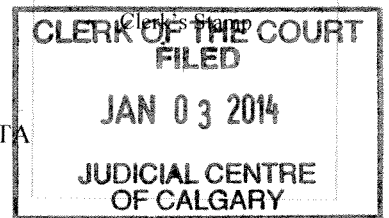


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COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY



APPLICANTS 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, RSA 2000, c.B-9, AS AMENDED

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

DOCUMENT **FIRST REPORT OF THE MONITOR**

JANUARY 3, 2014

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
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DOCUMENT

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INTRODUCTION

1. On December 9, 2013, Alston Energy Inc. (“Alston” or the “Company”) sought and obtained protection from its creditors under the Companies’ Creditors Arrangement Act, R.S.C. 1985, c.C-36, as amended (the “CCAA”) pursuant to an order of the Court of Queen’s Bench of Alberta (“Court”) (the “Initial Order”).
2. Pursuant to the Initial Order, Alvarez & Marsal Canada Inc. was appointed monitor of the Company (the “Monitor”).
3. The Initial Order also granted the Company various relief, including but not limited to, imposing a stay of proceedings against the Company and its current and future assets, undertakings and properties of every nature (the “Property”) until December 11, 2013 (the “Initial Stay Period”) and providing the Company an opportunity to prepare and file a plan of arrangement or compromise under the CCAA for the consideration of its creditors and other stakeholders.
4. Under the Initial Order, the Initial Stay Period may be extended by the Court from time to time and the Company is to continue carrying on the business in a manner consistent with the preservation of its business and assets.
5. On December 11, 2013, the Court granted a further order (the “Amended and Restated Initial Order”) that, amongst other things, extended the Initial Stay Period to January 8, 2014 (the “Amended Initial Stay Period”).
6. The purpose of this first report Monitor (the “First Report”) is to provide the Court with an update in respect of the following:
 - a) a brief overview of Alston;
 - b) a brief operational update since the date of the Initial Order;
 - c) the Monitor’s activities since the granting of the Initial Order;

- d) the notices issued to creditors regarding the granting of the Initial Order;
 - e) an analysis of the budget to actual cash flow results for the period from December 9, 2013 to December 27, 2013 (the “Reporting Period”);
 - f) the revised cash flow projections (the “Updated Forecast”) from December 28, 2013 through March 7, 2014 (the “Forecast Period”);
 - g) the Company’s update on its restructuring efforts;
 - h) the Company’s request for an extension to the Amended Initial Stay Period until, and including March 7, 2014; and
 - i) the Monitor’s recommendations.
7. Capitalized terms not defined in this First Report are as defined in the Initial Order and the Amended Initial Order.
8. All references to dollars are in Canadian currency unless otherwise noted.

TERMS OF REFERENCE

9. In preparing this First Report, the Monitor has relied upon unaudited financial information, company records and discussions with management of Alston. The Monitor has not performed an audit, review or other verification of such information. An examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants (“CICA”) Handbook has not been performed. Future oriented financial information relied upon in this report is based on management’s assumptions regarding future events and actual results achieved will vary from this information and the variations may be material.

BACKGROUND

10. Alston is a publicly traded oil and gas company where its operational and financial management is located in Calgary, Alberta. Alston's oil and gas properties are solely located in the province of Alberta and its outstanding shares of common stock are currently listed and traded on the TSX Venture Exchange. Alston has no subsidiaries or affiliates and carries on its operations through various joint venture, farm-in and joint operating arrangements.
11. As discussed in the affidavit of Don Umbach sworn December 6, 2013 (the "December 6th Umbach Affidavit"), the cause of Alston's financial difficulties resulted from a number of factors, including:
 - a) consequences of a share purchase transaction where Alston acquired CanRock Energy Corp. ("CanRock") on July 17, 2012 and later amalgamated and continued in business as Alston (the "CanRock Transaction");
 - b) the loss of a significant well at Newton; and
 - c) the lack of access to capital markets coupled with a decline in natural gas prices and the widening price differential between the price Alston can obtain for crude in Western Canada versus West Texas Intermediate crude oil price.
12. As a result of these challenges and Alston's concern that, in light of its default to one of its secured creditors, Second Wave Petroleum Inc. ("Second Wave"), and Second Wave's subsequent demand for repayment, Alston believed that if Second Wave were to exercise the rights onto its security it would have resulted in a significant erosion of value for Alston and its stakeholders. As such, the Company sought and the Court granted a stay of proceedings as against Alston pursuant to the Initial Order.

13. Further background to Alston and its operations are contained in the materials filed relating to the Initial Order, the Amended Initial Order including the various affidavits of Don Umbach. These documents, together with other information regarding this CCAA proceeding, have been posted by the Monitor on its website at: www.amcanadadocs.com/alston .

OVERVIEW OF ALSTON

Location

14. Alston's oil and gas interests are located in Alberta and its principal address is Suite 1100, 744-4th Avenue SW, Calgary, Alberta.

Board of Directors, Officers, Employees and Contractors

15. Alston's board of directors comprise of 5 individuals and three executive officers as identified in the December 6th Umbach Affidavit.
16. Alston currently employs three (3) employees, whom are also officers of the Company. Prior to the Initial Order, the Company terminated various employment of its staff as a result of cost cutting measures to streamline its operations. For a short-term period, Alston engaged the services of certain contractors to assist in its operations, such as a production accounting, land administrator, investor relations and an administrative assistant. The Monitor was advised that these contractors will no longer be required on a regular basis effective February 1, 2014 and the Company will be utilizing their services on an hourly basis, as required.

Oil & Gas Assets

17. Alston is a producer of crude oil and natural gas, currently engaged in the exploration, development and production of crude oil ("Oil"), natural gas ("Gas") and natural gas liquids ("NGL"), which production capability is weighted approximately at 65% Oil and NGL's and 35% Gas.

18. The majority of Alston's production base is generated from two operated producing areas located in:
- a) **Provost, Alberta.** Alston owns a weighted average working interest of 87% in leasehold and other interests in 4,880 gross acres, which approximately 44% is currently producing. Alston also owns interests in 29 producing wells in this area, and accordingly operates 100% of these wells.
 - b) **Newton, Alberta.** Alston owns a weighted average working interest of 61% in leasehold and other interests in 31,543 gross acres of which approximately 64% is producing. Alston owns 100% of working interest in 13 producing wells in this area and currently operates 100% of these wells. In addition, Alston also has some non-operating working interests in wells in this area ranging in interest between 5-20%.
19. The other properties Alston has interests in are in the areas of Alexander, Pembina and Chauvin, where Alston owns a weighted average working interest of 34% in leasehold and other interests in 21,642 gross acres and other non-operating working interest ranging from 3.5% to 20% in producing and non-producing wells throughout these areas.
20. Alston's average daily Oil and NGL production for over the three month period ended September 30, 2013 were approximately 234 barrels of oil equivalent ("BOE") per day and 121 BOE per day of Gas as an average netback price of \$12.57 per BOE.
21. For November 2013, the Company estimated combined average daily Oil and NGL's volumes for its operated and non-operated wells were approximately 193 BOE per day and 110 BOE per day of Gas.

Office Rent

22. The Company's current head office lease rental rate is approximately \$15,000 per month and expires on September 30, 2014. The lease agreement allows for either party to terminate the lease by providing a 30-day cancellation notice.

Insurance coverage

23. Alston has a comprehensive corporate insurance policy ("Corporate Insurance Policy") in place with Chubb Insurance Co. of Canada that expires on February 23, 2014 and covers the following: production property and equipment breakdown, operators' extra expense, umbrella liability policy, commercial general liability and property and sudden and accidental pollution liability. The total premium of this coverage is approximately \$21,000 and is currently being paid on a monthly basis.
24. In addition, Alston carries a \$5 million directors' and officers' insurance policy (the "D&O Policy") and it is insured with Lloyd's of London. The D&O Policy expires on August 18, 2014.
25. The Monitor has been advised by the Company that its Corporate Insurance Policy and the D&O Policy are adequate and appropriate for their purposes.

OPERATIONAL UPDATE

26. Following the granting of the Initial Order, Alston's operations have not experienced any material change. Alston has been able to maintain its key employees and contractors and has generally enjoyed the support of its critical vendors and suppliers.

MONITORS ACTIVITIES

27. Since the granting of the Initial Order, the Monitor's initial activities have included the following:

- a) On December 9, 2013, the Monitor activated its website and all public materials circulated by the Company in these CCAA proceedings have been posted to the website;
- b) filed, served and published all statutory notices to creditors pursuant to subsection 23(1)(a) of the CCAA, as discuss further below;
- c) attended the head office of Alston to meet with management and review the company's books and records;
- d) assisted the Company in establishing a proper weekly monitoring of its cash flow and operations, which include the review of Alston's receipts and disbursements compared to its Initial Cash Flow Forecast (as discussed further below);
- e) conducted a further review of the Company's critical suppliers with the Alston's management;
- f) responded to creditor questions and calls regarding the CCAA proceedings;
- g) provided comments and advice on Alston's correspondence to its critical suppliers;
- h) met with Alston's management and Sayer Energy Advisors ("Sayer") (the "Financial Advisor") to discuss Alston's restructuring efforts and Sayer's respective mandate with respect to the offers and/or proposals submitted to Sayer and/or other offers received in respect of the Company; and

- i) communicated with Alston's significant secured creditor and its counsel, Alberta Treasury Branch ("ATB") in an attempt to arrange a meeting with the Monitor and the Company to discuss the Company's actions to date, its restructuring initiatives, the "go-forward" and to discuss any of ATB's questions and/or concerns;
 - j) communication with Alston's legal advisors regarding the Company's intention to seek an interim financing and claims procedure order in due course; and
 - k) reviewed, evaluated and commented on proposals received by Alston from potential interim financing providers;
28. The Monitor will continue to work with Alston and all of its stakeholders as appropriate during these CCAA proceedings.

NOTICE TO CREDITORS

29. Pursuant to paragraph 38 and 39 of the Amended Initial Order and subsection 23(1)(a) of the CCAA, the Monitor:
- a) published the Notice to Creditor (the "Notice") in the Calgary Herald on December 14, 2013 and December 18, 2013;
 - b) made the Initial Order and Amended Initial Order publicly available on the Monitor's web-site effective December 9, 2013;
 - c) on December 13, 2013 mailed the Notice to every known creditor (the "Known Creditors") of the Company having a claim of more than \$1,000; and
 - d) prepared a list of showing the names and addresses of the Known Creditors and made the list publicly available on the Monitor's website effective December 13, 2013;

30. The Notice advised that if a creditor had any other questions or concerns of the Notice that the creditor could contact Monitor and/or a representative of Alston directly by providing the creditor with the respective contact information.

ACTUAL TO FORECAST RESULTS – DECEMBER 9, 2013 TO DECEMBER 27, 2013

Actual to Forecast Summary Results

31. The actual to forecast cash flow presented in the below chart for the Reporting Period contains the actual cash receipts and disbursements relating to the Company as compared to the cash flow forecasts previously provided to this Court in the Pre-Filing Report of A&M dated December 6, 2013 (the “Initial Cash Flow Forecast”).

Alston Energy Inc. Forecast to Actual Results December 9, 2013 to December 27, 2013 (\$CAD)			
	Forecast	Actual	Variance
Operating receipts			
Oil	332,000	315,335	(16,665)
Natural gas	50,000	47,796	(2,204)
NGL's	16,100	13,329	(2,771)
Joint venture receipts	38,300	3,688	(34,612)
Hedge settlements, net	16,000	15,873	(127)
Other	-	-	-
Total operating receipts	452,400	396,021	(56,379)
Operating disbursements			
Operating costs	11,550	11,550	-
Payroll, benefits and contractor costs	41,100	39,363	1,737
Critical suppliers	25,000	-	25,000
Lease rentals and royalty costs	46,150	46,010	140
General and administrative costs	2,300	2,263	37
Interim Financing interest and fees	-	-	-
Capital expenditures	-	-	-
Total operating disbursements	126,100	99,186	26,914
Net change in cash from operations	326,300	296,835	(29,465)
Non-operating disbursements			
Restructuring costs	-	-	-
Other	-	-	-
Total non-operating disbursements	-	-	-
Interim Financing			
Borrowings (repayment)	-	-	-
Total net change in cash flow	326,300	296,835	(29,465)
Opening available cash	98,544	98,544	0
Total net change in cash flow	326,300	296,835	(29,465)
Ending available cash	424,844	395,379	(29,465)

32. Receipts for the Reporting Period totalled \$396,021, representing an unfavorable variance of approximately \$56,379 from the receipts set out in the Initial Cash Flow Forecast. This negative variance was primarily due to:
- a) a permanent negative variance of \$16,665 relating to lower than expected Oil production volumes in the Provost and Newton area in November as a result of certain freeze up on various wells;
 - b) a negative variance of \$34,612 relating primarily to the collection of Alston's join venture ("JV") non-operating working interest receipts in Alexander of approximately \$14,078 (timing variance) that will be collected in the Forecast Period. The remaining variance of approximately \$20,500 is considered a permanent negative variance and will not be collected in the Forecast Period due to unexpected capital cost overruns by the operator for the Alexander property (i.e. capital maintenance on the facility); and
 - c) a negative permanent variance of approximately \$5,000 relating to lower than expected NGL's and Gas receipts;
33. Operating disbursements for the Reporting Period totaled \$99,186 representing a positive variance of \$26,914. This variance was primarily due to:
- a) a positive timing variance of approximately \$25,000 relating to certain critical supplier payments (discussed further below) not being paid in the Reporting Period, but expected to be made in the Forecast Period; and
 - b) a positive timing variance of approximately \$1,700 relating to the payment of certain office contractor payments;
34. Restructuring fees accrued and incurred during the Reporting Period were not paid; however, these costs are expected to be paid in the Forecast Period and have been reflected in the Updated Forecast.

35. The ending total cash available under Alston's current revolving operating loan is \$395,379 compared to the forecast cash balance amount of \$424,844, for the reasons discussed above.

UPDATED CASH FLOW FORECAST THROUGH MARCH 7, 2014

36. Alston, with the assistance of the Monitor, has prepared an Updated Forecast for the Forecast Period based on the most current information available, which is attached in Appendix A to this First Report.
37. The Updated Forecast is based on management's assumptions regarding future events, actual results will vary from the information presented even if management's assumptions to the Updated Forecast occur, and the variations may be material. Accordingly, the Monitor expresses no assurance as to whether the results shown in the Updated Forecast will be achieved. The Monitor also expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this First Report, or relied upon by it in preparing this First Report.
38. The table below summarizes the Updated Forecast, as prepared by the Company, with the assistance of the Monitor and is further discussed in the paragraphs below:

Alston Energy Inc. Cash Flow Forecast December 28, 2013 to March 7, 2014 (\$CAD - Unaudited)	
	TOTAL Dec.28/13 to March.7/14
Operating Receipts	877,100
Operating disbursements	1,404,400
Non-operating disbursements	700,000
DIP Financing	850,000
Net change in cash flows	(377,300)
Opening available cash	379,506
Net change in cash flow	(377,300)
Ending available cash	2,206
DIP Financing reconciliation	
Proposed maximum availability	1,000,000
Borrowings (release of funds)	(850,000)
Remaining available cash under DIP	150,000

39. As summarized above, Alston is projecting over the Forecast Period:
- a) total cash receipts from production revenues (Oil, Gas and NGL's) and JV receipts of approximately \$877,100;
 - b) total operating costs of approximately \$1,404,400 relating primary to:

- i. operating costs of approximately \$693,100 that consist of expected operating costs in relation to production volumes along with office rent and other operator costs;
- ii. payroll, benefits and contractor costs of approximately \$115,200;
- iii. critical supplier payments of approximately \$81,000 based on pre-filing amounts owed to certain vendors determined as critical to Alston's operations and production and as allowed for pursuant to the Amended Initial Order, subject to Monitor consent for release of payment;
- iv. lease rental and royalty costs of approximately \$107,700 that are not offset against receipts collected by Alston and the based on managements expected production;
- v. general and administrative costs of approximately \$146,600 relating to payments made on insurance, bank fees and monthly interest payments to ATB on its outstanding revolving operating loan;
- vi. interim finance interest and fees of approximately \$27,000 relating to the anticipated costs associated on borrowings (subject to Court approval) to cover operational, capital and restructuring costs in the CCAA proceedings;
- vii. hedge costs of approximately \$8,800 that relate to the estimated monthly settlements on current hedge contracts in place on its oil and gas productions;
- viii. capital expenditures forecast of approximately \$225,000 relating to Alberta Energy Regulator ("AER") mandated costs required on certain of Alston's operated wells;

- c) total restructuring costs of approximately \$700,000 that consist of anticipated professional fees to be incurred and paid during the CCAA proceedings;
 - d) anticipated interim financing borrowings of approximately \$850,000 required to fund operational, capital and restructuring costs, as discussed above. The Monitor understands that the Company will be returning to Court shortly for approval of interim financing.
40. Based on Alston's assumptions, the Updated Forecast indicates that the Company will continue to have sufficient available cash to meet its current obligations through the Forecast Period, provided that Alston continues to have access to its revolving operating loan (maximum facility with ATB is \$9 million) and interim financing is obtained by Alston and approved by this Honourable Court prior to the week ending January 24, 2014.

RESTRUCTURING UPDATE

41. Since the granting of the Initial Order, Alston has taken numerous steps with respect to its restructuring efforts, which include:
- a) communicating with its stakeholders (which include ATB), the Monitor, and Sayer about its restructuring operations and the go-forward;
 - b) addressing offers received from prospective strategic partners and/or purchasers of Alston's shares and assets;
 - c) seeking various offers from prospective interim financing lenders and negotiating their terms, subject to Monitor and Court approval; and
 - d) stabilizing and continuing Alston's operations in the field and working closely with its key customers and suppliers;

42. The Monitor understands that the Company intends to bring forward an application for interim financing and a claims procedure order in the very near future for Court approval. The Monitor further understands that since any interim financing sought by the Company will likely prime ATB (and Alston's other secured lenders), the Company wishes to discuss the interim financing proposals received with its major lender prior to seeking court approval.
43. The Monitor is of the view that an extension to the Stay Period is necessary for Alston to continue its restructuring efforts and to work with its main stakeholders in order to provide a restructuring plan or plan of arrangement to its creditors that would provide greater recovery than under a liquidation scenario.

ALSTON'S REQUEST FOR AN EXTENSION OF THE STAY PERIOD

44. Pursuant to the Amended Initial Order, the Company's stay period expires at midnight on January 8, 2014. The Company is seeking an extension of the Amended Initial Stay Period until, and including March 7, 2014 (the "Proposed Stay Extension").
45. The Proposed Stay Extension is necessary for Alston to finalize discussions with prospective strategic partner and/or purchasers, develop a restructuring plan or plan of arrangement, undertake a claims process and seek the required interim financing for its operational and restructuring use.
46. In the Monitor's view, Alston is acting in good faith and with due diligence during this CCAA proceeding. The Monitor is of the view that the Proposed Stay Extension is appropriate in the circumstances.

RECOMMENDATION

47. The Monitor respectfully recommends that this Honourable Court approve the Proposed Stay Extension.

Dated at Calgary, this 3rd day of January, 2014.

**ALVAREZ & MARSAL CANADA INC.,
in its capacity as Monitor of
Alston Energy Inc.**



Tim Reid, CA, CIRP
Senior Vice President



Orest Konowalchuk, CA, CIRP
Director

APPENDIX A

Alston Energy Inc.
Cash Flow Forecast
December 28, 2013 to March 7, 2014
(\$CAD - Unaudited)

Week ending	Week 4 3-Jan-14	Week 5 10-Jan-14	Week 6 17-Jan-14	Week 7 24-Jan-14	Week 8 31-Jan-14	Week 9 7-Feb-14	Week 10 14-Feb-14	Week 11 21-Feb-14	Week 12 28-Feb-14	Week 13 7-Mar-14	TOTAL Dec-28/13 to March 7/14
Operating Receipts											
Oil	-	-	-	-	302,700	-	-	-	340,000	-	642,700
Natural gas	-	-	-	-	54,000	-	-	-	56,000	-	110,000
NGL's	-	-	-	-	13,000	-	-	-	14,400	-	27,400
Joint venture receipts	16,000	16,000	-	31,000	-	-	-	34,000	-	-	97,000
Total operating receipts	16,000	16,000	-	31,000	369,700	-	-	34,000	410,400	-	877,100
Operating disbursements											
Operating costs	26,700	125,000	11,550	75,000	-	151,700	-	86,550	-	216,600	693,100
Payroll, benefits and contractor costs	4,100	7,900	24,000	-	30,400	1,500	19,900	-	25,900	1,500	115,200
Critical suppliers	-	50,000	-	-	31,000	-	-	-	-	-	81,000
Lease rentals and royalty costs	-	-	4,300	-	31,000	-	-	1,400	71,000	-	107,700
General and administrative costs	35,500	10,000	7,500	-	43,000	50	7,500	-	43,000	50	146,600
Interim Financing Interest and fees	-	-	-	-	-	3,500	-	-	-	3,500	27,000
Hedge settlements, net	-	-	-	20,000	-	-	-	-	-	-	8,800
Capital expenditures	-	-	-	-	8,800	-	-	-	-	-	225,000
Total operating disbursements	66,300	192,900	47,350	95,000	144,200	231,750	27,400	162,950	139,900	296,650	1,404,400
Non-operating disbursements											
Restructuring costs	-	100,000	-	-	300,000	-	-	150,000	-	150,000	700,000
Other	-	-	-	-	-	-	-	-	-	-	-
Total non-operating disbursements	-	100,000	-	-	300,000	-	-	150,000	-	150,000	700,000
DIP Financing											
Borrowings (repayment)	-	-	-	200,000	-	200,000	-	300,000	-	150,000	850,000
Net change in cash flows	(50,300)	(276,900)	(47,350)	136,000	(74,500)	(31,750)	(27,400)	21,050	270,500	(396,650)	(377,300)
Opening available cash	379,506	329,206	52,306	4,956	140,956	66,456	34,706	7,306	28,356	298,856	379,506
Net change in cash flow	(50,300)	(276,900)	(47,350)	136,000	(74,500)	(31,750)	(27,400)	21,050	270,500	(396,650)	(377,300)
Ending available cash	329,206	52,306	4,956	140,956	66,456	34,706	7,306	28,356	298,856	2,206	2,206
DIP Financing reconciliation											
Proposed minimum availability	1,000,000	1,000,000	1,000,000	1,000,000	800,000	800,000	600,000	600,000	300,000	300,000	1,000,000
Borrowings (release of funds)	-	-	-	(200,000)	-	(200,000)	-	(300,000)	-	(150,000)	(850,000)
Remaining available cash under DIP	1,000,000	1,000,000	1,000,000	800,000	800,000	600,000	600,000	300,000	300,000	150,000	150,000

January 3, 2014
Date

Neil Burrows
Vice President - Finance