitalization of LTS' capital structure, as first described in the Preliminary Interim Order Affidavit and set out in more detail below (the "**Recapitalization**"). A copy of the plan of arrangement (the "**Plan of Arrangement**") setting out the terms of the Arrangement is attached as Appendix H to the Information Circular (as defined below).
8. On the Arrangement Implementation Date (as defined below), the effect of the Recapitalization will be a reduction of LTS' overall debt by approximately US\$904 million in principal and a reduction in cash interest payments of approximately US\$83 million per year, after accounting for the issuance of New Secured Notes (as defined below), as contemplated by the Arrangement and set out in further detail below.

9. This Affidavit is made in support of an application by the Applicants for an Order (the "**Interim Order**") pursuant to the CBCA, among other things,
- (a) declaring that the Arrangement is an "arrangement" under Subsection 192(1) of the CBCA and permitting the Applicants to proceed with the Arrangement;
 - (b) permitting the Applicants to, among other things, call, hold and conduct special meetings of Secured Noteholders (the "**Secured Noteholders' Meeting**") and of Unsecured Noteholders (the "**Unsecured Noteholders' Meeting**"), as well as an annual general and special meeting of Shareholders (the "**Shareholders' Meeting**" and together with the Secured Noteholders' Meeting and the Unsecured Noteholders' Meeting, the "**Arrangement Meetings**") to consider and vote on the Arrangement;
 - (c) setting out the procedures for giving notice of and calling and conducting the Arrangement Meetings;
 - (d) permitting ArrangeCo to pass an unanimous shareholder resolution to approve the Arrangement in lieu of calling, holding and conducting a special meeting of its shareholder for the purpose thereof;
 - (e) authorizing the Applicants to bring an application before the Court on September 20, 2016 at 10:00 a.m. (Calgary time) or as soon thereafter as practicable for a final order (the "**Final Order**") approving the Arrangement, provided that the Arrangement has received the Requisite Approvals (as defined below) of the applicable security holders at each of the Arrangement Meetings;
 - (f) setting out the manner in which interested persons may become entitled to appear and make submissions at the application for the Final Order;
 - (g) extending the Stay of Proceedings (as defined below) provided for in the Preliminary Interim Order (as defined below);
 - (h) deeming service of the application for the Interim Order to be good and sufficient;

- (i) requesting the aid, recognition and assistance of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or the United States to give effect to the Interim Order; and
 - (j) such further and other relief as this Honourable Court deems just.
10. The proposed Interim Order also seeks to relieve LTS of its obligation to hold an Annual General Meeting (as defined below) of Shareholders under Section 132 of the *Business Corporations Act* (Alberta), RSA 2000, c B-9, as amended ("ABCA") until September 30, 2016.

II. OVERVIEW

11. As described in greater detail in the Preliminary Interim Order Affidavit, LTS and its subsidiaries, 1863359 Alberta Ltd., 1863360 Alberta Ltd., Lightstream Resources Partnership and Bakken Resources Partnership (collectively and together with ArrangeCo, the "**Lightstream Group**") conduct a light oil focused exploration and production business with operations in Alberta, British Columbia and Saskatchewan.
12. The Lightstream Group has been significantly affected by the sustained decline in global commodity prices and the Canadian dollar since mid-2014 and has been exploring various strategic alternatives to address these challenges.
13. On July 13, 2016, the Applicants sought and received the Preliminary Interim Order from this Court which, among other things,
- (a) provided for a stay of proceedings (the "**Stay of Proceedings**") until and including August 12, 2016, staying any person, other than The Toronto-Dominion Bank, as administrative agent for the First Lien Lenders (the "**Agent**"), 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, by reason of:

- (i) any of the Applicants having made an application to this Court pursuant to Section 192 of the CBCA;
 - (ii) any of the Applicants being a party to the Arrangement or being a party to these Arrangement proceedings;
 - (iii) any default or cross-default arising from the failure to make (i) any interest payment(s) under the Secured Notes and/or the Unsecured Notes, or (ii) any payment(s) under LTS' existing Credit Facility (as defined below); or
 - (iv) any of the Applicants taking any step contemplated by or related to the Arrangement; and
- (b) authorized the Applicants to bring an application before this Court for an Interim Order on or before August 5, 2016.
14. If the Interim Order is approved, LTS will call and hold the Arrangement Meetings in accordance with the terms of the Interim Order and a management information circular (the "**Information Circular**"). A copy of the current draft of the Information Circular is attached as Exhibit "B" to this Affidavit. I anticipate that the Information Circular will be substantially finalized before the hearing of the application for the Interim Order.
15. The Arrangement Meetings will provide the Secured Noteholders, Unsecured Noteholders, and Shareholders with an opportunity to consider and in their respective classes, vote on and pass, special resolutions to approve the Arrangement (each respectively, the "**Secured Noteholders' Arrangement Resolution**", the "**Unsecured Noteholders' Arrangement Resolution**" and the "**Shareholders' Arrangement Resolution**" and collectively, the "**Arrangement Resolutions**"). Copies of the proposed Arrangement Resolutions are attached as Appendices A and B to the Information Circular.
16. On July 12, 2016, the Lightstream Group entered into a restructuring support agreement (the "**Noteholder Support Agreement**") with the members of an *ad hoc* committee of Secured Noteholders (the "**Ad Hoc Committee of Secured Noteholders**") representing

approximately 91.5 percent of the total outstanding principal amount of Secured Notes. The Noteholder Support Agreement and term sheet attached as Schedule "B" thereto (the "**Term Sheet**") set out the principal terms upon which the Applicants are seeking to restructure the debt outstanding under the Secured Notes and the Unsecured Notes pursuant to the Arrangement.

17. On July 12, 2016, the Lightstream Group (other than ArrangeCo) entered into a forbearance agreement with the First Lien Lenders providing for a forbearance period until July 28, 2016, which forbearance includes all of LTS' Risk Management Contracts. As set out in greater detail below, on July 27, 2016, the Lightstream Group (other than ArrangeCo) entered into an amending agreement with the First Lien Lenders, effective as of July 25, 2016, which extended the original forbearance period from 2:00 p.m. (Calgary time) on July 28, 2016 to 2:00 p.m. (Calgary time) on August 5, 2016 (collectively, the "**Forbearance Agreement**"). LTS is currently in the process of negotiating the terms of a second forbearance agreement (the "**Second Forbearance Agreement**") providing for a further extension to the Forbearance Agreement and the forbearance period contemplated therein beyond August 5, 2016.
18. On July 12, 2016, the directors and officers of LTS that hold an aggregate of approximately 5.1 percent of the issued and outstanding Common Shares and a *de minimis* amount of Unsecured Notes each entered into support agreements with LTS (the "**D&O Support Agreements**"). Pursuant to the D&O Support Agreements, such directors and officers have agreed to vote their respective Common Shares and/or Unsecured Notes in favour of the applicable Arrangement Resolutions. None of the directors and officers of LTS hold any Secured Notes.
19. In order to provide the Lightstream Group with sufficient liquidity to fund operations and as a condition to the New Revolving Facility (as defined below), LTS will issue a total of US\$39,285,000 of 12% new second lien secured notes (the "**New Secured Notes**") with an original cash issued discount of 2% pursuant to the Plan of Arrangement and the New Secured Note Indenture (as defined in the Plan of Arrangement), the principal terms of which are set out in the New Secured Notes Term Sheet (as defined below).

20. The New Secured Notes will be issued on the implementation of the Arrangement pursuant to an offering of the New Secured Notes (the "**New Secured Notes Offering**") to all Secured Noteholders that meet certain criteria (as set out in the Plan of Arrangement) on a pro-rata basis based on their holdings of Secured Notes as of August 5, 2016 (or such other date as LTS and the Backstoppers, as defined below, each acting reasonably, may agree in writing), subject to the terms and conditions set out in the Plan of Arrangement.
21. On July 28, 2016, LTS entered into a backstop agreement (the "**Backstop Agreement**") with the members of the *Ad Hoc* Committee of Secured Noteholders (collectively, the "**Backstoppers**"), pursuant to which the Backstoppers have agreed to acquire any of the New Secured Notes not otherwise purchased pursuant to the New Secured Notes Offering. A copy of the Backstop Agreement is attached as Exhibit "C" to this Affidavit.
22. On July 28, 2016, LTS and ArrangeCo entered into an arrangement agreement (the "**Arrangement Agreement**"). As set out in greater detail below, pursuant to the Arrangement Agreement, LTS and ArrangeCo have agreed to implement the Arrangement in accordance with the terms of the Arrangement Agreement and the Plan of Arrangement. A copy of the Arrangement Agreement is attached as Exhibit "D" to this Affidavit.
23. On July 13, 2016, LTS commenced a robust sale and investment solicitation process (the "**SISP**"). As set out in greater detail below, both the Forbearance Agreement and the Term Sheet to the Noteholder Support Agreement require that the SISP be commenced on or before July 13, 2016 and continue throughout these Arrangement proceedings.
24. The Applicants are actively engaged in finalizing and executing additional documentation and definitive documents that are necessary to hold the Arrangement Meetings and implement the Arrangement (which, as noted below, I understand qualifies as an arrangement under Section 192 of the CBCA).

III. CORPORATE STRUCTURE AND BUSINESS OF THE APPLICANTS

25. An organization chart of the Applicants and their subsidiaries is attached as Exhibit "A" to the Preliminary Interim Order Affidavit.

A. LTS

26. LTS is the parent corporation of the Lightstream Group.

27. 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.

28. 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".

29. LTS has approximately 297 non-unionized permanent employees.

30. LTS does not maintain or contribute to a pension plan for its employees.

31. 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 aggregate amount that is equal to 8 percent of issued Common Shares, pursuant to the terms of the Employee Incentive Plans and as determined by the board of directors of LTS.

32. The last annual general meeting of LTS' Shareholders (the "**Annual General Meeting**") was held on May 14, 2015. On or about May 17, 2016, LTS sought and obtained an extension from the TSX to postpone its Annual General Meeting to as late as August 31, 2016 in order to reduce the expense of holding two separate meetings and to accommodate the Shareholders' Meeting to vote on the Shareholders' Arrangement Resolution. On July 6, 2016, the TSX provided a further extension to postpone the

Annual General Meeting to as late as September 30, 2016. A copy of the July 6, 2016 letter from the TSX is attached as Exhibit "E" to this Affidavit.

B. ArrangeCo

33. ArrangeCo is a direct, wholly-owned subsidiary of LTS.
34. ArrangeCo does not carry on any operations, does not have any liabilities and is solvent.

IV. CURRENT CIRCUMSTANCES AND EVENTS SINCE THE GRANTING OF THE PRELIMINARY INTERIM ORDER

35. Since the granting of the Preliminary Interim Order, LTS has been working with various stakeholders, including the First Lien Lenders and Secured Noteholders, to finalize and execute additional documentation that is necessary to implement the Arrangement.

A. Credit Facility and Forbearance Agreement

i. Credit Facility

36. As set out in greater detail in the Preliminary Interim Order Affidavit, LTS is party to a Credit Agreement with the Agent and the First Lien Lenders, which 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.
37. The Credit Facility is guaranteed by each member of the Lightstream Group (other than ArrangeCo) and is secured by a first priority security interest over substantially all of the property and assets of the Lightstream Group (other than ArrangeCo).
38. As of the date hereof, the aggregate amount outstanding under the Credit Facility (the "**Aggregate Principal Amount**") is approximately \$371 million (including issued letters of credit but excluding hedging liabilities).

39. The amounts available to LTS under the Credit Facility are subject to a Borrowing Base, which is redetermined on a semi-annual basis on or before October 31 and April 30 of each calendar year.
40. On April 29, 2016, LTS received notice from the Agent (the "**Borrowing Base Shortfall Notice**") advising LTS that, among other things, (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, and (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 (the "**Borrowing Base Shortfall Event of Default**"). A copy of the Borrowing Base Shortfall Notice is attached as Exhibit "L" to the Preliminary Interim Order Affidavit.
41. Since the Borrowing Base Shortfall Notice, LTS has not had access to any additional funding under its Credit Facility and has been funding operations from its cash flow.
42. As described in greater detail in the Preliminary Interim Order Affidavit, any event of default under the Secured Note Indenture (as defined below), Unsecured Note Indenture (as defined below), or any of the Risk Management Contracts triggers a Credit Agreement Cross-Default. As of the date hereof, a Credit Agreement Cross-Default has been triggered by the failure of LTS to make the interest payment due under the Secured Note Indenture within the 30 day grace period, which grace period expired on July 15, 2016.
43. 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.
44. As set out in greater detail below, LTS has not eliminated the Borrowing Base Shortfall and LTS has negotiated the Forbearance Agreement, with the First Lien Lenders in connection therewith.

ii. Forbearance Agreement

45. As part of the Forbearance Agreement, the First Lien Lenders have agreed 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 2:00 p.m. (Calgary time) on August 5, 2016, as a result of the existing Credit Agreement Cross-Default, the commencement of the CBCA proceedings, the entering into of the Noteholder Support Agreement and the Borrowing Base Shortfall Event of Default.
46. The Forbearance Agreement also includes a forbearance by the counterparties to all of the Risk Management Contracts.
47. LTS and the First Lien Lenders are currently negotiating the terms of an extension to the forbearance period beyond August 5, 2016.
48. The continued forbearance by the First Lien Lenders under the Forbearance Agreement is conditional, among other things, upon:
 - (a) LTS advancing these Arrangement proceedings and satisfying all milestones, approvals, steps and other requirements in accordance with the timelines set forth in the Forbearance Agreement and the Noteholder Support Agreement;
 - (b) LTS using reasonable efforts to obtain, by no later than August 2, 2016, written binding commitments of lenders to provide a new revolving credit facility (the "New Revolving Facility") to repay in full, in cash, all of the obligations under the Credit Facility;
 - (c) LTS commencing and advancing the SISP with the objective of, among other things, soliciting, exploring, assessing and negotiating possible transactions for (i) capital investments in LTS' business or any part thereof, (ii) joint venture or partnership opportunities, and/or, (iii) the sale of the Lightstream Group (other than ArrangeCo) or its assets or any part thereof, in each case with a view to fully and unconditionally repaying, in cash, all of the obligations under the Credit Facility; and

- (d) any transaction that is pursued by the Lightstream Group, including a Credit Bid Transaction (as defined below) under the *Companies' Creditors Arrangement Act*, RSC 1985, c C-36, as amended (the "CCAA") unconditionally and irrevocably repays in full, in cash, the obligations under the Credit Facility.

B. Secured Note Indenture and Noteholder Support Agreement

i. Secured Note Indenture

- 49. As set out in greater detail in the Preliminary Interim Order Affidavit, LTS has issued a total of US\$650 million of Secured Notes pursuant to an indenture dated as of July 2, 2015 (the "**Secured Note Indenture**").
- 50. Interest is payable on the Secured Notes in equal semi-annual installments on June 15 and December 15 of each year and the Secured Notes mature on June 15, 2019.
- 51. The obligations of LTS under the Secured Note Indenture are guaranteed by each member of the Lightstream Group (other than ArrangeCo) and are secured by a second priority lien over all of the Lightstream Group's assets (other than ArrangeCo), which Secured Notes rank equally with one another and, in a bankruptcy or insolvency of LTS, are subordinate to indebtedness under the Credit Facility.
- 52. The respective rights, obligations and remedies of the First Lien Lenders and holders of the Secured Notes are set out in the Intercreditor and Priority Agreement.
- 53. Events of default under the Secured Note 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 Secured Note Indenture. If any event of default occurs, in addition to all other rights and remedies, the Secured Note Indenture Trustee (as defined in the Plan of Arrangement) is entitled to accelerate all amounts owing under the Secured Note Indenture, subject to the terms and conditions of the Intercreditor and Priority Agreement.
- 54. As set out in greater detail in the Preliminary Interim Order Affidavit, LTS determined not to make the interest payment in the amount of US\$32.1 million payable to the

Secured Noteholders on June 15, 2016. In addition, LTS did not cure the failure to make such interest payment by July 15, 2016 (the last day of the 30-day grace period).

55. The failure of LTS to make the interest payment under the Secured Note Indenture by July 15, 2016, caused an event of default under the Secured Note Indenture, which in turn has caused a Credit Agreement Cross-Default, as well as a cross default under the Unsecured Note Indenture (as defined below).
56. In response to the foregoing, the Applicants have entered into the Noteholder Support Agreement with the members of the *Ad Hoc* Committee of Secured Noteholders and the Forbearance Agreement with the First Lien Lenders.

ii. Noteholder Support Agreement

57. On July 12, 2016, the Applicants' respective boards of directors reviewed the substantially final draft of the Noteholder Support Agreement and granted approval for it to be entered into. Later that day, the Applicants and the members of the *Ad Hoc* Committee of Secured Noteholders entered into the Noteholder Support Agreement. A redacted copy of the Noteholder Support Agreement is attached as Exhibit "A" to the Affidavit of Emily Primrose sworn and filed on July 13, 2016.
58. Pursuant to the Noteholder Support Agreement, the members of the *Ad Hoc* Committee of Secured Noteholders have agreed, among other things, to (i) support and vote in favour of the Arrangement, and (ii) consent to the Stay of Proceedings which, among other things, stays all existing and potential events of default under the Secured Note Indenture by reason of these Arrangement proceedings or as a result of the failure to make the interest payment by the expiry of the 30-day grace period on July 15, 2016.
59. Pursuant to the Noteholder Support Agreement, the Applicants have agreed to, among other things, pursue the Arrangement and the SISF in accordance with the timetable set out therein.
60. Under the Noteholder Support Agreement, LTS must, with the consent of the *Ad Hoc* Committee of Secured Noteholders, take all necessary steps to seek an initial order under

the CCAA and commence Alternative CCAA Proceedings (as defined below) for the purpose of implementing a sale transaction, in the event that, among other things, any of the following events occur:

- (a) the Arrangement is not implemented on or before October 31, 2016 (the "**Outside Date**"), which Outside Date is extendable to November 30, 2016 in the event that additional time is needed to obtain certain regulatory approvals in relation to the Arrangement;
- (b) the New Revolving Facility Commitment Letters (as defined below) is not executed by July 27, 2016 (as extended to August 2, 2016, with the consent of the *Ad Hoc* Committee of Secured Noteholders);
- (c) the Interim Order is not granted by August 5, 2016;
- (d) the Requisite Approvals are not obtained at each of the Arrangement Meetings;
- (e) the Plan of Arrangement is not approved by the Court;
- (f) the Final Order does not provide for a comprehensive Release (as defined below);
- (g) the Forbearance Agreement is terminated or otherwise no longer in full force and effect, except in the event that it expires in accordance with its terms; and
- (h) the Second Forbearance Agreement is not entered into by August 4, 2016 or is terminated or otherwise no longer in full force and effect;

provided that any of the foregoing deadlines may be extended with the express written consent of the Applicants and the *Ad Hoc* Committee of Secured Noteholders.

61. Pursuant to the terms of the Noteholder Support Agreement, any of the Secured Noteholders or Unsecured Noteholders that are not a party thereto may become a party to the Noteholder Support Agreement by executing a form of consent agreement attached as Schedule "C" thereto.

C. Unsecured Note Indenture

62. As set out in greater detail in the Preliminary Interim Order Affidavit, LTS has 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 Note Indenture**").
63. Interest 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 (as August 1, 2016 is a statutory holiday).
64. The Unsecured Note Indenture provides for a 30-day grace period to cure the failure to make an interest payment on the date it is payable. Failure to make the interest payment due on August 2, 2016 by September 1, 2016 will cause an event of default under the Unsecured Note Indenture, which will in turn (i) cause a Credit Agreement Cross-Default, and (ii) a cross-default under the Secured Note Indenture.
65. LTS has determined not to make the interest payment in the amount of US\$10,951,421.26 on August 2, 2016 and to obtain the benefit of the grace period while it pursues the Arrangement.
66. Since granting of the Preliminary Interim Order, LTS' financial advisor, Evercore Capital L.L.C., has facilitated certain preliminary discussions between certain of the Unsecured Noteholders and the *Ad Hoc* Committee of Secured Noteholders with respect to the terms of the Arrangement and Recapitalization.

D. The Sale and Investment Solicitation Process

67. On July 13, 2016, the Lightstream Group commenced the SISP with the assistance of its Financial & Sale Advisors. As set out above, both the Noteholder Support Agreement and the Forbearance Agreement require that the SISP be commenced by July 13, 2016 and require that it continue throughout these Arrangement proceedings. A copy of the July 12, 2014 press release from LTS announcing the commencement of the SISP is attached as Exhibit "F" to this Affidavit.

68. As set out in the Preliminary Interim Order Affidavit, the Lightstream Group (other than ArrangeCo) has been actively exploring opportunities to sell a portion of its business since December 2014. The SISP expands the scope of those existing efforts and aims to identify the best available transactions under any Alternative CCAA Proceedings (as defined below) in order to ensure that the Lightstream Group has a viable path forward should a consensual Arrangement not be achievable.

E. Legal Proceedings

69. As set out in the Preliminary Interim Order Affidavit, LTS is party to actions commenced against it in the Court of Queen's Bench of Alberta by Mudrick Capital Management, LP (Court File No. 1501-08782) and by FrontFour Capital Corp. and FrontFour Group LLC (Court File No. 1501-07813) (collectively, the "Actions").
70. The relief sought in the Actions 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 Secured Noteholders, and (ii) damages in the amount of approximately US\$4.5 million. LTS has filed a statement of defence in the Actions and the legal proceeding is ongoing.
71. The Stay of Proceedings does not extend to the Actions.
72. Pursuant to the Plan of Arrangement, upon the issuance of the certificate of arrangement by the Director (the "**Arrangement Implementation Date**"), the Applicants and their respective subsidiaries and affiliates will be fully released and discharged from all claims arising out of or in connection with, among other things, the Unsecured Note Indenture and the Actions. In accordance with the Plan of Arrangement, on the Arrangement Implementation Date, all of the entitlements and/or claims of the Unsecured Noteholders shall be irrevocably and finally settled, terminated, extinguished, cancelled and eliminated, as applicable, without the need for any further payment or action, and each of the Actions shall be discontinued (the "**Release**") in exchange for the consideration

offered to the Unsecured Noteholders under the Plan of Arrangement, and assuming that the requisite amount of Unsecured Noteholders have approved the Plan of Arrangement.

F. Corporate Authorizations and Approval of Arrangement and Recapitalization

73. As set out in the Preliminary Interim Order Affidavit, on June 1, 2016, the board of directors of LTS engaged RBC Dominion Securities Inc. as an independent financial advisor to the board of directors (in such capacity, the "**Board's Independent Financial Advisor**").
74. On July 27, 2016, the Board's Independent Financial Advisor provided the board of directors of LTS with (i) an opinion (the "**Fairness Opinion**") that the Recapitalization is fair from a financial point of view to LTS, and (ii) an opinion (the "**CBCA Opinion**" and together with the Fairness Opinion, the "**Opinions**") that the Secured Noteholders, Unsecured Noteholders and Shareholders would each be in a better position, from a financial point of view, under the Recapitalization than if LTS were liquidated. Copies of the Opinions are attached as Appendices I and J to the Information Circular.
75. I am advised by Chad Schneider of Blake, Cassels & Graydon LLP, counsel to the Applicants (the "**Applicants' Canadian Counsel**") that the CBCA Opinion is consistent in all material respects with the opinion described under paragraph 4.04 of Corporation Canada's Policy on Arrangements – *Canada Business Corporations Act*, section 192.
76. On July 27, 2016, the Applicants' respective boards of directors (i) considered the Opinions, (ii) reviewed the substantially final drafts of the Information Circular, Plan of Arrangement, Arrangement Agreement and Backstop Agreement, (iii) unanimously determined that the Arrangement and Recapitalization are in the best interests of LTS, and (iv) unanimously approved the Applicants entering into the Arrangement Agreement and pursuing the Arrangement and Recapitalization. The board of directors of LTS unanimously determined to recommend to the Secured Noteholders, Unsecured Noteholders and Shareholders that they vote in favour of each of their respective Arrangement Resolutions.

77. The board of directors of LTS also considered various other factors including, (i) the depressed economic environment in the oil and gas industry and challenges faced by the Lightstream Group, (ii) the Strategic Review Process previously undertaken by the Lightstream Group, (iii) the Arrangement being the result of significant and meaningful negotiations with stakeholders, (iv) the Arrangement and Recapitalization being supported by the First Lien Lenders and the *Ad Hoc* Committee of Secured Noteholders, and (v) following the completion of the Arrangement and Recapitalization, the Applicants will have amalgamated to become a solvent entity with a significantly improved balance sheet providing liquidity for capital investments and for ongoing operations.
78. As the sole shareholder of ArrangeCo is LTS, the Applicants are seeking that, as part of the relief under the Interim Order, ArrangeCo be permitted to pass an unanimous shareholder resolution to approve the Arrangement and Recapitalization in lieu of calling, holding and conducting a special meeting of its shareholder for the purposes thereof.

V. SUMMARY OF THE ARRANGEMENT AND RECAPITALIZATION

79. As set out above, the Applicants have been working cooperatively with the First Lien Lenders and the *Ad Hoc* Committee of Secured Noteholders in order to best maximize value for all stakeholders in the circumstances.
80. The Applicants have developed the 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.
81. The implementation of the Arrangement and Recapitalization requires a series of interrelated steps leading to a significantly improved capital structure of the Applicants. As a pre-condition to the steps required to implement the Arrangement and Recapitalization, the Arrangement must garner the Requisite Approvals from the Secured Noteholders, the Unsecured Noteholders and the Shareholders, each of which will be placed in their own voting class for the purposes of considering and voting on their respective Arrangement Resolutions.

A. Summary of the Key Steps and Features of the Arrangement

82. As a preliminary step and prior to the commencement of the steps to implement the Arrangement, LTS will continue into the federal jurisdiction of Canada under the CBCA (the "**Continuance**"). Shareholders that are shown in the register maintained by or on behalf of LTS for the Common Shares will have the right to dissent pursuant to Section 191 of the ABCA in respect of the Continuance, which right must be exercised in the manner set out in the Information Circular.
83. As set out in greater detail in the Plan of Arrangement, the implementation of the Arrangement involves a number of steps, including and resulting in, among other things, the following:
- (a) the Shareholder Rights Plan and any rights issued pursuant thereto will be terminated and of no further force and effect;
 - (b) other than grants of deferred compensation shares and incentive shares under the Employee Incentive Plans, all outstanding stock options to acquire Common Shares will be repurchased for nominal consideration of \$0.01 per stock option and thereafter cancelled and extinguished;
 - (c) the Secured Note Indenture will be deemed to be amended to add a conversion right thereunder whereby any of the Secured Noteholders may elect to convert their Secured Note Claims (as defined in the Plan of Arrangement) for New Common Shares. Any Secured Noteholders that do not make such an election will have their Secured Note Claims exchanged for New Common Shares (with materially identical consideration subject to a difference in rounding);
 - (d) all accrued and unpaid interest on the Secured Notes and the Unsecured Notes (including, without limitation, the July 15, 2016 interest payment in respect of the Secured Notes and the August 2, 2016 interest payment in respect of the Unsecured Notes) will be forgiven, settled and extinguished for no consideration;

- (e) the outstanding principal amount of each Unsecured Note Claim (as defined in the Plan of Arrangement) will be forgiven, settled and extinguished to the extent such principal amount exceeds the fair market value of the Unsecured Noteholder Consideration (as defined below) on the Arrangement Implementation Date (such fair market value being the "**Remaining Unsecured Note Claim**");
- (f) LTS and ArrangeCo will amalgamate and continue as "Lightstream Resources Ltd.", a CBCA corporation ("**Reorganized LTS**");
- (g) the existing Common Shares will be consolidated such that the Shareholders will hold a total of approximately 2,250,000 Common Shares (the "**Consolidation**"), subject to the rounding down of fractional Common Shares to the nearest whole number of Common Shares. As a result of the foregoing, any Shareholders holding less than 88 Common Shares prior to the Consolidation will not receive any Common Shares nor will such person receive any New Common Shares (as defined below) or New Series 2 Warrants (as defined in the Plan of Arrangement);
- (h) through a series of transactions, (i) the post-Consolidation Common Shares held by the Shareholders will be renamed (the "**Post-Consolidation Common Shares**"), and (ii) a class of voting common shares of Reorganized LTS with rights, privileges, restrictions and conditions identical to the Common Shares will be created (the "**New Common Shares**");
- (i) following the Consolidation, the Post-Consolidation Common Shares will be exchanged for (i) one New Common Share for each Post-Consolidation Common Share, and (ii) a total of 7,750,000 New Series 2 Warrants, with each of the Shareholders receiving their pro-rata portion of such New Series 2 Warrants (such exchange of New Common Shares and New Series 2 Warrants, being collectively, the "**Shareholder Consideration**");

- (j) once the Shareholder Consideration has been issued, the authorized capital of Reorganized LTS will be revised to delete the Post-Consolidation Common Shares as a class of shares of Reorganized LTS;
- (k) following the Consolidation and after the forgiveness, settlement and extinguishment of all accrued and unpaid interest on the Secured Notes set out above, and simultaneously with the exchange of the Remaining Unsecured Note Claim set out below, all of the remaining Secured Note Claims will be converted or exchanged into a number of New Common Shares equal to approximately 95 percent of the total issued and outstanding New Common Shares following the completion of the Arrangement (expected to be approximately 95,000,000 New Common Shares), with each of the Secured Noteholders receiving their pro-rata portion of approximately 95,000,000 New Common Shares in full settlement of all of its remaining Secured Note Claims after the forgiveness, settlement and extinguishment of all accrued and unpaid interest on such Secured Notes;
- (l) following the Consolidation and after the forgiveness, settlement and extinguishment of all accrued and unpaid interest on the Unsecured Notes and the principal amount of the Unsecured Note Claims exceeding the fair market value of the Unsecured Noteholder Consideration set out above, and simultaneously with the conversion and exchange of Secured Note Claims set out above, the Remaining Unsecured Note Claim will be exchanged into (A) a number of New Common Shares equal to approximately 2.75 percent of the total issued and outstanding New Common Shares following the completion of the Arrangement (expected to be approximately 2,750,000 New Common Shares), and (B) a total of 5,000,000 New Series 1 Warrants (as defined in the Plan of Arrangement), with each of the Unsecured Noteholders receiving their pro-rata portion of approximately 2,750,000 New Common Shares and 5,000,000 New Series 1 Warrants, in full settlement of the Remaining Unsecured Note Claim (collectively, the "Unsecured Noteholder Consideration");

- (m) the New Secured Notes Offering, which is fully backstopped by the Backstoppers, will be completed and New Secured Notes will be issued to Eligible Secured Noteholders (as defined in the Plan of Arrangement) pursuant to the conditions and process set out in the Plan of Arrangement; and
- (n) all outstanding deferred compensation shares and incentive shares will immediately vest and be adjusted to reflect the Consolidation and capital reorganization contemplated by the Plan of Arrangement and set out herein, which vested deferred compensation shares and incentive shares will have a maximum term of 180 days following the Arrangement Implementation Date.

84. Following implementation of the Arrangement, it is anticipated that the equity capital structure of Reorganized LTS will be as follows:

Entity	New Common Shares (Approx.)	Warrants
Secured Noteholders	95,000,000	Nil
Unsecured Noteholders	2,750,000	5,000,000 New Series 1 Warrants
Existing Shareholders	2,250,000	7,750,000 New Series 2 Warrants

B. Arrangement Meetings and Requisite Approvals

- 85. As set out above, if the Interim Order is granted, LTS will call and conduct each of the Arrangement Meetings in accordance with the Interim Order and the Plan of Arrangement.
- 86. The record date for Shareholders, Secured Noteholders and Unsecured Noteholders to be entitled to receive notice of and vote at their respective Arrangement Meetings is August 5, 2016 (the "Record Date").
- 87. The Requisite Approvals and corresponding passing of the Secured Noteholders' Arrangement Resolution, Unsecured Noteholders' Arrangement Resolution and Shareholders' Arrangement Resolution will, subject to the granting of the Final Order authorize the Applicants to do all such acts and things as are necessary and desirable to give effect to the Arrangement on a basis consistent with what is described in the

Information Circular and the Plan of Arrangement without the necessity of further approvals.

88. LTS intends to solicit proxies, in the form of proxy enclosed with the Information Circular, from Noteholders and Shareholders directly and among others, through its officers, directors and employees and, if applicable, through such agents or representatives as it may retain for that purpose.
89. The particulars of the manner in which notices of the Arrangement Meetings are to be provided and proxies are to be solicited and received are set out in the Interim Order and the Information Circular.
90. Each of the Arrangement Meetings may be adjourned in accordance with the Interim Order.

i. Shareholders' Meeting

91. The Shareholders' Meeting will be an annual general and special meeting of Shareholders to consider matters related to the Arrangement and will take place at 9:00 a.m. (Calgary time) on September 13, 2016 at Eighth Avenue Place, 4th floor, 525 - 8th Avenue SW, Calgary, Alberta, T2P 1G1 ("**Eighth Avenue Place**").
92. A quorum at the Shareholders' Meeting will be at least one Shareholder entitled to vote at the Shareholders' Meeting representing an aggregate of not less than twenty-five percent of the outstanding Common Shares, present in person or represented by duly-appointed proxy.
93. At the Shareholders' Meeting, Shareholders will be asked to consider and vote on the following:
 - (a) a special resolution substantially in the form set forth in Appendix A to the Information Circular approving the Continuance (the "**Continuance Resolution**");
 - (b) the Shareholders' Arrangement Resolution;

- (c) an ordinary resolution to elect directors of LTS;
 - (d) an ordinary resolution to appoint an auditor of LTS for the ensuing year and to authorize the board of directors of LTS to fix such auditor's remuneration; and
 - (e) such other business as may properly be brought before the Shareholders' Meeting,
94. Only Shareholders whose names have been entered on the register of Shareholders as at the close of business on the Record Date will be entitled to receive notice of and vote at the Shareholders' Meeting. Notwithstanding the foregoing, if any Shareholder transfers any Common Shares following the Record Date, the transferee of such Common Shares will be entitled to receive notice of and vote at the Shareholders' Meeting, provided that at least ten days prior to the Shareholders' Meeting, such transferee establishes ownership of the Common Shares and demands that its name be included on the list of Shareholders entitled to vote at the Shareholders' Meeting.
95. The Shareholders entitled to vote at the Shareholders' Meeting will be entitled to one vote for each Common Share held by them in respect of the Continuance Resolution, Shareholders' Arrangement Resolution, and any other matters to be considered at the Shareholders' Meeting.
96. At the Shareholder's Meeting, the Shareholders will vote in respect of the Shareholders' Arrangement Resolution together as a single voting class.
97. The number of votes required to pass each of the Shareholders' Arrangement Resolution and the Continuance Resolution (collectively, the "**Requisite Shareholder Approval**") are not less than (i) two-thirds of the votes cast by Shareholders, and (ii) one-half of the votes cast by Shareholders, in each case, voting either in person or by duly-appointed proxy and voting together as a single class at the Shareholders' Meeting, after excluding the votes cast by those persons whose votes are required to be excluded in accordance with Multilateral Instrument 61-101 — *Protection of Minority Security Holders in Special Transactions*. The TSX may impose additional approval requirements that would exclude the votes attached to certain "interested parties" who hold Common Shares.

ii. Noteholders' Meetings

98. The Secured Noteholders' Meeting will take place at 10:00 a.m. (Calgary time) on September 13, 2016 at Eighth Avenue Place.
99. The Unsecured Noteholders' Meeting will take place at 10:30 a.m. (Calgary time) on September 13, 2016 at Eighth Avenue Place.
100. A quorum at each of the Noteholders' Meetings will be at least two of the Secured Noteholders or Unsecured Noteholders, as applicable, entitled to vote at each such Noteholders' Meetings, present in person or represented by proxies.
101. At each of the Noteholders' Meetings, Secured Noteholders and Unsecured Noteholders will consider and vote on their respective Noteholders' Arrangement Resolutions.
102. Only Noteholders whose names have been entered on the register of Secured Noteholders or Unsecured Noteholders as at the close of business on the Record Date will be entitled to receive notice of, and to vote at, the applicable Noteholders' Meetings.
103. The Secured Noteholders entitled to vote at the Secured Noteholders' Meeting will be entitled to one vote for each US\$1.00 of the outstanding principal amount of the Secured Notes held by them as of the Record Date in respect of the Secured Noteholders' Arrangement Resolution and any other matters to be considered at the Secured Noteholders' Meeting. The Secured Noteholders will vote in respect of the Secured Noteholders' Arrangement Resolution together as a single voting class at the Secured Noteholders' Meeting.
104. The Unsecured Noteholders entitled to vote at the Unsecured Noteholders' Meeting will be entitled to one vote for each US\$1.00 of the outstanding principal amount of the Unsecured Notes held by them as of the Record Date in respect of the Unsecured Noteholders' Arrangement Resolution and any other matters to be considered at the Unsecured Noteholders' Meeting. The Unsecured Noteholders will vote in respect of the Unsecured Noteholders' Arrangement Resolution together as a single voting class at the Unsecured Noteholders' Meeting.

105. The number of votes required to pass the Secured Noteholders' Arrangement Resolution and the Unsecured Noteholders' Arrangement Resolution (collectively, the "**Requisite Noteholder Approvals**") and together with the Requisite Shareholder Approval, the "**Requisite Approvals**") are not less than two-thirds of the votes cast by Secured Noteholders and Unsecured Noteholders, as applicable, either in person or by duly-appointed proxy and voting together as a single class at the Secured Noteholders' Meeting or Unsecured Noteholders' Meeting, as applicable.

C. Summary of Recapitalization

106. The Recapitalization is necessary for the long term viability and success of the Lightstream Group and is comprised of the Arrangement, the New Revolving Facility and the New Secured Notes Offering.

i. New Revolving Facility

107. It is a condition of the Forbearance Agreement, the Noteholder Support Agreement, the Backstop Agreement and the Arrangement that the New Revolving Facility be on terms and conditions acceptable to the First Lien Lenders and the *Ad Hoc* Committee of Secured Noteholders, which terms shall include, among other things, a commitment of \$400 million and a 364-day revolving period with a one-year term out.
108. As of the date hereof, the Applicants and certain of the First Lien Lenders (the "**New Revolving Facility Lenders**") continue to work towards finalizing and entering into commitment letters (the "**New Revolving Facility Commitment Letters**") pursuant to which the New Revolving Facility will become available on the Arrangement Implementation Date.
109. The Applicants and the New Revolving Facility Lenders are continuing to negotiate the final documentation of the proposed New Revolving Facility that is necessary for the New Revolving Facility to be in place by the Arrangement Implementation Date, the terms of which must be acceptable to the *Ad Hoc* Committee of Secured Noteholders pursuant to the Support Agreement.

ii. New Secured Notes Offering and Backstop Agreement

110. As noted above, the maximum commitment by the New Revolving Facility Lenders under the New Revolving Facility Commitment Letters is \$400 million, and it is a condition of the New Revolving Facility Commitment Letters that LTS have a minimum of \$80 million of liquidity following the Arrangement Implementation Date, which requires LTS to obtain second lien financing for an additional \$50 million to comply.
111. LTS has considered a number of alternatives to achieve this enhanced liquidity and has determined to proceed with the New Secured Notes Offering concurrently with implementation of the Arrangement on the Arrangement Implementation Date. The term sheet ("**New Secured Notes Term Sheet**") attached as Schedule "C" to the Backstop Agreement sets out the principal terms of the New Secured Notes.
112. In order to guarantee that the New Secured Notes Offering raises the necessary additional funding, and that the conditions of the New Revolving Facility are met, LTS has entered into the Backstop Agreement with the Backstoppers.
113. Pursuant to the Backstop Agreement, the Backstoppers have agreed, subject to the terms and conditions set forth in the Backstop Agreement, to acquire any New Secured Notes not otherwise purchased pursuant to the New Secured Notes Offering.
114. LTS and the Backstoppers are continuing to negotiate the final documentation with respect to the Backstop Agreement and the New Secured Notes Offering, including a New Secured Note Indenture and an intercreditor agreement with the New Revolving Facility Lenders, that is necessary to implement the New Secured Notes Offering and meet the conditions precedent to have the New Revolving Facility in place by the Arrangement Implementation Date.

D. Key Dates

115. The key events in connection with the Arrangement and Recapitalization and their proposed dates are summarized in the following table:

Event	Date
Hearing of Application for Interim Order	August 5, 2016
Record Date to establish the right to vote at the Arrangement Meetings	August 5, 2016
Mailing of meeting materials to registered nominees and intermediaries	On or before August 17, 2016
Mailing of meeting materials to registered Noteholders and Shareholders	August 23, 2016
Meeting of Shareholders	September 13, 2016 at 9:00 a.m. (Calgary time)
Meeting of Secured Noteholders	September 13, 2016 at 10:00 a.m. (Calgary time)
Meeting of Unsecured Noteholders	September 13, 2016 at 10:30 a.m. (Calgary time)
Hearing of Application for Final Order	September 20, 2016 at 10:00 a.m. (Calgary time)
Proposed Date for implementation of the Arrangement	September 30, 2016
Outside Date for implementation of the Arrangement	October 31, 2016 (may be extended to November 30, 2016)

E. Impact of Arrangement and Recapitalization on Stakeholders

116. As set out in greater detail above and in the Preliminary Interim Order Affidavit, other than (i) the obligations and indebtedness under the Secured Note Indenture and Unsecured Note Indenture, (ii) the Actions, and (iii) employee obligations as set out below, all other obligations of the Lightstream Group (including trade debts) will either remain unaffected by the Arrangement and continue to be paid and satisfied in the ordinary course or will be treated in a manner acceptable to the Applicants, the *Ad Hoc* Committee of Secured Noteholders, and holders of such other obligations. The First Lien Lenders will be unaffected by the Plan of Arrangement.

i. Employee Obligations

117. As set out above and in the Preliminary Interim Order Affidavit, the Employee Incentive Plans will not be affected by the Arrangement (other than the adjustment of incentive shares and deferred compensation shares issued thereunder to account for the Consolidation and capital reorganization) and Common Shares may continue to be issued thereunder at the discretion of the board of directors of the Reorganized LTS.
118. On the Arrangement Implementation Date, (i) all outstanding grants of incentive shares and deferred compensation shares under Employee Incentive Plans will be adjusted to reflect the Consolidation and capital reorganization contemplated by the Arrangement, immediately vest, and remain exercisable for a period of up to 180 days from the date that the Arrangement is implemented, and (ii) all other outstanding stock options to acquire Common Shares will immediately vest and will be repurchased for nominal consideration (\$0.01 per option) and thereafter cancelled and extinguished.
119. Upon implementation of the Arrangement, 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 Arrangement.
120. Except as set out above, the obligations of the Lightstream Group to their employees will not be affected by the Arrangement and shall continue to be paid and satisfied in the ordinary course during these proceedings.

F. Application of the CBCA

121. As stated in the Preliminary Interim Order Affidavit, I have been advised by the Applicants' Canadian Counsel, that LTS and ArrangeCo are permitted to apply to this Court under Section 192 of the CBCA for granting of the Interim Order as the 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 Subsection 192(1)(f) of the CBCA.

122. ArrangeCo is not insolvent and upon completion of the Arrangement, Reorganized LTS will be a solvent entity with a significantly improved balance sheet providing liquidity for capital investments.
123. Based upon advice from the Applicants' Canadian Counsel and Dorsey & Whitney LLP, US securities counsel to the Applicants (the "**Applicants' US Counsel**"), I believe that it is impracticable for the Arrangement to be effected under any other provision of the CBCA for the following reasons:
 - (a) the Arrangement and proposed Final Order provide for a comprehensive Release which is a condition of the Noteholder Support Agreement;
 - (b) the Arrangement and Recapitalization, in particular, the issuance of the New Common Shares, New Series 1 Warrants and New Series 2 Warrants, cannot be achieved without the Final Order approving the Arrangement unless LTS has the unanimous support of all Secured Noteholders, Unsecured Noteholders and Shareholders. The Common Shares are publicly traded and (other than the Secured Notes held by the *Ad Hoc* Committee of Secured Noteholders) each of the Common Shares, the Secured Notes and the Unsecured Notes are widely held. As such, it is highly impractical, if not impossible in the circumstances, to obtain unanimous support in the timeframes necessary; and
 - (c) United States securities laws make it impracticable for the Applicants to effect the transactions contemplated by the Arrangement other than by way of an arrangement under section 192 of the CBCA. Under the United States *Securities Act of 1933*, as amended (the "**Securities Act of 1933**"), the Applicants would have to register the securities being issued (a time consuming and costly process) unless there is an available exemption. One such exemption is the exemption provided by Section 3(a)(10) of the Securities Act of 1933, which provides an exemption for the issuance of securities in exchange for bona fide outstanding

securities, claims or property interests, so long as an authorized court approves the fairness of the terms and conditions of such exchange at a hearing upon which all persons to whom such securities are proposed to be issued have a right to appear and receive timely notice thereof.

124. I am advised by the Applicants' US Counsel that the Applicants intend to use the Final Order, if granted, as the basis for an exemption under the Securities Act of 1933 with respect to the issuance pursuant to the Arrangement of the New Common Shares, New Series 1 Warrants and New Series 2 Warrants of Reorganized LTS to Secured Noteholders, Unsecured Noteholders or Shareholders, as applicable, in exchange for their Secured Note Claims, Unsecured Note Claims, or Post-Consolidation Common Shares, as applicable. Such an exemption under the Securities Act of 1933 eliminates the substantial costs and delay associated with registering securities under the Securities Act of 1933.

G. Notice to the Director of CBCA

125. As set out in the Preliminary Interim Order Affidavit, on July 6, 2016, the director appointed under Section 260 of the CBCA (the "**Director**") was given notice of the application for the Preliminary Interim Order in accordance with Section 192(5) of the CBCA.
126. On July 12, 2016, the staff of the Director sent a letter (the "**July 12th Letter**") which acknowledged notice of the application for the Preliminary Interim Order and advised the Applicants' Canadian Counsel that (i) they had determined that the Director did not have standing to review or take a position at the application for the Preliminary Interim Order as there was no arrangement to be reviewed at that time, and (ii) they looked forward to reviewing the materials in connection with the present application for the Interim Order. A copy of the July 12th letter is attached as Exhibit "U" to the Preliminary Interim Order Affidavit.
127. In accordance with Section 192(5) of the CBCA and the July 12th Letter, on July 28, 2016, the Director will be given notice of the within application and will be provided with a copy of the draft Interim Order. A copy of the July 28, 2016 letter to be sent to the

Director providing notice of the within application and enclosing the draft Interim Order is attached as Exhibit "G" to this Affidavit.

H. Final Order

128. Provided that the Interim Order is granted and the Requisite Approvals are obtained at each of the Arrangement Meetings, the Applicants intend to bring an application on or before September 20, 2016 for the Final Order approving the Arrangement.

I. Alternative CCAA Proceedings

129. As set out in the Preliminary Interim Order Affidavit, if this Honourable Court does not grant the Interim Order, the Requisite Approvals are not obtained, this Honourable Court does not grant the Final Order, or the Arrangement and Recapitalization are otherwise not implemented in the manner set out above in accordance with the deadlines set forth in the Noteholder Support Agreement and the Forbearance Agreement, LTS will, pursuant to the terms of the Support Agreement, apply for an order seeking relief under the CCAA (the "**Alternative CCAA Proceedings**").
130. The Noteholder Support Agreement requires that, in the event that Alternative CCAA Proceedings are commenced, the members of the *Ad Hoc* Committee of Secured Noteholders will, subject to the terms and conditions set forth in the Support Agreement, make (or direct) a credit bid (the "**Secured Notes Credit Bid**") of the full amount of claims outstanding in respect of the Secured Notes through a newly formed entity, which credit bid may serve (if such members of the *Ad Hoc* Committee of Secured Noteholders elect) as a stalking horse transaction in the SISP.
131. Pursuant to the Noteholder Support Agreement, in the event that the Secured Notes Credit Bid is the successful bid in Alternative CCAA Proceedings, the *Ad Hoc* Committee of Secured Noteholders will replicate the Unsecured Noteholder Consideration and Shareholder Consideration set forth in the Plan of Arrangement, provided that the classes of Unsecured Noteholders and Shareholders, as the case may be, voted in favour of their respective Arrangement Resolution.

132. Pursuant to the Noteholder Support Agreement, in the event that the Secured Notes Credit Bid is not the successful bid in Alternative CCAA Proceedings, the members of the *Ad Hoc* Committee of Secured Noteholders have agreed that, in the event that they are repaid in full and provided that the Shareholders, as a class, approved the Shareholders' Arrangement Resolution, they will make \$20 million available to Shareholders.

VI. NEED FOR RELIEF UNDER THE CBCA AND AN INTERIM ORDER

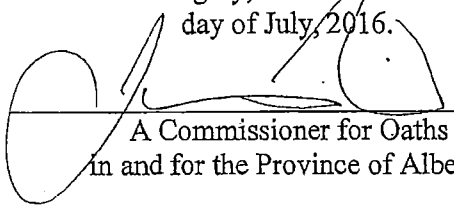
133. Due to (i) the existing defaults and Credit Agreement Cross-Defaults under the Credit Facility and Secured Note Indenture and the cross-default under the Unsecured Note Indenture, and (ii) the terms and conditions of the Forbearance Agreement, Noteholder Support Agreement and Backstop Agreement, the continuation of the Stay of Proceedings granted in the Preliminary Interim Order is necessary to maintain the *status quo*, to provide the Applicants with the required stability to pursue the Arrangement Meetings, and, provided that the Requisite Approvals are obtained, bring an application for a Final Order.
134. The proposed Interim Order includes a provision extending the Stay of Proceedings to September 30, 2016, which will ensure the Stay of Proceedings is in place through the completion of the Arrangement Meetings and any hearing for a Final Order.
135. If the Stay of Proceedings is not extended, the *Ad Hoc* Committee of Secured Noteholders could terminate the Noteholder Support Agreement and the First Lien Lenders could terminate the Forbearance Agreement, which would significantly jeopardize the likelihood that the Applicants are able to successfully implement the Arrangement and Recapitalization on terms that are fair and reasonable to all stakeholders. Additionally, without the Stay of Proceedings, the Unsecured Noteholders and certain other contractual counterparties would be free to exercise remedies available to them under their respective agreements with LTS, which could cause significant disruption to the ongoing business affairs of the Lightstream Group.

136. As set out above and in the Preliminary Interim Order Affidavit, in determining the scope of the Stay of Proceedings, the Applicants have been careful to minimize the impact on, and material prejudice to, affected parties to no more than is necessary to achieve the objectives of the Arrangement. In particular, the Stay of Proceedings (i) will expire on September 30, 2016, unless extended by further order of the Court, (ii) only applies in the context of these Arrangement proceedings, and (iii) does not extend to the existing Actions.

VII. CONCLUSION

137. I swear this Affidavit in support of an application for the relief set out in paragraph 9 of this Affidavit.

SWORN (OR AFFIRMED) BEFORE ME)
at Calgary, Alberta this 28th)
day of July, 2016.)



A Commissioner for Oaths)
in and for the Province of Alberta)

James W. Reid
Barrister & Solicitor



PETER D. SCOTT