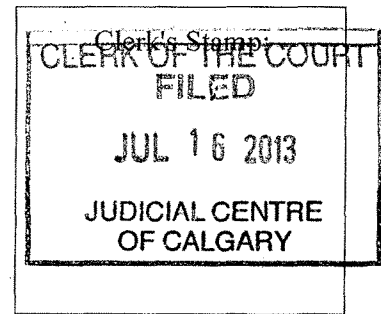


COURT FILE NUMBER 1201 15737  
COURT COURT OF QUEEN'S BENCH OF ALBERTA  
JUDICIAL CENTRE CALGARY  
APPLICANT IN THE MATTER OF THE COMPANIES'  
CREDITORS ARRANGEMENT ACT, R.S.C.  
1985, c. C-36, AS AMENDED  
AND IN THE MATTER OF FAIRWEST  
ENERGY CORPORATION  
DOCUMENT AFFIDAVIT OF MARION MACKIE  
SWORN JULY 15, 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 MARION MACKIE**

**(Sworn July 15, 2013)**

I, MARION MACKIE of the City of Calgary, in the Province of Alberta, MAKE OATH  
AND SAY:

1. I am the Chief Restructuring Officer (the "CRO") 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 September 30, 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 \$2,325,000 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, March 12, 2013, April 23, 2013, May 27, 2013, June 27, 2013 and July 15, 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 seven occasions and now expires on July 16, 2013.

4. On May 28, 2013, pursuant to the Order of the Honourable Madam Justice B. E. Romaine (the "**May 28 Order**"), I was appointed as the CRO of FairWest with the authority to, among other things, supervise and manage the business of FairWest and operate and carry on the business for the purpose of implementing the sales transaction contemplated by the Successful Bid (as hereinafter defined).

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. 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](http://www.pwc.com/car-fec).

7. This Affidavit should be read in conjunction with my affidavit sworn June 28, 2013 in the within proceedings (the "**June Affidavit**"). All capitalized terms not defined herein have the meanings ascribed to them in the June Affidavit.

(a) *Royalty Investments Limited Partnership & Tallinn Capital Corp.*

8. On July 8, 2013, Tallinn Capital Corp. ("**Tallinn**") filed its application materials in respect of its application to deal with additional issues relating to the production revenue, including whether Tallinn's registered security interest against Royalty Investments Limited Partnership ("**RILP**") had priority over FairWest's operator's lien or right of set-off under the Joint Operating Agreement between FairWest and RILP dated October 5, 2010 (the "**JOA**") or at law (the "**Priority Application**"). In accordance with the direction of the Honourable Madam Justice J. Strekaf given on June 18, 2013, Tallinn also filed an undertaking in respect of costs. The hearing of the Priority Application is scheduled for August 23, 2013.

(b) *Operational Issues*

9. On June 13, 2013, a leak was discovered and reported to FairWest in the gas pipeline leading from the Berry Creek 6-19 Plant ("**6-19 Plant**") to the 1-16-26-12W4 TransCanada Meter Station. The leak was immediately reported to the ERCB and production at the 6-19 Plant has been shut-in. After exploring its alternatives and the cost associated with those alternatives, it was determined that unless more economic alternatives can be found, the 6-19 Plant will remain shut-in and will not be brought back on-line during the CCAA proceedings.

10. As a result of the shut-in of the 6-19 Plant, FairWest has determined that that cost of operating the Youngstown area (which utilized the same field operators as the Berry Creek area) may no longer be economic. A decision as to whether the Youngstown area will be shut-in will be made by August 1, 2013. The total cost savings from shutting in the Youngstown and 6-19 Plant would be \$15,000/month.

11. The only areas that FairWest will continue to produce are Neutral Hills, Provost, Majorville, Sedalia, Garrington and Burstall. As a result of the decrease in its field operations, FairWest will also be

implementing several staff reductions effective July 17, 2013. The cost savings which will be realized from these reductions are \$55,000 over the next two and a half months.

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

12. 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. The Monitor has since determined that a credit bid by Supreme Group Inc. ("**SGI**") for a significant portion of FairWest's properties was the best bid that had been received under the SISP and has designated it as the successful bid (the "**Successful Bid**") from amongst the bids submitted pursuant to the SISP.

13. Over the past month, the Monitor has exchanged correspondence and, together with SGI, has met with the AER in an attempt to: (i) address the issues relating to the payment of the security deposit by FairWest for the properties that are not included in the Successful Bid and (ii) obtain the AER's support for the Successful Bid. The AER has advised that it will not support the approval of the Successful Bid. It is FairWest's understanding that discussions with the AER are continuing.

### ***Cash Flows***

14. Attached as Schedule "B" to the Seventh Report of the Monitor dated July 15, 2013 are FairWest's cash flows projections for the period ending September 30, 2013 (the "**Cash Flows**"). The Cash Flows have been prepared in conjunction with the Monitor and I verily believe them to be accurate.

15. Based on the Cash Flows, it is anticipated that FairWest will require advances in the aggregate amount of \$2,322,117 under credit facility dated as of December 10, 2012 between Supreme Group Inc., in its capacity as debtor-in-possession lender (the "**DIP Lender**") and FairWest, as amended by amending letters dated January 8, 2013, February 7, 2013, March 14, 2013, April 23, 2013, May 27, 2013 and June 27, 2013 (the "**Commitment Letter**"). The Commitment Letter currently provides for borrowings in the maximum amount of \$1,765,000.

16. On July 15, 2013, FairWest and the DIP Lender amended the Commitment Letter by (i) extending the Maturity Date (as defined in the Commitment Letter) from July 16, 2013 to September 30, 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 \$2,325,000 (the "**Amending Letter**"). The Amending Letter also includes the following additional events of default:

- (a) If on or before September 1, 2013 (i) the AER does not consent to the transfer of licences for the licensed wells and facilities included in the Successful Bid, and (ii) no Order is made by the Court on notice to the AER approving the Successful Bid, notwithstanding the absence of any such consent, or in the event that the DIP Lender concludes in its discretion that there is no reasonable prospect that such consent or order will be obtained by FairWest before September 1, 2013;
- (b) If one or more employees deemed by the DIP Lender in its discretion to be individually or collectively critical to the business or operations of FairWest or the preservation of FairWest's assets cease(s) to be an employee of FairWest for any reason;
- (c) If there occurs or if the DIP Lender or FairWest becomes aware of the occurrence of any spill, leak or other environmental contamination that in the opinion of the DIP Lender would have a material adverse effect on the value of the assets that are subject to the Offer; and
- (d) If there is any adverse variance between the cash disbursements reflected in the Cash Flow Forecast and the actual disbursements of FairWest in excess of \$15,000 in any one week period or \$30,000 in the aggregate; and
- (e) If there is any adverse variance between the cash receipts reflected in the Cash Flow Forecast and the actual cash receipts of FairWest in excess of \$50,000 in any calendar month.

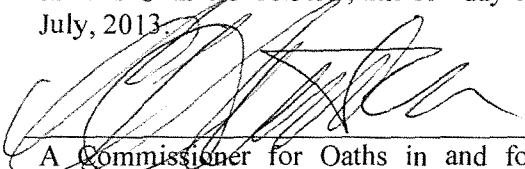
A copy of the Amending Letter is attached hereto as Exhibit "A".

17. 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.

18. 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.

19. 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.

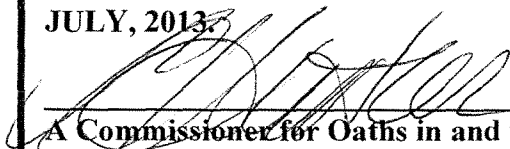
SWORN BEFORE ME at the City of Calgary )  
 in the Province of Alberta, this 15<sup>th</sup> day of )  
 July, 2013. )

  
 A Commissioner for Oaths in and for the  
 Province of Alberta

  
 MARION MACKIE

**THIS IS EXHIBIT "A" REFERRED TO IN  
THE AFFIDAVIT OF MARION MACKIE.**

**SWORN BEFORE ME THIS 15<sup>TH</sup> DAY OF  
JULY, 2013.**

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

July 15, 2013

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

Attention: Ms. Marion Mackie

Dear Ms. Mackie:

We refer to the commitment letter dated December 10, 2012, as amended by an amending letter dated January 8, 2013, as further amended by an amending letter dated February 6, 2013, as further amended by an amending letter dated March 12, 2013, as further amended by an amending letter dated April 23, 2013, as further amended by an amending letter dated May 27, 2013 and as further amended by an amending letter dated June 27, 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 July 16, 2013 until September 30, 2013;
2. replacing the Cash Flow Forecast attached as Schedule “A” to the Commitment Letter with the Cash Flow Forecast attached as Schedule “A” hereto; and
3. adding the following new paragraphs 13 to 17 to the Events of Default section of the Commitment Letter:

“13. If on or before September 1, 2013 (i) the Alberta Energy Regulator does not consent to the transfer of licences for the licensed wells and facilities included in the DIP Lender’s offer submitted pursuant to the Sale and Investment Solicitation Process approved by the Court (the “**Offer**”), and (ii) no Order is made by the Court on notice to the Alberta Energy Regulator approving the Offer, notwithstanding the absence of any such consent, or in the event that the DIP Lender concludes in its discretion that there is no reasonable prospect that such consent or order will be obtained by the Borrower before September 1, 2013.

14. If one or more employees deemed by the DIP Lender in its discretion to be individually or collectively critical to the business or operations of the Borrower or the preservation of the Borrower’s assets cease(s) to be an employee of the Borrower for any reason.



15. If there occurs or if the DIP Lender or the Borrower becomes aware of the occurrence of any spill, leak or other environmental contamination that in the opinion of the DIP Lender would have a material adverse effect on the value of the assets that are subject to the Offer.

16. If there is any adverse variance between the cash disbursements reflected in the Cash Flow Forecast and the actual cash disbursements of the Borrower in excess of \$15,000 in any one week period or \$30,000 in the aggregate.

17. If there is any adverse variance between the cash receipts reflected in the Cash Flow Forecast and the actual cash receipts of the Borrower in excess of \$50,000 in any calendar month.”

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 \$25,000.00 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.**

for: Per: 

Name: John H. Leder

Title: President

We acknowledge and accept the terms and conditions of this amending agreement on this \_\_\_\_ day of July, 2013.

**FAIRWEST ENERGY CORPORATION**

Per: 

Name: MARION D. MACKIE

Title: CHIEF RESTRUCTURING OFFICER.

**Schedule "A" to July, 2013 Commitment Letter Amending Letter**

See attached.

# EXHIBIT B - Seventh Revised Cash Flow Forecast

FAIRWEST ENERGY CORPORATION  
CASH FLOW SUMMARY (to September 30, 2013)

	SEVENTH STAY PERIOD										EIGHTH STAY PERIOD										TOTAL
	WEEK 1 JUL 4 - JUL 12	WEEK 2 JUL 13 - 18	WEEK 3 JUL 17 - 25	WEEK 4 JUL 27 - AUG 2	WEEK 5 AUG 3 - 9	WEEK 6 AUG 10 - 16	WEEK 7 AUG 17 - 23	WEEK 8 AUG 24 - 30	WEEK 9 AUG 31 - SEP 6	WEEK 10 SEP 7 - 13	WEEK 11 SEP 14 - 20	WEEK 12 SEP 21 - 27	WEEK 13 SEP 28 - OCT 4	WEEK 14 OCT 5 - 11	WEEK 15 OCT 12 - 18	WEEK 16 OCT 19 - 25	WEEK 17 OCT 26 - NOV 1	WEEK 18 NOV 2 - 8	WEEK 19 NOV 9 - 15	WEEK 20 NOV 16 - 22	
OPERATIONS																					
Oil & Gas Revenue	1																				
Operating Expenses																					
CASH FLOW FROM OPERATIONS																					
CASH EXPENSES																					
CCA																					
Interest																					
R/L P Dual money																					
TOTAL CASH EXPENSES																					
Change in Cash																					
Opening Cash																					
ENDING CASH BALANCE																					
REORGANIZATION COSTS																					
Additional DIP Required																					
Beginning DIP Position																					
TOTAL DIP REQUIREMENT																					

Notes:  
Management of FEC have prepared this Projected Cash Flow Statement based on probable and hypothetical assumptions detailed in Notes 1-3.  
Consequently, actual results will likely vary from performance projected and such variance may be material.  
The projections have been prepared solely for the Company's CCA 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.