

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 **SUPPLEMENTAL AFFIDAVIT OF DOUGLAS O. McNICHOL**  
**SWORN MARCH 18, 2013**

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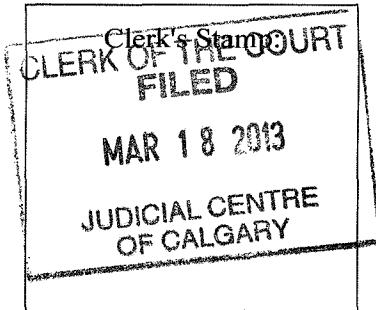
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File No. 71301-1

**AFFIDAVIT OF DOUGLAS O. McNICHOL**  
**(Sworn March 18, 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. Any capitalized terms used but not defined herein shall have the meaning set out in my affidavit sworn March 14, 2013.



3. This Affidavit is in response to the Application filed by AFM Management Inc., the general partner of Royalty Investments Limited Partnership ("RILP") returnable on March 19, 2013 (the "RILP Application") and the Affidavit of Vernon R. Fauth sworn March 18, 2013. The RILP Application seeks, among other things, an order directing FairWest to account to RILP for the revenues from oil and gas properties where RILP has a working interest and an order directing FairWest to pay the revenue for the production months of December 2012, January 2013, February 2013 and following to RILP or Tallinn Capital Mezzanine Limited Partnership.

4. Both prior to and after the commencement of the CCAA Proceedings, FairWest has provided an accounting to RILP with an accounting of the revenue generated and costs incurred, on a monthly basis. FairWest sent RILP the accounting of the revenues and costs incurred for the production months of December 2012 and January 2013 on February 14, 2013 and March 15, 2013, respectively. FairWest has consistently done the same (providing a full reporting within about 45 days after the end of the relevant production month) throughout the period in which it has operated the properties under the JOA in which RILP has a joint interest (including, but not limited to, all production months since and including July 2012, when FairWest commenced setting off RILP's net revenue). At no time prior to the letter dated January 31, 2013 for RILP's counsel, did RILP ever raise a concern about the monthly accounting provided to RILP by FairWest.

5. In paragraph 10 of my Supplemental Affidavit, I noted that FairWest has withheld approximately \$51,000 of net monthly revenue that would have otherwise been payable to RILP (for the production months of December 2012 (prorated) and January 2013. FairWest estimates that an additional \$80,000 of net monthly revenue will be withheld for the production months of February 2013 and March 2013. These amounts did not, however, take into account RILP's share of the capital costs and overhead expenses incurred by FairWest for the joint account during those production months, which RILP is responsible for paying FairWest and has not kept current during the course of the JOA. The chart below summarizes the revenues and expenses for the production months of December 2012 and January 2013:

	December 2012	January 2013
Net Operating Income (net of royalties paid by RILP and operating costs for field operations)	\$11,361.73	\$39,612.00
Royalty Income	\$375.71	\$880.71
Capital Expenditures	(\$6,516.70)	(\$9,168.06)
Administration Charges	(\$4,221.51)	(\$525.00)
<b>Net Revenue Owing to RILP</b>	<b>\$999.23</b>	<b>\$30,799.65</b>

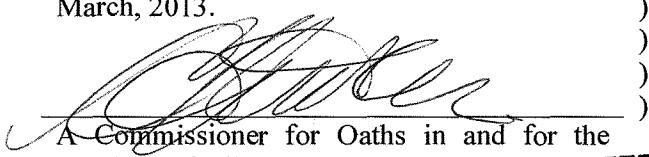
The amounts included in the December 2012 production month have been pro-rated to only include the revenue and expenses for the period December 12 to 31, 2012. The estimates for the production months of February 2013 and March 2013, assuming that the same revenue will be generated and costs incurred as in January 2013.

6. In addition to these expenses, FairWest has recently had to renew the property insurance in respect of its oil and gas properties. As FairWest has done in the past, it also arranged for property insurance for RILP on the properties where FairWest and RILP are joint owners. The insurance premium for all of the properties is \$30,000 and RILP's share of the premium is approximately \$9,300. FairWest was to receive a refund of \$36,000 from its insurer based on the fact that FairWest had paid a deposit for blow-out insurance on four wells that FairWest had planned to drill during 2012 but did not. The insurer has advised that it will set-off the deposit refund owing to FairWest against the insurance premium payable to the insurer. As a result of this set-off and RILP's failure to pay the property insurance premium, FairWest is effectively funding the cost of RILP's property insurance.

7. Based on the information in the chart above, and the insurance due as per paragraph 6 herein, the maximum net revenue (net of RILP's share of capital and overhead in the same production months) that FairWest would be withholding from RILP during the CCAA Proceedings (the production months of December 2012, and January, February and March 2013) would be \$100,000. As set out in my Supplemental Affidavit, RILP has failed to keep current with payments to FairWest for RILP's share of the expenses incurred by FairWest in operating the jointly held facilities and wells, including the administrative services provided by FairWest to RILP and RILP's share of capital expenditures under the JOA. It is a norm in the industry for the operator to set-off the monthly capital and overhead expenses against the same month's revenue and it is FairWest's position that it should not be required to pay RILP its gross revenue in circumstances where RILP has not been paying for the capital costs and overhead expenses incurred by FairWest, as operator and, as a result, has accrued a substantial liability to FairWest. The receivable owing by RILP to FairWest is, in fact, the largest receivable owing to FairWest.

8. I swear this Affidavit in support of FairWest's Application for the relief set out in paragraph 2 of my March 14 Affidavit, and for no other or improper purpose.

SWORN BEFORE ME at the City of Calgary )  
in the Province of Alberta, this 19<sup>th</sup> day of )  
March, 2013. )

  
A Commissioner for Oaths in and for the )  
Province of Alberta )  
CAROLE J. HUNTER )  
Barrister & Solicitor )  
 DOUGLAS O. McNICHOL