

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

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In re:	:	:	Chapter 11
TRIDENT RESOURCES CORP., <u>et al.</u> ,	:	:	Case No. 09-13150 (MFW)
	:	:	
Debtors.	:	:	(Jointly Administered)
	X		

**AFFIDAVIT OF NEIL A. AUGUSTINE IN SUPPORT OF DEBTORS' MOTION
PURSUANT TO SECTIONS 105(A) AND 363 OF THE BANKRUPTCY CODE AND
RULES 2002 AND 6004 OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE
FOR ORDER AUTHORIZING AND APPROVING (I) THE DEBTORS' ENTRY INTO
THE COMMITMENT LETTER, (II) THE EQUITY PUT FEE, EXPENSE
REIMBURSEMENT, AND INDEMNIFICATION OBLIGATIONS, (III) THE
PROCEDURES FOR THE SALE AND INVESTOR SOLICITATION PROCESS, AND
(IV) THE FORM AND MANNER OF NOTICE THEREOF**

CITY OF NEW YORK)
) ss:
NEW YORK COUNTY)

Neil A. Augustine, being duly sworn, deposes and states as follows:

1. I am a Managing Director, the Head of North America Restructuring and a member of the management committee of Rothschild Inc. ("Rothschild"). Since the fall of 2007, Rothschild has acted as a financial advisor to the Debtors¹ and to certain of their direct and indirect Canadian subsidiaries (collectively, the "Canadian Debtors")² and, together with the Debtors, "Trident" or the "Company").

¹ The Debtors in these Chapter 11 Cases, along with each Debtor's place of incorporation and the last four digits of its federal tax identification number, where applicable, are: Trident Resources Corp. (*Delaware*) (2788), Aurora Energy LLC (*Utah*) (6650), NexGen Energy Canada, Inc. (*Colorado*) (9277), Trident CBM Corp. (*California*) (3534), and Trident USA Corp. (*Delaware*) (6451).

² The Canadian Debtors are as follows: Trident Exploration Corp., Fort Energy Corp., Fenenergy Corp., 981384 Alberta Ltd., 981405 Alberta Ltd., 981422 Alberta Ltd., Trident Resources Corp., Trident CBM Corp., Aurora Energy LLC, NexGen Energy Canada, Inc., and Trident USA Corp.

2. Specifically, under my direction, Rothschild has been advising Trident since the fall of 2007 on, among other things, the Company's balance sheet recapitalization alternatives. Rothschild has continued to act as financial advisor to the Debtors in their Chapter 11 cases (the "Chapter 11 Cases") in the United States and to the Canadian Debtors in the Companies' Creditors Arrangement Act proceedings in Canada (the "CCAA Proceedings" and, together with the Chapter 11 Cases, the "Joint Proceedings").

3. In terms of my background, I have extensive experience both investing in and advising financially distressed companies and their creditors. Over the last 20 years, my transactions experience has ranged from out-of-court restructurings to in-court insolvencies in the United States, Europe, Canada and Mexico. My merger and acquisition experience includes both plain-vanilla and troubled company assignments (both buy-side and sell-side) as well as special committee representations. On the financing front, my expertise includes debtor-in-possession financings, secured bank debt, exit financings, second lien loans, convertible notes, rights offerings and preferred and common stock investments. I have also prepared numerous fairness opinions, expert reports and valuation reports over the course of my career.

4. As described above, I have personal knowledge of the matters to which I hereinafter depose, except statements based on information and belief, in which case I believe them to be true.

5. I swear this affidavit in support of the Debtors' *Motion Pursuant to Sections 105(A) and 363 of the Bankruptcy Code and Rules 2002 and 6004 of the Federal Rules of Bankruptcy Procedure for Order Authorizing and Approving (i) the Debtors' Entry into the Commitment Letter, (ii) the Equity Put Fee, Expense Reimbursement, and Indemnification Obligations, (iii) the Procedures for the Sale and Investor Solicitation Process, and (iv) the*

Form and Manner of Notice Thereof, dated January 29, 2010 (the "Motion") and specifically to provide evidence in respect of Trident's restructuring efforts and its strategy to maximize stakeholder recoveries through (i) entry into that certain commitment letter (the "Commitment Letter"), dated January 25, 2010, and (ii) implementation of the procedures for the sale and investor solicitation process (the "Solicitation Process").

6. All capitalized terms shall have the meaning ascribed to them in the Motion, unless otherwise indicated in this Affidavit.

I. Trident's Efforts to Deleverage its Balance Sheet

A. Trident's Pursuit of an Out-Of-Court Restructuring

7. Trident has actively pursued a deleveraging of its balance sheet with the objective of maximizing value for stakeholders since late 2007. Initially, Trident explored various out-of-court financing options, beginning with an initial public offering in November of 2008 that was ultimately not pursued due to prevailing capital market conditions at the time.

8. Early in 2009, Trident estimated that, largely as a result of a global decline in gas prices and the weakening of foreign exchange rates, the Company likely would breach one or more financial covenants by the third quarter of 2009. Specifically, those covenants related to the net debt to EBITDA ratio and the PV-10 value to debt ratio contained in (a) the Secured Term Loan Agreement dated as of April 25, 2006 among Trident Exploration Corp., certain of its subsidiaries, Credit Suisse, Toronto Branch, as administrative agent and collateral agent, and the lenders party thereto (the "Second Lien Credit Agreement," and the lenders thereunder, the "Second Lien Lenders") and (b) the Secured Credit Facility (the "2006 Credit Agreement"), dated as of November 24, 2006, as amended among TRC, certain of its subsidiaries and the lenders party thereto.

9. In response, Trident actively reviewed strategic alternatives given the likelihood of a potential covenant breach. In particular, in early 2009, Trident discussed the advantages and disadvantages of various alternatives, including different capital expenditure scenarios, a sale of all or part of Trident's assets in the Montney Shale, and a waiver or amendment of the relevant financial covenants with the Second Lien Lenders (any changes to the financial covenants agreed to by the Second Lien Lenders in the Second Lien Credit Agreement would also apply to the corresponding financial covenants in the 2006 Credit Agreement, which is subject to a drag-along provision). Due to the bleak condition of the industry and the capital markets in general at the time, Trident chose not to pursue a sale of all or some of its assets.

10. In March 2009, Trident commenced discussions with two Second Lien Lenders: The Goldman Sachs Group, Inc. ("Goldman Sachs") and Farallon Capital Management, L.L.C. ("Farallon"). Goldman Sachs and Farallon comprised the "Required Lenders" under the Second Lien Credit Agreement, who were authorized, among other things, to enter into amendments to the Second Lien Credit Agreement.³

11. At a meeting with the Second Lien Lenders on April 1, 2009, Trident requested an amendment to the financial covenants until a more comprehensive solution could be found. Goldman Sachs and Farallon indicated that they needed additional financial information before they would be able to further discuss any waiver or amendment of the relevant covenants.

12. In June of 2009, Trident met with Goldman Sachs, Farallon and Mount Kellett (the Required Lenders) and requested a non-binding term sheet for a possible amendment to the

³ Trident learned in May 2009 that Mount Kellett Capital Management ("Mount Kellett") had purchased a portion of Farallon's second lien debt and, as a result, became a member of the Required Lenders under the Second Lien Credit Agreement.

Second Lien Credit Agreement. The Second Lien Lenders initially demanded, among other things, a paydown of their credit facility and warrants for 15% of Trident's fully diluted restructured equity. Trident did not view this demand as reasonable for such a covenant waiver. As the negotiations dragged on, Trident received subsequent proposals from the Second Lien Lenders, which demanded warrants covering up to a majority of the Company's fully diluted restructured equity and, in most cases, also required a substantial pay-down of the second lien credit facility.

13. Having failed to negotiate an acceptable amendment to the Second Lien Credit Agreement, and following months of evaluating other options to address the anticipated covenant default, Trident and its advisors concluded that the most feasible way to maximize stakeholder value was to provide existing stakeholders with the opportunity to make a significant equity investment in Trident for the purpose of significantly deleveraging the Company's balance sheet. Accordingly, prior to the commencement of the Joint Proceedings, Trident engaged in extensive discussions with its major stakeholder groups in an effort to (i) assist them with conducting due diligence for the purposes of evaluating a potential investment and (ii) work with them to develop the terms of a proposed investment.

14. During June and July of 2009, Trident's advisors met with the financial and legal advisors of the lenders in the 2006 Credit Agreement and the Subordinated Loan Agreement (the "2007 Credit Agreement"), dated as of August 20, 2007, as amended among TRC, certain of its subsidiaries and the lenders party thereto (the lenders under the 2006 Credit Agreement and the 2007 Credit Agreement are referred to herein as the "2006 Lenders" and "2007 Lenders", respectively), and approached certain of Trident's preferred stockholders, in order to gauge their interest in participating in a restructuring and investment.

15. In August 2009, Trident received a preliminary term sheet from certain of the 2006 Lenders and 2007 Lenders regarding a possible equity investment (the “2006-2007 Term Sheet”). Trident actively negotiated the 2006-2007 Term Sheet given the approaching Second Lien covenant default and the lack of feasible alternatives. In particular; (1) discussions with the Second Lien Lenders had stalled and a waiver or amendment of the covenants seemed unlikely; (2) given the declining gas prices and overall market conditions at the time, a sale of its assets was ill-advised; and (3) securing sufficient reserve-based financing appeared unlikely. After extensive negotiations, on August 21, 2009 Trident executed the 2006-2007 Term Sheet with certain modifications.

16. While the parties attempted to negotiate the definitive documentation contemplated by the 2006-2007 Term Sheet, events leading to the insolvency filing intervened. On September 2, 2009, one of the crucial 2006 and 2007 Lenders withdrew from the transaction contemplated by the 2006-2007 Term Sheet, making it highly improbable that the transaction could be consummated. As a result, Trident terminated the 2006-2007 Term Sheet by letter dated September 7, 2009.

17. In addition to its restructuring difficulties, in late August of 2009, Trident learned that one of its joint operators was contemplating a possible challenge to operatorship attempting to strip Trident of day to day control of the company’s largest natural gas producing area. This field was the first commercial field in the Mannville coal horizon in Canada due to Trident’s innovative operated drilling techniques. Had this challenge been successful, Trident’s value would have been significantly impaired. Given the confluence of these serious challenges, Trident determined that it could no longer actively pursue negotiations with its lenders and other constituents outside of a court sanctioned bankruptcy process.

18. As a result, on September 8, 2009, in order to protect and preserve the value of Trident's assets and operations, Trident sought bankruptcy protection in the United States and Canada (the "Joint Proceedings").

19. Although Trident failed to secure a commitment that would enable it to deleverage its balance sheet prior to the commencement of the Joint Proceedings, it has continued to pursue its goal of maximizing recovery for all of its stakeholders. The Commitment Letter is the culmination of Trident's efforts.

B. The RFP and the Winning Proposal

20. After commencing the Joint Proceedings in September of 2009, Trident continued negotiations with existing stakeholders for purposes of obtaining an equity investment proposal to serve as a foundation for a feasible chapter 11 plan and necessary exit financing. The Company did not seek investment proposals from third parties because its creditor and equity interest holder constituencies had advised Trident of their intent to make equity investment proposals. Such proposals would have the support of key stakeholders and would then serve as a stalking horse for a broader solicitation process.

21. Throughout the fall of 2009, Trident assisted stakeholders who remained interested in evaluating an equity investment proposal in conducting necessary business, legal and financial due diligence. Rothschild and Trident's management team held numerous in-person and telephonic meetings with key stakeholders and their advisors throughout this time period in addition to preparing myriad responses to information requests.

22. On November 25, 2009, Trident instructed Rothschild to send notices to representatives of all of Trident's major stakeholder groups, requesting formal restructuring proposals by December 15, 2009 (the "RFP"). The RFP process yielded two such proposals –

one from an ad hoc committee of the Debtors' preferred stockholders (the "Preferreds") and another from a group representing approximately 98% in principal amount of Trident's obligations under the 2006 Credit Agreement and approximately 95% in principal amount of Trident's obligations under the 2007 Credit Agreement (such lenders, collectively, the "Backstop Parties")

23. On December 16, 2009, Trident received a letter of intent from the Preferreds (the "Preferreds Proposal"). On December 19, 2009, the Backstop Parties delivered an executed commitment letter and term sheet (the "2006-2007 Proposal"). After consultation with its advisors, Trident determined that of the two proposals, the 2006-2007 Proposal presented the most viable path to emerge successfully from the Joint Proceedings. Among other reasons, the Preferreds Proposal did not include committed equity financing and required the approval of the lenders under the 2006 Credit Agreement and 2007 Credit Agreement. Because the Preferreds Proposal lacked the requisite support of these senior stakeholders and did not have committed equity financing, Trident determined that the Preferreds Proposal was not feasible.

24. Using the 2006-2007 Proposal as a starting point, Trident engaged in intensive, arms'-length negotiations with the Backstop Parties before reaching the final terms and conditions set forth in the Commitment Letter and Term Sheet (the transaction described therein, the "Backstop Transaction"). Trident and the Backstop Parties communicated almost daily for over a month and exchanged numerous, detailed mark-ups before agreeing on the final draft of the Commitment Letter. Having reached terms on the Backstop Transaction, Trident intends to use it (or a superior alternative transaction that emerges through the Solicitation Process), as the foundation for an ultimate plan of reorganization (a "Chapter 11 Plan") or plan of arrangement (a "CCAA Plan") and, together with a Chapter 11 Plan, the "Plans"). Consistent with the RFP and

Solicitation Process, Trident and its advisors believe that efforts to maximize stakeholder recoveries should involve pursuing stand-alone restructuring proposals from Trident's existing stakeholders, followed by third-party investment and sales proposals elicited through the Solicitation Process.

II. The Backstop Transaction and the Solicitation Process Will Maximize Value for Trident's Estates

A. The Benefits of the Backstop Transaction and the Solicitation Process

25. I believe that a recapitalization transaction sponsored by Trident's stakeholders, by serving as a stalking horse for a broad solicitation process and setting a "floor" on valuation, will provide the best opportunity for the Debtors to maximize stakeholder recovery. The Backstop Transaction provides such an opportunity. The Backstop Transaction implies a total enterprise value of Trident of approximately \$735 million. Thus, the Backstop Transaction establishes a baseline value for Trident at approximately \$735 million (assuming satisfaction or waiver of the exit financing condition) as the stalking horse bid, while the Debtors will seek higher or otherwise better offers through the Solicitation Process. Setting a valuation floor will help enhance overall value for stakeholders by encouraging bids above the stalking horse threshold and, among other things, ensuring that the Debtors receive offers from only serious and capable bidders. A stalking horse will also make the Solicitation Process more efficient, preventing distressed bidding that could mire an already complex process. A stalking horse will also help minimize the Company's concerns regarding a "naked" sale process, which include general uncertainty and risk of departure by management and employees, negative impact on Trident's relationships with counterparties and impaired operations, all of which would likely undermine the enterprise value of Trident.

26. The Commitment Letter provides additional benefits to Trident and its stakeholders beyond setting a valuation floor for the Solicitation Process. First, the Backstop Transaction provides committed equity financing to Trident. Along with the debt financing currently being negotiated by Trident and its advisors, this committed equity financing will allow Trident to successfully emerge from the Joint Proceedings.

27. Second, support from the Backstop Parties materially diminishes voting risk with respect to the chapter 11 plan contemplated under the Term Sheet, because the Backstop Parties held, as of December 18, 2009, approximately 98% of the debt under the 2006 Credit Agreement and 95% of the debt under the 2007 Credit Agreement.

28. Third, Trident will substantially deleverage its balance sheet through the Backstop Transaction, by eliminating approximately \$1.2 billion in existing debt obligations and approximately \$700 million in preferred stock, replacing it instead with approximately \$505 million of debt financing. Under the Backstop Transaction, Trident will satisfy its obligations under the Second Lien Credit Agreement, convert all claims under the 2006 Credit Agreement into a portion of the New Common Stock, and discharge all claims under the 2007 Credit Agreement in exchange for the right to participate in the Rights Offering. Consequently, given the aggregate amount of claims under the Second Lien Credit Agreement, 2006 Credit Agreement and 2007 Credit Agreement, the Backstop Transaction essentially “clears” a valuation of approximately \$1.2 billion. Additionally, the structure and duration of the solicitation process will provide all stakeholders, including the Preferreds and common shareholders, with the ability to potentially recover value.

29. Finally, the Backstop Transaction and the accompanying Solicitation Process provide certainty to the market that Trident is a going-concern business that will emerge

successfully from bankruptcy. As a result, relationships with customers, joint operators and vendors, which are critical to Trident's survival, will be preserved, and the risk of losing key employees will be minimized.

30. Accordingly, the Backstop Transaction offers several crucial economic and plan confirmation benefits to facilitate Trident's successful emergence from bankruptcy.

B. Considerations Related to the Backstop Transaction

31. I believe that the amount of the Equity Put Fee under the Backstop Transaction is reasonable and consistent with break-up fees in Bankruptcy Code section 363 transactions, as well as transactions in the oil and gas industry, both inside and outside of the bankruptcy context. The Backstop Transaction contemplates a change of control of Trident, with the Backstop Parties receiving 60% of the New Common Stock in the reorganized company. It is customary when an equity investment results in a change of control for the "break-up fee" to be measured as a percentage of total enterprise value, not as a percentage of capital raised. Based on my experience and an analysis of precedent transactions, a break-up fee of approximately 3% of total enterprise value is reasonable and customary for transactions similar to that contemplated by the Backstop Transaction.

32. In this case, the Equity Put Fee, which can reach \$20 million under certain circumstances, is approximately 2.7% of Trident's implied total enterprise value (approximately \$735 million) under the Backstop Transaction. I believe that, at 2.7% of Trident's implied total enterprise value, the Equity Put Fee is in line with what is customary and reasonable in the marketplace. Furthermore, if the Commitment Letter is not terminated, the Equity Put Fee is reduced to \$10 million and is payable at the closing of the Backstop Transaction, resulting in an even lower percentage (1.4%) of total enterprise value. Without the Equity Put Fee – which was

heavily negotiated among the parties—the Backstop Parties would not have agreed to the Backstop Transaction.

33. I also believe the conditions upon which the Company is obligated to pay the Equity Put Fee are appropriately limited. Here, the Company is only obligated to pay the Equity Put Fee if (i) the Backstop Parties consummate the Backstop Transaction, in which case the fee will be reduced to \$10 million and credited against the purchase obligations of the Backstop Parties, (ii) if the Commitment Letter is terminated by the Required Backstop Parties due to Court approval of an Alternative Transaction (as defined in the Commitment Letter), in which case the Equity Put Fee will be paid out of the proceeds of an Alternative Transaction, or (iii) if the Commitment Letter is terminated by the Required Backstop Parties due to the Company's willful failure to cause any of the conditions to closing set forth in the Term Sheet to be satisfied for the purpose of delaying or precluding the closing of the Restructuring, in which case the Equity Put Fee will become a claim payable upon the earliest of the effective date of a CCAA Plan or Chapter 11 Plan, or any distribution made pursuant to a liquidation of the Company's assets

34. Similarly, the expense reimbursement of the Backstop Parties under the Backstop Transaction (the “Expense Reimbursement” and together with the Equity Put Fee, the “Bidding Protections”) was necessary to secure agreement on the Commitment Letter. Precedent transactions of this type customarily reimburse a stalking horse’s transaction expenses. In addition, if Trident consummates the Backstop Transaction, the Expense Reimbursement and the Equity Put Fee are likely to comprise approximately 3.5% of total enterprise value, which, again, is in line with other transactions of this type. These provisions, too, were heavily negotiated among the parties. Payments made on account of the Expense Reimbursement will be credited

against the Equity Put Fee if such fee is payable upon termination of the Commitment Letter by the Required Backstop Parties.

III. The Backstop Transaction Is a Sound Exercise of Trident's Business Judgment

35. I believe that, as described above, the Commitment Letter maximizes value to Trident's estates by, among other things, (i) providing a stalking horse that establishes a floor valuation for Trident, which in turn encourages a robust, competitive Solicitation Process; (ii) providing ample time to adequately test the market for a superior transaction; (iii) ensuring required equity financing necessary to obtain exit financing and emerge from Chapter 11; (iv) eliminating more than \$1.2 billion in debt obligations and approximately \$700 million in preferred stock from Trident's balance sheet, and (v) creating certainty in the market and operationally among Trident's customers, vendors, and employees, who are critical to Trident's survival as an on-going concern. Trident would be unable to secure all of these benefits in a sale and investment solicitation process unsupported by the Backstop Transaction.

36. Because the Backstop Transaction provides all of these clear benefits to Trident's estate, Trident's entry into the Commitment Letter is a sound exercise of its business judgment and in the best interests of its stakeholders.

37. I make this Affidavit in support of the relief requested by Trident in the Notice of Motion and for no other or improper purpose.

Sworn before me in the City of New York, in the State of New York this 16th day of February, 2010.

Donna Grasso Shandley

Neil Augustine

NEIL AUGUSTINE

DONNA GRASSO SHANDLEY
Notary Public, State Of New York
No.01GR6058322
Qualified In Westchester County
Commission Expires May 7, 20 11