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COURT	COURT OF QUEEN'S BENCH OF ALBERTA	
JUDICIAL CENTRE	CALGARY	
PLAINTIFF	ALBERTA TREASURY BRANCH	
DEFENDANT	ALSTON ENERGY INC.	
DOCUMENT	**FIRST REPORT OF THE RECEIVER** **AUGUST 1, 2014**	
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**<u>RECEIVER</u>** ALVAREZ & MARSAL CANADA INC. Bow Valley Square I Suite 570, 202 – 6th Avenue SW Calgary, Alberta T2P 2R9 Tim Reid/Orest Konowalchuk Telephone: (403) 538-4756 / (403) 538-4736 Email: treid@alvarezandmarsal.com okonowalchuk@alvarezandmarsal.com **<u>COUNSEL</u>** McCarthy Tetrault LLP Sean Collins / Walker MacLeod Suite 3300, 421-7th Avenue Calgary, Alberta T2P 4K9 Phone: (403) 260-3531 / (403) 260-3710 Fax: (403) 260-3501 Email: scollins@mccarthy.ca wmacleod@mccarthy.ca File: 213575-457897	

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INTRODUCTION

1. Effective May 9, 2014 (the "Receivership Date"), pursuant to an order of the Honourable Madam Justice K. Horner (the "Receivership Order"), Alvarez & Marsal Canada Inc. ("A&M") was appointed as receiver (the "Receiver"), without security, of all of the current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "Property") of Alston Energy Inc. ("Alston" or the "Company") pursuant to section 243(1) of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended., (the "BIA") in the within action (the "Receivership Proceedings").

2. The Receivership Order empowers and authorizes, but does not obligate, the Receiver to, among other things, manage, operate and carry on the business of Alston and to take possession and control of the property of Alston and any and all proceeds, receipts and disbursements arising out of or from the Property, and to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business.

3. The Receiver took possession and control of the Property, except for the properties located in the Municipal District of Newton (referred herein as the "Newton Properties") and further described in the Company records. The Receiver has not taken possession or control of the Newton Properties.

4. The purpose of this first report of the Receiver (the "First Report") is to provide this Honourable Court with information in respect of the following:

    a) a brief overview of Alston;

    b) an operational update since the Receivership Date;

    c) the initial activities of the Receiver since the Receivership Date;

d) the Receiver's dealings with the Alberta Energy Regulator (the "AER");

e) the security opinion conducted by the Receiver's counsel with respect to Alberta Treasury Branch ("ATB");

f) the sales process initiated by the Receiver soliciting offers for the purchase of the Property, out of the normal course of business,

g) a Temporary Sealing Order in respect of a confidential summary of tendered offers to purchase select parcels of the Property as well as the purchase and sale agreements ("PSA") with respect to those properties;

h) the Receiver's recommendation that various Sales and Vesting Orders be respectfully granted by this Honourable Court;

i) the actual cash flow results for the period from May 9, 2014 to July 18, 2014 (the "Reporting Period");

j) the extent and terms of borrowings by the Receiver pursuant to the terms of the Receivership Order;

k) the Receiver's future course of action; and

l) the Receiver's recommendations

5. Capitalized words or terms not defined or ascribed a meaning in the First Report are as defined or ascribed a meaning in the First Report and the Receivership Order.

6. All references to dollars are in Canadian currency unless otherwise noted.

TERMS OF REFERENCE

7. In preparing this First Report, the Receiver has relied primarily upon the representations of select former management and employees of Alston, as well as, certain financial information contained in Alston' books and records. The Receiver has not performed an audit, review or other verification of such information.

BACKGROUND

8. Alston was a public oil and gas company with its operational and financial management located in Calgary, Alberta. Alston's oil and gas properties are solely located in the province of Alberta and its common stock was previously listed and traded on the TSX Venture Exchange (the "TSX"), but in early May 2014, Alston was de-listed from the TSX. Alston has no subsidiaries or affiliates and carries on its operations through various joint venture, farm-in and joint operating arrangements.

9. On December 9, 2013, Alston 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").

10. Pursuant to the Initial Order, Alvarez & Marsal Canada Inc. ("A&M") was appointed monitor of the Company (the "Monitor").

11. Effective May 9, 2014, an order terminating the CCAA proceedings was granted by the Court (the "Order Terminating CCAA Proceedings") and Alston was also placed into receivership on this date. A&M was appointed by the Court as the Receiver.

12. Further background to Alston and its operations are contained in the materials filed relating to the Receivership Order, including various affidavits filed in this Receivership Proceedings. These documents, together with other information

filed in the previous CCAA proceeding, have been posted by the Monitor on its website at: www.alvarezandmarsal.com/alston.

OVERVIEW OF ALSTON

Location

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

Oil & Gas Assets

14. Alston is a producer of crude oil and natural gas and is 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. The majority of Alston's production base was generated from two operated producing areas located in Provost, Alberta (the "Provost Properties") and the Newton Properties,. As discussed above, the Receiver has not taken possession and control of the Newton Properties and the Newton Properties are currently shut-in.

Provost

15. The majority of Alston's production base is generated from the Provost Properties. Alston owns a weighted average working interest of 87% in leasehold and other interests in 4,880 gross acres, which approximately 44% was previously producing; however, due to the recent AER temporary suspensions on certain of Alston's pipeline licenses (i.e. high risk deficiency matters that are currently being addressed by the Receiver as discussed further below), current production is now from approximately 20-25% of the lands. Recent production net to Alston from Provost has averaged approximately 146 barrels of oil and ngls per day and 230 Mcf/d of natural gas for a total of 184 boe/d.

16. On July 16, 2014, the AER delivered letter to the Receiver (the "July 16, 2014 AER Global Refer Letter") indicating that a security deposit is required in the amount of $1,319,917 on account of Alston's corporate LLR rating being 0.86. This deposit requirement is as a result of the AER's assessment of the well licenses Alston holds in both Provost and Newton. The Receiver reviewed the details of the liabilities assigned to each of the Provost Properties and Newton Properties by the AER. The Receiver determined that Provost Properties' portion of the AER LLR rating is calculated at 1.16 with assessed deemed assets of $7,354,168 and deemed liabilities of $6,316,390. As a result, there is no deposit associated solely with the Provost Properties, as the Provost Properties deemed assets are greater than its deemed liabilities. The requirement to fund the security deposit of approximately $1.3 million is as a result of the low LLR rating on the Newton Properties, as discussed further below.

Newton Properties

17. The Newton Properties consists of a weighted average working interest of 61% in leasehold and other interests in 31,543 gross acres of which approximately 64% was producing prior to being shut-in by the Receiver after the Receivership Date. Alston owns 100% of working interest in 13 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%.

18. Pursuant to paragraph 3 of the Receivership Order, the Receiver is empowered, but is not obligated, to take possession of the Alston Property.

19. The Receiver did not take and is not in possession of the Newton Properties wells owned and operated by Alston. Rather, in accordance with paragraph 3 of the Receivership order, on or about May 15, 2014, the Receiver had caused Alston to preserve and protect the Newton properties by shutting in production in accordance with sound oilfield practices. The Newton Properties are believed to have negative value and also are uneconomical to continue producing. The Receiver understands that the monthly cash burn rate on the Newton Properties

was approximately $37,800 and over the past 12-month period, the Newton Properties experienced a net operating loss of approximately $453,000.

20. As discussed above, the AER advised that the Receiver is required to pay the AER a security deposit of $1,319,917 on account of Alston's corporate LLR rating being 0.86. The Receiver determined that Newton Properties portion of the AER LLR rating is currently 0.18 with assessed deemed assets of $526,770 and deemed liabilities of $2,884,466. A copy of the July 16th AER Global Refere Letter is attached as Appendix A to this report.

21. The Receiver also discussed with its consultants the costs of potentially abandoning and reclaiming the Newton Properties, if it was required to do so by the AER. The Receiver understands that if the Receiver were required to abandoned the Newton Properties, this may cost approximately $1.6 million (40 wells x approx. $40,000/well = $1.6 million) before any recovery for salvage of facilities and well equipment; however, this is an estimate and a more detailed analysis or proposal from a 3rd party reclamation company would be required to obtain a more exact figure.

22. Based on the factors discussed above, the Receiver is of the opinion that the Newton Properties have negative value, are uneconomical to operate and will have a less than likely chance to obtain any cash offers if it was included in Receiver's sales process. These factors, together with other considerations, assisted the Receiver in making its decision to not take possession and control of the Newton Properties.

Pembina Properties

23. Alston holds non-operated minor working interests (3.5%-4%) in 5,450 acres of land, 17 vertical oil wells, 2 horizontal oil wells and an oil gathering system, battery and processing facilities in the area of Pembina, Alberta.

24. Alston also holds various non-convertible overriding royalties. Recent production net to the Company from this property has averaged approximately 3 barrels of oil and natural gas liquids per day and 7 Mcf/d of natural gas.

The Minor Properties

25. The Alberta minor properties consist of non-operated oil and gas wells in the Hector, North Provost and Willesden areas. Recent production net to the Company has averaged approximately 5 boe/d (31 Mcf/d) of natural gas sales net to the Alston.

Office Rent

26. 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. The Receiver terminated the lease agreement on July 31, 2014 with the landlord and has until August 31, 2014 to vacate the premise.

Insurance coverage

27. Alston has a comprehensive corporate insurance policy ("Corporate Insurance Policy") in place with Chubb Insurance Co. of Canada that expires on February 22, 2015 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 $65,000 and is continuing to be paid by the Receiver on a monthly basis.

28. The Receiver has been in placed as beneficiary and the loss-payee on the insurance policy.

INITIAL ACTIVITIES OF THE RECEIVER

Custody, Control and Securing the Property

29. Since the Receivership Date, the Receiver's initial activities have included the following:

  a) attending the head office location of Alston to take possession and control of the Property;

  b) engaging the services of the existing field foreman at Provost to ensure that the assets are preserved, protected and operating appropriately;

  c) engaging the services of an experienced field consultant to preserve and protect the Newton properties by shutting in production in accordance with sound oilfield practices and to monitor the moveable assets located on the Newton Properties that are owned by Alston (i.e. Tanks, etc) on a scheduled basis, despite the Receiver not taking possession or control of the Newton Properties;

  d) changing the security swipe passes and locks (where applicable) and restricting computer access and codes as appropriate and generally securing and safeguarding the Property of Alston;

  e) confirming all known corporate bank accounts of Alston and providing the respective bank representatives with notices to freeze all accounts and remit net balances to the Receiver;

  f) completing a filing index and organizing the various files of Alston located at its head office;

  g) redirected all mail for the Company's to the office of the Receiver;

h) meetings with Alston's former chief executive officer ("CEO"), chief financial officer ("CFO"), vice president of operations ("VP") and other of Alston's contractors to explain the powers and duties of the Receiver, its role as an Officer of the Court and to discuss the proposed terms of retention to assist the Receiver during the Receivership Proceedings necessary for the administration of the receivership and the Receiver's possible further course of action;

i) meetings and discussions with the various oil and gas markers to market Alston's oil and gas production;

j) retention of Sayer Energy Advisors ("Sayer") as the Receiver's marketing agent to sell the Property of Alston;

k) retention of and instruction to the Receiver's independent legal counsel, McCarthy Tetrault LLP, in respect of various matters;

l) compilation and analysis of accounts receivable sub-ledgers;

m) day to day management of operations of Alston including contractor supervision and payment of trade creditors for services rendered and approved by the Receiver;

n) monitoring the cash flow of Alston and ensuring suppliers are being paid by the Receiver on a timely basis;

o) notifying Alston's insurance brokers of the Receivership Order and making arrangements for continuation of the policies, adding the Receiver as a named insured and named insured's under Alston's umbrella property, equipment and liability coverage (as discussed above);

p) receipt of a schedule provided by the Monitor pursuant to paragraph 9 of the Order Terminating CCAA Proceedings on May 30, 2014, indicating all outstanding obligations covered by the Administrative Charge and Directors Charge (defined in the Initial Order) that have not been paid, including reasonable estimates where actual amounts were not known by May 30, 2014 (the "Outstanding Charged Obligations Schedule"). The Receiver caused payment to those parties listed in the Outstanding Charged Obligations Schedule that totalled $81,720 in June 2014;

q) numerous meetings and calls with the AER regarding various matters as discussed further below; and

r) numerous and on-going meetings and discussions with various creditors (or their representatives), legal counsel to the Receiver regarding various matters and with secured creditors, shareholders, interested parties and other Alston stakeholders regarding the receivership generally.

Employees and Consultants

30. As at the Receivership Date, Alston employed three senior management employees.

31. Pursuant to paragraph 13 and 14 of the Receivership Order, the Receiver has terminated, on behalf of the Applicants, all three employees of Alston.

32. The Receiver entered into several short-term contractor agreements (the "Contractor Agreements") with the former employees of Alston (i.e. CEO, CEO and VP) (the "Contractors") to primarily assist with the accounting, operational and certain other duties required of the Receiver in the overall administration of the Receivership Proceedings. The Contractor Agreements allow for termination at any time and Contractors are currently being engaged on an "as needed" basis.

33. In addition, the Receiver also engaged the services of certain other independent contractors to assist in its operations, such as field operations, production accounting, land administration and information technology consultant.

Wage Earner Protection Program & s.81.4(1) Priority Claims

34. The Receiver forwarded a termination of employment package to the employees of Alston, which included a termination letter, a record of employment, information pertaining to existing insurance health care benefits and the employee's T4 notice for tax purposes. The Receiver also provided information to the senior executive employees regarding the Wage Earner Protection Program ("WEPP"). The Receiver, in discussion with the employees, determined that they did not qualify for WEPP and no proof of claim form was filed.

35. As discussed above, the Order Terminating CCAA Proceedings provided for the payment of all outstanding wages and vacation pay to the three employees of Alston as at May 9, 2014 (the Receivership Date) and these amounts were paid by the Receiver in the Receivership Proceedings totalling $10,496.

36. The Receiver understands that there is approximately $18,000 outstanding in pre-receivership GST to the Canada Revenue Agency ("CRA") and there is nothing outstanding with respect to source deductions. The Receiver is requesting an audit to be conducted by CRA on Alston's GST and source deductions.

Statutory Mailing by Receiver

37. The Receiver mailed the notices required by sections 245 and 246 of the *Bankruptcy and Insolvency Act* ("BIA") to the Alston creditors and the Office of the Superintendent of Bankruptcy on May 19, 2014. A copy of the Receiver's Notice can be found on the Receiver's Website.

AER MATTERS

Security Deposit Matters

38. On May 9, 2014, the AER delivered a letter to Alston indicating that a security deposit was required by June 6, 2014 in the amount of $760,089 on account of Alston's corporate LLR rating being 0.92 (the "May 9th AER Letter"). On May 16, 2014, the Receiver also received a letter from the AER (the "May 16th AER Letter"), requesting the Receiver confirm the accuracy of Alston's AER licenses, permits and approvals held by Alston; provide written confirmation that the Receiver has taken possession of Alston's AER licensed properties; and at least 14 days advance provide written notice of any application for discharge or equivalent application. A copy of the May 9th AER Letter and the May 16th AER Letter is attached as Appendix B.

39. In response to the May 9th AER Letter and the May 16th AER Letter, the Receiver and its counsel advised the AER, among other things, it had not taken possession of the Newton Properties; the Receiver's position with respect to the priority of the Receiver's Borrowing Charge in the Receivership Proceedings and notification of the Receiver's communication with the AER (Wainwright Field Office) regarding certain outstanding "High-Risk" enforcement actions in respect of four pipeline license numbers affecting the Provost Properties and various other matters. This communication was sent in a letter by the Receiver's counsel to the AER's external counsel on June 2, 2014 (the "June 2nd Response Letter"). A copy of the June 2nd Response Letter is attached as Appendix C.

40. The Receiver requested a meeting with the AER on a couple of occasions to discuss the security deposit and other matters. The Receiver was advised, through its counsel, that the AER did not require a meeting until the sales process was completed and a new purchaser(s) was identified for Alston Property.

41. Further to the July 16th AER Letter (as discussed above), the AER demanded that the Receiver pay the $1.3 million security deposit by August 1, 2014 and if this

deposit was not paid, the AER would suspend Alston's entire operations. After further discussion between the Receiver's counsel and the AER's external counsel, an agreement was made that the AER extended the requirement to pay the security deposit to November 1, 2014. Notwithstanding, the Receiver continues to be of the position that it is not possessed of sufficient funds to cause Alston to make the LLR deposit and has disputed that it has any obligation to pay the LLR deposit due to the terms of the Receivership Order.

High Risk / Low Risk Enforcement Actions

<u>Overview</u>

42. On September 11, 2013 (prior to the Receivership Proceedings), the AER Wainwright Field Centre provided written notification to Alston of certain High-Risk and Low-Risk enforcement actions in respect of pipeline license numbers P24405, P32319, P38161 and P41408 (the "September 13th AER Audit Letter"). The AER required Alston to take corrective actions by October 11, 2013. On December 24, 2013, in response to a request by Alston, the AER extended the deadline to take correction action to April 30, 2014 and the Receiver determined that Alston did not fully undertake these corrective actions. A copy of the September 13th AER Audit Letter is attached as Appendix D to this report.

43. On May 29, 2014, the Receiver corresponded directly with the AER requesting if the AER would further provide an extension of the deadline to take corrective actions on these various enforcement actions (the "May 29th AER Audit Letter"), as a result of the on-going sales process of the Property initiated by the Receiver (the June 2nd Response Letter from the Receiver's counsel to the AER also discussed this extension request). A copy of the May 29th AER Audit Letter is attached as Appendix E to this report.

44. On June 3, 2014, the Receiver received a notice from the AER indicating that they have reviewed the May 29th AER Audit Letter prepared by the Receiver and concluded that they would not provide any further extensions to Alston (or the

Receiver) and that these particular licenses are fully suspended (the "June 3rd AER Letter"). The suspended licenses required the Receiver to shut-in approximately 50% of Alston's entire production in the Provost area until the matters are rectified and certified by the AER as being completed. A copy of the June 3rd AER Letter is also attached as Appendix E to this report.

45. On June 4, 2014, the Receiver (through its counsel) sent a letter in response to the AER requesting that that AER reconsider its position in light of various irregularities and inconsistencies noted in the AER's assessment of facts when comparing it to Alston's records (the "June 4th Response Letter"). The Receiver's request was further denied and on June 5, 2014, the Receiver took the measures necessary to shut-in the affected pipelines. The AER provided a formal response to the June 4th Response Letter (the "June 19th AER Letter"). A copy of the June 4th Response Letter and the June 19th AER Letter is attached as Appendix F to this report.

<u>Receiver's Actions regarding the AER deficiencies</u>

46. Immediately after the affected pipelines were shut-in by the Receiver, the Receiver was engaged in lengthy discussions with the AER and the Receiver's consultants to go through all of the non-compliance matters in detail. The purposes of these discussions were to ensure that the Receiver had a full understanding of what was required to be rectified so that the Receiver could properly and efficiently address these matters and put production back on-line.

47. The Receiver engaged the services of an external independent engineering firm, Status Engineering Associates Ltd. ("Status"), to prepare a cost estimate and timeline to address all of the AER deficiencies (the "AER Deficiencies"). The Receiver was advised by Status that it would take approximately 8 weeks to complete the AER Deficiencies and the cost to complete would be approximately $350,000 (the "AER Deficiency Proposal"). The AER Deficiency Proposal was presented and discussed with both the AER on various occasions with the Receiver, its consultants and Status. The purpose of having these discussions

with the AER was to determine if the AER were either agreeable or indifferent in approach the Receiver would take if it proceeded with Status to complete the AER Deficiencies. The Receiver was advised by the AER that the Receiver's approach in dealing with AER Deficiencies appeared to be a reasonable approach and encouraged the Receiver and its consultants to complete this work accordingly.

48. On July 9, 2014, the Receiver arranged a call between the Receiver, the AER and the prospective purchaser of Provost (discussed further below) to go over the contents of the AER Deficiency Proposal. At this meeting, the prospective purchaser wanted to confirm if the AER was satisfied with the proposal presented by the Receiver with respect to the AER Deficiency Proposal. In addition, they wanted the AER provide some form of confirmation that if the AER Deficiency Proposal were to proceed, would the AER provide a formal confirmation once these AER Deficiencies were complete and in compliance (the "AER Clearance Certificate"). The AER confirmed that it would provide the respective AER Clearance Certificates if the work conducted met the AER standards and satisfaction.

49. Over the past couple of weeks, the Receiver has initiated certain efforts to satisfy the AER Deficiencies and has waited to start the full AER Deficiency Proposal until a signed purchase and sales agreement (the "PSA") was executed by the Receiver and the prospective purchaser of the Provost Properties (the "Provost PSA"). On July 31, 2014, the Provost PSA was signed by the parties (as discussed further below). The Receiver intends on engaging the services of Status to address the AER Deficiencies as this work is the responsibility of the Receiver to complete and bear full costs, in accordance with the Provost PSA.

SECURITY OPINION

50. The Receiver anticipates receiving an opinion from its counsel (before the closing of the various purchase and sale agreements, subject to court approval) confirming the validity and enforceability of the ATB security in relation Alston's

assets. The Receiver is advised by its legal counsel that ATB's security is valid and enforceable and ranks in priority to ordinary unsecured creditors. .

THE SALES PROCESS

Overview

51. Pursuant to paragraph 3(k) of the Receivership Order, the Receiver is empowered and authorized, but not obligated, to market any or all of the Property, including advertising and soliciting offers in respect of the Property or any parts thereof and negotiating such terms and conditions of the sale as the Receiver in its discretion may deem appropriate.

52. In addition, pursuant to paragraph 3(l) of the Receivership Order, the Receiver is empowered and authorized to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business:

    a) without the approval of this Court in respect of any transaction not exceeding $250,000, provided that the aggregate consideration for all such transactions does not exceed $1,000,000; and

    b) with the approval of this Court in respect of any transaction in which the purchase price or the aggregate purchase price exceeds the applicable amount set out above;

53. On May 20, 2014, the Receiver engaged the services of Sayer to assist in the sale and marketing of Alston's Property in the Receivership Proceedings (excluding the Newton Properties) (the "Sayer Marketing Process"). Sayer was previously the financial advisor of Alston during the CCAA proceedings and the Receiver determined that based on Sayer's experience and deep understanding of the Alston's Property, it was appropriate under the circumstances to continue to use Sayer as its marketing agent.

Sayer Marketing Process

<u>Kick-Off</u>

54. The Receiver understands that Sayer undertook a significant sales and marketing process to ensure it effectively and thoroughly canvassed the market. The Sayer Marketing Process is summarized below:

a) The Sayer Marketing Process commenced on May 21, 2014, whereby information brochures summarizing the Company was mailed out to approximately 1,500 contacts and an additional approximate 2,200 parties received brochures from a different distribution list by email. In addition, a copy of the brochure was posted on Sayer's website where statistics showed that the information package was downloaded a total of 215 times through the marketing process;

b) On May 29, 2014, an advertisement was placed in the Daily Oil Bulletin announcing the divestiture of Alston and an advertisement of the divestiture was also placed in Sayer's *Canadian Oil Industry Asset Sale Listing* during the entire marketing period;

c) The Sayer Marketing Process advised prospective purchasers and interested parties that all offers were due by June 19, 2014 (the "Bid Deadline");

d) Total of 41 confidentiality agreements ("CAs") were received, which the Receiver was advised is an expected number of CAs for a divesture of this nature. Each party signing a CA was provided with a detailed information binder relating to the Alston Property sale;

e) The Pembina Property received the most attention with 37 companies signing a CA, followed by the Monitor properties at 29 and the Provost Properties at 27;

f) The data room, containing well files and a seismic workstation was made available to companies and was set up in the offices of Alston. Five (5) companies visited the data room;

g) There were two (2) site visits that were requested and performed by interested parties in reviewing the Provost Properties;

<u>Results from the Sayer Marketing Process</u>

55. The Receiver understands that a total of 18 companies submitted written offers prior to the Bid Deadline. The Receiver was advised that the ratio of bids to CAs received (18/41 or 44%), is apparently comparable to other similar divestiture assignments Sayer has recently managed.

56. The best and most appropriate offers received and accepted by the Receiver (subject to Court approval) was for the purchase of the following:

a) Provost Properties – to Gray Dusenbery Oil and Gas LP ("GD Oil");

b) Pembina Properties – to Midland Resources Inc. ("Midland").; and

c) The Minor Properties – to Head First Energy Inc. ("Head First")

57. Due to the confidential nature of the information provided in the offers received on the Provost Properties, Pembina Properties and the Minor Properties during the Sayer Marketing Process, the Receiver is concerned that if the information is disclosed to third parties prior to the closing of the sale of the respective properties the disclosure could materially jeopardize the sale or, if the sale does not close, could materially jeopardize the value that the Receiver could subsequently obtain from the sale of these properties. As such, the Receiver is respectfully of the view that it is appropriate that this Honourable Court grant the Company's request for a temporary sealing of the following appendices in relation to the First Report:

a) a “bid summary” of the various offers received for the Provost Properties, Pembina Properties and the Minor Properties in the Sayer Marketing Process (Confidential Appendix G);

b) the Provost Properties purchase and sales agreement (the “Provost PSA”) (Confidential Appendix H);

c) the Pembina Properties purchase and sales agreement (the “Pembina PSA”) (Confidential Appendix I);;

d) the Minor Properties purchase and sales agreement (the “Minor PSA”) (Confidential Appendix J); and

e) the Receiver’s analysis on the Provost PSA, the Pembina PSA and the Minor PSA (Confidential Appendix K);

RECEIPTS AND DISBURSMENTS – MAY 9, 2014 TO JULY 18, 2014

58. The table below provides a summary of the actual cash flows for the Reporting Period, which contains the cash receipts and disbursements relating to Alston.

	TOTAL May 9/14 to July 18/14
Receipts	
Oil	828,717
Natural gas	53,436
NGL's	-
Joint venture receipts	24,083
Other	13,716
Total receipts	919,952
Operating disbursements	
Operating costs	166,169
Contractor costs	45,244
Lease rentals and royalty costs	50,609
General and administrative costs	48,346
Total operating disbursements	310,367
Non-operating disbursements	
Termination Order payments	81,720
Receivership professional fees	78,191
Total non-operating disbursements	159,910
Receiver's Certificate - borowing (repayment)	-
Net change in cash flows	449,675
Opening available cash	17,443
Net change in cash flow	449,675
Ending available cash	467,118
Receiver's Certificate Reconciliation	
Maximum availability under credit facility	750,000
Borrowings (release of funds)	-
Remaining cash available under credit facility	750,000

59. The receipts during the Reporting Period totalled approximately $920,000, which include the following:

   a) Oil, Gas, NGL and Joint Venture receipts of approximately $906,000; and

   b) other receipts of approximately $14,000.

60. The operating disbursements during the Reporting Period totalled approximately $310,000, which include the following:

   a) operating costs of approximately $166,200 that consist of expected operating costs in relation to production volumes along with electricity costs and other operator costs;

   b) contractor costs of approximately $45,200 relating to the payment of part-time contract general accountant, production accountant, operations and land consultants to assist the Receiver in the day-to-day operations of Alston;

   c) lease rental and royalty costs of approximately $50,600 that are not taken in kind and based on expected production;

   d) general and administrative costs of approximately $48,300 relating to payments made on insurance, office rent and other miscellaneous costs;

61. The non-operating disbursements during the Reporting Period totalled approximately $159,900, which include the following:

   a) Termination Order Payments relating to payments paid under court order of approximately $81,700 for outstanding CCAA professional fees and outstanding and unpaid employee wages as at May 9, 2014; and

b) Professional fees paid during the Reporting Period totaling $78,191;

62. Receiver's borrowing under the Receiver's Certificate was $NIL during the Reporting Period. The Receiver has a maximum borrowing limit of $750,000 under its credit facility with ATB, as discussed further below.

63. Alston's ending cash balance as at July 18, 2014 was $467,118.

RECEIVER'S BORROWINGS

64. Pursuant to paragraph 20 of the Receivership Order, the Receiver has been empowered to borrow up to $750,000 (or such greater amount as this Court may further Order).

65. On May 23, 2014, the Receiver issued the Receiver's Certificate No. 1 in the amount of $750,000 with ATB, but has yet to draw on the Receiver's Certificate for its purposes. The Receiver's Certificate No. 1 is attached as Appendix "H" to this report.

66. The terms of the Receiver's Certificate No. 1 include a per annum interest rate of 3% above the prime commercial lending rate of ATB from time to time, which, in the Receiver's view, is commercially reasonable in the circumstances. Pursuant to paragraph 20 of the Receivership order, the Receiver's Certificate No. 1 has a charge over the whole of the Property by way of a fixed and specific charge as security for the payment of the monies borrowed, together with interest and charges, in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, but subordinate in priority to the Receiver's Charge (as defined in the Receivership Order).

RECEIVER'S FUTURE COURSE OF ACTION

67. The Receiver's next steps include:

a) finalizing and closing the Pembina PSA and the Minor PSA, subject to Court approval;

b) rectifying and completing the AER Deficiencies to the satisfaction of the AER in order to bring the affected pipelines back on production;

c) completing the conditions precedent in the Provost PSA, which include working with the AER in the transferring of the well licenses to DG Oil, subject to Court approval;

d) working with the CRA in supplying them the required information for the start and complete their GST and source deductions audit of Alston;

e) downsizing Alston's operations and getting out of the office lease space to reduce operational costs and overhead;

f) filing, packaging and storing all relevant books and records of Alston; and

g) addressing any and all operational and regulatory matters affecting Alston's Property, as may be required.

RECOMMENDATION

68. The Receiver respectfully recommends that this Honourable Court approve the:

a) Sales and Vesting Orders sought by the Receiver in respect of the Provost PSA, the Pembina PSA and the Minor PSA; and

b) temporary sealing of the Confidential Appendices G – K

All of which is respectfully submitted this 1st day of August, 2014.

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

Tim Reid, CA•CIRP
Senior Vice-President

Orest Konowalchuk, CA•CIRP
Director