

COURT FILE NUMBER 25-2670585
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY

Clerk's Stamp:

IN THE MATTER OF THE BANKRUPTCY AND INSOLVENCY ACT

AND IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A
PROPOSAL OF ZARGON OIL & GAS LTD., ZARGON OIL & GAS
PARTNERSHIP and ZARGON U.S. HOLDINGS LTD.

DOCUMENT **Order (Approval of Administration Charge, Interim Financing,
Interim Financing Charge and Extension to Time to File Proposal)**

ADDRESS FOR
SERVICE AND
CONTACT
INFORMATION OF
PARTIES FILING THIS
DOCUMENT

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File No. 043136-145

DATE ON WHICH ORDER WAS PRONOUNCED: October 1, 2020
LOCATION WHERE ORDER WAS PRONOUNCED: Edmonton, Alberta
JUSTICE WHO MADE THIS ORDER: The Honourable Justice D. R. Mah

UPON THE APPLICATION of Zargon Oil & Gas Ltd. ("**Zargon O&G**") Zargon Oil & Gas Partnership ("**Zargon Partnership**") and Zargon U.S. Holdings Ltd. ("**Zargon US**" and collectively "**Zargon**") filed September 22, 2020; AND UPON reading Affidavit No. 1 of Craig Hansen sworn September 22, 2020 ("**Hansen Affidavit No. 1**"); AND UPON reading the Report of MNP Ltd., in its capacity as proposal trustee of Zargon (the "**Proposal Trustee**") dated September 25, 2020;

AND UPON hearing submissions by counsel for Zargon and any other counsel or other interested parties present,

IT IS HEREBY ORDERED THAT:

SERVICE

1. The time for service of the notice of application for this order (the "**Order**") is hereby abridged and deemed good and sufficient and this application is properly returnable today, and no other than those persons served is entitled to service of the notice of application.

ADMINISTRATION CHARGE

2. Legal counsel to Zargon ("**BD&P**") and the Proposal Trustee, as security for their respective professional fees and disbursements (including the professional fees and disbursements of the Proposal Trustee's counsel, McMillan LLP) incurred both before and after the granting of this Order, shall be entitled to the benefit of, and are hereby granted, a first ranking charge (the "**Administration Charge**") on all of Zargon's present and after-acquired assets, property and undertakings (the "**Property**"), which charge shall not exceed \$200,000, as security for their professional fees and disbursements incurred at normal rates and charges, both before and after the making of this Order.

INTERIM FINANCING

3. The terms of the interim financing facility, substantially in the form as set out in the term sheet dated as of September 22, 2020 (the "**Interim Financing Facility**") attached as Exhibit "C" to Hansen Affidavit No.1 be and is hereby approved.
4. Zargon be and is hereby authorized to borrow up to \$700,000 from Blue Sky Resources Ltd. (the "**Interim Lender**") by way of the Interim Financing Facility to be advanced to Zargon by the Interim Lender.
5. The Property of Zargon shall be, and hereby is, subject to a charge in the amount of \$700,000 (the "**Interim Lender's Charge**"), in order to secure repayment to the Interim Lender of amounts advanced under the Interim Financing Facility, which Interim Lender's Charge shall be subordinate only to the Administration Charge in the within proceedings.

6. For clarity, the respective ranking of the charges on the Property and the security interests in the Property shall be as follows:
 - (a) First, the Administration Charge; and
 - (b) Second, the Interim Lender's Charge.
7. The filing, registration or perfection of the Administration Charge and the Interim Lender's Charge (together, the "**Charges**") shall not be required, and the Charges shall be enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.
8. The Charges shall constitute a charge on the Property and such Charges shall rank in priority to all other security interests, trusts, liens, charges, encumbrances and claims of secured creditors, statutory or otherwise in favour of any person (collectively, the "**Encumbrances**").
9. Except as otherwise provided herein, or as may be approved by this Honourable Court, Zargon shall not grant any Encumbrances over the Property that rank in priority to, or *pari passu* with, any of the Charges, unless Zargon obtains the prior written consent of the beneficiaries of the Charges (the "**Chargees**") or further order of this Court.
10. The Charges shall not be rendered invalid or unenforceable and the rights and remedies of the Chargees thereunder shall not otherwise be limited or impaired in any way by:
 - (a) the pendency of these proceedings and the declarations of insolvency made in this Order;
 - (b) any application(s) for bankruptcy order(s) issued pursuant to *Bankruptcy and Insolvency Act* (the "**BIA**"), or any bankruptcy order made pursuant to such applications;
 - (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA;
 - (d) the provisions of any federal or provincial statutes; or
 - (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing

loan documents, lease, sublease, offer to lease or other agreement (collectively, an “**Agreement**”) that binds Zargon, and notwithstanding any provision to the contrary in any Agreement:

- (i) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of any documents in respect thereof, shall create or be deemed to constitute a new breach by Zargon of any Agreement to which it is a party;
- (ii) none of the Chargees shall have any liability to any person whatsoever as a result of any breach of any Agreement caused by or resulting from the creation of the Charges, or the execution, delivery or performance of the Interim Financing Facility; and
- (iii) the payments made by Zargon pursuant to this Order and the granting of the Charges, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct or other challengeable or voidable transactions under any applicable law.

EXTENSION OF TIME TO FILE A PROPOSAL

- 11. The time within which Zargon is required to file a proposal to its creditors with the Official Receiver, under section 50.4 of the BIA *Bankruptcy and Insolvency Act*, RSC 1985, c. B-3, shall be and is hereby extended to November 16, 2020.
- 12. Service of this Order may be effected by facsimile, electronic mail, personal delivery or courier. Service is deemed to be effected the next business day following transmission or delivery of this Order.


J.C.Q.B.A