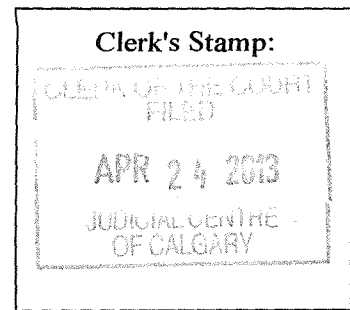


COURT FILE NUMBER 1201 15737
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY
APPLICANT IN THE MATTER OF THE COMPANIES'
CREDITORS ARRANGEMENT ACT, R.S.C.
1985, c. C-36, AS AMENDED
AND IN THE MATTER OF FAIRWEST
ENERGY CORPORATION
DOCUMENT AFFIDAVIT OF DOUGLAS O. McNICHOL
SWORN APRIL 24, 2013



ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS DOCUMENT

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

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Email Address: chunter@bdplaw.com

File No. 71301-1

AFFIDAVIT OF DOUGLAS O. McNICHOL
(Sworn April 24, 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 May 31, 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 \$1,600,000 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, February 7, 2013, March 12, 2013 and April 23, 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 proceedings under the *Companies' Creditors Arrangement Act* (the "CCAA"). Pursuant to the Initial Order, PricewaterhouseCoopers Inc. was appointed as the monitor of FairWest (the "**Monitor**"). The Initial Order provided for a stay of proceedings up to and including January 11, 2013. The stay of proceedings has been extended on four occasions and now expires on April 26, 2013.
4. 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

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

(a) *Royalty Investments Limited Partnership*

6. Since the CCAA proceedings began, FairWest has been focused on stabilizing operations and reducing costs. FairWest has, however, encountered some difficulty with one of its joint venture partners, Royalty Investments Limited Partnership ("**RILP**") which has impacted the proceedings.

7. On December 31, 2012, FairWest sent a default notice to RILP relating to the indebtedness owing by RILP to FairWest under the Joint Operating Agreement between FairWest and RILP dated October 5, 2010 (the "**JOA**"). 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. 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.

8. In conjunction with the Monitor, FairWest reviewed the allegations made in the letters from RILP and Tallinn. On February 27, 2013, FairWest advised RILP that FairWest did not see any basis for withdrawing the default notice issued to RILP on December 31, 2012. On the same date, FairWest has also advised Tallinn that no payments will be made by FairWest to Tallinn.

9. On March 18, 2013, RILP filed an application originally returnable on March 19, 2013, seeking, among other things, that the net sales revenue payable by FairWest to RILP for December 2012, January 2013 and February 2013 be paid by FairWest to RILP or Tallinn (the "**Revenue Application**"). On April 3, 2013, RILP filed another application seeking, among other things, declarations that RILP has a beneficial interest in certain properties held in the name of FairWest and that the default notice issued by FairWest to RILP on December 31, 2012 is invalid (the "**Disputed Properties Application**"). The Revenue Application and the Disputed Properties Application (together, the "**RILP Applications**") was heard on April 23 and 24, 2013 before the Honourable Madam Justice J. Strekaf. At the hearing, the Honourable Madam Justice J. Strekaf advised that a decision would be provided in respect of the Disputed Properties Application on the afternoon of April 26, 2013. On the Revenue Application, the Honourable Madam Justice J. Strekaf requested the Tallinn file additional written submissions on May 3, 2013 and that RILP and FairWest file additional written submissions on May 10, 2013. There may also be further oral submissions on the Revenue Application.

10. On January 31, 2013, the disclaimer of a contract for administrative and technical services provided by FairWest to RILP became effective. Attempts to negotiate a new agreement with RILP pursuant

to which FairWest would continue to provide administrative and technical services to RILP on a cost-recovery basis failed. In or about mid-March 2013, RILP was advised that FairWest would no longer provide any services to RILP effective March 31, 2013.

(b) *Energy Resources Conservation Board*

11. 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.

12. 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. The ERCB 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.

13. In light of FairWest's inability to pay the security deposit on April 5, 2013, FairWest anticipates that the ERCB will issue a Miscellaneous Order against FairWest. On April 8, 2013, the ERCB issued a bulletin advising that it had experienced a production outage affecting its application systems. As a result, the April 2013 assessment of assets and liabilities has not yet been completed and FairWest has not been provided with any information regarding the security deposit which may now be required to be posted with the ERCB. On April 22, 2013, the ERCB issued a news release advising that the production outage had been resolved.

14. The ERCB had earlier 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. FairWest anticipates that any issues relating to the payment of the security deposit will need to be addressed to facilitate a sale of FairWest's assets.

Sales and Investment Solicitation Process

15. In accordance with the Order of this Honourable Court dated March 19, 2013 (the "**March 19 Order**"), the engagement of PricewaterhouseCoopers Corporate Finance Inc. as financial advisor to FairWest (the "**Financial Advisor**") was approved. The Monitor, in conjunction with FairWest and the

Financial Advisor commenced the sales and investment solicitation process (the "**SISP**") following the granting of the March 19 Order.

16. The bid deadline was originally on April 5, 2013 but was extended to April 12, 2013 in accordance with the provisions of the SISP. On April 12, 2013, the Monitor received six bids for various portions of FairWest's assets. Unfortunately, the determination of the Disputed Properties Application will have to be made before FairWest can seek the approval of a definitive agreement for the sale of its assets or close a sale transaction as contemplated in the SISP as some of the bids are conditional on the outcome of the Disputed Properties Application.

Cash Flows

17. Attached as Schedule "B" to the Fourth Report of the Monitor dated April 24, 2013 are FairWest's cash flows projections for the period ending May 31, 2013 (the "**Cash Flows**"). The Cash Flows have been prepared in conjunction with the Monitor and I verily believe them to be accurate.

18. Based on the Cash Flows, it is anticipated that FairWest will require advances in the aggregate amount of \$1,599,029 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, February 7, 2013 and March 14, 2013 (the "**Commitment Letter**"). The Commitment Letter currently provides for borrowings in the maximum amount of \$900,000 and, as a result, FairWest requires an increase in the borrowings available under the Commitment Letter to \$1,600,000.

19. On April 23, 2013, FairWest and the DIP Lender amended the Commitment Letter by (i) extending the Maturity Date (as defined in the Commitment Letter) from April 26, 2013 to May 31, 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 \$1,600,000 (the "**Amending Letter**"). A copy of the Amending Letter is attached hereto as Exhibit "A".

20. The significant increase in the requested borrowings under the Commitment Letter are attributed to three principal issues:

- (a) On the original hearing date of the Revenue Application, this Honourable Court directed that FairWest put \$40,000 in trust on March 25, 2013 and April 25, 2013, pending the determination of the Revenue Application.

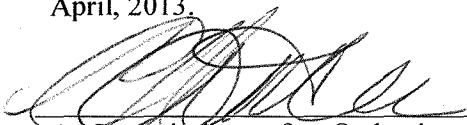
- (b) The time and professional costs incurred in the dealing with the RILP Applications have been substantial. Since March 19, 2013 when it was determined that the RILP Applications would be set down for a full day hearing, there have been three procedural applications, two affidavits filed by each of RILP and FairWest both containing several volumes of exhibits, two full days of examinations and answers to undertakings, briefs filed by RILP, FairWest and Tallinn and a responding brief filed by FairWest. As set out above, there will be additional written submissions and possibly further oral submissions required on the Revenue Application.
- (c) FairWest has experienced a decline in production volumes due to unexpected operational issues at one of its properties and FairWest had to shut-in some production due to mechanical failures.


21. 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.

22. 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.

23. 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 24th day of)
April, 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 24TH DAY OF
APRIL, 2013.**



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

CAROLE J. HUNTER
Barrister & Solicitor

April 23, 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, as amended by an amending letter dated February 6, 2013, and as further amended by an amending letter dated March 12, 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 April 26, 2013 until May 31, 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.


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

The Borrower covenants and agrees that upon execution of this amending letter and upon the Court's approval of the amendments, the amendment fee of \$10,000.00 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.

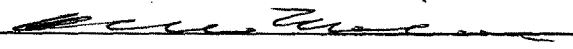
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SUPREME GROUP INC.

Per: 
Name: John H. Leder
Title: President

We acknowledge and accept the terms and conditions of this amending agreement
on this __ day of April, 2013.

FAIRWEST ENERGY CORPORATION

Per: 
Name:
Title:

April, 2013 Commitment Letter Amending Letter