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OF CALGARY

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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 THE *BUSINESS CORPORATIONS ACT*, R.S.A. 2000, c. B-9 AND IN THE MATTER OF FAIRWEST ENERGY CORPORATION.
DOCUMENT	**SEVENTH REPORT OF THE MONITOR PRICEWATERHOUSECOOPERS INC.**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**BENNETT JONES LLP** Barristers and Solicitors #4500, 855 – 2nd Street S.W. Calgary, Alberta T2P 4K7 Attention: Chris Simard Telephone No.: 403-298-4485 Fax No.: 403-265-7219 Client File No.:

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) On May 28, 2013 this Honourable Court Ordered that (the "May 28 Order") Marion Mackie, previously the Chief Financial Officer, be appointed the Chief Restructuring Officer (the "CRO") of FEC. The CRO will act as an officer of this Honourable Court and will be responsible for carrying on the Company's operations and performing other duties deemed necessary by this Honourable Court.

5) Also, pursuant to the May 28 Order, the powers of the Monitor were enhanced to perform the following duties:

   a) Select the successful bid for the purchase of the Applicant's assets (the "Successful Bid") if the Board of Directors do not approve the Successful Bid before resigning or being removed; and

   b) Oversee and facilitate the completion of the transaction contemplated by the Successful Bid.

6) This Honourable Court has issued multiple extensions since the date of the Initial Order. On July 3, 2013 this Honourable Court issued an order extending the Stay Period to July 16, 2013.

7) This constitutes the Monitor's Seventh Report (the "Seventh 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.

8) It is recommended that this report be read in conjunction with the Monitor's prior reports. Capitalized words in this Seventh Report not otherwise defined carry the same meaning as in the prior reports.

9) Certain information contained in this report is based on information obtained from the Applicant's books and records and discussions with management, contractors 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

10) 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.

11) 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

12) This Honourable Court approved a Sales and Investment Solicitation Process (the "SISP") on March 19, 2013. The Financial Advisor, in consultation with the Company and Monitor, designated the credit bid submitted by Supreme Group Inc. ("SGI"), for a significant portion of FEC's assets, as the Successful Bid.

13) The Monitor and SGI are in discussions with the Energy Resources Conservation Board (the "ERCB") regarding obtaining regulatory approval of the Successful Bid.

14) The Applicant remains in ERCB "Global Refer" status as it has failed to post the required security deposit of $3.1 million. 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, abandonment issues and reclamation costs will be addressed in conjunction with the approval of a sales transaction.

15) 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 September 30, 2013, the surface rental cost owing in arrears will total approximately $577,198:

a) $306,205 relating to Pro-rated Post-CCAA Portion of Outstanding 2012 Leases; and
b) $270,993 relating to Outstanding 2013 Leases.

16) The outstanding surface rental costs for assigned leases will be dealt with in conjunction with the approval of a sales transaction.

17) In order to reduce future DIP draws, the Applicant has decided to shut-in the Youngstown property immediately. Additionally, forecasted staffing levels have been reduced significantly in order to bring down general & administration costs. These changes have been incorporated into the forecasted cash flow in Appendix B.

ROYALTY INVESTMENT LIMITED PARTNERSHIP

18) As at December 31, 2012, FEC had an account receivable balance due from RILP of $545,000. The Applicant has been withholding RILP's share of revenues and offsetting these revenues against the receivable due from RILP. In prior court hearings, RILP asserted that FEC did not have a right to offset RILP's share of revenues against its payable due to FEC. As security for the claim (the "Revenue Application") made by RILP, this Honourable Court ordered that $40,000 be placed in trust on March 25, 2013, April 25, 2013 and May 25, 2013 (the "Revenue Application Trust Funds"). On June 4, 2013, this Honourable Court determined that FEC had the right to set-off the production revenue against the indebtedness owing by RILP to FEC, but once the indebtedness was equal to $366,000, Tallinn had a right to the production revenue in accordance with the provisions of the subordination agreement between Tallinn and FEC.

19) Before the Revenue Application Trust Funds could be released to the Applicant, Tallinn advised this Honourable Court it would be making an application asserting priority (the "Priority Application") to the Revenue Application Trust Funds. This Honourable Court ordered that the amount that FEC was required to place in trust on the 25th day of each month would be reduced from $40,000 to the actual net revenue payable to RILP – this has been estimated at $35,000 per month in the forecasted cash flow. As of July 3, 2013, $137,000 is held in trust by the Applicant's counsel, Burnet Duckworth & Palmer LLP. The Monitor understands that this Honourable Court will not hear the Priority Application before mid-August 2013.

CASH FLOWS

20) The table below summarizes the Applicant's cumulative cash flows from December 12, 2012 to July 3, 2013:

Post- CCAA Cash Flow from Dec 12, 2012 - July 3, 2013	TOTALS
OPERATIONS	$
Oil & Gas Revenue	2,126,808
Operating Expenses	(1,210,682)
CASH FLOW FROM OPERATIONS	916,125
CASH EXPENSES	
G&A	(1,213,169)
Interest	(119,261)
Reorganization Expenses paid by FEC	(304,000)
Court ordered trust re: RILP dispute	(137,065)
TOTAL CASH EXPENSES	(1,773,495)
Change in Cash	**(857,370)**
December 12, 2012 Opening Cash Position	94,951
DIP draws forwarded to FEC for opex	886,113
July 3, 2013 Cash Position	**123,694**
DIP Balance July 3, 2013	**1,532,425**

21) Attached as Exhibit "A" is a summary of the Applicant's actual cash flow for the period June 15, 2013 to July 3, 2013, compared to the forecasted cash flows previously filed with this Honourable Court. The forecasted cash flows are comprised of "Weeks 3 - 4" from the forecasted cash flows which were filed as an exhibit to the Sixth Monitor's Report dated June 14, 2013. A summary of the variance to the forecasted cash flows is provided in the table below:

June 15 to July 3, 2013	**Actual**	**Forecast**	**Variance**
	$	$	$
Receipts	348,517	253,594	94,923
Disbursements	(262,674)	(252,780)	(9,894)
Net Change in cash	**85,843**	**814**	**85,029**
May 18, 2013 Opening Cash	22,851		
June 18, 2013 DIP Draw	15,000		
July 3, 2013 Cash Position	**123,694**		

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

a) receipts (positive variance of $94,923):

i) Higher than expected receipts from operating partners and increased oil sales due to product that was stranded in the previous month.

b) disbursements (negative variance of $9,894):

i) This negative variance was due to a timing difference - the DIP facility interest was paid during this reporting period while its payment was forecasted during the following week.

CASH FLOW FORECAST

23) Attached as Exhibit "B" is a copy of the Applicant's cash flow forecast for the period July 4, 2013 to September 30, 2013 (the "Seventh Revised Cash Flow Forecast").

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

25) The following table summarizes the Cash Flow Forecast for the period from July 4, 2013 to September 30, 2013. Based on the Cash Flow Forecast, the DIP requirement (which is currently authorized to $1,765,000) is expected to increase to approximately $2,325,000.

July 4 to September 30, 2013	**TOTALS**
	$
OPERATIONS	
Oil & Gas Revenue	614,283
Operating Expenses	(471,880)
CASH FLOW FROM OPERATIONS	142,403
CASH EXPENSES	
G&A	(270,910)
Interest	(114,879)
Court order trust re: RILP dispute	(105,000)
TOTAL CASH EXPENSES	(490,789)
Change in Cash	(348,386)
Opening Cash June 15, 2013	123,694
Ending Cash Balance	(224,692)
REORGANIZATION COSTS	(565,000)
Additional DIP required	(789,692)
Beginning DIP position	(1,532,425)
TOTAL DIP REQUIREMENT	**(2,322,117)**

26) 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 as noted in the above table are estimated to be approximately $740,000 and are comprised of:

a) Reorganization costs of $565,000

i) Forecasted reorganization costs have increased due to the enhanced powers of the Monitor and the upcoming Priority Application.

Forecasted Reorganization costs	**Amount**
Burnet Duckworth & Palmer	200,000
PricewaterhouseCoopers Inc.*	365,000
Reorganization costs through Sept-30	565,000

* Includes Bennett Jones LLP

b) Operational costs of $175,000

   i) Operational costs have increased due to falling production and the court ordered trust funds relating to the RILP dispute.

DIP FINANCING

27) The Amending Order dated July 3, 2013, authorized the Applicant to borrow under a credit facility from the DIP Lender up to a limit of $1,765,000 (the "DIP Funds"). Based on the Cash Flow Forecast, the Applicant requires its DIP facility to increase by $560,000 to $2,325,000.

28) As of July 3, 2013, $1,532,425 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 September 30, 2013 (the "Stay Extension"). The Stay Extension is necessary to allow FEC and SGI sufficient time to complete the sale of 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.

CONCLUSION

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

a) extend the stay period to September 30, 2013; and

b) approve the amended commitment letter with an increase to the DIP facility from $1,765,000 to $2,325,000.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

this 15th day of July, 2013

PricewaterhouseCoopers Inc.

PRICEWATERHOUSECOOPERS INC.
Court Appointed Monitor of
FairWest Energy Corporation

EXHIBIT A - Variance Analysis

FAIRWEST ENERGY CORPORATION
VARIANCE ANALYSIS: June 15 - July 3

	ACTUAL June 15 - July 3	FORECASTED June 15 - July 3	VARIANCE
OPERATIONS			
Oil & Gas Revenue	348,517	253,594	94,923
Operating Expenses	(121,453)	(128,500)	7,047
CASH FLOW FROM OPERATIONS	227,064	125,094	101,970
CASH EXPENSES			
G&A	(100,090)	(106,280)	6,190
Interest	(24,066)	-	(24,066)
RILP trust funds	(17,065)	(18,000)	935
TOTAL CASH EXPENSES	(141,222)	(124,280)	(16,941)
Change in Cash	85,843	814	85,029

EXHIBIT B - Seventh Revised Cash Flow Forecast

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

		SEVENTH STAY PERIOD		EIGHTH STAY PERIOD										
	Notes	WEEK 1 JUL 4 - JUL 12	WEEK 2 JUL 13 - 16	WEEK 1 JUL 17 - 26	WEEK 2 JUL 27 - AUG 2	WEEK 3 AUG 3 - 9	WEEK 4 AUG 10 - 16	WEEK 5 AUG 17 - 23	WEEK 6 AUG 24 - 30	WEEK 7 AUG 31 - SEP 6	WEEK 8 SEP 7 - 13	WEEK 9 SEP 14 - 20	WEEK 10 SEP 21 - 30	TOTAL JUL 4 - SEP 30
OPERATIONS														
Oil & Gas Revenue	1	-	-	210,106	5,989	25,000	-	2,606	171,489	-	25,000	2,606	171,489	614,283
Operating Expenses	1	(33,000)	(10,000)	(134,794)	-	(14,000)	(11,000)	(9,000)	(119,793)	(14,000)	(11,000)	(9,000)	(119,793)	(471,880)
CASH FLOW FROM OPERATIONS		(33,000)	(10,000)	75,312	10,489	11,000	(11,000)	(6,394)	56,195	(14,000)	14,000	(6,394)	56,195	142,403
CASH EXPENSES														
G&A	2	-	(35,000)	(1,500)	(46,051)	(14,093)	(1,500)	-	(79,419)	(34,863)	-	-	(58,483)	(270,910)
Interest	3	(25,025)	-	(25,000)	-	(19,914)	-	-	-	(21,376)	-	-	(23,565)	(114,879)
RILP trust money		-	-	(35,000)	-	-	-	-	(35,000)	-	-	-	(35,000)	(105,000)
TOTAL CASH EXPENSES		(25,025)	(35,000)	(61,500)	(46,051)	(34,007)	(1,500)	-	(114,419)	(56,239)	-	-	(117,048)	(490,789)
Change in Cash		(58,025)	(45,000)	13,812	(35,562)	(23,007)	(12,500)	(6,394)	(58,224)	(70,239)	14,000	(6,394)	(60,853)	(348,386)
Opening Cash		123,694	65,670	20,670	34,482	(1,081)	(24,088)	(36,588)	(42,982)	(101,206)	(171,445)	(157,445)	(163,840)	123,694
ENDING CASH BALANCE		**65,670**	**20,670**	**34,482**	**(1,081)**	**(24,088)**	**(36,588)**	**(42,982)**	**(101,206)**	**(171,445)**	**(157,445)**	**(163,840)**	**(224,692)**	**(224,692)**
REORGANIZATION COSTS		-	**(150,000)**	-	-	**(135,000)**	-	-	-	**(160,000)**	-	-	**(120,000)**	**(565,000)**
Additional DIP Required		65,670	(195,000)	13,812	(35,562)	(158,007)	(12,500)	(6,394)	(58,224)	(230,239)	14,000	(6,394)	(180,853)	(789,692)
Beginning DIP Position		(1,532,425)	(1,466,755)	(1,661,755)	(1,647,943)	(1,683,506)	(1,841,513)	(1,854,013)	(1,860,407)	(1,918,631)	(2,148,870)	(2,134,870)	(2,141,264)	(1,532,425)
TOTAL DIP REQUIREMENT		**(1,466,755)**	**(1,661,755)**	**(1,647,943)**	**(1,683,506)**	**(1,841,513)**	**(1,854,013)**	**(1,860,407)**	**(1,918,631)**	**(2,148,870)**	**(2,134,870)**	**(2,141,264)**	**(2,322,117)**	**(2,322,117)**

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 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.