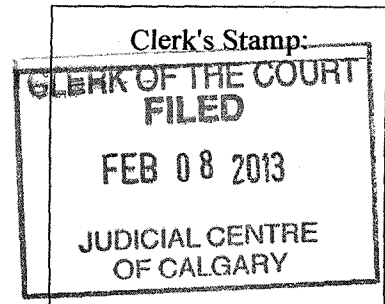


COURT FILE NUMBER 1201 15737
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY
APPLICANT IN THE MATTER OF THE *COMPANIES'*
CREDITORS ARRANGEMENT ACT, R.S.C.
1985, c. C-36, AS AMENDED
AND IN THE MATTER OF FAIRWEST
ENERGY CORPORATION



DOCUMENT **AFFIDAVIT OF DOUGLAS O. McNICHOL**
SWORN FEBRUARY 7, 2013

Burnet, Duckworth & Palmer LLP
2400, 525 – 8 Avenue S.W.
Calgary, Alberta T2P 1G1

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS DOCUMENT

Lawyer: Carole J. Hunter
Phone Number: (403) 260-0368
Fax Number: (403) 260-0332
Email Address: chunter@bdplaw.com

File No. 71301-1

AFFIDAVIT OF DOUGLAS O. McNICHOL
(Sworn February 7, 2013)

I, DOUGLAS O. McNICHOL of the City of Calgary, in the Province of Alberta, MAKE
OATH AND SAY:

1. I am the President and Chief Operating Officer of FairWest Energy Corporation ("FairWest" or the "Company"). As such, I have knowledge of the matters hereinafter deposed to, except where stated to be based on information and belief, in which case I have stated the source of the information and believe it to be true.

2. This affidavit is made in support of an application by FairWest for the following relief:
- (a) an Order granting an extension to the Stay Period (as defined in the Initial Order dated December 12, 2012) granted in these proceedings to and including March 15, 2013;
 - (b) an Order deleting paragraphs 31 and 32 of the Initial Order and replacing them with the following:

31. The Applicant is hereby authorized and empowered to obtain and borrow under a credit facility from Supreme Group Inc. (the "DIP Lender") in order to finance the Applicant's working capital requirements and other general corporate purposes and capital expenditures, provided that borrowings under such credit facility shall not exceed \$800,000 as more specifically set out in the Commitment Letter (as defined below) unless permitted by further order of this Court.

32. Such credit facility shall be on the terms and subject to the conditions set forth in the commitment letter between the Applicant and the DIP Lender dated as of December 10th, 2012, as amended pursuant to amending letters dated January 8, 2013 and February 7, 2013 (the "Commitment Letter"), filed.
 - (c) such other relief as may be sought by FairWest and granted by this Honourable Court.
3. On December 12, 2012, FairWest sought and obtained protection from its creditors pursuant to the Initial Order granted in these CCAA proceedings. The Initial Order provided for a stay of proceedings up to and including January 11, 2013. Pursuant to the Initial Order, PricewaterhouseCoopers Inc. was appointed as the monitor of FairWest (the "**Monitor**").
4. On January 11, 2013, pursuant to the Order of the Honourable Mr. Justice S. J. LoVecchio, the stay of proceedings in the Initial Order was extended to and including February 11, 2013.
5. Since the date of the Initial Order, FairWest has worked with the Monitor to stabilize operations, communicate with stakeholders, reduce costs and provide information to the Monitor and other stakeholders.

Restructuring Efforts

6. Since the commencement of the proceedings under the *Companies' Creditors Arrangement Act* (the "CCAA"), FairWest and the Monitor have been in communication with lenders,

trade suppliers, operators, investors and other stakeholders. It is FairWest's goal to ensure availability of information for its stakeholders.

7. The Monitor has established a website where all public documents in these proceedings are being made available: www.pwc.com/car-fec.

8. Since the CCAA proceedings began, FairWest has been focused on stabilizing operations and reducing costs. FairWest has taken a number of steps to reduce overhead and streamline its business including, the following:

- (a) On January 31, 2013, the disclaimer of the sublease between FairWest and Crescent Point Energy Corp. ("CPEC") for its office premises became effective. FairWest has now moved into new office premises which has resulted in a \$27,000 decrease (approximately 79%) in the monthly rental costs. On January 29, 2013, counsel for FairWest wrote a letter to counsel for CPEC requesting that CPEC return the \$100,000 security deposit held by CPEC to FairWest as soon as possible after January 31, 2013.
- (b) On December 20, 2012, FairWest provided notice to Crescent Point Resource Partnership ("**Crescent Point**") that FairWest was resigning as operator of a Burstall property in Saskatchewan effective January 1, 2013. On the same date, Crescent Point waived the notice period and took over operatorship of the Burstall property. On January 9, 2013, FairWest received confirmation that the Ministry of the Economy of Saskatchewan consented to the transfer of operatorship to Crescent Point. As a result, on January 25, 2013, FairWest requested a refund of the abandonment liability deposit it was required to provide to the government in Saskatchewan and anticipates it will receive a refund of approximately \$150,000. FairWest has requested that Crescent Point shut-in production at the Burstall property which will result in operating costs savings for FairWest. Crescent Point is reviewing the request at this time.
- (c) On January 31, 2013, the disclaimer of a contract for administrative and technical services provided Royalty Investment Limited Partnership ("**RILP**"), one of its joint venture partners became effective. FairWest is negotiating a new agreement with RILP pursuant to which FairWest will continue to provide services to RILP on a cost-recovery basis. A draft of the new agreement is being reviewed by RILP.

- (d) As of January 31, 2013, FairWest is in a position to take certain steps to collect outstanding accounts owing from RILP in accordance with the provisions of the Joint Operating Agreement between FairWest and RILP dated October 5, 2010 (the "**JOA**"). FairWest, in conjunction with the Monitor, is reviewing the terms of the JOA and the transactions between FairWest and RILP to determine what steps, if any, should be taken by FairWest in connection with this receivable. On January 31, 2013, FairWest received a letter from RILP's counsel requesting that FairWest withdraw the default notice issued to RILP on December 31, 2012 and provide an accounting to RILP of net production revenues and certain asset sales (the "**RILP Letter**"). In conjunction with the Monitor, FairWest is reviewing the allegations made in the RILP Letter and will provide a response in due course. At this time, FairWest does not see any basis for withdrawing the default notice issued to RILP on December 31, 2012.
- (e) FairWest has reduced its staff and will continue to make adjustments to its staffing requirements on a go-forward basis. Effective February 1, 2013, the total savings realized from staff reductions will be approximately \$36,000 per month (or approximately 24%). FairWest has also made reductions in its field operations and continues to determine whether further cost reductions can be made. To date, cost savings of approximately \$20,000 per month (or approximately 30%) have been realized through a reduction in field operating personnel. All aspects of general and administrative costs are being reviewed and reductions are being made on an ongoing basis.
- (f) On January 28, 2013, FairWest sent a notice of disclaimer of agreement to AltaGas Operating Partnership in respect of a Firm/Dedicated Gas Gathering and Processing Agreement for the Kirkpatrick area (the "**AltaGas Agreement**"). The processing fees under the AltaGas Agreement had increased from \$0.56/mcf to \$1.74/mcf since July 2011 making the processing of gas by FairWest in the Kirkpatrick area uneconomic. The disclaimer of the AltaGas Agreement is to become effective on February 28, 2013. To reduce costs, FairWest has shut-in production in the Kirkpatrick area until the AltaGas Agreement is disclaimed and FairWest can divert its production to another facility in the area where the processing costs are more economical for FairWest.

9. In addition to the foregoing, FairWest is continuing to review its agreements with various third parties to determine where additional cost savings could be realized.

10. FairWest retained Sproule Associates Limited ("**Sproule**") to complete an independent evaluation of FairWest's oil and gas reserves for the year ended December 31, 2012. Sproule will provide FairWest with a report which sets out the value for FairWest's proved plus probable oil, natural gas and natural gas liquids reserves. The report provided by Sproule, together with independent land and seismic valuations that FairWest has obtained, will assist FairWest in determining the direction of the restructuring and provide a basis for any plan of arrangement that FairWest will ultimately be able to present to its stakeholders for consideration. It is anticipated that the Sproule report will be completed by February 28, 2013.

11. FairWest will be retaining a broker with expertise in the Canadian oil and natural gas industry to begin the process of setting up a data room and attending to other preliminary activities in the event that FairWest determines that a sales process in respect of its business should be undertaken. If it is necessary, FairWest would like to be in a position to seek this Honourable Court's approval of a sales process when it returns to Court for the next stay extension application.

Cash Flows

12. Attached as Exhibit "B" to the Second Report of the Monitor dated February 7, 2013 are FairWest's cash flows projections for the period from February 2, 2013 to March 15, 2013 (the "**Cash Flows**"). The Cash Flows have been prepared in conjunction with the Monitor and I verily believe them to be accurate.

13. Based on the Cash Flows, it is anticipated that FairWest will require advances in the aggregate amount of \$798,003 under credit facility dated as of December 10, 2012 between the Supreme Group Inc. (the "**DIP Lender**") and FairWest, as amended by an amending letter dated January 8, 2013 (the "**Commitment Letter**"). The Commitment Letter currently provides for borrowings in the maximum amount of \$700,000 and, as a result, FairWest requires an increase in the borrowings available under the Commitment Letter to \$800,000.

14. On February 7, 2013, FairWest and the DIP Lender amended the Commitment Letter by (i) extending the Maturity Date (as defined in the Commitment Letter) from February 11, 2013 to March 15, 2013; (ii) replacing the Cash Flow Forecast attached as Schedule A to the Commitment Letter with the updated Cash Flows and (iii) increasing the borrowings available to a maximum amount of \$800,000 (the "**Amending Letter**"). The Amending Letter also states that FairWest shall not make any payment in respect of any surface rental costs except where there is evidence provided to the DIP Lender that such

costs relate to the post-filing period and where such costs have been reviewed and approved by the Monitor. A copy of the Amending Letter is attached hereto as Exhibit "A".

15. FairWest requires that the additional funds contemplated under the amended Commitment Letter in order to continue its operations and meet its post-filing obligations in the ordinary course. The additional funds will enhance the prospects of a viable compromise or arrangement being made in respect of FairWest. It is FairWest's position that none of its creditors will be materially prejudiced as a result of the increase in the amount of the DIP Charge (as defined in the Initial Order) against FairWest's assets.

Other Information

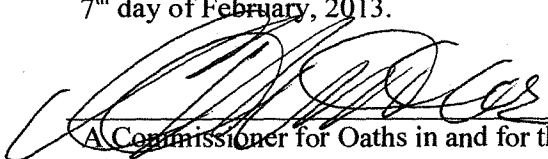
16. On February 5, 2013, Vernon Fauth, who is currently the Chairman and Chief Executive Officer and a director of FairWest advised FairWest that he intended to resign from these positions by the end of this week. At this time, FairWest has not received a letter of resignation from Mr. Fauth.

17. I verily believe that FairWest has been acting in good faith and with due diligence in these proceedings and believe it is in the best interests of FairWest and its stakeholders to extend the Stay Period so that FairWest can continue its restructuring efforts.

18. I swear this affidavit in support of FairWest's application for the relief set out in paragraph 2 of this Affidavit, and for no other or improper purpose.

SWORN BEFORE ME at the
City of Calgary, in the
Province of Alberta, this
7th day of February, 2013.

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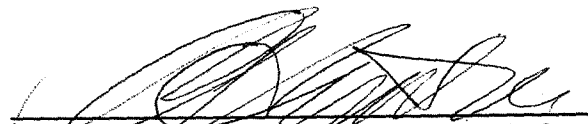

A Commissioner for Oaths in and for the Province
of Alberta


DOUGLAS O. McNICHOL

CAROLE J. HUNTER
Barrister & Solicitor

**THIS IS EXHIBIT "A" REFERRED TO IN
THE AFFIDAVIT OF DOUGLAS O.
MCNICHOL.**

**SWORN BEFORE ME THIS 7TH DAY OF
FEBRUARY, 2013**


A Commissioner for Oaths in and for the
Province of Alberta

**CAROLE J. HUNTER
Barrister & Solicitor**

February 7, 2013

FairWest Energy Corporation
800, 407 – 2 Street SW
Calgary, AB T2P 2Y3

Attention: Douglas O. McNichol

Dear Sirs:

We refer to the commitment letter dated December 10, 2012 as amended by an amending letter dated January 8, 2013 (the “**Commitment Letter**”) between Supreme Group Inc. (the “**DIP Lender**”) and FairWest Energy Corporation (the “**Borrower**”). Capitalized terms used and not otherwise defined herein have the meanings given to such terms in the Commitment Letter.

We confirm our agreement to amend the Commitment Letter by:

1. extending the Maturity Date from February 12, 2013 until March 15, 2013; and
2. replacing the Cash Flow Forecast attached as Schedule A to the Commitment Letter with the Cash Flow Forecast attached as Schedule A hereto.

Notwithstanding an provision in the Commitment Letter or any amount set out in the Cash Flow Forecast attached as Schedule A hereto, the Borrower shall not make any payment in respect of any surface rental costs except for payments in respect of post-CCAA rental costs reviewed and approved by the Monitor. Prior to paying any such approved costs, the Borrower shall provide the DIP Lender with evidence of such obligations.

All other terms and conditions outlined in the Commitment Letter shall remain in full force and effect, unamended and binding upon the parties.

The DIP Lender reserves all of its rights and remedies at any time and from time to time in connection with any or all breaches, defaults or Events of Default now existing or hereafter arising under the Commitment Letter or any other agreement delivered by the Borrower to the DIP Lender, and whether known or unknown, and this amending agreement shall not be construed as a waiver of any such breach, default or Event of Default.

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SUPREME GROUP INC.

Per: 

Name: John H. Leder

Title: *President*

We acknowledge and accept the terms and conditions of this amending agreement on this 7th day of February, 2013.

FAIRWEST ENERGY CORPORATION

Per: 

Name: **D.O. McNichol, P.Eng.**

Title: **President & C.O.O.**

SCHEDULE A - Cash Flow Forecast

FAIRWEST ENERGY CORPORATION

STAY REQUEST - FEB 12 TO MAR 15 (32 days)

42 DAY CASH FLOW SUMMARY (first 10 days a part of prior CF)

	Notes	WEEK 1 FEB 2 - 11	WEEK 2 FEB 12 - 22	WEEK 3 FEB 23 - MAR 1	WEEK 4 MAR 2 - 8	WEEK 5 MAR 9 - 15	TOTAL Feb 2 - Mar 15
OPERATIONS							
Oil & Gas Revenue	1	5,000	15,306	347,774	35,000	-	403,079
Operating Expenses	1	(31,920)	(9,000)	(263,959)	(14,000)	(168,974)	(487,853)
CASH FLOW FROM OPERATIONS		(26,920)	6,306	83,814	21,000	(168,974)	(84,774)
CASH EXPENSES							
G&A	2	-	(72,200)	(148,367)	-	-	(220,567)
Interest	3	-	-	(9,087)	-	-	(9,087)
Reorganization Expenses	4	-	-	(60,000)	-	-	(60,000)
TOTAL CASH EXPENSES		-	(72,200)	(217,454)	-	-	(289,654)
Change in Cash		(26,920)	(65,894)	(133,640)	21,000	(168,974)	(374,428)
Opening Cash		117,563	90,643	24,749	(108,891)	(87,891)	117,563
ENDING CASH BALANCE		90,643	24,749	(108,891)	(87,891)	(256,865)	(256,865)
January 10th DIP Draw							(245,801)
January 28th, DIP Draw							(295,337)
Current Total DIP Draws							(541,138)
Ending DIP Requirement							(798,003)

Notes

Management of FEC have prepared this Projected Cash Flow Statement based on probable and hypothetical assumptions detailed in Notes 1-4.

Consequently, actual results will likely vary from performance projected and such variations may be material.

The projections have been prepared solely for the Company's CCAA filing. As such, readers are cautioned that it may not be appropriate for other purposes.

1. FEC operates the majority of its working interests. Depending on the area, the monthly receipts and operating costs are disclosed as net of partnership interests or on a gross basis.
2. Estimated based on historical trends.
3. Per the DIP financing agreement and the existing credit facility.
4. Estimated based on similar CCAA proceedings.