

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 MARCH 14, 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

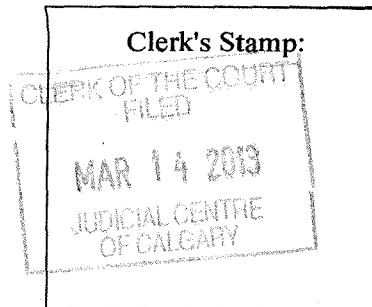
Lawyer: Carole J. Hunter  
Phone Number: (403) 260-0368  
Fax Number: (403) 260-0332  
Email Address: [chunter@bdplaw.com](mailto:chunter@bdplaw.com)

File No. 71301-1

**AFFIDAVIT OF DOUGLAS O. McNICHOL**  
**(Sworn March 14, 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 April 26, 2013;
- (b) an Order adding paragraph 6A to the Initial Order which provides as follows:

6A. The Applicant shall not make any disbursements unless the Monitor has confirmed to the Applicant, in accordance with paragraph 24(k) hereof, that such disbursements are consistent with the cash flow forecasts prepared by the Monitor, provided that in the event that the Applicant believes reasonably and in good faith after consultation with the Monitor that the failure to make any disbursement not contemplated by the cash flow forecasts would (i) have a material adverse effect on the value of its business or assets, or (ii) pose a material risk to public health or safety, then the Applicant shall be permitted to make such disbursement notwithstanding that it is inconsistent with the cash flow forecast.

- (c) an Order amending paragraph 24 of the Initial Order to include the following:
- (k) The Monitor shall review all future disbursements by the Applicant to confirm that such disbursements are made in accordance with the cash flow forecast prepared by the Monitor.

- (d) 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 \$900,000 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 10<sup>th</sup>, 2012, as amended pursuant to amending letters dated January 8, 2013, February 7, 2013 and March 12, 2013 (the "**Commitment Letter**"), filed.

- (e) authorizing and approving the engagement of PricewaterhouseCoopers Corporate Finance Inc. as financial advisor (the "**Financial Advisor**") to FairWest;
- (f) an Order approving the sales and investment solicitation process (the "**SISP**") to be undertaken by PricewaterhouseCoopers Inc., in its capacity as monitor of FairWest (the "**Monitor**") and the Financial Advisor; and
- (g) 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.

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. On February 11, 2013, pursuant to the Order of the Honourable Madam Justice K. M. Eidsvik, the stay of proceedings was further extended to and including March 15, 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](http://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. FairWest is still waiting for CPEC's position on the return of the security deposit.
- (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. 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 was 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"). In accordance with its rights under the JOA, FairWest is withholding the net monthly production revenue which would otherwise be payable to RILP in an attempt to collect the accounts receivable which are in excess of \$500,000. 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"). On February 6, 2013, FairWest also received a letter from Tallinn Capital Corp. ("Tallinn"), the lender for RILP demanding payment of amounts owing to RILP that Tallinn claimed that been withheld by FairWest and over which Tallinn claims priority over pursuant to a

subordination agreement executed by Tallinn and FairWest (the "**Tallinn Letter**"). In conjunction with the Monitor, FairWest has reviewed the allegations made in the RILP Letter and the Tallinn Letter. FairWest has advised RILP that FairWest does not see any basis for withdrawing the default notice issued to RILP on December 31, 2012. FairWest has also advised Tallinn that no payments will be made by FairWest to Tallinn. FairWest, in conjunction with the Monitor, are reviewing the subordination agreement to determine its validity and enforceability.

- (e) FairWest has reduced its staff and will continue to make adjustments to its staffing requirements on a go-forward basis. Effective March 1, 2013, the total savings realized from staff reductions will be approximately \$48,000 per month (or approximately 34%). FairWest has also made reductions in its field operations and continues to determine whether further cost reductions can be made. 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 became effective on February 28, 2013. To reduce costs, FairWest has shut-in production in the Kirkpatrick area until FairWest can divert its production to another facility in the area where the processing costs are more economical for FairWest. AltaGas did not oppose the disclaimer of the AltaGas Agreement and, as a result, the disclaimer became effective on February 28, 2013. The disclaimer of the AltaGas Agreement and the shut-in of production in the Kirkpatrick area has resulted in a costs savings of approximately \$33,000 per month. FairWest is currently in discussions with other facility owners to determine whether the production can be reactivated in the Kirkpatrick area with more economical processing rates.

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. On February 5, 2013, FairWest received notice from the Energy Resources Conservation Board (the "**ERCB**") that a security deposit in the amount of \$111,880.54 was required to be posted by FairWest to offset the difference between FairWest's deemed assets and deemed liabilities. The ERCB

indicated that this amount was to be paid on or before March 1, 2013. On February 26, 2013, FairWest requested an extension of the time to pay the security deposit to April 1, 2013 as FairWest was unaware of the requirement to pay the security deposit when the cash flow projections for the period ending March 15, 2013 had been prepared and approved by the DIP Lender (as hereinafter defined). The ERCB did not agree to the extension of the time to pay and has issued a Notice of Low Risk Noncompliance against FairWest and has advised FairWest that it must pay the security deposit (which is now in the amount of \$457,359.96 based on the March 2013 assessment of assets and liabilities) by April 5, 2013. The ERCB has advised that FairWest will be provided with additional time to pay the security deposit during the CCAA proceedings but that the ERCB expects full payment of the security deposit when FairWest emerges from CCAA protection.

#### ***Sales and Investment Solicitation Process***

11. 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 has now provided 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, provide a basis to analyze any proposals received from interested parties during the SISP (discussed in more detail below) and/or provide a basis for any plan of arrangement that FairWest may ultimately be able to present to its stakeholders for consideration.

12. FairWest has engaged PricewaterhouseCoopers Corporate Finance Inc. as its financial advisor (the "**Financial Advisor**") to, in conjunction with the Monitor, solicit offers to acquire, restructure or recapitalize FairWest. FairWest, the Monitor and the Financial Advisor have drafted a SISP procedure, attached hereto as **Exhibit "A"**, which includes the following:

- (a) an advertisement being placed in the *Daily Oil Bulletin* and a press release being made by FairWest on Canada Newswire setting out the information relating to the SISP;
- (b) the Financial Advisor preparing and distributing an information package to distribution to potential bidders;
- (c) interested parties executing a non-disclosure agreement (the "**NDA**") and thereafter receiving a confidential information memorandum;
- (d) interested parties submitting their bids to acquire, restructure or recapitalize FairWest on or before April 5, 2013;

- (e) The Monitor, in consultation with FairWest and the Financial Advisor, determining which proposal is in the best interests of FairWest and its stakeholders; and
- (f) FairWest seeking court approval of the successful proposal.

13. FairWest anticipates that the SISP will commence immediately following the court application on March 15, 2013 and will be completed by April 5, 2013. FairWest anticipates seeking Court approval of a definitive agreement by mid-April 2013.

14. The requirement of FairWest to provide the security deposit to the ERCB will be disclosed to interested parties during the SISP. FairWest anticipates that any party interested in purchasing FairWest or some or all of its assets will have to pay at least a portion of the security deposit. FairWest and the Monitor will be discussing the issues relating to the security deposit with the ERCB in the coming weeks.

15. The cash flow projections prepared for the period ending March 15, 2013 contemplated the payment surface rental costs where evidence was provided to the DIP Lender that such costs related to the post-filing period and where such costs had been reviewed and approved by the Monitor (the "**Surface Rental Costs**"). The Surface Rental Costs for some leases with start dates between December 12, 2012 to February 28, 2013 have been paid by FairWest, however, no further payments will be made during the CCAA proceedings due to FairWest's inability to funds these costs. The non-payment of the Surface Rental Costs will be disclosed to all interested parties during the SISP and the payment of all amounts owing in respect of any surface lease that is to be assigned as a result of the successful completion of a sales transaction will be required to be paid by the purchaser.

### **Cash Flows**

16. Attached as Schedule "B" to the Third Report of the Monitor dated March 14, 2013 are FairWest's cash flows projections for the period ending April 26, 2013 (the "**Cash Flows**"). The Cash Flows have been prepared in conjunction with the Monitor and I verily believe them to be accurate.

17. Based on the Cash Flows, it is anticipated that FairWest will require advances in the aggregate amount of \$894,922 under credit facility dated as of December 10, 2012 between Supreme Group Inc. (the "**DIP Lender**") and FairWest, as amended by amending letters dated January 8, 2013 and February 7, 2013 (the "**Commitment Letter**"). The Commitment Letter currently provides for borrowings in the maximum amount of \$800,000 and, as a result, FairWest requires an increase in the borrowings available under the Commitment Letter to \$900,000.

18. On March 14, 2013, FairWest and the DIP Lender amended the Commitment Letter by (i) extending the Maturity Date (as defined in the Commitment Letter) from March 15, 2013 to April 26, 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 \$900,000 (the "Amending Letter"). The Amending Letter also includes, among other things, an increase to the interest rate under the Commitment Letter, payment of an extension fee of \$15,000, the addition of an additional event of default and a requirement that the Monitor review all future disbursements proposed to be made by FairWest. The DIP Lender will now directly fund the restructuring costs to the Monitor and counsel for the Applicant and no funds will be advanced by the DIP Lender to FairWest in respect of operating expenses and general and administrative costs. A copy of the Amending Letter is attached hereto as **Exhibit "B"**.

19. FairWest requires that the additional funds contemplated under the amended Commitment Letter in order to continue its operations, meet its post-filing obligations in the ordinary course and complete the SISP procedure outlined above. 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.

20. 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.

21. 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 14<sup>th</sup> day of )  
March, 2013. )  
)  
)  
)  
)  
)

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 14<sup>TH</sup> DAY OF  
MARCH, 2013**

  
**A Commissioner for Oaths in and for  
the Province of Alberta**

**CAROLE J. HUNTER  
Barrister & Solicitor**

## **Procedures for the Sale and Investor Solicitation Process**

On December 12, 2012, FairWest Energy Corporation ("FairWest") obtained an initial order (the "**Initial Order**") under the *Companies' Creditors Arrangement Act* ("CCAA") from the Court of Queen's Bench of Alberta (the "**Court**"). On March 15, 2013, as part of the CCAA proceedings, the Court approved the Sale and Investor Solicitation Process (the "**SISP**") set forth herein to determine whether a Successful Bid (as defined below) can be obtained (the "**SISP Order**").

Set forth below are the procedures (the "**SISP Procedures**") to be undertaken in accordance with the SISP to seek a Successful Bid, and if there is a Successful Bid, to complete the transactions contemplated by the Successful Bid.

### **Defined Terms**

All capitalized terms used but not otherwise defined herein shall have the meanings given to them in the SISP Order. In addition, in these SISP Procedures:

**"Business Day"** means a day, other than a Saturday or Sunday, on which banks are open for business in the City of Calgary.

**"Secured Creditor"** means Supreme Group Inc.

**"PwC"** or the **"Financial Advisor"** means PricewaterhouseCoopers Corporate Finance Inc.

**"Monitor"** means PricewaterhouseCoopers Inc.

### **Solicitation Process**

The SISP Procedures set forth herein describes the manner in which prospective bidders may gain access to or continue to have access to due diligence materials concerning FairWest and its assets, the manner in which bidders and bids become Qualified Bidders and Qualified Bids (each as defined below), respectively, the receipt and negotiation of bids received, the ultimate selection of a Successful Bidder (as defined below) and the approval thereof by the Court (collectively, the "**Solicitation Process**").

The Monitor shall supervise the SISP Procedures and in particular shall supervise the Financial Advisor in connection therewith. FairWest is required to assist and support the efforts of the Monitor and the Financial Advisor as provided for herein. In the event that there is disagreement as to the interpretation or application of these SISP Procedures, the Court will have jurisdiction to hear and resolve such dispute.

The Solicitation Process will proceed as follows:

- (a) As soon as reasonably practicable after the granting of the SISP Order approving these SISP Procedures, but in any event no more than three (3) Business Days after the issuance of the SISP Order, the Monitor shall cause a notice of the SISP contemplated by these SISP Procedures and such other relevant information which the Monitor, in consultation with the Financial Advisor and FairWest, considers appropriate to be published in the *Daily Oil Bulletin*. At the same time, FairWest shall issue a press release setting out the notice and such other relevant information in form and substance satisfactory to the Monitor, following consultation with the Financial Advisor, with Canada Newswire designating dissemination in Canada and major financial centres in the United States;

- (b) the Financial Advisor shall prepare and distribute an information package with respect to FairWest's assets for distribution to potential bidders by no later than March 20, 2013 (the "**Information Package**");
- (c) A confidential information memorandum describing the opportunity to acquire all or substantially all of the property of FairWest or invest in FairWest (the "**Confidential Information Memorandum**") will be made available by the Financial Advisor to prospective purchasers or prospective strategic or financial investors that have executed a non-disclosure agreement with FairWest;
- (d) In order to participate in the Solicitation Process, each person (a "**Potential Bidder**") other than the Secured Creditor must deliver to the Financial Advisor at the address specified in **Appendix "A"** hereto (including by email or fax transmission), and prior to the distribution of any confidential information by the Financial Advisor to a Potential Bidder (including the Confidential Information Memorandum), an executed non-disclosure agreement in form and substance satisfactory to the Monitor, the Financial Advisor and FairWest, which shall inure to the benefit of any purchaser of the assets of FairWest or any investor in FairWest;
- (e) A Potential Bidder that has executed a non-disclosure agreement, as described above, will be deemed a "**Qualified Bidder**" and will be promptly notified of such classification by the Financial Advisor. For the avoidance of doubt, the Secured Creditor shall be deemed to be a "Qualified Bidder" whether or not it delivers a non-disclosure agreement;
- (f) The Financial Advisor shall provide any person determined or deemed to be a Qualified Bidder with a copy of the Confidential Information Memorandum and access to the electronic and physical data rooms (the "**Data Rooms**"). The Monitor, the Financial Advisor and FairWest make no representation or warranty as to the information contained in the Confidential Information Memorandum or in the Data Rooms, except to the extent otherwise contemplated under any definitive sale or investment agreement with a Successful Bidder executed and delivered by FairWest;
- (g) A Qualified Bidder, if it wishes to submit a bid (a "**Final Bid**"), will deliver written copies of a binding offer contemplating either the acquisition of assets of FairWest or shares thereof (a "**Sale Proposal**") or a term sheet for an investment proposal contemplating investment in FairWest (an "**Investment Proposal**") to the Financial Advisor at the address specified in **Appendix "A"** hereto (including by email or fax transmission) so as to be received by it not later than 12:00 p.m. (Mountain Standard Time) on April 5, 2013, or such other date or time as may be agreed by the Financial Advisor, in consultation with the Monitor, FairWest and the Secured Creditor (the "**Bid Deadline**");
- (h) A Final Bid will be considered a Qualified Bid only if the Final Bid complies with, among other things, the following (a "**Qualified Bid**"):
  - (i) it contains a duly executed binding offer irrevocable until not less than 45 days after the Bid Deadline;
  - (ii) except in the case of any credit bid that may be delivered by the Secured Creditor, it provides written evidence of financial commitment;

- (iii) it fully discloses the identity of each entity that will be sponsoring or participating in the bid, and the complete terms of any such participation;
- (iv) except in the case of any credit bid that may be delivered by the Secured Creditor, it is accompanied by a refundable deposit (the "**Deposit**") in the form of a wire transfer (to a bank account specified by the Monitor), or such other form acceptable to the Monitor, payable to the order of the Monitor, in trust,
  - (A) if the total consideration is quantifiable, at the time the Sale Proposal or Investment Proposal is submitted, in an amount equal to 10% of that total consideration in the Qualified Bid; or
  - (B) if the total consideration is unquantifiable, at the time the Sale Proposal or Investment Proposal is submitted, in an amount to be determined by the Monitor payable on demand,

which deposit is to be held and dealt with in accordance with these SISP Procedures;
- (v) it is not conditional upon:
  - (A) the outcome of unperformed due diligence by the Qualified Bidder; and/or
  - (B) obtaining financing;
- (vi) it shall contain such other information reasonably requested by the Financial Advisor, in consultation with the Monitor, FairWest and the Secured Creditor; and
- (vii) it is received by the Bid Deadline;

(i) The Monitor, in consultation with the Financial Advisor, FairWest and the Secured Creditor, may waive compliance with any one or more of the requirements specified herein and deem such non-compliant bids to be Qualified Bids;

(j) The Monitor, in consultation with the Financial Advisor, FairWest and the Secured Creditor, shall determine the most favourable Qualified Bid (the "**Successful Bid**"); provided that if the value of the total consideration pursuant to any Final Offer is less than or equal to the total amount owing by FairWest to the Secured Creditor (whether for principal, interest, fees, recoverable costs or otherwise) (the "**Secured Creditor Obligations**"), then the Monitor shall not designate such Final Offer as the Successful Bid without the prior written consent of the Secured Creditor. If the value of the total consideration pursuant to any Qualified Bid is greater than the total amount of the Secured Creditor Obligations, then the Secured Creditor's consent to the designation of such Final Offer as the Successful Bid shall not be required. If the Secured Creditor does not consent to the designation of any Qualified Bid as the Successful Bid in accordance with the SISP Procedures and no Qualified Bids are received on the Bid Deadline that exceed the amount of the Secured Creditor Obligations, then the SISP will automatically terminate.

- (k) If a Qualified Bid is determined to be a Successful Bid in accordance with the SISP Procedures, then FairWest shall proceed to negotiate and settle the terms of a definitive agreement in respect of the Successful Bid, all of which shall be conditional upon Court approval and also conditional on the Successful Bid closing not later than 21 days after the Bid Deadline, or such longer period as shall be agreed to by the Monitor, in consultation with the Financial Advisor, FairWest and the Secured Creditor.
- (l) Once a definitive agreement has been negotiated and settled in respect of the Successful Bid in accordance with the SISP Procedures, the person(s) who made the Successful Bid shall be the "**Successful Bidder**" hereunder;
- (m) FairWest shall promptly apply to the Court for an order approving the Successful Bid and authorizing FairWest to enter into any and all necessary agreements with respect to the Successful Bidder, as well as an order vesting title to the purchased property in the name of the Successful Bid (the "**Approval and Vesting Motion**"). The Approval and Vesting Motion will be held on a date to be scheduled by the Court upon application by FairWest. The Approval and Vesting Motion may be adjourned or rescheduled by the Monitor without further notice, by an announcement of the adjourned date at the Approval and Vesting Motion; and
- (n) All Qualified Bids (other than the Successful Bid) shall be deemed rejected on and as of the date of approval of the Successful Bid by the Court.

#### Deposits

All Deposits shall be retained by the Monitor and invested in an interest bearing trust account. If there is a Successful Bid, the Deposit (plus accrued interest) paid by the Successful Bidder whose bid is approved at the Approval and Vesting Motion shall be applied to the purchase price to be paid or investment amount to be made by the Successful Bidder upon closing of the approved transaction and will be non-refundable. The Deposits (plus applicable interest) of Qualified Bidders not selected as the Successful Bidder shall be returned to such bidders within five Business Days of the date upon which the Successful Bid is approved by the Court. If there is no Successful Bid or if the SISP automatically terminates, all Deposits shall be returned to the bidders within five Business Days of the date upon which the SISP is terminated in accordance with these procedures.

#### Approvals

For greater certainty, the approvals required pursuant to the terms hereof are in addition to, and not in substitution for, any other approvals required by the CCAA or any other statute or as otherwise required at law in order to implement a Successful Bid.

#### No Amendment

There shall be no amendments to this SISP, including, for greater certainty the process and procedures set out herein, without the consent of the Monitor, Financial Advisor, FairWest and the Secured Creditor.

#### "As Is, Where Is"

The sale of FairWest's assets or any investment in FairWest will be on an "as is, where is" basis and without surviving representations or warranties of any kind, nature, or description by the Monitor,

FairWest or any of their agents or estates, except to the extent set forth in the relevant sale or investment agreement with a Successful Bidder.

**Free Of Any And All Claims And Interests**

In the event of a sale, to the extent permitted by law, all of the rights, title and interests of FairWest in and to the assets to be acquired will be sold free and clear of all pledges, liens, security interests; encumbrances, claims, charges, options, and interests thereon and there against (collectively, the "Claims and Interests") pursuant to section 36(6) of the CCAA, such Claims and Interests to attach to the net proceeds of the sale of such assets (without prejudice to any claims or causes of action regarding the priority, validity or enforceability thereof), except to the extent otherwise set forth in the relevant sale agreement with a Successful Bidder.

An investment in FairWest may, at the option of the Successful Bidder, include one or more of the following: a restructuring, recapitalization or other form of reorganization of the business and affairs of FairWest as a going concern or a sale of the assets to a newly formed acquisition entity on terms described in the above paragraph.

**No Obligation to Conclude a Sale**

Neither the Monitor, nor FairWest, have any obligation to conclude a sale arising out of this Solicitation Process, and they reserve the right and unfettered discretion to reject any offer or proposal.

**Further Orders**

At any time during the Solicitation Process, the Monitor may, following consultation with the Financial Advisor and FairWest, apply to the Court for advice and directions with respect to the discharge of its powers and duties hereunder.

**Appendix "A"****Addresses for Notices****The Monitor:**

PricewaterhouseCoopers Inc.  
3100, 111 – 5<sup>th</sup> Avenue S.W.  
Calgary, AB T2P 5L3

Attention: Mr. Paul Darby  
Facsimile: 403-781 1825  
Email: paul.j.darby@ca.pwc.com

**The Financial Advisor:**

PricewaterhouseCoopers Corporate Finance Inc.  
TD Tower, 10088 102 Avenue N.W.  
Suite 1501  
Edmonton, AB T5J 3N5

Attention: Megan McGinley  
Facsimile: 780-441 6776  
Email: megan.r.mcginley@ca.pwc.com

**THIS IS EXHIBIT "B" REFERRED TO IN THE  
AFFIDAVIT OF DOUGLAS O. McNICHOL.**

**SWORN BEFORE ME THIS 14<sup>TH</sup> DAY OF  
MARCH, 2013**

  
**A Commissioner for Oaths in and for  
the Province of Alberta**

**CAROLE J. HUNTER  
Barrister & Solicitor**

March 12, 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 and as further amended by an amending letter dated February 6, 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.

Subject to the terms and conditions hereof, we confirm our agreement to amend the Commitment Letter by:

1. extending the Maturity Date from March 15, 2013 until April 26, 2013;
2. replacing the Cash Flow Forecast attached as Schedule A to the February 6, 2013 amending letter with the Cash Flow Forecast attached as Schedule A hereto (the “**Cash Flow Forecast**”);
3. increasing the rate of interest on the DIP Loan from and after the date hereof from BMO Bank of Montreal Prime plus 10.00% per annum to BMO Bank of Montreal Prime plus 12.00% per annum; and
4. adding the following new paragraph 12 to the Events of Default section of the Commitment Letter:

“12. If the deadline established by the Monitor for the submission of bids to acquire Borrower or all or any portion of the assets of the Borrower occurs and no credible, reasonably certain and financially viable offer for the purchase the Borrower or any of its assets has been received prior to such deadline and the Lender determines, in its sole discretion, that it will not submit any bid (including any credit bid) to acquire the Borrower or any assets of the Borrower.”

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

The terms of this amending letter shall not take effect unless and until:

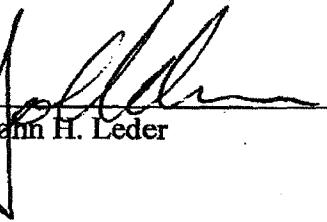
1. the pre-filing BMO Bank of Montreal Facility has been amended to increase the rate of interest on such facility from BMO Bank of Montreal Prime plus 2.50% per annum to BMO Bank of Montreal Prime plus 7.50% per annum; and
2. the Initial Order shall have been amended in a manner satisfactory to the Lender in order to provide that all future disbursements by the Borrower shall be subject to prior confirmation by the Monitor that such disbursements are made in accordance with the Cash Flow Forecast.

The Borrower covenants and agrees that upon execution of this amending letter and upon the Court's approval of the amendments, the extension fee of \$15,000.00 shall be earned by and payable to the DIP Lender.

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.

*[Remainder of Page Intentionally Left Blank]*

**SUPREME GROUP INC.**

Per: 

Name: John H. Leder

Title:

We acknowledge and accept the terms and conditions of this amending agreement  
on this 14<sup>th</sup> day of March, 2013.

**FAIRWEST ENERGY CORPORATION**

Per: 

Name: Douglas O. McNichol

Title: President

**SCHEDULE A**  
**CASH FLOW FORECAST**

See attached.

## Schedule A - Cash Flow Forecast

FAIRWEST ENERGY CORPORATION  
CASH FLOW SUMMARY (to April 28 2013)

Notes	THIRD STAY PERIOD (Week 5) MAR 9 - 15	FOURTH STAY PERIOD (Sales Process)						TOTAL MAR 9- APR 26
		WEEK 5 MAR 16 - 22	WEEK 1 MAR 23-29	WEEK 2 MAR 30 - APR 5	WEEK 4 APR 6 - 12	WEEK 5 APR 13 - 19	WEEK 6 APR 20 - 26	
<b>OPERATIONS</b>								
Oil & Gas Revenue	1	13,000	23,606	313,039	35,000	12,606	313,039	710,286
Operating Expenses	1	(44,920)	(4,000)	(198,468)	(14,000)	(15,500)	(4,000)	(468,340)
<b>CASH FLOW FROM OPERATIONS</b>		(31,920)	19,606	114,570	21,000	(15,500)	8,608	125,587
<b>CASH EXPENSES</b>								
G&A	2	-		(129,409)	-		(14,559)	(135,708)
Interest	3	-		(15,000)	-	(8,140)	-	(23,140)
<b>TOTAL CASH EXPENSES</b>		-	(15,000)	(129,409)	(8,140)	-	(14,559)	(302,817)
Change in Cash		(31,920)	4,606	(14,840)	12,860	(15,500)	(5,953)	(10,122)
Opening Cash		67,085	35,165	39,771	24,931	37,791	22,291	16,338
<b>ENDING CASH BALANCE</b>		<b>35,165</b>	<b>39,771</b>	<b>24,931</b>	<b>37,791</b>	<b>22,291</b>	<b>16,338</b>	<b>6,216</b>

January 10th DIP Draw	(245,801)
January 28th, DIP Draw	(295,337)
February 25th, DIP Draw	(50,000)
<b>Current Total DIP Draws</b>	<b>(591,138)</b>
<b>Projected Reorganization Costs</b>	<b>(310,000)</b>
<b>Total DIP Requirement</b>	<b>(894,922)</b>

### 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.