

**FORM 51-102F3**

**MATERIAL CHANGE REPORT**

1. **Name and Address of Company**

**Arapahoe Energy Corporation** (the "Corporation")  
700, 602 - 12 Avenue S.W.  
Calgary, Alberta T2R 13

2. **Date of Material Change**

January 8, 2007.

3. **News Release**

A press release was disseminated on January 9, 2007 via Stockwatch.

4. **Summary of Material Change**

The Corporation entered into a forbearance agreement with its principal lender.

5. **Full Description of Material Change**

The Corporation entered into a forbearance agreement (dated January 3, 2007 for reference) with its principal lender on Jan. 8, 2007, pursuant to which the principal lender has agreed to forbear, until Jan. 31, 2007, from exercising certain of its rights and remedies under the credit agreement ensuing from certain defaults by the corporation under such credit agreement. The full text of the forbearance agreement is attached as Schedule "A" hereto. The forbearance period may be extended by the principal lender provided that it is satisfied with the corporation's efforts to sell certain of its assets, refinance or recapitalize its operations, the effect of which is to cure such defaults in a time frame satisfactory to the principal lender. It is Arapahoe's intention to sell all or a portion of its interests in the Campbell project; or sell all or a portion of its interests in the Saskatchewan properties in order to satisfy this requirement.

6. **Reliance on Section 7.1(2) or (3) of National Instrument 51-102**

Not Applicable

7. **Omitted Information**

Not Applicable

8. **Executive Officer**

The name of the Executive Officer of the Corporation who is knowledgeable about the material change and who can be contacted by the Commission is:

Jeffrey L. Standen - Chief Executive Officer & President  
Telephone: (403) 920-0040

9. **Date of Report**

January 10, 2007

**Schedule "A"**

**FORBEARANCE AGREEMENT**

**THIS AGREEMENT** is made this 3 day of January, 2007.

**BETWEEN:**

**ARAPAHOE ENERGY CORPORATION**  
(the "Borrower")

OF THE FIRST PART

-and-

**NATIONAL BANK OF CANADA**  
(the "Bank")

OF THE SECOND PART

**WHEREAS:**

- A. The Borrower and the Bank entered into a Credit Agreement dated October 26, 2005, as amended by letter Agreements dated December 23, 2005, May 16, 2006, and November 27, 2006 (the "Credit Agreement");
- B. The Borrower's predecessor corporation, Banks Energy Inc., had entered into a Credit Agreement with the Bank by way of letter Agreement dated November 30, 2004, as amended by way of letter agreement dated June 21, 2005, and granted Security (as defined herein) pursuant thereto;
- C. The Borrower amalgamated with Banks Energy Inc. in October of 2005, and therefore assumed all the rights, liabilities and obligations associated with the Credit Agreement and Security (as defined herein) granted to the Bank, which assumption was confirmed by way of an Assumption Agreement dated November 30, 2005;
- D. The Borrower has granted security to the Bank including, but not limited to, the following:
  - (a) General Assignment of Book Debts dated December 16, 2004, as amended from time to time, concerning all of the Borrower's debts, claims, demands, monies and choses in action (including all book debts, etc.);
  - (b) Floating Charge Demand Debenture in the amount of 10 million dollars (\$10,000,000) dated December 16, 2004;
  - (c) Negative Pledge re: PNG Properties dated December 16, 2004;
  - (d) Undertaking to Provide Fixed Charge Security/Title Confirmation dated

December 16, 2004;

(e) Acknowledgement of Debt (Revolving Demand Credit) in the principal amount of 7.5 million dollars (\$7,500,000) dated May 19, 2006.

(the Security as set out above is hereinafter referred to as the "Security")

- E. The Borrower remains indebted to the Bank;
- F. The Borrower is in default of the terms of the Credit Agreement as follows:
- (a) The Borrower is in default of the Working Capital Ratio as at September 30, 2006 (actual ratio of 0.62:1 vs. a minimum Covenant of 1.0:1);
  - (b) There has been a material adverse change in financial condition of the Borrower due to the registration of liens by Precision Drilling et al.

(the above Defaults are herein referred to as the "Existing Defaults")

- G. Pursuant to the Credit Agreement, the Bank is now entitled to enforce its Security and pursue all remedies that it may have against the Borrower in order to satisfy the outstanding indebtedness;
- H. The Borrower remains indebted to the Bank in the amount of \$4,750,000 as of January 2, 2007, plus costs, and with interest, and other charges accruing thereafter under the Credit Agreement;
- I. The Borrower acknowledges that it is unable to make payment of its outstanding obligations due to the Bank within the immediate future, and as a result wishes to enter into the within Forbearance Agreement (the "Forbearance Agreement");
- J. The Bank has agreed to forbear from exercising certain or all of the rights and remedies available to it, subject to the conditions contained herein;

**NOW THEREFORE THIS AGREEMENT WITNESSES** that in consideration of the mutual covenants herein contained and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. The Borrower acknowledges and agrees that:
  - (a) The facts as set out in the recitals to this Forbearance Agreement are accurate;
  - (b) The Credit Agreement is valid and enforceable, and, except as provided in this Forbearance Agreement, the Bank may enforce the Credit Agreement and pursue all remedies with respect to the Credit Agreement as it may deem appropriate;
  - (c) Except as provided in this Forbearance Agreement, the Bank (either by itself or

through its employees, or agents) has made no promises, nor has it taken any action or omitted to take any action, that would constitute a waiver of its rights to enforce the Credit Agreement and pursue its remedies in respect of the Credit Agreement, or that would estop it from doing so;

- (d) Except as expressly provided in this Forbearance Agreement, the provisions of the Credit Agreement continue in force unaffected;
- (e) Except as expressly provided in this Forbearance Agreement, nothing herein, or nothing done pursuant to this Forbearance Agreement, shall in anyway prejudice or affect any action, proceeding, remedy or claim or demand which the Bank may now or at any time hereafter bring, take, enforce or make or have against the Borrower;
- (f) The Security is valid and enforceable and secures repayment of all outstanding indebtedness of the Borrower to the Bank, and the Borrower will not contest the validity or enforceability of the Security in any court process;
- (g) The Borrower is not aware of any potential legal claims that may be held by any one or more of them against the Bank and they hereby release and discharge the Bank and its servants, agents, employees and officers, and each of them, from all and every manner of debts, claims, suits, actions or proceedings of every nature and kind whatsoever by any one or more of them relating to facts up to the date of this Forbearance Agreement, whether or not such facts be known to them, or any one or more of them.

2. The Borrower covenants and agrees with the Bank as follows:

- (a) On January 31, 2007 (the "Forbearance Period Expiry Date"), the Borrower shall pay a Forbearance Fee of \$59,000.00 to the Bank, payable by way of an automatic debit to the Borrower's account with the Bank, which payment shall be deemed to be earned on receipt and which is non-refundable;
- (b) All interest rates as set out in the Credit Agreement shall be increased by 2% per annum effective December 1, 2006. This increase in the interest rates may be eliminated only when the Borrower can demonstrate that there are no longer any Defaults in the terms of the Credit Agreement and this Forbearance Agreement.
- (c) The Bank will proceed to register, through their solicitors, fixed charges on primary oil and gas assets owned by the Borrower;
- (d) On or before January 31, 2007, the Borrower shall provide the Bank with a firm, unconditional Offer(s) to sell, refinance or recapitalize the operations of the Borrower, on terms and conditions satisfactory to the Bank, acting in its sole discretion, the effect of which will be to cure all defaults under the Credit Agreement in a timeframe satisfactory to the Bank. Provided the Bank is satisfied with such Offer(s) and provided there are no defaults under the Forbearance Agreement, reasonable consideration will

be provided by the Bank to extending the Forbearance Period Expiry Date in order to allow such Offer(s) to be closed. The terms of any such proposed extension of the Forbearance Period Expiry Date shall be subject to negotiation and documentation between the Bank and the Borrower on or before January 31, 2007;

- (e) If, before January 31, 2007, the Borrower has not provided the Bank with firm, unconditional Offer(s) to sell, refinance or recapitalize the operations of the Borrower, on terms and conditions satisfactory to the Bank acting in its sole discretion, the effect of which will be to cure all defaults under the Credit Agreement in a timeframe satisfactory to the Bank, and provided there are no defaults under the Forbearance Agreement, reasonable consideration will be provided by the Bank to extending the Forbearance Period Expiry Date to February 28, 2007, if the Borrower can show to the Bank that it is dealing with *bona fide* third parties on a basis that would result, on or before February 28, 2007 in the Bank being provided with firms unconditional Offer(s) to sell, refinance or recapitalize the operations of the Borrower, on terms and conditions satisfactory to the Bank, acting in its sole discretion, the effect of which will be to cure all defaults under the Credit Agreement in a timeframe satisfactory to the Bank. There shall be no forbearance fee charged by the Bank for an extension of the Forbearance Period Expiry Date under this clause (e);
- (f) The Bank may exercise its discretion to extend the Forbearance Period Expiry Date beyond February 28, 2007, acting in its sole discretion;
- (g) The Borrower shall deliver to the Bank, commencing Friday, January 5, 2007 and on each Friday thereafter, a detailed written report of its efforts to sell, refinance or recapitalize its operations, which report shall also detail the status of all defaults under the Credit Agreement, the status of all liens filed against the Borrower, and an operational update on the Borrower's Campbell property;
- (h) The Borrower shall not sell, transfer, lease, encumber, or otherwise deal with any collateral under the Security (the "Collateral"), without the prior written approval of the Bank, who may impose terms and conditions upon its approval as it sees fit (including but not limited to the requirement that all proceeds of the Collateral be applied to reduce the indebtedness to the Bank);
- (i) The Borrower shall not declare or pay any dividends, repay any shareholder loans, or make any other payment to any person who does not deal at arm's length (as such term is defined in the *Income Tax Act*) with the Borrower;
- (j) The Borrower warrants and represents that it has paid in full all remittances for its employees in respect of income tax withholdings, Employment Insurance and Canada Pension Plan and that it has paid all amounts owing by it in respect of goods and services taxes, Workers' Compensation Board premiums and municipal taxes including (without limitation) business taxes, property taxes, local improvement taxes, to and including December 31, 2006. The Borrower further warrants and represents that it will continue to keep all such remittances, taxes and premiums in good standing;

- (k) The Borrower shall provide to the Bank immediate notice of any defaults or any deterioration in Existing Defaults under the Credit Agreement, Security and Forbearance Agreement;
  - (l) The Borrower shall provide to the Bank immediate notice of any further liens registered against the assets of the Borrower, or of any legal proceedings commenced against the Borrower;
  - (m) The reasonable costs of the Bank on a solicitor and own client basis for the preparation of this Forbearance Agreement, and for a review of the Security, and any other documents or work in relation thereto, shall be born by the Borrower, and shall be added to the outstanding indebtedness of the Borrower to the Bank.
3. Other than the Existing Defaults, the occurrence of any one or more of the following events shall constitute an event of default ("Event of Default") under this Agreement:
- (a) If any representation or warranty provided to the Bank (herein or otherwise) by the Borrower was incorrect when made or becomes incorrect;
  - (b) If the Borrower fails to perform or comply with any of his covenants or obligations contained in the Credit Agreement, Security or the Forbearance Agreement or in any other agreement or undertaking made between the Borrower and the Bank;
  - (c) If there is any further material deterioration of Existing Defaults under the Credit Agreement or Security;
  - (d) If the Borrower (i) commits an act of bankruptcy, makes an assignment for the benefit of creditors, or makes a proposal under the *Bankruptcy and Insolvency Act*; (ii) petitions or applies to any tribunal for the appointment of any receiver, trustee or similar liquidator for themselves or any of property of the Borrower; (iii) if any receiver, trustee, manager, consultant, liquidator or similar party is appointed in respect of any of the Borrower or any of the property of the Borrower; (iv) if a petition is filed against the Borrower in bankruptcy; or (v) if any proceeding is commenced relating to the Borrower or to any portion of his property under any law relating to reorganization, arrangement or re-adjustment of debt, dissolution or winding-up;
  - (e) If any person takes possession of any property of the Borrower by way of or in contemplation of enforcement of security, or a distress or execution or similar process is levied or enforced against any property of the Borrower; or if a final judgment or order for the payment of money is obtained or entered against the Borrower;
  - (f) If the Borrower fails to cooperate with the agents, advisors and appraisers retained

by the Bank;

- (g) If any portion of the Collateral is sold, transferred, leased, encumbered, or otherwise dealt with, without the prior written approval of the Bank and the proceeds are not provided to the Bank;
  - (h) If any portion of the Collateral is missing or not accounted;
  - (i) If there are any further liens filed against the assets of the Borrower which, in the Bank's reasonable opinion, has a material adverse impact on the Security;
  - (j) If a material legal proceeding is commenced against the Borrower which, in the Bank's reasonable opinion, has a material adverse impact on the Security;
  - (k) If in the Bank's sole opinion, acting reasonably, a material adverse change occurs in the business, affairs or condition of the Borrower, financial or otherwise, arising for any reason whatsoever.
4. In the Event of Default, the Bank will be at liberty, in its sole and unfettered discretion, to exercise all of the remedies available to it to enforce repayment of the full amount of the obligations of the Borrower under the Credit Agreement, including but not limited to the following:
- (a) The seizure, removal and sale of all or any part of the collateral under the Security;
  - (b) The notification of the assignment of debts and collection of accounts receivable under the Security;
  - (c) The appointment of a Receiver or Receiver and Manager pursuant to the Security;
  - (d) The filing of the Receiving Order and the appointment of a trustee in bankruptcy over the Corporation; or
  - (e) Any other remedy at law, equity, or provided under the Security.
5. If the Borrower pays all of its indebtedness to the Bank by the Forbearance Period Expiry Date, as extended if necessary, and if there have been no Events of Default, then:
- (a) The Bank and the Borrower agree that they will remise, release and forever discharge each other (including employees, directors, officers, agents, administrators, successors and assigns) of and from all actions, causes of action, costs, claims and demands of every nature or kind at law, in equity or under any statute contained in or relating to the Credit Agreement, Forbearance Agreement and Security;

- (b) The Bank shall discharge its Security at the Alberta *Personal Property Registry*, the Saskatchewan *Personal Property Registry* and the appropriate Land and PNG Registries in Alberta and Saskatchewan.

6. Any notice to be given by a party to Credit Agreement and the Forbearance Agreement to the other party may be sent, delivered, or faxed as follows:

Bank

National Bank of Canada  
Suite 1000, 407 – 8<sup>th</sup> Avenue, S.W.  
Calgary, AB T2P 1E5  
Attention: Murray D'Angelo  
Fax: (403) 294-4967

with copies to:

Parlee McLaws LLP  
Barristers and Solicitors  
3400, 150-6<sup>th</sup> Ave. S.W.  
Calgary, AB T2P 3Y7  
Attention: G. Scott Watson  
Fax: (403) 265-8263

The Borrower

Arapahoe Energy Corporation  
Suite 700, 602-12<sup>th</sup> Ave. S.W.  
Calgary, Alberta T2R 1J3  
Attention: Jeffrey Standen, President  
Fax: (403)

7. Time shall be of the essence of this Forbearance Agreement and the matters contemplated herein.
8. This Forbearance Agreement shall be construed and governed by the laws of the Province of Alberta and the courts of the Province of Alberta shall have exclusive jurisdiction with respect to any disputes arising out of this Forbearance Agreement.
9. No amendment or waiver of this Forbearance Agreement is binding upon a party unless in writing and signed by that party.
10. This Forbearance Agreement shall enure to the benefit of and be binding upon the parties

hereto and their respective successors and assigns.

- 11. The Borrower hereby agrees to take such further steps and give such further assurances as are reasonably required for the purpose of giving full force and effect to this Forbearance Agreement.
- 12. This Forbearance Agreement may be executed in as many counterparts as are necessary, and when a counterpart has been executed by each party hereto, all counterparts shall constitute an agreement.

**IN WITNESS WHEREFORE** this Forbearance Agreement has been executed, sealed and delivered by the parties hereto.

**NATIONAL BANK OF CANADA**

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

**ARAPAHOE ENERGY CORPORATION**

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

*PRES & CEO.*