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COURT OF KING'S BENCH OF ALBERTA

JUDICIAL CENTRE

CALGARY

IN THE MATTER OF THE COMPANIES CREDITORS
ARRANGEMENT ACT, R.S.C. 1985, c. C-36 AS
AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE
OR ARRANGEMENT OF FREE REIN RESOURCES
LTD.



DOCUMENT

**FIRST REPORT OF FTI CONSULTING CANADA
INC., IN ITS CAPACITY AS PROPOSED MONITOR
OF FREE REIN RESOURCES LTD.**

January 17, 2024

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FIRST REPORT OF THE MONITOR

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INTRODUCTION

1. On June 12, 2023, Free Rein Resources Ltd. (“**Free Rein**” or the “**Company**”) filed a Notice of Intention to Make a Proposal (the “**NOI**”) under subsection 50.4(1) of the *Bankruptcy and Insolvency Act*. FTI Consulting Canada Inc. (“**FTI Consulting**”) was appointed as proposal trustee (the “**Proposal Trustee**”) in the NOI proceedings (the “**NOI Proceedings**”) of Free Rein.
2. On July 11, 2023, the Court of King’s Bench of Alberta (the “**Court**”) granted an Order which, among other things:
 - (a) approved a first ranking administrative charge on all of the Company’s present and after-acquired assets, property and undertakings, not to exceed \$200,000 (the “**Administration Charge**”); and
 - (b) extended the stay of proceedings and time within which the Company is required to file a proposal to its creditors to August 25, 2023.
3. On August 25, 2023, the Court granted an Order which, among other things:
 - (a) extended the stay of proceedings and time within which the Company is required to file a proposal to its creditors to October 9, 2023;
 - (b) approved a sale and investment solicitation process (the “**SISP**”);
 - (c) approved a stalking horse term sheet (“**Stalking Horse Term Sheet**”). The Stalking Horse Term Sheet was in the form of a credit bid from Invico Income Limited Partnership (“**Invico**”), the Company’s senior secured creditor, which contemplated a non-cash credit bid resulting in a reduction of Invico’s debt, a cash component consisting of any payables in priority to the Invico debt and paying cure costs of any assumed contracts; and

- (d) authorized the Proposal Trustee, with the assistance of the Company, to administer the SISP.
4. On October 5, 2023, the Court granted an Order which, among other things extended the stay of proceedings and time within which the Company is required to file a proposal to its creditors to November 23, 2023.
 5. On November 23, 2023, the Court granted an Order which, among other things extended the stay of proceedings and time within which the Company is required to file a proposal to its creditors to December 12, 2023.
 6. On December 7, 2023 (the “**Filing Date**”), Invico (in such capacity, the “**Applicant**”), secured creditor of Free Rein, sought and obtained an initial order (the “**Initial Order**”) and an amended and restated initial order (the “**ARIO**”) granting, among other things, a continuation of Free Rein’s NOI Proceedings under the *Companies’ Creditors Arrangement Act*, RSC 1985, c C-36, as amended (the “**CCAA Proceedings**”).
 7. The ARIO, among other things, established a stay of proceedings (the “**Stay of Proceedings**”) in favour of Free Rein up to and including January 31, 2024, appointed FTI Consulting, with enhanced powers, as Monitor (the “**Monitor**”) pursuant to the provisions of the CCAA and provided for a continuation of the Administration Charge granted in the NOI Proceedings.
 8. On January 15, 2024, the Applicant filed a notice of application returnable on January 22, 2024 (the “**January 22 Application**”) seeking an extension of the Stay of Proceedings until and including March 15, 2024.
 9. Electronic copies of all materials filed by the Applicant in connection with the January 22, 2024 application and other statutory materials are available on the Monitor’s website at: <http://cfcanada.fticonsulting.com/freerein/> (the “**Monitor’s Website**”).

PURPOSE

10. The Monitor has reviewed the application materials filed by the Applicant in support of the January 22 Application. The purpose of this report (this “**Report**”) is to provide this Honourable Court and Free Rein’s stakeholders with information and the Monitor’s comments with respect to the following:
 - (a) the initial activities of the Monitor since the Filing Date;
 - (b) an update on the status of the Company’s operations;
 - (c) an update on the status of the transaction between Free Rein and Invico pursuant to the Stalking Horse Term Sheet (the “**Transaction**”);
 - (d) the budget to actual results against the cash flow statement filed for the period ended January 12, 2024;
 - (e) the Company’s cash flow statement (the “**CFS#2**”) for the 11-week period ending March 30, 2024 (the “**Forecast Period**”) and the key assumptions on which the CFS#2 is based;
 - (f) the Applicant’s request for an extension to the Stay of Proceedings up to and including March 15, 2024; and
 - (g) the Monitor’s recommendation with respect to the above.

11. This Report should be read in conjunction with the Affidavit of Chris Wutzke, sworn on January 15, 2024 (the “**Wutzke Affidavit #2**”), which describes in more detail Free Rein’s operations and circumstances leading to their current situation.

TERM OF REFERENCE

12. Capitalized terms used but not defined herein are given the meaning ascribed to them in the Wutzke Affidavit, the ARIO.
13. In preparing this Report, the Monitor has relied upon unaudited financial information, other information available to the Monitor and, where appropriate, the Company's books and records and discussions with various parties (collectively, the "**Information**").
14. Except as described in this Report:
 - (a) the Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the *Chartered Professional Accountants of Canada Handbook*;
 - (b) the Monitor has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the *Chartered Professional Accountants of Canada Handbook*; and
 - (c) future oriented financial information reported or relied on in preparing this Report is based on assumptions regarding future events; actual results may vary from forecast and such variations may be material.
15. The Monitor has prepared this Report in connection with the Applicant's January 22 Application. This Report should not be relied on for other purposes.
16. Information and advice described in this Report that has been provided to the Monitor by its legal counsel, Cassels Brock & Blackwell LLP (the "**Monitor's Counsel**"), was provided to assist the Monitor in considering its course of action, is not intended as legal or other advice to, and may not be relied upon by, any other person.

17. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

INITIAL ACTIVITIES OF THE MONITOR

18. The Monitor's activities during the CCAA Proceedings to date have included the following:
- (a) preparing and coordinating the publication or filing of the various notices under the CCAA and ARIO including:
 - making a copy of the Initial Order, ARIO and a list of known creditors showing the names and amounts owing publicly available on the Monitor's Website;
 - the creditor notices pursuant to section 23(1)(a) of the CCAA and referenced in paragraph 35 of the ARIO;
 - publishing a notice regarding the CCAA Proceedings in the *BOE Report* on December 13, 2023; and
 - filing the Form 1 and Form 2 notices to the Superintendent of Bankruptcy in the prescribed form as required under section 23(1)(f) of the CCAA;
 - (b) participating in ongoing discussions with the Applicant and its counsel, Fasken Martineau DuMoulin LLP, regarding the Stalking Horse Transaction and assisting with due diligence requests in respect of same;
 - (c) monitoring the Company's ongoing operations including consultation with the Alberta Energy Regulator;

- (d) attending to numerous telephone and email inquiries from various customers and suppliers;
- (e) responding to numerous enquiries from the Applicants' creditors and other stakeholders;
- (f) preparation of budget to actual variance reports and the CFS#2; and
- (g) preparing this Report.

FREE REIN'S OPERATIONS

- 19. Free Rein is a private corporation formed under the laws of Alberta. The Company's petroleum and natural gas assets ("**P&NG Assets**") are located primarily in Central Alberta in the Golden Spike area.
- 20. During the NOI Proceedings, the P&NG Assets produced between approximately 400-450 barrels of oil equivalent ("**boe**") per day.
- 21. On November 24, 2023, Free Rein received notification from Tidewater Midstream and Infrastructure Ltd. (the "**Tidewater**"), the counter party to the Company's Gas Handling Agreement (the "**GH Agreement**") and Emulsion Handling Agreement (the "**EH Agreement**") indicating that Tidewater:
 - (a) was declaring a force majeure event due to receiving inlet gas volumes at levels below the minimum required volume to safely run the plant (the "**Tidewater Gas Plant**");
 - (b) will be unable to accept, process and handle the Company's natural gas and non-gas substances as per the GH Agreement and EH Agreement on or about December 1, 2023; and

(c) will notify the Company of any future changes in circumstances.

(the “**FM Notice**”).

22. As a result of the FM Notice, Free Rein was forced to shut in all its producing wells because there are no other viable alternatives for gas transport and processing in the Company’s immediate vicinity.
23. On December 13, 2023, Free Rein submitted an emergency flaring application to the AER (the “**Flaring Application**”) in respect of certain of its wells that can produce both oil and natural gas. The Flaring Application would allow Free Rein to produce oil from those wells to be trucked to a refinery and flare the produced gas at the well-head, thus removing the need for the gas to be processed at a gas plant. The AER subsequently advised that Free Rein was permitted to flare produced gas if it met the requirements per section 2.11 in AER Directive 060.
24. Accordingly, the Company resumed production from three of its oil wells on December 20, 2023. The current production rate is approximately 70 boe per day. Even with the limited oil production the Company’s cash flow has been severely impacted by the FM Notice as described below.

DISPUTED GROSS OVERRIDING ROYALTIES

25. As described in the Wutzke Affidavit #2 Invico has been unable to substantiate or ascertain the legitimacy of certain gross overriding royalty agreements (the “**Disputed GORR Agreements**”) held by Newgrange Energy Inc. (“**Newgrange**”, a company owned by Free Rein’s former president and CEO Terry McCallum) and certain Free Rein shareholders. Invico has requested that the Monitor not make any payments in respect of amounts owed under the Disputed GORR Agreements until it has the opportunity to determine the validity and enforceability of the Disputed GORR Agreements. The Monitor has agreed to that request on the basis that any arrears owing under the Disputed GORR Agreements, if they are determined to be valid, would need to be paid as a cure cost in a potential future transaction in any event.
26. The Monitor understands there is approximately \$43,000 owing pursuant to the Disputed GORR Agreements related to production for the periods of September and October. Amounts owing for November production would be due on January 25, 2024, and are estimated to be approximately \$25,000.
27. On January 15, 2024, Mr. McCallum contacted the Monitor, Invico and Invico’s counsel requesting payment of outstanding amounts owing under Newgrange’s Disputed GORR Agreement and provided notice that it intends to take its gross overriding royalty in kind effective 45 days from the date of that notice, in accordance with the terms of the agreement.

CASH FLOW AND BUDGET TO ACTUAL ANALYSIS

28. The Monitor has continually reviewed the operations and cash flow of the Company since the Filing Date. The actual cash flow results for the Company for the six-week period of December 3, 2023 through to January 13, 2024 are presented below. These actual results have been compared to the cash flow statement (“CFS”) outlined in Pre-Filing Monitor’s Report.

Free Rein Resources Ltd.			
Budget to Actual Results			
December 3, 2023 to January 13, 2024			
	Actual	Forecast	Variance
(C\$ 000s)			
Receipts			
Net production revenue	\$ 385	\$ 337	\$ 48
Other receipts	27	-	27
Total - Receipts	412	337	74
Disbursements			
Royalties	-	-	-
Transportation costs	(29)	(28)	(1)
Operating expenses	(136)	(133)	(2)
Capex	-	-	-
SG&A expense	(85)	(124)	39
Professional fees	(174)	(131)	(43)
GST remittance	-	-	-
Total - Disbursements	(424)	(416)	(8)
Net cash flow	(12)	(79)	66
Opening cash	237	237	-
Net cash flow	(12)	(79)	66
Ending cash	\$ 225	\$ 159	\$ 66

29. The variances in actual receipts and disbursements as compared to the CFS are primarily due to the following:
- (a) Net production revenue – positive variance of approximately \$48,000 primarily due to higher realized pricing for natural gas liquids in the period and GST collected that was not included in forecast receipts;

- (b) Other receipts – positive variance of approximately \$27,000 from the redemption of a guaranteed investment certificate that was collateral for the Company’s credit cards. The credit cards have been cancelled and therefore the amount was returned to the Monitor;
 - (c) Royalties – crown royalties on oil production are paid in kind and included in net production revenue above. As described above, the Monitor has not made any payment under the Disputed GORR Agreements. If the Disputed GORR Agreements are determined to be valid the Monitor understands that any outstanding amounts would be paid upon closing the Transaction as part of the ‘cure costs’;
 - (d) Transportation costs – substantially in line with forecast;
 - (e) Operating expenses – substantially in line with forecast;
 - (f) Capex – none forecast or incurred in the period;
 - (g) SG&A expense – positive variance of approximately \$39,000 relating to the timing of the payment of occupation rent for January of approximately of \$32,000, otherwise SG&A expense is substantially in line with forecast;
 - (h) Professional fees – negative variance of approximately \$43,000 is due to a timing variance as outstanding invoices for December were forecast to be paid in a future period. Overall, professional fees have been substantially in line with forecast; and
 - (i) GST remittances – none were made in the period and returns will be filed and paid in future periods as required.
30. As at January 15, 2024, the Monitor has approximately \$225,000 in its estate trust account.

CASH FLOW STATEMENT

31. The Monitor, in consultation with Free Rein and Invico, prepared CFS#2 for anticipated receipts and disbursements for the Forecast Period. CFS#2 is summarized in the table below for the 11-week period ending March 30, 2024, and coincides with the Applicant's request for an extension to the Stay of Proceedings.

Free Rein Resources Ltd.		
Cash Flow Statement		
For the 11 week period ending March 30, 2024		
Cash Flow Statement	11 Week	
(C\$ 000s)	Week ending	Total
Receipts		
Net production revenue		\$ 323
Other receipts		-
Total - Receipts		323
Disbursements		
Royalties		(25)
Transportation costs		(18)
Operating expenses		(177)
Capex		-
SG&A expense		(180)
Professional fees		(180)
GST remittance		-
Total - Disbursements		(579)
Net cash flow		(256)
Opening cash		225
Net cash flow		(256)
Ending cash		\$ (31)

32. The Cash Flow Statement and accompanying notes are attached hereto as Appendix "A".
33. The Cash Flow Statement is based on the following key assumptions:
- (a) Net production revenue – derived from the sale of petroleum substances based on current production forecast and realized prices;

- (b) Royalties – crown royalties on oil production are paid in kind and included in net production revenue above. Gross overriding royalties are not forecast to be paid in the period based on the Disputed GORR Agreements noted above. The royalties shown in CFS#2 relate to outstanding crown royalties for natural gas liquids and gas production for prior periods;
 - (c) Transportation costs – costs associated with transporting the petroleum substances from the wellhead to sales point;
 - (d) Operating expenses – costs associated with the operation and production of the crude oil;
 - (e) SG&A expense – includes payroll and benefits, payroll remittances, payments to contracted consultants to assist with production accounting and accounting services, occupancy rent, and other similar expenses; and
 - (f) Professional fees – costs and disbursements for the Monitor and the Monitor’s Counsel.
34. As noted above, the FM Notice has materially impacted cash receipts during the Forecast Period due to production being limited to the sale of oil produced from three wells.

Monitor's Comments on the Cash Flow Statement

35. Section 23(1)(b) of the CCAA states that the Proposed Monitor shall, “review the company’s cash-flow statement as to its reasonableness and file a report with the court on the Proposed Monitor’s findings”.
36. Pursuant to section 23(1)(b) of the CCAA, and in accordance with the Canadian Association of Insolvency and Restructuring Professionals Standard of Practice 09-1, the Monitor hereby reports as follows:

- (a) CFS#2 has been prepared by the Monitor, in consultation with Free Rein, for the purpose described in the notes to CFS#2, using the probable assumptions and the hypothetical assumptions set out in the accompanying notes;
- (b) the Monitor's review consisted of inquiries, analytical procedures and discussion related to information supplied by certain of the management and employees of Free Rein. Since hypothetical assumptions need not be supported, the Monitor's procedures with respect to those assumptions were limited to evaluating whether they were consistent with the purpose of CFS#2. The Monitor has also reviewed the information provided by Management in support of the probable assumptions and the preparation and presentation of the CFS#2;
- (c) Based on its review, and as at the date of this Report, nothing has come to the attention of the Monitor that causes it to believe that, in all material respects:
- the hypothetical assumptions are not consistent with the purpose of CFS#2;
 - the probable assumptions developed by management are not suitably supported and consistent with the plans of Free Rein or do not provide a reasonable basis for the CFS#2 given the hypothetical assumptions; or
 - CFS#2 does not reflect the probable and hypothetical assumptions.

37. Since CFS#2 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, the Monitor expresses no assurance as to whether the projections in CFS#2 will be achieved. The Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information present in this Report, or relied upon by the Proposed Monitor in preparing this Report.

38. CFS#2 has been prepared solely for the purpose of estimating liquidity requirements of Free Rein during the Forecast Period. CFS#2 should not be relied upon for any other purpose.

STATUS OF THE STALKING HORSE TRANSACTION

39. As part of the SISP, Invico submitted the Stalking Horse Term Sheet that contemplated the acquisition of all of Free Rein's oil and gas assets either by way of asset purchase or by share transaction.
40. Invico is preparing to complete the Transaction, but requires additional time to complete its due diligence and prepare definitive documentation to consummate the Transaction.
41. As described above, the Monitor understands that the Applicant intends to provide notice to certain shareholder royalty holders that it will apply to this Honourable Court to vest off certain royalty interests in Free Rein's assets. Considering this pending potential dispute, the Monitor does not intend to make any payments associated with the royalty interests in the Forecast Period.

REQUEST TO EXTEND THE STAY OF PROCEEDINGS

42. The Applicant is seeking an extension to the Stay of Proceedings up to and including March 15, 2024, to allow Free Rein, with the assistance of the Monitor to:
- (a) maintain Free Rein's operations; and
 - (b) assist Invico with its remaining due diligence items required to complete the Transaction.

43. The Monitor has considered the Applicant's request to extend the Stay of Proceedings to and including March 15, 2024, and has the following comments:
- (a) while CFS#2 illustrates that Free Rein may require additional liquidity to fund its obligations for the Forecast Period, the Applicant has indicated a willingness to fund operations to complete the Transaction, if required, as provided in paragraph 27 of the Wutzke Affidavit #2;
 - (b) the Monitor does not believe that any creditor will be materially prejudiced if the extension of the Stay of Proceedings is granted;
 - (c) Free Rein has complied with the requirements under the ARIO and continues to act in good faith and with due diligence; and
 - (d) the 44 day extension to the Stay of Proceedings is expected to allow sufficient time for Free Rein and the Applicant to complete the Transaction.

RECOMMENDATIONS

44. For the reasons outlined above, the Monitor is of the view that the relief requested by the Applicant in the January 22 Application is reasonable and justified in the circumstances and respectfully recommends that this Honourable Court approve the extension of the stay of proceedings up to and including March 15, 2024.

All of which is respectfully submitted this 17th day of January 2024.

FTI Consulting Canada Inc. in its capacity as
Monitor of Free Rein Resources,
not in its personal or corporate capacity



Name: Dustin Olver, CPA, CA, CIRP, LIT
Title: Senior Managing Director



Name: Brett Wilson, CFA
Managing Director

First Report of FTI Consulting Canada Inc.,
In its capacity as Monitor of Free Rein Resources Ltd.

Appendix “A” – Cash Flow Statement for the period ending March 30, 2024

Free Rein Resources Ltd.

Cash Flow Statement

For the 11 week period ending March 30, 2024

Cash Flow Statement (C\$ 000s)	Week ending	Week 1 20-Jan	Week 2 27-Jan	Week 3 3-Feb	Week 4 10-Feb	Week 5 17-Feb	Week 6 24-Feb	Week 7 2-Mar	Week 8 9-Mar	Week 9 16-Mar	Week 10 23-Mar	Week 11 30-Mar	11 Week Total	Notes
Receipts														
Net production revenue		\$ -	\$ 59	\$ -	\$ -	\$ -	\$ -	\$ 136	\$ -	\$ -	\$ -	\$ 128	\$ 323	1
Other receipts		-	-	-	-	-	-	-	-	-	-	-	-	
Total - Receipts		-	59	-	-	-	-	136	-	-	-	128	323	
Disbursements														
Royalties		(25)	-	-	-	-	-	-	-	-	-	-	(25)	2
Transportation costs		-	(3)	-	-	-	-	(8)	-	-	-	(7)	(18)	3
Operating expenses		-	(14)	-	-	(50)	-	(33)	-	(50)	-	(30)	(177)	4
Capex		-	-	-	-	-	-	-	-	-	-	-	-	5
SG&A expense		(33)	-	(74)	-	(24)	-	(28)	-	(14)	-	(6)	(180)	6
Professional fees		-	-	-	-	(60)	-	-	-	(120)	-	-	(180)	7
GST remittance		-	-	-	-	-	-	-	-	-	-	-	-	
Total - Disbursements		(58)	(17)	(74)	-	(134)	-	(68)	-	(184)	-	(44)	(579)	
Net cash flow		(58)	42	(74)	-	(134)	-	69	-	(184)	-	84	(256)	
Opening cash		225	167	209	135	135	1	1	69	69	(115)	(115)	225	
Net cash flow		(58)	42	(74)	-	(134)	-	69	-	(184)	-	84	(256)	
Ending cash		\$ 167	\$ 209	\$ 135	\$ 135	\$ 1	\$ 1	\$ 69	\$ 69	\$ (115)	\$ (115)	\$ (31)	\$ (31)	

Notes:

The Monitor, in consultation with Management of Free Rein Resources Ltd. ("FRR"), has prepared this Projected Cash Flow Statement solely for the purposes of determining the liquidity requirements of FRR during the period of January 14, 2024 to March 30, 2024. This Projected Cash Flow Statement is based on probable and hypothetical assumptions detailed in Notes 1-7. Consequently, actual results will likely vary from actual performance and such variances may be material.

- 1 Net production revenue relates to the sale of FRR's petroleum and natural gas production. Production is based on current forecast production. The forecast sales prices are based on third party price forecasts and FRR's quality discount to benchmark pricing. Crown royalties for oil production are paid in kind.
- 2 Royalty expense relates to royalties paid to the crown and freehold land owners and are based on historical rates.
- 3 Transportation costs relate to transporting FRR's petroleum and natural gas production from well head to market and is based on projected production volumes and transportation rates.
- 4 Operating expenses are based on the FRR's annual operating budget and relates to the costs associated with the operation of oil and natural gas wells and facilities.
- 5 Capital expenditure based on planned capital projects and environmental spending.
- 6 SG&A expense includes costs associated with FRR's head office, employees, office lease and overhead based on its annual budget.
- 7 Professional fees includes estimates for the Monitor and the Monitor's counsel.