

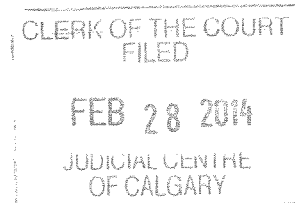
COURT FILE NUMBER

1301-14151

COURT OF QUEEN'S BENCH OF
ALBERTA

JUDICIAL CENTRE

CALGARY



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

**AND IN THE MATTER OF THE BUSINESS CORPORATIONS ACT,
RSA 2000, c B-9, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF ALSTON ENERGY INC.**

DOCUMENT

AFFIDAVIT

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS DOCUMENT

DENTONS CANADA LLP
Bankers Court
15th Floor, 850 - 2nd Street S.W.
Calgary, Alberta T2P 0R8
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File No.: 549521-6

AFFIDAVIT #3 OF DON UMBACH

Sworn on February 28, 2014

I, Don Umbach, of the City of Calgary, in the Province of Alberta, **MAKE OATH AND SAY
THAT:**

Introduction

1. I am the President and CEO of Alston Energy Inc. ("**Alston**" or the "**Company**") and as such I have personal knowledge of the matters hereinafter deposed to, save where stated to be based on information and belief, in which case I verily believe the same to be true. Capitalized terms not otherwise defined herein are given the meaning ascribed to them in the Amended and Restated Initial Order filed in these proceedings on December 11, 2013.
2. I make this Affidavit in support of an Application by Alston for, among other things, (i) an extension of the Stay Period previously established in these proceedings, (ii) an Order approving the sale of Alston's assets in the Alexander area of Alberta, and directing \$650,000 from the net proceeds of that sale be paid to Alberta Treasury Branches ("**ATB**") in reduction of Alston's indebtedness to ATB, (iii) an Order sealing the Confidential Appendices to the Second Report of the Monitor, filed in these proceedings (the "**Second Report**"), and (iv) related relief.
3. As set out below in greater detail, since its last appearance before this Honourable Court Alston has continued to act in good faith and with the due diligence toward formulating a plan of arrangement in these proceedings. More particularly, Alston has:

- (a) implemented a program to rectify various operational and mechanical issues effecting Alston's oil and gas interests in the Provost area of Alberta, with a view to restoring production to its current operating capacity;
 - (b) commenced and continued discussions with suppliers and service providers with a view to continuing operations in a "business as usual" fashion;
 - (c) met with Sayer, the Monitor, and ATB to discuss and consider various offers received for the assets of Alston, and also various combination proposals which may form the basis for a plan of arrangement in these proceedings;
 - (d) negotiated and executed, subject to Court approval, an Asset Purchase Agreement (the "**Agreement**") with Black Powder Energy Inc. (formerly known as 1704260 Alberta Ltd.) (the "**Purchaser**") for the sale of all of Alston's interests in Alexander area of Alberta; and
 - (e) continued to negotiate a confidential letter of intent with a counter party interested in acquiring Alston in a transaction which would form the basis for a plan of arrangement in these proceedings.
4. I believe Alston has been acting in good faith and with due diligence in these proceedings, and it is in the best interests of Alston and its shareholders that the Stay Period be extended to June 6, 2014, and that such an extension is warranted in the circumstances.

Operational Update

5. Alston continues to maintain regular communication with suppliers and service providers with a view to maintaining normal operations. To date there have not been any operational issues resulting from Alston initiating these CCAA proceedings.
6. Commencing in late January 2014 Alston implemented a program to rectify various operational and mechanical issues which were then affecting production of Alston's Provost assets. The program consists of routine down hole well service work to repair broken rods, pumps and tubing strings in four wells, replacement of a ruptured flowline used to transport disposal water to an injection well, and licensing a new water injection well to increase the current water injection capacity of the assets, all resulting in an expected increase in oil production. It is anticipated that these expenditures will result in a total estimated increase in production of 106 BOE/D, and restore the overall production from the Provost area to historical levels. This will have a net positive impact on Alston's cashflow during the forecast period, all as set out in detail in the Second Report of the Monitor.
7. Alston started this program in January, 2014 but does not expect to complete it until May, 2014, at a total estimated cost of \$350,000.00. The details of this program and its impact on the cashflows were communicated to ATB in late January, 2014, and are also shown in the cashflow statements and analysis contained in the Second Report.

Marketing Process

8. As set out in the previous Affidavits filed in these proceedings, Alston previously engaged Sayer for the purpose of seeking both strategic alternatives and possible dispositions of Alston's

assets. Sayer concluded a formal process in that regard on October 24, 2013, however no acceptable offers were generated by the process at that time. Nonetheless, Sayer and Alston maintained communication with the interested bidders and in December, 2013 advised interested bidders that they should re-submit bids through Sayer on or before January 20, 2014, if they remained interested.

9. On that date Alston received a variety of responses. These were predominantly bids for some or all of Alston's assets, and one offer relating to a strategic combination.
10. Based on a detailed review conducted by Alston, Sayer, and the Monitor it was determined that the offer made by the Purchaser for Alston's interests in the Alexander area of Alberta was acceptable, and one of the strategic combination proposals was of interest to Alston, but required further negotiation, clarification, and refinement. Each of these is discussed below in greater detail.
11. Shortly after January 20, 2014 Alston met with the Monitor and ATB to review all of the offers submitted through the Sayer process. As a result of that meeting Alston understands that ATB supports the sale of the Alexander assets, and ATB was prepared to further consider the strategic combination offer received, subject to further negotiation, clarification and refinement by Alston and the counter-party.
12. A more detailed discussion of the recent marketing process and its results is contained in the Confidential Appendices to the Second Report (the "**Confidential Appendices**"). Alston seeks an Order sealing the Confidential Appendices on the Court file as they contain sensitive commercial information pertaining to the sale of the Alexander assets which should not be disclosed until the transaction has closed.

Sale of Alexander Assets

13. The Confidential Appendices also contains an executed copy of the Asset Purchase and Sale Agreement made as of the 19th day of February, 2014 between Alston and the Purchaser (the "**Agreement**"), and a cashflow statement demonstrating the impact of the net proceeds of the Agreement on Alston's financial position.
14. The Agreement follows a lengthy Sayer marketing process for the assets conveyed therein. The purchase price contained in the Agreement is the highest and best offer received by Alston and Sayer for the assets. Alston is of the view that the purchase price is commensurate with the value of the assets.
15. The Agreement was negotiated between arm'slength parties each represented by legal counsel. The Agreement contains the terms, conditions, representations and covenants as are usually found in a transaction in respect of these types of assets and Alston's current circumstances.
16. Alston and ATB have had discussions concerning the use of the net proceeds generated by the Agreement. In that regard, Alston and ATB have agreed:
 - (a) \$650,000 of the net proceeds will be paid to ATB as a permanent reduction of Alston's indebtedness to ATB;
 - (b) the ATB facility will otherwise remain unaffected and be available to Alston;

- (c) the balance of the net proceeds will be available for Alston for working capital and use in these proceedings, including the payment of restructuring costs and retainers to the Monitor and Alston's legal counsel; and
 - (d) each of the Administration Charge of the Directors Charge contained in the Amended and Restated Initial Order will be reduced to \$250,000.00 upon the closing of the Agreement, and Alston respectfully requests such an Order from this Honourable Court.
17. As a result of the foregoing, Alston does not anticipate needing interim financing in these proceedings.

Plan of Arrangement

18. As part of the Sayer process one party submitted an offer in the nature of a corporate acquisition which could potentially form the basis for a plan of arrangement in these proceedings. However, that bid requires further negotiation, clarification and refinement before forming the basis for a plan of arrangement.
19. Alston has continued discussions with this party with a view to finalizing a letter of intention outlining a transaction which may form the basis for a plan of arrangement. At this time the details of the letter of intention are not finalized and so cannot be disclosed. Furthermore, it is contemplated that the terms of the LOI would be subject to approval by ATB and Alston's other primary stakeholders.

Delaying Annual General Meeting

20. Alston last held an annual general meeting of its shareholders ("AGM") in December, 2012, and is legally required to hold another AGM by mid-March, 2014, unless this Honourable Court grants an Order extending the time within which Alston may do so. To hold an AGM would be costly and would divert the attention of Alston's management away from these proceedings. For these reasons, Alston respectfully requests an Order indefinitely relieving Alston of its obligation to hold an AGM until further Order of this Honourable Court.
21. I make this Affidavit in support of the Application of Alston for the relief described herein.

Sworn before me in the City of Calgary in)
the Province of Alberta, the 28th day of)
February, 2014.)
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Commissioner of Oaths in and for the)
Province of Alberta)

David LeGeyt
Barrister & Solicitor

Don Umbach