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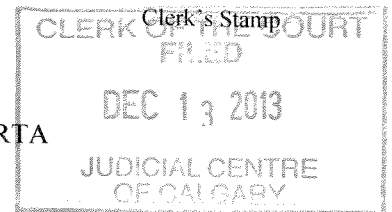
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COURT

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

**PRE-FILING REPORT OF ALVAREZ & MARSAL  
CANADA INC., THE PROPOSED MONITOR**

**DECEMBER 6, 2013**

ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
PARTY FILING THIS  
DOCUMENT

**PROPOSED MONITOR**

ALVAREZ & MARSAL CANADA INC.

Bow Valley Square I

Suite 570, 202 – 6<sup>th</sup> Avenue SW

Calgary, Alberta T2P 2R9

Tim Reid/Orest Konowalchuk

Telephone: (403) 538-4756 / (403) 538-4736

Email: [treid@alvarezandmarsal.com](mailto:treid@alvarezandmarsal.com)

[okonowalchuk@alvarezandmarsal.com](mailto:okonowalchuk@alvarezandmarsal.com)

**COUNSEL**

McCarthy Tetrault LLP

Sean Collins / Walker MacLeod

Suite 3300, 421-7<sup>th</sup> Avenue

Calgary, Alberta T2P 4K9

Phone: (403) 260-3531 / (403) 260-3710

Fax: (403) 260-3501

Email: [scollins@mccarthy.ca](mailto:scollins@mccarthy.ca)

[wmacleod@mccarthy.ca](mailto:wmacleod@mccarthy.ca)

File: 213575-457897

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APPENDIX A

Cash-Flow Statement and Notes

## **INTRODUCTION**

1. Alvarez & Marsal Canada Inc. (“A&M”) understands that on December 9, 2013, Alston Energy Inc. (“Alston” or the “Company”), will be making an application to the Court of Queen’s Bench of Alberta for an Order (the “Initial Order”) granting a stay of proceedings against Alston until January 8, 2014 pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c.C-36, as amended, (the “CCAA”).
2. A&M is the proposed monitor (the “Proposed Monitor”) in the CCAA proceedings.

## **PURPOSE**

3. This report (the “Report”) is prepared by A&M as Proposed Monitor to provide the Court with A&M’s qualifications to act and the report referred to in paragraph 23(1)(b) of the CCAA as the Court considers the Applicants’ request for relief.

## **A&M’S QUALIFICATIONS TO ACT AS MONITOR**

4. A&M is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (the “BIA”). A&M is not subject to any of the restrictions on who may be appointed Monitor set out in section 11.7(2) of the CCAA and, in particular, neither A&M nor any of its representatives have been at any time in the two proceeding years:
  - a) the auditor of Alston; or
  - b) engaged by the Company in connection with any consulting or restructuring matters.
5. A&M has consented to act as Monitor should the Court grant the Applicants’ request to commence CCAA proceedings.

## **PROJECTED CASH FLOW**

6. In accordance with section 10(2) of the CCAA, the Company has prepared a 13-week cash flow forecast for their receipts and disbursements for the period of December 9, 2013 to March 7, 2014 (the "Cash-Flow Statement"). In preparing the Cash-Flow Statement, management of the Company has used the probable and hypothetical assumptions as set out in the notes A-M (the "Notes") to the Cash-Flow Statement.
7. A copy of the signed Cash-Flow Statement and Notes are appended as Exhibit "L" to the Affidavit of Don Umbach sworn December 6, 2013 (the "December 6<sup>th</sup> Umbach Affidavit") and are attached hereto as Appendix A.
8. As indicated in the Cash-Flow Statement, the Company estimates that it will have total receipts of approximately \$1,349,000 and total disbursements of approximately \$2,262,000 for the period of December 9, 2013, 2013 to March 7, 2014. In order to maintain a sufficient cash balance through to March 7, 2014, the Alston has forecast to draw a maximum of \$850,000 (subject to prior court approval) on a proposed Interim Financing loan it will require to fund operations, capital expenditures and restructuring costs during the 13 week period. The Proposed Monitor understands that an application by the Alston will be made in the coming weeks seeking approval of Interim Financing.
9. As reflected in the Cash-Flow Statement and as set out in the December 6<sup>th</sup> Umbach Affidavit, the Company has sufficient funds to satisfy its projected uses of cash for the next 13-weeks, which is also discussed further in the Notes to the Cash-Flow Statement.

## **PROPOSED MONITOR'S REVIEW OF THE CASH-FLOW STATEMENT**

10. We have reviewed the Cash-Flow Statement in our capacity as proposed monitor (the "Proposed Monitor") of the Company. The sole purpose of the Proposed Monitor's report is to provide the Court with our findings with respect to our

review of the Company's Cash-Flow Statement as to its reasonableness in accordance with section 23(1)(b) of the CCAA.

11. Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by certain of the management and employees of the Company. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash-Flow Statement. We have also reviewed the support provided by management of the Company for the probable assumptions and the preparation and presentation of the Cash-Flow Statement.

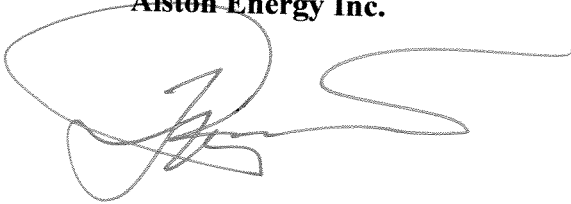
#### **PROPOSED MONITOR'S OPINION ON CASH-FLOW STATEMENT**

12. Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:
  - a) the hypothetical assumptions are not consistent with the purpose of the Cash-Flow Statement;
  - b) as at the date of this report, the probable assumptions developed by management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash-Flow Statement, given the hypothetical assumptions; or
  - c) the Cash-Flow Statement does not reflect the probable and hypothetical assumptions.
13. Since the Cash-Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the Cash-Flow Statement will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by us in preparing this report.

14. The Cash-Flow Statement has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

Dated at Calgary, this 6<sup>th</sup> day of December, 2013.

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

A handwritten signature in black ink, appearing to be 'Tim Reid', written over a large, faint, circular stamp or watermark.

Tim Reid, CA, CIRP  
Senior Vice President

A handwritten signature in black ink, appearing to be 'Orest Konowalchuk', written in a cursive style.

Orest Konowalchuk, CA, CIRP  
Director

# APPENDIX A



#1100, 744 - 4<sup>th</sup> Avenue SW  
Calgary, AB T2P 3T4  
Phone | (403) 265-2770  
Fax | (403) 265-2775  
[www.alstonenergy.ca](http://www.alstonenergy.ca)

December 6, 2013

Alvarez & Marsal Canada ULC  
Bow Valley Square I  
Suite 570, 202 – 6<sup>th</sup> Avenue SW  
Calgary, Alberta T2P 2R9

Attention: Tim Reid, CA, CIRP

Dear Sir:

Re: **Proceedings under the Companies' Creditors Arrangement Act ("CCAA")  
Responsibilities/Obligations and Disclosure with Respect to Cash Flow Projections**

In connection with the application by Alston Energy Inc. ("Alston") for the commencement of proceedings under the CCAA in respect of Alston, the management of Alston (the "Management") has prepared the attached Cash-Flow Statement and the assumptions on which the Cash-Flow Statement is based.

Alston confirms that:

1. The Cash-Flow Statement and the underlying assumptions are the responsibilities of Alston;
2. All material information relevant to the Cash-Flow Statement and to the underlying assumptions has been made available to Alvarez & Marsal Canada Inc. (the "Proposed Monitor"), in its capacity as Proposed Monitor; and
3. Management has taken all actions that it considers necessary to ensure that the:
  - a. individual assumptions underlying the Cash-Flow Statement are appropriate in the circumstances; and
  - b. individual assumptions underlying the Cash-Flow Statement, taken as a whole, are appropriate in the circumstances.

Yours truly,  
Alston Energy Inc.

A handwritten signature in dark ink, appearing to read "Don Umbach", is written over a horizontal line.

Don Umbach  
President & Chief Executive Officer

Alstion Energy Inc.  
13-Week Cash Flow Forecast  
December 9, 2013 to March 7, 2014  
(SCAD - Unaudited)

Note	Week 1 13-Dec-13	Week 2 20-Dec-13	Week 3 27-Dec-13	Week 4 03-Jan-14	Week 5 10-Jan-14	Week 6 17-Jan-14	Week 7 24-Jan-14	Week 8 31-Jan-14	Week 9 07-Feb-14	Week 10 14-Feb-14	Week 11 21-Feb-14	Week 12 28-Feb-14	Week 13 07-Mar-14	TOTAL Dec.9/13 to March.7/14
<b>Week ending</b>														
<b>Operating Receipts</b>														
A Oil	-	-	332,000	-	-	-	-	345,000	-	-	-	345,000	-	1,022,000
A Natural gas	-	-	50,000	-	-	-	-	54,000	-	-	-	53,500	-	157,500
A NGL's	-	-	16,100	-	-	-	-	16,100	-	-	-	16,100	-	48,300
A Joint venture receipts	-	36,000	2,300	-	-	-	31,000	-	-	-	34,000	-	-	103,300
B Hedge settlements, net	-	-	16,000	-	-	-	-	1,900	-	-	-	-	-	17,900
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating receipts	-	36,000	416,400	-	-	-	31,000	417,000	-	-	34,000	414,600	-	1,349,000
<b>Operating disbursements</b>														
C Operating costs	-	11,550	-	206,000	-	42,000	-	100,000	26,000	-	86,600	-	215,700	687,850
D Payroll, benefits and contractor costs	18,400	4,200	18,500	12,000	-	24,000	-	19,900	12,000	19,900	-	19,900	7,500	156,300
E Critical suppliers	-	25,000	-	125,000	-	50,000	-	-	-	-	-	-	-	200,000
F Lease rentals and royalty costs	-	1,850	44,300	-	-	4,300	-	41,000	-	-	1,400	-	43,000	135,850
G General and administrative costs	2,300	-	-	5,600	-	-	-	5,500	100	-	-	-	5,500	19,000
H Interim Financing interest and fees	-	-	-	-	30,000	-	-	-	3,000	-	-	-	5,000	38,000
I Capital expenditures	-	-	-	-	-	-	-	-	75,000	-	-	-	75,000	225,000
Total operating disbursements	20,700	42,600	62,800	348,600	30,000	120,300	0	166,400	116,100	19,900	163,000	19,900	351,700	1,462,000
<b>Non-operating disbursements</b>														
J Restructuring costs	-	-	-	-	200,000	-	-	300,000	-	-	-	300,000	-	800,000
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-operating disbursements	-	-	-	-	200,000	-	-	300,000	-	-	-	300,000	-	800,000
<b>Interim Financing</b>														
K Borrowings (repayment)	-	-	-	-	300,000	-	-	100,000	100,000	-	100,000	250,000	-	850,000
<b>Net change in cash flows</b>														
L Opening cash	(20,700)	(6,600)	353,600	(348,600)	70,000	(120,300)	31,000	50,600	(16,100)	(19,900)	(29,000)	344,700	(351,700)	(63,000)
Net change in cash flow	98,544	77,844	71,244	424,844	76,244	146,244	25,944	56,944	107,544	91,444	71,544	42,544	387,244	98,544
Ending cash	(20,700)	(6,600)	353,600	(348,600)	70,000	(120,300)	31,000	50,600	(16,100)	(19,900)	(29,000)	344,700	(351,700)	(63,000)
	77,844	71,244	424,844	76,244	146,244	25,944	56,944	107,544	91,444	71,544	42,544	387,244	35,544	35,544
<b>Interim Financing reconciliation</b>														
Proposed maximum availability				1,000,000	700,000	700,000	700,000	700,000	600,000	500,000	500,000	400,000	150,000	700,000
Borrowings (release of funds)				(300,000)				(100,000)	(100,000)	(100,000)	(100,000)	(250,000)		(550,000)
Remaining available cash				700,000	700,000	700,000	700,000	600,000	500,000	500,000	400,000	150,000	150,000	150,000

December 6, 2013  
Date

  
Don Binfach  
President

**Alston Energy Inc.**  
**Forecast Cash Flow Assumptions**  
**December 9, 2013 to March 7, 2014**

**General Note:** Management of Alston Energy Inc. ("Alston") have prepared this forecasted cash flow statement based on probable and hypothetical assumptions detailed in notes A - M. The forecast has been prepared solely for the Company's CCAA filing. As such, readers are cautioned that it may not be appropriate for their purposes.

<u>Notes</u>	
A	Receipt forecasts are based on oil, gas, NGL production estimates and strip prices. Monthly receipts relate to production from prior month.
B	Hedging receipts relate to estimated monthly settlements on current hedge contracts in place on oil and gas productions.
C	Operating forecasts consist of historical operating costs in relation to production volumes along with office rent and operator costs.
D	Payroll benefits and contractor costs are based on historical payments for salaries and benefits made to office staff and contractor services.
E	Critical supplier payments are forecast based on pre-filing amounts owed to certain vendors determined as critical to Alston's operations and production in accordance with the CCAA.
F	Certain lease and royalties are not offset against revenues and the forecast amount is based on managements expected production.
G	General and administrative cost forecasts are based on historical payments and represent payments made on insurance, bank fees and other miscellaneous costs.
H	Interim Finance interest and fees relate to anticipated costs associated on borrowings (subject to court approval) to cover operational, capital and restructuring costs in the CCAA proceedings.
I	Capital expenditure forecast of approximately \$225,000 relating to Alberta Energy Regulator ("AER") mandated operational activities on certain wells to ensure Alton remains in good standing with the AER.
J	Restructuring costs consist of anticipated professional fees incurred during the CCAA proceeding.
K	Anticipated Interim Financing borrowings required to fund operational, capital and restructuring costs.
L	Opening available cash remaining under current line of credit with Alberta Treasury Branch ("ATB") as at December 9, 2013. Maximum credit facility with ATB is \$9 million.
M	Subject to Court approval, anticipated requirement of Interim Financing of \$1 million.

Don Umbach  
 President

December 6, 2013  
 Date