ACTION NO.: 0901-16005

IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE OF CALGARY

BETWEEN:

NATIONAL BANK OF CANADA

Plaintiff

-and-

ACTION ENERGY INC., NORTHERN GAS MARKETING, INC. AND GRIFFON PETROLEUM INC.

Defendants

SECOND REPORT OF THE RECEIVER OF ACTION ENERGY INC.

ERNST & YOUNG INC.

NOVEMBER 24, 2009

ERNST & YOUNG

INTRODUCTION

1. Ernst & Young Inc. was appointed Receiver and Manager (the "Receiver") of the property, assets and undertaking (the "Assets") of Action Energy Inc. ("Action" or the "Company") pursuant to an Order (the "Appointment Order") of this Honourable Court dated October 28, 2009.

2. The Appointment Order authorized the Receiver, among other things, to carry on the business of the Company, to market and solicit offers to purchase the Assets of the Company, and to make such arrangements or agreements as deemed necessary by the Receiver.

PURPOSE OF REPORT

3. The purpose of this second report (the "Second Report") of the Receiver is to advise this Honourable Court with respect to:

   a) the activities of the Receiver since the first report of the Receiver dated November 2, 2009 (the "First Report");

   b) the Receiver's marketing efforts to solicit offers for the sale of the Assets that are superior to the asset sale agreement with Westfire Energy Ltd. ("Westfire") dated October 30, 2009 (the "Westfire ASA"); and

   c) the Receiver's analysis and recommendations with respect to the approval of a vesting order (the "Vesting Order") relating to the assets included in the Westfire ASA.

4. Capitalized terms not defined in this Second Report are as defined in the First Report. All references to currency in the Second Report are in Canadian dollars.

BACKGROUND

5. Action is an oil and gas company engaged in the production, exploration, development and acquisition of natural gas and petroleum properties in the Provinces of Alberta and Saskatchewan. The head office of Action is located in Calgary, Alberta.

6. Action is a public company listed on the TSX Venture Exchange. Action is the successor, by amalgamation, of numerous predecessor corporations including High Plains Energy Inc., Powermax Energy Inc, and Rolling Thunder Exploration Ltd.

7. The Defendants, Northern Gas Marketing, Inc. ("Northern") and Griffon Petroleum Inc. ("Griffon") are each subsidiaries of Action and the Receiver understands these companies are inactive and have no material assets. Accordingly, Northern and Griffon were not included in October 28, 2009 Receivership Order.

8. Action's major producing interests include lands and facilities located in Alberta near Lloydminster and Teepee Creek and in Saskatchewan near Shackleton and Lake Alma. Action also has minor interests which are primarily located in Alberta near Gordondale, West Calais, and Lindbergh and in Southern Saskatchewan near Greater Shackleton, Russelton and Bienfait.

9. The Company operates approximately 172 producing wells which at the date of the Receivership were producing approximately 853 barrels of oil equivalent ("BOE") per day.

10. At the date of the Receivership, the Company had 13 full-time employees and 20 contract operators.

ACTIVITIES OF THE RECEIVER SINCE THE FIRST REPORT

Operational Update

11. Since the appointment of the Receiver, the operations of the Company have generally continued in the normal course of business and production levels have remained fairly consistent with historical trends.

12. In order to fund the operations until the next production revenue settlement date, the Receiver has obtained and drawn on a Receiver's Certificate in the amount of $800,000. The Receiver's Certificate was funded by the National Bank of Canada ("National").

Production Enhancement

13. As explained in the First Report, the Westfire ASA provides for a purchase price adjustment in the event that Action does not incur at least $300,000 of expenses approved by Westfire to enhance the production of the ASA Assets. If the expenditures incurred prior to Closing Date are less than $300,000, the difference between the actual expenditures and $300,000 will be credited to Westfire.

14. The Receiver has been working with the employees and the contract operators to improve efficiency and to carry out proper maintenance of the Assets. The Receiver has spent approximately $140,000 since the date of the Receivership to increase well and facility efficiency of the ASA Assets. These expenditures were approved production enhancement expenditures in accordance with the terms of the Westfire ASA.

Statutory Mailing by Receiver

15. The Receiver sent out the required Notices under sections 245 and 246 of the *Bankruptcy and Insolvency Act* and has subsequently responded to numerous inquiries from creditors of Action.

Office Lease Agreement

16. As detailed in the First Report, on November 1, 2009 the Receiver relocated the head office of Action from the 8th floor of 350 – 7th Avenue S.W., Calgary, Alberta (the "7th Avenue Location") to 8th floor of 555 – 4th Avenue S.W., Calgary, Alberta (the "4th Avenue Location") to reduce operating costs. On November 3, the Receiver provided verbal notice of termination to the property manager of the 7th Avenue Location and on November 11, 2009 the Receiver provided Great West Life with a written notice of termination effective November 1, 2009 with respect to the leasing agreement for the 7th Avenue Location.

17. On November 10, 2009 the Receiver formalized a sublease arrangement with Westfire Sublease with respect to the 4th Avenue Location. The significant terms of the agreement are as follows:

    a) Effective date of November 1, 2009;

    b) 1,925 square feet of office space;

c) Annual cost of $23 per square foot, or approximately $3,690, plus GST; and

d) Agreement can be terminated by either party with 30 days notice.

18. The Receiver will continue to identify economical workover opportunities and, where appropriate, will obtain approval from Westfire prior to incurring the expenditures.

DESCRIPTION OF THE RECEIVER'S MARKETING PROCESS

Background

19. As detailed in the First Report, prior to the Receivership, Action had completed an extensive and protracted process with National Bank Financial ("NBF") and Avonlea Ventures Inc. ("Avonlea") to solicit offers from prospective parties interested in acquiring, recapitalizing or restructuring Action's operations and/or assets ("Action's Marketing Process").

20. Pursuant to Action's Marketing Process, Action received an initial expression of interest from Westfire that ultimately resulted in Action accepting a Letter of Intent with Westfire dated October 15, 2009 (the "Westfire LOI"). The Westfire LOI proposed an acquisition of Action's Assets for a purchase price in the sum of $30 million in cash.

21. Subsequent to its appointment under the Initial Order, the Receiver continued negotiations with Westfire and executed the Westfire ASA on October 30, 2009. The terms of the Westfire ASA are summarized in the First Report. The Westfire ASA contemplates an acquisition of the ASA Assets (as defined in the First Report) for $30 million with the ASA Assets comprising all of Action's assets except for accounts receivable, certain corporate attributes and the petroleum and natural gas properties located within Red Willow, Gallahad and Southwestern Saskatchewan areas (referred to as the "Excluded Assets").

22. The terms of the Westfire ASA allowed the Receiver to continue efforts to solicit a bid that was superior to that of the Westfire ASA ("Superior Bid"); accordingly, since the approval of the Westfire ASA, the Receiver has conducted an expedited marketing process to determine if a Superior Bid could be obtained, as explained in further detail below.

Receiver's Marketing Process

23. On November 9, 2009, the Receiver began its marketing efforts (the "Receiver's Marketing Process") to obtain Superior Bids for the Assets by developing a listing of prospective purchasers (the "Prospective Purchasers"). The listing of Prospective Purchasers included the following:

    a) Parties who the Receiver was aware had submitted a bid on Action's assets as a result of Action's Marketing Process;

    b) Parties who executed a confidentiality agreement with Action and visited its virtual data room as part of Action's Marketing Process; and

    c) Certain other parties who directly contacted the Receiver since the date of the Receivership.

24. In conjunction with developing the Prospective Purchaser listing, the Receiver arranged for Action's virtual data room to be updated for current information including production volumes, financial information, and lease operating statements. Action's virtual data room was originally used in conjunction with the Action's Marketing Process.

25. The Receiver communicated with approximately 72 Prospective Purchasers to determine if a party was interested in acquiring the Assets. Each Prospective Purchaser was provided with a letter that advised of the Receivership, the Westfire ASA, and a request that any Superior Bids be received by November 20, 2009.

26. The Receiver advises that due to a certain technical delay in obtaining relevant data from the data room administrator, it was only on November 18, 2009 that the Receiver was able to obtain the listing of the names and contact details of the parties who had visited Action's virtual data room as part of Action's Marketing Process on November 18, 2009. These parties were immediately contacted and asked if they had any remaining interest in the Action Assets. The Receiver's expectation was that that these parties would be sufficiently familiar with the Assets as a result of their involvement in previous marketing efforts, to enable them to advise the Receiver of any remaining interest in the Assets.

27. The Receiver's Marketing Process included providing any requesting Prospective Purchasers with access to the virtual data room, providing access to hard copy information, arranging for site visits, and other meetings with the Receiver and employees of Action.

28. In addition to the above, the Receiver contacted both NBF and Avonlea and advised that if either were aware of any other interested parties that they should advise them to contact the Receiver.

Results of the Receiver's Marketing Process

29. The Receiver's Marketing Process resulted in the following:

    a) 15 parties executing confidentiality agreements;

    b) 15 parties accessing Action's online data room; and

    c) Six offers being received by November 20, 2009.

Analysis of Offers

30. The Receiver and its counsel reviewed the offers received in detail. The following factors were considered in reviewing and assessing each offer:

    a) The total purchase price;

    b) The type of consideration being offered;

    c) The capability of the prospective purchaser to close the transaction in a timely manner; and

    d) The terms and conditions of the offer.

31. Five of the offers received related only to specific Assets and these offers, when combined, did not cover most of the Assets, nor did they provide a Superior Bid to the Westfire ASA.

32. One offer received from Petro Energy Corp. (the "PEC Offer") indicated a purchase price of $37 million for all of Action's Assets. A copy of the PEC Offer is attached as Appendix "A". The main terms and conditions to the PEC Offer include:

a) A purchase price of $37 million;

b) A deposit of $2 million (equal to approximately 5.4% of the purchase price);

c) A $2 million non-completion amount or break fee payable by the Receiver to Petro Energy Corp. ("PEC") if the Receiver concludes an alternate sale or arrangement, other than a sale to Westfire pursuant to the Westfire ASA;

d) The purchase of all of Action's lands, leases, petroleum substance, tangibles and miscellaneous interests of Action (the "PEC Offer Assets");

e) An effective date of December 1, 2009;

f) A scheduled closing date of January 15, 2010 (the " PEC Closing Date");

g) The closing conditions are set out in paragraph 2 of the PEC Offer. Significant terms and conditions are summarized below:

    i. 10 business days to review Action's files and to inspect the PEC Offer Assets; and

h) An environmental evaluation and physical review of the PEC Offer Assets prior to the PEC Closing Date. The $2 million deposit is only refunded to PEC in the event that the Vesting Order is not granted on or before December 1, 2009 (unless otherwise agreed) or there is a material adverse effect and PEC elects to terminate as a result.

33. The Receiver notes that the PEC Offer contemplates a purchase of all of the Assets, whereas the Westfire ASA contemplates a purchase of the majority of the Assets but does not include the Excluded Assets. Accordingly, the Westfire ASA and the PEC Offer are not directly comparable, however, the Receiver believes the value of the Excluded Assets to be not material relative to the other differences.

RECEIVER'S COMMENTS ON THE PEC OFFER

34. The $37 million purchase price of the PEC Offer is superior by $5 million to that of the $30 million purchase price of the Westfire ASA, even after considering the $2 million break fee that

would be payable if PEC Offer is accepted and closed. However, while the PEC Offer has a superior purchase price to the Westfire ASA, certain other aspects of the PEC Offer need to be considered in determining if it would represent a Superior Bid. After considering all factors of the PEC Offer relative to the Westfire ASA, including closing risk, conditions to close and purchase price, the Receiver does not believe the current PEC Offer to be a Superior Bid to that setout in the Westfire ASA given the following:

a) The PEC Offer requires a 10 day due diligence period to inspect the Assets , if PEC is not satisfied, in its sole discretion as to the results, PEC may terminate the agreement;

b) The PEC Offer sets out the requirement of an environmental evaluation of the Assets to be completed by the PEC Closing Date, and if the results are not satisfactory, in PEC's sole discretion, PEC may terminate the agreement;

c) The PEC Offer requires a vesting order by December 1, 2009, which would be in advance of the completion of the due diligence period described above; and

d) No evidence of the ability to close the transaction has been provided by PEC; and

e) The Westfire ASA has no remaining conditions, is not subject to financing, and accordingly, has minimal closing risk.

35. The Receiver acknowledges that PEC has not yet had an opportunity to respond to the comments noted above with respect to the PEC Offer, and the Receiver expects further discussions to take place between PEC and the Receiver in the near term to determine if PEC's offer can be enhanced in such a manner that would result in it being superior to that of the Westfire ASA.

VESTING OF THE WESTFIRE ASA

36. The Receiver believes that the ASA Assets have been adequately exposed to the marketplace through the efforts of NBF and Avonlea as detailed in the First Report and the Receiver's Marketing Process as discussed above and that the transaction contemplated in the Westfire ASA is superior to the other offers received to date.

37. The Westfire ASA set out that a Vesting Order was to be approved by this Honourable Court by November 30, 2009. Accordingly, for the reasons set out above, the Receiver believes the approval of the Vesting Order is appropriate at this time. Furthermore the Receiver advises that National and its counsel have reviewed the terms and conditions of the PEC Offer and the Westfire ASA and support the vesting of the Westfire ASA at this time.

38. The Receiver further advises that it will seek advice and directions from this Honourable Court if further discussions with PEC or any other Prospective Purchaser result in what the Receiver believes may be a Superior Bid.

RECOMMENDATIONS

39. The Receiver recommends the approval of the Vesting Order to Westfire.

All of which is respectfully submitted this 24th day of November 2009.

ERNST & YOUNG INC.,
in its capacity as Receiver
of Action Energy Inc.

Deryck Helkaa, CA•CIRP Senior Vice-President	Alex Corbett, MPAcc, CA Manager

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