

**IN THE MATTER OF THE PROPOSAL OF  
RADIUS RESOURCES CORP.  
OF THE CITY OF CALGARY  
IN THE PROVINCE OF ALBERTA**

**REPORT OF THE TRUSTEE - ALGER & ASSOCIATES INC.**

All Capitalized terms are defined under Part I of the Proposal.

**A. BACKGROUND AND CAUSES OF DIFFICULTIES**

1. Radius Resources Corp. ("Radius" or the "Company") is a TSX-V Oil and Gas company engaged in the exploration for, and development and production of, crude oil and natural gas focusing in the Peace River Arch region of central Alberta.
2. The primary Radius oil and gas properties are in the Ante Creek property which consists of 9 producing and 2 non-producing oil and gas wells. Production from Ante Creek is pipelined to a third party facility. These non-operated properties produce approximately 48 flowing boe/day. The Company's other primary property was the Kaybob property which was sold in 2008 and the funds were applied to reduce the Company's working capital deficiency, reduce outstanding bank debt and directed towards the Company's CEE flow-through share spending obligation.
3. Due to the decline in oil and gas prices and the resulting effect on the financial strength of the Company, Avonlea Ventures Inc. was retained by the Company in the capacity as chief restructuring consultant. As part of this process, the Company initiated a process to seek and indentify potential investors in the Company.
4. The financial difficulties facing Radius resulted in the Company's non-compliance with the terms of its lending agreement with its primary lender ATB Financial ("ATB"). In February 2009, the Company entered into a forbearance agreement with ATB to allow the Company an opportunity to restructure.
5. In September 2009, the Company began discussions with Argosy Energy Inc. ("Argosy") to pursue a transaction with Radius and on November 10, 2009 a Letter of Intent ("LOI") was signed. On December 3, 2009 an amended LOI was agreed upon.
6. On February 25, 2010, the Company filed a Notice of Intention to File a Proposal ("NOI") to provide for the necessary time required to complete the Purchase and Sale Agreement ("PSA") between Argosy and Radius and file the Proposal. ATB is not stayed from taking enforcement actions by the filing of the NOI as the notice period required by the *Bankruptcy and Insolvency Act* ("BIA") expired prior to the filing of the NOI.
7. In March 2010, the Company entered into an Amended and Restated Forbearance Agreement ("Agreement") with the ATB. The Agreement terms included:

- a) Extension of the forbearance period to April 15, 2010, or sooner as defined in the Agreement; and
  - b) ATB accepting a \$2.2 million settlement amount on the approximate amount due of \$2.5 million as payment in full of the loan and all related fees, interest and other payments of any kind due provided, amongst other things, that a Proposal is approved by the creditors and sanctioned by the court.
8. The PSA between Argosy and Radius was signed on March 18, 2010. In accordance with the terms of the PSA, Radius filed a Proposal on March 19, 2010 and a Creditors' Meeting to consider and vote on the Proposal has been set for April 6, 2010.

## **B. THE PROPOSAL**

### **Overview**

9. In order to maximize the distribution available to creditors, management believes that the Company's best alternative is through a transaction that provides for the sale of the shares of the Company to an acquirer in order to preserve the tax losses of the Company. Management believes the transaction with Argosy provides for the best outcome for the Ordinary Creditors.
10. The transaction with Argosy provides for the following:
- a) Payment in full to Crown and Preferred Creditors;
  - b) A settlement of amounts owing to the Unaffected Secured Lender;
  - c) A distribution to the Ordinary Creditors in cash or cash and Argosy common shares ("Argosy Common Shares"); and
  - d) A going concern acquisition of Radius and reorganization of Radius's share capital.

### **Sale of Company to Argosy**

11. The Company has entered into the PSA with Argosy for consideration of \$3,585,200 consisting of \$2.725 million and 748,000 Argosy Common Shares valued at \$860,200 (value based on current TSX-V trading price of approximately \$1.15 per share) in exchange for 100% of the Radius equity. The key terms of the PSA include:
- a) Radius filing a Proposal under the BIA and receiving creditor and court approval;
  - b) the settlement and discharge in full of all Claims against Radius;
  - c) the cancellation of all outstanding Radius equity; and

- d) issuance of new Radius shares for the sole benefit of Argosy in exchange for 748,000 Argosy Common Shares and \$2.725 million.

12. The cash consideration to be paid to Radius is estimated to be distributed as follows:

Radius Resources Corp. Estimated Distribution of Proceeds		Table 1.
<u>Source of Funds</u>		(\$000's)
Argosy cash payment		2,500
Argosy - payment to fund Radius professional costs		225
Working capital adjustment (estimate)		100
Total sources of Funds		<u>2,825</u>
<u>Use of Funds</u>		
Settlement with ATB		2,200
Professional fees - Carscallen Leitch		137
Professional fees - Avonlea		288
Deloitte & Touche		50
Cash distribution to Affected Unsecured Creditors		75
Trustee's fees and its legal counsel fees		75
Total uses of Funds		<u>2,825</u>

The Argosy Common Shares in the amount of 748,000 valued at approximately \$883,200 will be issued to Ordinary Creditors in accordance with the terms of the Proposal as discussed further below.

### Articles of Reorganization

13. The Proposal provides for the filing of Articles of Reorganization in order to effect the cancellation of Existing Radius Equity and issue new Voting Common Shares of Radius. The Articles of Reorganization will require Court approval and approval in accordance with the *Alberta Business Corporations Act*.

### CREDITORS

#### Crown Claims

14. Crown Claims, as defined in the Proposal, are to be paid in full under the terms of the Proposal.

#### Unaffected Secured Creditor

15. ATB is an Unaffected Secured Creditor and is currently owed approximately \$2.5 million which is secured by a first charge general security agreement on all present and after acquired property of the Company. As part of the Agreement, ATB has agreed to settle the amounts due for \$2.2

million and allow sufficient time for Radius to file and fulfill the terms of the Proposal and complete the transaction with Argosy.

### **Preferred Creditors**

16. The claims of Preferred Creditors shall be paid in full in cash, subject to the Superintendent's Levy, in priority to the claims of Ordinary Creditors. The Trustee is not aware of any Preferred Creditors.

### **Ordinary Creditors**

17. The Proposal provides for \$75,000 and 748,000 Argosy Common Shares to be distributed to the Ordinary Creditors. The cash and shares will be distributed to each Ordinary Creditor on the following basis:
- a) For each Ordinary Creditor, a cash payment of the lesser amount of the Ordinary Creditor's Proven Claim or approximately \$1,200, based on the number of known Ordinary Creditors. Based on known creditors it is estimated that approximately 47% of Ordinary Creditors will be paid in full less the Superintendent of Bankruptcy Levy; and
  - b) With respect to the balance, after payment of the sums referred to above, each Ordinary Creditor's Claim, if any, its *pro rata pari passu* share of the 748,000 Argosy Common Shares. It is estimated that each Ordinary Creditor will receive payment of Argosy Common shares that approximates a distribution of approximately 6 cents for each dollar of their Claim after the \$75,000 is distributed to Ordinary Creditors.

## **C. BENEFITS OF THE PROPOSAL**

18. The Proposal and the transaction with Argosy will have the following benefits for each of the various stakeholder groups:
- a) The compromise and settlement of the claim of the ATB will eliminate the security interests in the assets of Radius;
  - b) The Ordinary Creditors will receive a cash payment or cash and common shares in Argosy, a publicly traded company, which should allow them to benefit from any future success of Argosy; and
  - c) The Company's assets are transferred as a going concern to Argosy which will benefit the Ordinary Creditors who receive Argosy Common Shares as they will become shareholders of Argosy and the transaction will preserve the value of the tax losses.

**D. CURRENT FINANCIAL POSITION**

19. Radius' current financial position is summarized as follows:

<b>Radius Resources Corp Assets Sheet (Unaudited)</b>	<b>Estimated Net Book Value as at Feb 28/09</b>	<b>Table 2. Net Realizable Value as at Feb 28/09</b>
<b>Assets</b>		
Cash	-	-
Accounts receivable	147,000	147,000
Prepaid expenses	51,933	32,508
Investment in shares	54,000	54,000
Petroleum and natural gas properties	<u>3,908,769</u>	<u>2,000,000</u>
<b>Assets</b>	<u>4,161,702.00</u>	<u>2,233,508</u>
* Estimated value of tax losses	<u>-</u>	<u>650,000</u>
<b>Total Assets</b>	<u>\$ 4,059,531</u>	<u>\$ 2,883,508</u>
<b>Liabilities</b>		
Bank debt - Alberta Treasury Branch	2,450,000	2,500,000
Accounts payable and accrued liabilities	1,976,000	1,976,000
Joint venture debt	400,000	400,000
Convertible debenture	12,163,000	12,163,000
Asset retirement obligation	<u>291,466</u>	<u>291,466</u>
<b>Total Liabilities</b>	<u>17,280,466</u>	<u>17,330,466</u>
<b>Equity/(Deficiency)</b>	<u>\$ (13,220,935)</u>	<u>\$ (14,446,958)</u>

20. The major difference between the net book value of the Company assets and the current net realizable value arises from the low market value of the oil and gas properties at this time and the realizable value of tax losses. The estimate of realizable value of the oil and gas properties was obtained from the Company which was based on following:

- a) The Company engaged the services of Avonlea in January 2009 to assist in marketing the Radius oil and gas properties. Between the period of April 2009 to November 2009, Avonlea conducted an extensive marketing program ("Marketing Program") to potential acquirers for Radius.
- b) As a result of the Marketing Program the Company has estimated the fair market value, of the petroleum and natural gas properties in the range of \$1.6 million to \$2.0 million, excluding any premiums a strategic buyer may offer, based on the following considerations:

- The Marketing Program indicated that most non-strategic purchasers were willing to pay approximately \$1.6 million to \$2.0 million for Radius's oil and gas properties; and
  - The Company's internal estimates of reserve value, based on the December 31, 2008 reserve report updated with new pricing forecasts and 2009 production, at December 31, 2009 at NPV10 proved and probable are approximately \$1.4 million.
21. The Company received an offer for the purchase of its Ante Creek properties in June 2009 in the amount of \$2.45 million from a strategic buyer. Management has indicated this purchaser was willing to pay a premium as a result of owning the exploration rights to a number of properties in the Ante Creek area.
22. The Company also has approximately \$13 million of tax pools which are estimated to have a fair market value of approximately \$650,000. These tax pools will cease to have value if the Company is deemed bankrupt.

#### **E. CONDUCT OF DEBTOR**

23. The Trustee's preliminary review has not identified any preferential payments or reviewable transactions; other than those identified below. Reviewable transactions are defined as transactions with parties who are non-arms length.

#### **F. REVIEWABLE TRANSACTION AND PREFERENTIAL PAYMENTS**

24. The Company paid certain amounts from the funds held in trust by the Company's legal counsel on the day following the filing of the NOI related to amounts due to pre-filing Claims that were payments to priority creditors and/or critical payments in order to continue with the restructuring. A summary of the payments are as follows:
- a) McCarthy Tetrault LLP - \$20,000 – Fees of ATB legal counsel in accordance with the Agreement;
  - b) Magpie Capital Corp - \$3,000 – Radius Management fees;
  - c) CH Tax Conversions Inc. \$1,378 – Consulting fees related to Canada Revenue Agency Audit;
  - d) Robin Chan - \$3,000 – Accounting fees;
  - e) Digit Accounting Services Ltd. - \$11,000 – Restructuring and accounting fees; and
  - f) Minister of Finance - \$20,000 – Royalties.

25. In August 2009, the Company agreed to settlement terms with ARC Resources Ltd. ("ARC") for amounts due to ARC. The settlement amount was \$650,000 and payments in the 3 months preceding the date of filing the notice of intention in the amount of approximately \$130,000 were offset against production revenue for the benefit of ARC. The settlement amount was paid in full in January, 2010.
26. The Trustee is not aware of any reviewable transactions, other than the payment of office rent to the director of the Company and a monthly management fee, which appear to be on arms-length commercial terms.

#### **G. CREDITORS' CLAIMS**

27. No significant changes from the Statement of Affairs are anticipated.

#### **H. REMUNERATION OF TRUSTEE**

28. The Trustee's fees will be based on the time spent by the Trustee and the various members of its staff at their respective regular billing rates plus any direct out-of-pocket expenses incurred. All Administrative Fees and Expenses of the Trustee will be taxed by the Court. The Trustee will be entitled to take regular interim fees as approved by either the Court or Inspectors elected by the Ordinary Unsecured Creditors.

#### **I. ESTIMATED REALIZATIONS IN A LIQUIDATION SCENARIO**

29. Based on the review by the Trustee and information provided by the Company and its advisors it is uncertain whether there would be sufficient funds in a bankruptcy to pay the claims of priority and secured creditors and provide residual funds for payment to unsecured creditors for the following reasons:
  - a) It appears that a payment to the unsecured creditors in a bankruptcy scenario would depend to a great extent whether or not a strategic buyer purchases the oil and gas properties and even in this scenario it is highly uncertain whether the proceeds of a sale after costs would be sufficient to provide for any distribution to the unsecured creditors;
  - b) the value of the tax losses would be nil if the Company was deemed bankrupt; and
  - c) the primary secured creditor is accepting a settlement of the amounts due, which provides additional support that upon a liquidation of the Company, it is very uncertain whether the assets of the Company are sufficient to repay amounts to the primary secured lender let alone unsecured creditors.

#### **J. RECOMMENDATION**

30. The Company's Proposal provides for the payment to the Ordinary Creditors with a combination of cash or cash and shares that will result in a number of the Ordinary Creditors to be paid in full

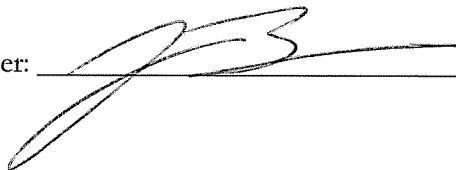
less the Superintendent of Bankruptcy levy. If the Proposal is not accepted by the creditors, it will result in the bankruptcy of the Company. In a bankruptcy it is highly uncertain whether the Bankruptcy Trustee will be able to realize on the Company's assets for a value greater than the amount due to priority and secured creditors resulting in no distribution to unsecured creditors. A bankruptcy will also result in the loss of any realization on the sale of tax losses.

31. The Trustee respectfully recommends that the Ordinary Creditors may wish to accept the Proposal as it appears to provide a distribution to Ordinary Creditors that is greater than they may achieve in a bankruptcy of the Company.

DATED at Calgary, Alberta, this 19<sup>th</sup> day of March 2010

**ALGER & ASSOCIATES INC.**

Per: \_\_\_\_\_

A handwritten signature in black ink, appearing to be 'J.B.', is written over a horizontal line. The signature is stylized and cursive.