



COURT FILE NUMBER
COURT
JUDICIAL CENTRE
APPLICANT

1201 15737
COURT OF QUEEN'S BENCH OF ALBERTA
CALGARY

IN THE MATTER OF THE *COMPANIES'*
CREDITORS ARRANGEMENT ACT, R.S.C.
1985, c. C-36, AS AMENDED

AND IN THE MATTER OF THE *BUSINESS*
CORPORATIONS ACT, R.S.A. 2000, c. B-9

AND IN THE MATTER OF FAIRWEST
ENERGY CORPORATION.

DOCUMENT

**FOURTH REPORT OF THE MONITOR
PRICEWATERHOUSECOOPERS INC.**

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS DOCUMENT

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INTRODUCTION

1) On December 12, 2012, FairWest Energy Corporation (the “Applicant” or “FEC” or the “Company”) applied to this Court for an order under the *Companies’ Creditors Arrangement Act* (the “CCAA”). This Honourable Court made an order on that day granting the relief requested by the Applicant (the “Initial Order”), including:

- a) an interim stay of proceedings and restraint of certain rights and remedies against the Applicant until and including January 11, 2013, or such later date as this Court may by subsequent order direct (the “Stay Period”);
- b) a declaration that the Applicant is a company to which the CCAA applies, and authorizing the Applicant to file with the Court, on a date to be set upon further application to this Honourable Court, a Plan of Compromise or Arrangement under the CCAA (the “Plan”); and
- c) the appointment of PricewaterhouseCoopers Inc. as an officer of the Court to monitor the business and affairs of the Applicant (the “Monitor”).

2) Paragraph 24(b) of the Initial Order directs the Monitor to:

“report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein and immediately report to the Court if in the opinion of the Monitor there is a material adverse change in the financial circumstances of the Applicant.”

3) On March 19, 2013 the following changes were made to the Initial Order:

The following paragraph was added to the Initial Order as Paragraph 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 assets, or (ii) pose 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.”

Paragraph 24 of the Initial Order was amended for the following:

“The Monitor shall review all future disbursements by the Applicant to confirm that such disbursements are made in accordance with the cash flow forecasts prepared by the Monitor.”

- 4) This Honorable Court has issued multiple extensions since the date of the Initial Order. On March 19, 2013 this Honorable Court issued an order extending the Stay Period to April 26, 2013.
- 5) This constitutes the Monitor’s Fourth Report (the “Fourth Report”) to this Honourable Court contemplated by such provision of the Initial Order. Updates of the proceedings as well as the Monitor’s Report will be posted on the Monitor’s website, www.pwc.com/car-fec.
- 6) It is recommended that this report be read in conjunction with the Monitor’s prior reports. Capitalized words in this Fourth Report not otherwise defined carry the same meaning as in the prior reports.
- 7) Certain information contained in this report is based on information obtained from the Applicant’s books and records and discussions with management and staff. The Monitor has not independently verified the accuracy or completeness of such information; accordingly the Monitor does not express an opinion thereon.

MONITORING OF BUSINESS AND FINANCIAL AFFAIRS

- 8) As required by the Initial Order, the Applicant has provided the Monitor with access to its property and to its books, records, data and financial information to enable the Monitor to oversee and assess the Applicant’s business and financial affairs.
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- 9) The Monitor has, with the cooperation of management, implemented a number of procedures to monitor the Applicant’s business and financial affairs and its compliance with the provisions of the Initial Order regarding its property and the carrying on of its business. These procedures include:
 - a) review of all disbursements made by the Applicant;

- b) review of cash receipts; and
- c) comparison of actual results to the Applicant's financial forecasts.

UPDATE ON THE ACTIVITIES OF THE APPLICANT

10) PwC Corporate Finance Inc. ("PwCCF" or the "Financial Advisor") was engaged on March 8, 2013 to advise and assist in the marketing for sale of the Company's assets. The Financial Advisor has performed the following:

- a) Published a notice of the Sale in the Daily Oil Bulletin on March 22, 2013;
- b) Sent an information package (the "Information Package") that provided a summary description of the Company and its assets to approximately 400 potential buyers;
- c) All interested parties executed a non-disclosure agreement ("NDA") and were provided with a copy of the confidential information memorandum (the "CIM") and granted access to company's confidential information; and
- d) Instructed interested parties to submit their bids to acquire, restructure or recapitalize FEC on or before April 5, 2013. The bid deadline was subsequently extended by the Financial Advisor (in consultation with FEC, the Monitor and the DIP Lender) on April 4, 2013 to April 12, 2013.

11) On April 12, 2013 the Applicant received several bids for various property interests. The Applicant, in consultation with the Monitor, is in the process of evaluating the bids.

12) The Applicant remains in Low Risk Non-Compliance status with the ERCB as it has failed to post the required security deposit of \$457,359 as requested on March 5, 2013. The Monitor expects the Applicant to receive future assessments for additional material security deposit amounts and further escalation of non-compliance status. The ERCB security deposits and abandonment and reclamation costs will be addressed in conjunction with the Sales Process.

13) Given the Company's insufficient cash flow and the uncertainty surrounding the surface rental amounts, current surface rental costs continue to not be paid. The Applicant has

estimated that as at May 31, 2013, the surface rental cost owing in arrears will total approximately \$220,000:

- a) \$195,000 relating to Pro-rated Post-CCAA Portion of Outstanding 2012 Leases; and
- b) \$25,000 relating to Outstanding 2013 Leases.

14) All outstanding surface rental costs for assigned leases will be dealt with in conjunction with the Sales Process.

ROYALTY INVESTMENT LIMITED PARTNERSHIP

15) As at December 31, 2012, FEC had an account receivable balance due from RILP of \$545,000. On December 31, 2012, FEC issued a default notice to RILP pursuant to the provisions of the joint operating agreement, seeking payment of this receivable.

16) The Applicant has been withholding RILP's share of revenues and offsetting these revenues against the receivable due from RILP.

17) On March 15, 2013 FEC requested that the Court extend the stay to April 26, 2013 and approve the Sale and Investment Solicitation Process (the "SISP" or "Sales Process"). At this court hearing, RILP raised concerns regarding the FEC's Sales Process as all of its property interests are held in trust by FEC. RILP asserted that several of its property interests were at risk of being represented as FEC's interests. This Honorable Court extended the stay until March 19, 2013 so that the Applicant and RILP could in cooperation identify properties in dispute. The property interests in dispute were flagged for potential buyers by the Financial Advisor.

18) On March 19, 2013 this Honorable court approved the SISP, extended the stay to April 26, 2013 and ordered that \$40,000 be placed in trust on each of March 25, 2013 and April 25, 2013 pending the outcome of the dispute between RILP and the Company. As of April 23, 2013, \$40,000 is being held by the Applicant's counsel, Burnet Duckworth & Palmer LLP, in trust.

19) The property interest dispute with RILP is ongoing and will be heard by this Honorable Court on April 23, 2013.

CASH FLOWS

20) The table below summarizes the Applicant's cumulative cash flows from December 12, 2012 to April 12, 2013:

Post- CCAA Cash Flow from Dec 12 - April 12	TOTALS
OPERATIONS	\$
Oil & Gas Revenue	1,246,884
Operating Expenses	(759,445)
CASH FLOW FROM OPERATIONS	487,438
 CASH EXPENSES	
G&A	(763,073)
Interest	(54,755)
Reorganization Expenses	(304,000)
Court ordered trust re: RILP dispute	(40,000)
TOTAL CASH EXPENSES	(1,161,827)
 Change in Cash	(674,389)
 December 12, 2012 Opening Cash Position	94,951
Total DIP draws	591,113
April 12, 2013 Cash Position	11,675

21) Attached as Exhibit "A" is a summary of the Applicant's actual cash flow for the period March 9, 2013 to April 12, 2013, compared to the forecasted cash flows filed with this Honorable Court. The forecasted cash flows are comprised of "Week 5" from the Third Revised Cash Flow and "Weeks 1 – 4" from the Fourth Revised Cash Flow. These forecasted cash flows were filed as an exhibit to the Third Monitor's Report dated March 14, 2013. A summary of the variance to the forecasted cash flows is provided in the table below:

March 9 to April 12	Actual	Forecast	Variance
	\$	\$	\$
Receipts	323,227	384,644	(61,417)
Disbursements	(378,638)	(429,438)	50,800
Net Change in cash	(55,410)	(44,794)	(10,616)
Opening Cash	67,085		
Ending Cash	11,675		

22) Primary reasons for the variance between the forecast and actual cash flows include:

- a) receipts (negative variance of \$61,417):
 - i) Accounts receivable were approximately \$27,000 less than expected due to customer delays. The Applicant has communicated with these customers and expects the receipts shortly.
 - ii) The Applicant experienced a decline in production volumes due to unexpected operational issues at one of the properties. Additionally, the Company shut-in approximately 7 boe/d production due to mechanical failures.
- b) disbursements (positive variance of \$50,800):
 - i) Operator invoices totaling approximately \$23,000 were provided to the Applicant late and as a result the payment was delayed.
 - ii) Approximately \$7,000 lower costs due to 7 boe/d that was shut-in.
 - iii) The repairs and maintenance costs were lower than expected by approximately \$10,000.
 - iv) The overall decrease in production volumes contributed to additional cost reductions of approximately \$10,000.

CASH FLOW FORECAST

23) Attached as Exhibit "B" is a copy of the Applicant's cash flow forecast for the period April 13, 2013 to May 31, 2013 (the "Fifth Revised Cash Flow Forecast").

24) The collections and disbursements included in the Fifth Revised Cash Flow Forecast appear to be reasonable estimates based on the discussions with management and the Applicant's current production levels.

25) Supreme Group Inc. (the "DIP Lender") has agreed to fund reorganization costs directly to the Applicant's counsel and the Monitor as advances under the DIP facility. The total additional DIP draws are estimated to be approximately \$1.0 million and are comprised of:

- a) Reorganization costs of \$725,000
 - i) Forecasted reorganization costs have increased due to FEC's dispute with RILP.
- b) Operational costs of \$283,000
 - i) Operational costs have increased due to falling production and the court ordered trust funds relating to the RILP dispute.

26) The following table summarizes the Cash Flow Forecast for the period from April 13, 2013 to May 31, 2013. Based on the Cash Flow Forecast, the DIP requirement (which is currently only authorized to \$900,000) is expected to be approximately \$1,600,000.

<u>April 13 to May 31, 2013</u>	<u>TOTALS</u>
	\$
OPERATIONS	
Oil & Gas Revenue	571,688
Operating Expenses	(436,902)
CASH FLOW FROM OPERATIONS	<u>134,786</u>
CASH EXPENSES	
G&A	(309,137)
Interest	(40,056)
Court order trust re: RILP dispute	(80,000)
TOTAL CASH EXPENSES	<u>(429,193)</u>
Change in Cash	(294,407)
Opening Cash	11,675
Ending Cash Balance	<u>(282,732)</u>
REORGANIZATION COSTS	<u>(725,185)</u>
Additional DIP required	(1,007,916)
Beginning DIP position	(591,113)
TOTAL DIP REQUIREMENT	<u>(1,599,029)</u>

DIP FINANCING

- 27) The Amending Order dated March 19, 2013, authorized the Applicant to borrow under a credit facility from the DIP Lender up to a limit of \$900,000 (the "DIP Funds"). Based on the Cash Flow Forecast, the Applicant requires its DIP facility to increase by \$700,000 to \$1,600,000.
- 28) As of April 12, 2013, \$591,000 of DIP funds have been advanced.

CREDITOR COMMUNICATIONS

- 29) The Monitor continues to respond to various enquiries from creditors and other stakeholders.

FEC'S REQUEST FOR AN EXTENSION OF THE STAY

- 30) FEC is seeking an extension of the Stay Period up to and including May 31, 2013 (the "Stay Extension"). The Stay Extension is necessary to allow FEC sufficient time to complete its Sales Process of either the Company or the Company's assets.
- 31) It is the view of the Monitor that FEC is acting in good faith and with due diligence and the requested Stay Extension is reasonable.
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CONCLUSION

32) The Monitor supports the Applicant's request that this Honourable Court:

- a) extend the stay period to May 31, 2013; and
- b) approve the amended commitment letter with an increase to the DIP facility from \$900,000 to \$1,600,000.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

this 24th day of April, 2013



PRICEWATERHOUSECOOPERS INC.

Court Appointed Monitor of
FairWest Energy Corporation

EXHIBIT A - Variance Analysis

FAIRWEST ENERGY CORPORATION

VARIANCE ANALYSIS: March 9 - April 12

	ACTUAL MAR 9 - APR 12	FORECASTED MAR 9 - APR 12	VARIANCE
OPERATIONS			
Oil & Gas Revenue	323,227	384,644	(61,417)
Operating Expenses	(185,050)	(276,889)	91,839
CASH FLOW FROM OPERATIONS	138,177	107,755	30,422
CASH EXPENSES			
G&A	(131,542)	(129,409)	(2,133)
Interest	(22,045)	(23,140)	1,094
RILP trust funds	(40,000)	-	(40,000)
TOTAL CASH EXPENSES	(193,588)	(152,549)	(41,039)
Change in Cash	(55,410)	(44,794)	(10,616)

EXHIBIT B - Fifth Revised Cash Flow Forecast

FAIRWEST ENERGY CORPORATION
CASH FLOW SUMMARY (to May 31 2013)

	Notes	FOURTH STAY PERIOD (Sales Process)		FIFTH STAY PERIOD					TOTAL APR 6 - MAY 31
		WEEK 5 APR 13 - 19	WEEK 6 APR 20 - 26	WEEK 1 APR 27 - MAY 3	WEEK 2 MAY 4 - 10	WEEK 3 MAY 11 - 17	WEEK 4 MAY 18 - 24	WEEK 5 MAY 25 - 31	
OPERATIONS									
Oil & Gas Revenue	1	2,606	283,239	-	-	-	2,606	283,239	571,688
Operating Expenses	1	(18,500)	(187,451)	-	(14,000)	(11,000)	(18,500)	(187,451)	(436,902)
CASH FLOW FROM OPERATIONS		(15,894)	95,787	-	(14,000)	(11,000)	(15,894)	95,787	134,786
CASH EXPENSES									
G&A	2	-	(153,068)	-	-	(3,000)	-	(153,068)	(309,137)
Interest	3	-	-	(22,288)	-	-	-	(17,768)	(40,056)
RILP trust money		-	(40,000)	-	-	-	-	(40,000)	(80,000)
TOTAL CASH EXPENSES		-	(193,068)	(22,288)	-	(3,000)	-	(210,836)	(429,193)
Change in Cash		(15,894)	(97,281)	(22,288)	(14,000)	(14,000)	(15,894)	(115,049)	(294,407)
Opening Cash		11,675	(4,219)	(101,500)	(123,789)	(137,789)	(151,789)	(167,683)	11,675
ENDING CASH BALANCE		(4,219)	(101,500)	(123,789)	(137,789)	(151,789)	(167,683)	(282,732)	(282,732)
REORGANIZATION COSTS		(110,371)	(35,000)	(149,814)	-	(215,000)	-	(215,000)	(725,185)
Additional DIP Required		(114,591)	(132,281)	(172,102)	(14,000)	(229,000)	(15,894)	(330,049)	(1,007,916)
Beginning DIP Position		(591,113)	(705,704)	(837,984)	(1,010,086)	(1,024,086)	(1,253,086)	(1,268,981)	(591,113)
TOTAL DIP REQUIREMENT		(705,704)	(837,984)	(1,010,086)	(1,024,086)	(1,253,086)	(1,268,981)	(1,599,029)	(1,599,029)