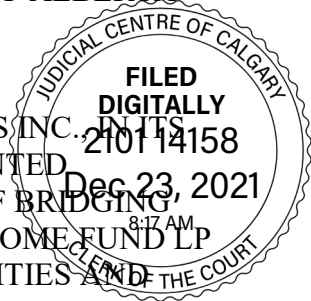


COURT FILE NUMBER 2101-14158
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY

APPLICANT PRICEWATERHOUSECOOPERS INC., IN ITS
CAPACITY AS COURT-APPOINTED
RECEIVER AND MANAGER OF BRIDGING
FINANCE INC., BRIDGING INCOME FUND LP
AND CERTAIN RELATED ENTITIES AND
INVESTMENT FUNDS



RESPONDENTS **CUDA ENERGY INC., CUDA OIL AND GAS
INC., CUDA ENERGY LLC AND JUNEX INC.**

DOCUMENT **FIRST REPORT OF FTI CONSULTING
CANADA INC., IN ITS CAPACITY AS
COURT APPOINTED RECEIVER AND
MANAGER OF CUDA ENERGY INC., CUDA
OIL AND GAS INC., CUDA ENERGY LLC
AND JUNEX INC.**

December 22, 2021

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

RECEIVER

FTI Consulting Canada Inc.
Suite 1610, 520 Fifth Avenue S.W.
Calgary, AB T2P 3R7
Deryck Helkaa / Dustin Olver
Telephone: (403) 454-6031 / (403) 454-6032
Fax: (403) 232-6116
E-mail: deryck.helkaa@fticonsulting.com
dustin.olver@fticonsulting.com

COUNSEL

Bennett Jones LLP
4500 Bankers Hall East
855 – 2nd Avenue S.W.
Calgary, AB T2P 4K7
Chris Simard / Katherine Fisher
Telephone: (403) 298-4485 / (780) 917-4268
Fax: (403) 265-7219
Email: simardc@bennettjones.com
fisherka@bennettjones.com

TABLE OF CONTENTS

Introduction.....	3
Terms of Reference.....	4
Current Status of the Receivership Proceedings.....	5
Background.....	5
Custody and Control.....	8
Statutory Compliance.....	9
Insurance.....	9
Employees.....	10
Proposed Sales Processes.....	14
US Sale Process.....	14
Canadian Sale Process.....	15
Next Steps.....	17

INTRODUCTION

1. On November 18, 2021 (the “**Date of Appointment**”), FTI Consulting Canada Inc. was appointed as receiver and manager (the “**Receiver**”) of all of the current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situated, including all proceeds thereof (the “**Property**”) of Cuda Energy Inc., Cuda Oil and Gas Inc., Cuda Energy LLC and Junex Inc. (collectively, the “**Cuda Group**”) pursuant to an Order of the Honourable Justice K.M. Horner (the “**Receivership Order**”) of the Court of Queen’s Bench of Alberta (“**Canadian Court**”). The Receivership Order was granted pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 (the “**BIA**”) and section 13(2) of the *Judicature Act*, R.S.A. 2000, c. J-2.
2. The Receivership Order authorized the Receiver, among other things, to manage, operate and carry on the business of the Company, to market any or all the Property including advertising and soliciting offers to purchase the Property, and to make such arrangements or agreements as deemed necessary by the Receiver.
3. On December 8, 2021, the Receiver and authorized foreign representative filed a Petition for Recognition as Foreign Main Proceeding Pursuant to Sections 1515 and 1517 of the United States Bankruptcy Code and Related Relief (the “**Chapter 15 Petitions**”) for each of the Cuda Group with the United States Bankruptcy Court for the District of Wyoming (“**US Court**”) seeking an order recognizing the proceeding commenced by the Canadian Court (“**Canadian Proceedings**”) as a foreign main proceeding pursuant to Sections 1515 and 1517 of the United States *Bankruptcy Code*. On December 21, 2021, the US Court entered its Order Granting Recognition as a Foreign Main Proceeding and Related Relief wherein the Chapter 15 Petitions were granted.
4. The Receiver’s reports and other publicly available information in respect of these proceedings (the “**Receivership Proceedings**”) are posted on the Receiver’s website at <http://cfcanada.fticonsulting.com/cuda> (the “**Receiver’s Website**”).

5. The purpose of this report (“**First Report**”) is to inform the Canadian Court and US Court of the following:
 - (a) the activities of the Receiver since the Date of Appointment; and
 - (b) the Receiver’s engagement of two sales agents to market and solicit offers to purchase the Cuda Group's operations or assets.

TERMS OF REFERENCE

6. In preparing this First Report, the Receiver has relied upon unaudited financial information prepared by the Cuda Group's management, other information available to the Receiver and, where appropriate, the Cuda Group's books and records and discussions with various parties (collectively, the “**Information**”).
7. Except as described in this First Report:
 - (a) the Receiver 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 *Canadian Institute of Chartered Accountants Handbook* and, accordingly, the Receiver expresses no opinion or other form of assurance in respect of the Information; and
 - (b) the Receiver has not examined or reviewed financial forecasts and projections referred to in this First Report in a manner that would comply with the procedures described in the *Canadian Institute of Chartered Accountants Handbook*.
8. Future oriented financial information reported or relied on in preparing this First Report is based on assumptions regarding future events. Actual results may vary from forecasts and such variations may be material.

9. Information and advice described in this First Report that has been provided to the Receiver by its Canadian legal counsel, Bennett Jones LLP and/or its US legal counsel, Markus Williams Young & Hunsicker LLC, and was provided to assist the Receiver 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.
10. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

CURRENT STATUS OF THE RECEIVERSHIP PROCEEDINGS

Background

11. Cuda Oil & Gas Inc. is a publicly listed entity with its shares listed in the TSX Venture Exchange under the symbol “CUDA”. The principal place of business is in Calgary, Alberta.
12. The Cuda Group’s principal line of business is the acquisition, exploration, development and production of oil and natural gas reserves. The Cuda Group has two distinct operations, one located in Canada (the “**Canadian Assets**”) and one located in the United States (the “**US Assets**”).
 - (a) The Canadian Assets are comprised of:
 - i. A portfolio of shallow gas reserves located in the Province of Alberta. Currently there are eight wells drilled on the lands, with two wells producing approximately 250 barrels of oil equivalent per day (“**BOE/day**”). The remaining six wells are currently shut-in;
 - ii. A third-party reserve report, completed as at June 30, 2021, estimates the net present value (discount rate 10%) of the proved reserves at \$2.2 million; and

- iii. Significant Canadian tax pools, including approximately \$28 million of non-capital losses (as at December 31, 2020).
- (b) The US Assets are comprised of:
- i. A ~28% non-operated working interest in a 100% oil play located in the Powder River Basin in the State of Wyoming; and
 - ii. A large, contiguous ~16,500 net acre land position and 56 proved developed wells currently producing approximately ~500 BOE/day of oil (net to the Cuda Group). A third-party reserve report completed as at June 30, 2021 estimates the net present value (using a discount rate of 10%) of the proved reserves at US\$66.4 million.
13. As more fully described in the Affidavit of Robb Cacovic sworn November 16, 2021 in these proceedings (“**Cacovic Affidavit**”), the Cuda Group had accumulated the following significant liabilities by November 2021, including:
- (a) Approximately \$13.7 million first lien secured debt owing to Tallinn Capital Energy Limited Partnership, by its general partner, Tallinn Capital Energy Corp. (“**Tallinn**”), pursuant to various credit agreements, as amended from time to time;
 - (b) Approximately \$56.6 million second lien debt facility (“**BFI Debt**”) owing to Bridging Finance Inc. (“**BFI**”) pursuant to various loan agreements, as amended from time to time. On April 30, 2021, PricewaterhouseCoopers Inc. (“**PWC**”) was appointed as receiver and manager of all of the assets, undertakings and properties of BFI and therefore PWC is the authorized representative of BFI, has stewardship over the BFI Debt and is the Receiver’s point of contact in respect of the BFI Debt throughout these Receivership Proceedings; and

- (c) Approximately \$2.0 million owing to Southwestern Production Corporation (“**Southwestern**”) pursuant to a lien filed for failure to pay operating expenses associated with the US Assets. Southwestern is the operator of the majority of the US Assets.

- 14. Before the Date of Appointment, the Cuda Group was in default of the above noted obligations and experienced various financial challenges due to the extended depressed commodity price environment caused in part by the COVID-19 pandemic. In an attempt to address the various defaults, the Cuda Group undertook the following two strategic alternative processes:
 - (a) On or about July 2, 2021, the Cuda Group engaged Huron Transaction Advisory LLC (“**Huron**”) to pursue a capital raise and/or refinancing transaction. On or about August 24, 2021 the Cuda Group amended the engagement of Huron to include the pursuit of a sale transaction. The Receiver understands that these efforts were ultimately unsuccessful and did not result in a transaction mutually acceptable to the Cuda Group and its major secured lenders, Tallinn and BFI, through its receiver, PWC (referred to collectively as the “**Secured Creditors**”); and
 - (b) In parallel, on July 7, 2021, the Cuda Group engaged ARCO Capital Partners Inc. (“**ARCO**”) to pursue a sale of the Canadian Assets only. The Receiver understands that ARCO’s sales efforts resulted in various bids; however, none of the bids were mutually acceptable to the Cuda Group or the Secured Creditors.

- 15. By mid-November, with no acceptable transactions, the Secured Creditors determined the need to appoint a receiver. On November 4, 2021, both Tallinn and BFI issued demands for payment and notices of intention to enforce security pursuant to section 244(1) of the *BIA*, as described in the Cacovic Affidavit.

Custody and Control

16. On the Date of Appointment, the Receiver attended the Cuda Group's leased premises at Suite 1940, 440 2nd Ave SW, Calgary, Alberta to meet with its management and employees to advise them that the Receivership Order had been granted and to take possession of the Property in accordance with the terms of the Receivership Order. The Receiver indicated its intent to continue the Cuda Group's operations to facilitate an orderly sale of the operations, and/or the US Assets and the Canadian Assets, to maximize the return for all of the Cuda Group's stakeholders.

17. On the Date of Appointment, the Receiver met with the Cuda Group's executive team and management (collectively, the "**Management**") to ensure continued service from critical suppliers and contract operators. With the assistance of Management, the Receiver has maintained operations without any material disruptions since the Date of Appointment.

18. On or around the Date of Appointment, the Receiver also completed the following administrative tasks:
 - (a) froze the Cuda Group's bank accounts and transferred all account balances to the Receiver's estate bank account;

 - (b) prepared the Notice and Statement of the Receiver (the "**Notice**") as required under sections 245 and 246 of the *BIA*, mailed the Notice to all known creditors, and posted all relevant documents to the Receiver's Website;

 - (c) investigated the status of the Cuda Group's insurance coverage and ensured coverage is active and in good standing;

- (d) contacted the Cuda Group's landlord to facilitate discussions surrounding the Cuda Group's occupied leased office premises; and
- (e) communicated with numerous creditors and stakeholders regarding the Receivership Proceedings.

Statutory Compliance

- 19. On November 19, 2021, the Receiver established the Receiver's Website, where it has and will continue to post periodic updates on the progress of the Receivership Proceedings, materials filed in connection with the Receivership Proceedings and other relevant information for the Cuda Group's stakeholders.
- 20. On November 19, 2021 the Receiver posted its contact details on the Receiver's Website to provide contact information for creditors and/or interested parties.
- 21. The Receiver has notified the Canada Revenue Agency of the Receiver's appointment and requested to establish new remittance accounts for the goods and sales services tax and employee-related obligations arising subsequent to the Date of Appointment.
- 22. On November 25, 2021, the Receiver mailed the Notice in accordance with subsections 245(1) and 246(1) of the *BIA* to the Superintendent of Bankruptcy and to all known creditors of the Cuda Group.

Insurance

- 23. On November 25, 2021, Management advised the Receiver that a portion of the Cuda Group's existing insurance policies were set to expire on December 16, 2021, with the remaining policies valid through May 5, 2022.

24. On November 29, 2021, the Receiver contacted the Cuda Group’s insurance broker, HUB International Insurance Brokers (“HUB”), and was advised that all premiums had been paid. The Receiver liaised with HUB and renewed the policy that had been set to expire on December 16, 2021.

Employees

25. On the Date of Appointment, the Cuda Group had four employees and one contractor. The Receiver has retained the services of each of the employees whose services were deemed necessary to assist the Receiver in the Receivership Proceedings. Each of the retained employees were retained on the same terms and conditions as prior to the Date of Appointment.
26. After the Date of Appointment, the Receiver determined the full-time services of the Cuda Group’s Chief Executive Officer and Chief Financial Officer were not necessary and accordingly terminated their full-time employment. The Chief Executive Officer and Chief Financial Officer indicated that they would be available to assist the Receiver with its future sales efforts on a consulting basis if necessary.

Discussion with Operator of US Assets

27. Southwestern is the operator of the US Assets. As set out above, at the date of the Receivership Order, Southwestern claims the Cuda Group owed it approximately \$2.0 million in amounts relating to the Cuda Group's share of the US Assets' net operating expenses. Southwestern has filed a lien against the Cuda Group's interest in the US Assets, and, prior to the Date of Appointment, had commenced an action against the Cuda Group in Wyoming State Court with respect to the lien claim. Given the history and litigation between Southwestern and the Cuda Group, it appears that the communication between the parties had deteriorated, and the Cuda Group had limited information in respect of the US Assets' operations in the two months preceding the Date of Appointment. Upon its appointment, the Receiver (and its counsel) initiated preliminary discussions with Southwestern (and its counsel) regarding the outstanding amounts owing, forecasted operating results and capital programs relating to the US Assets. This information is needed to determine receivership funding needs and assist in the marketing of the US Assets. To date, the Receiver's preliminary discussions with Southwestern have been constructive.

Engagement of selling agents

28. The Receiver's mandate includes marketing and selling the Cuda Group's Canadian Assets and US Assets. Accordingly, the Receiver reviewed the prior capital raise/restructuring/sales processes that were run by Huron and ARCO. Given the results of the prior processes, the lack of interest in a global corporate transaction and the distinct nature of the operations between Canada and the US, the Receiver, in consultation with Management and the Secured Creditors, determined that it would be appropriate to run two separate sales processes within these Receivership Proceedings: one for the US Assets and one for the Canadian Assets.

US Assets Selling Agent

29. The Receiver considered re-engaging with Huron as they had recent history with the Cuda Group in exploring a capital raise, refinancing and/or sales transaction. However, after reviewing the prior process, considering the shift to a receivership sale and consulting with Management and the Secured Creditors, it was determined that the Receiver would instead seek new proposals from potential selling agents to focus on the US Asset sale.
30. On November 19, 2021, the Receiver requested proposals from several US-based selling agents. The Receiver contacted parties with the expertise, experience and resources required to sell the US Assets and maximize the return for all stakeholders. Furthermore, the Receiver discussed the selection of potential advisors with Management and the Secured Creditors to solicit their views on parties that would be most appropriate to market the Cuda Group's assets and operations.
31. The Receiver ultimately received three proposals from US selling agents (“**US Selling Agent Proposals**”). The Receiver reviewed the US Selling Agent Proposals and discussed them with Management and the Secured Creditors. After consideration, the Receiver engaged Detring Energy Advisors (“**Detring**”) to conduct the US Asset sales process on behalf of the Receiver. The Receiver’s selection of Detring was based on a review and comparison of the US Selling Agent Proposals and guidance from relevant stakeholders including Management, combined with the Receiver’s knowledge of the selling agents based on previous engagements. More specifically, the Receiver’s selection was based on the following:
 - (a) general industry knowledge and experience of the engagement team;
 - (b) familiarity with the US Assets or similar assets;

- (c) proposed timelines for the sales process; and
 - (d) Detring's fee structure, which was determined to be consistent with market and other fee proposals received.
32. On December 9, 2021 the Receiver executed an engagement agreement with Detring to market and solicit the sale of the US Assets. The Secured Creditors supported the Receiver's engagement of Detring and the general terms of the engagement agreement.

Canadian Assets Selling Agent

33. After reviewing the prior process completed by ARCO, the Receiver, in consultation with Management and the Secured Creditors determined it would be appropriate to re-engage ARCO to refresh the prior sales process within these Receivership Proceedings, based on the following:
- (a) the Canadian Assets are relatively minor and the universe of buyers who would be interested in an asset this size is limited;
 - (b) ARCO has relationships with and was recently engaged in negotiations with many of the potential strategic buyers;
 - (c) ARCO has relatively up to date information in the data room from the prior process. Re-engaging ARCO due to their familiarity with the Canadian Assets would save considerable time and cost in re-populating a data room; and
 - (d) the terms and fee structure proposed by ARCO were consistent with the market.

34. On December 2, 2021 the Receiver executed an engagement agreement with ARCO to market and solicit the sale of the Canadian Assets. The Secured Creditors supported the Receiver's engagement of ARCO.

PROPOSED SALES PROCESSES

US SALE PROCESS

35. A summary of the proposed US sale process (the "US SISP") timeline is outlined below.
36. Generally, the US SISP contemplates seven weeks from formal launch to non-binding bids and an additional 5.5 weeks to obtain binding restructuring agreements or offers to purchase, for an overall 12.5-week process. The following summarizes the proposed timeline for the major steps contemplated in the US SISP:
- (a) December 9, 2021 to January 5, 2022 – collect data to update virtual data room and prepare for marketing presentations; prepare marketing materials, teaser, and confidential information memorandum;
 - (b) December 20, 2021 – formally launch sale process by sending out teaser e-mail blast, website posting and targeted phone calls;
 - (c) December 20, 2021 to January 5, 2022 – targeted phone calls, execute non-disclosure agreements;
 - (d) January 5, 2022 – open virtual data room;
 - (e) January 5 to February 3, 2022 – work with interested parties towards submitting bids, complete management presentations, field questions from interested parties;

- (f) February 4, 2022 – non-binding bid deadline;
 - (g) February 4 to March 4, 2022 – negotiate formal binding purchase and sale agreement or restructuring proposal with interested parties, assist with final due diligence;
 - (h) March 15, 2022 – binding purchase agreement signed, with deposit; and
 - (i) April 2022 – seek Canadian Court and US Court approval and close transaction.
37. The Receiver believes that the proposed US SISP timeline is sufficient to market fully the assets and/or operations of the US Assets. As the Cuda Group was previously marketed, for the Receiver considered whether it might be possible to conduct the US SISP on a more expedited timeline; however, the above-noted timeline was recommended by Detring to ensure the potential buyer universe is fully canvassed and to provide sufficient time for parties who may not have participated in the previous marketing efforts.

CANADIAN SALE PROCESS

38. A summary of the proposed Canadian sale process (the "**Canadian SISP**") timeline is outlined below.
39. Generally, the Canadian SISP contemplates six weeks from formal launch to non-binding bids and an additional 6.5 weeks to obtain binding restructuring agreements or offers to purchase, for an overall 12.5-week process. The following summarizes the proposed timeline for the major steps contemplated in the Canadian SISP:
- (a) December 9, 2021 to December 20, 2022 – collect data to update virtual data room and prepare for marketing presentations; prepare marketing materials, teaser, and confidential information memorandum;

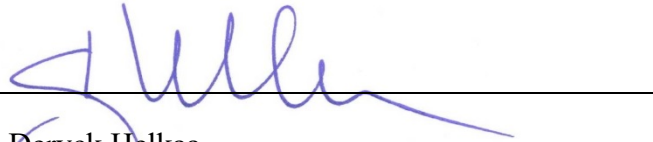
- (b) December 20, 2021 – formally launch sales process by sending out teaser, opening data room, e-mail blast, website posting and targeted phone calls;
 - (c) December 20, 2021 to January 27, 2022 – work with interested parties towards submitting bids, complete management presentations, field questions from interested parties;
 - (d) January 27, 2022 – non-binding bid deadline;
 - (e) January 27 to March 4, 2022 – negotiate formal binding purchase and sale agreement or restructuring proposal with interested parties, assist with final due diligence;
 - (f) March 15, 2022 –binding purchase agreement signed, with deposit; and
 - (g) April 2022 – seek Canadian Court approval and close transaction.
40. The Receiver believes that the proposed Canadian SISP timeline is sufficient to market fully the assets and/or operations of the Canadian Assets. As the Canadian Assets were previously marketed, the Receiver considered whether it might be possible to conduct the Canadian SISP on for a more expedited timeline; however, the above-noted timeline was recommended by ARCO to ensure the potential buyer universe is fully canvassed and to provide sufficient time for parties who may not have participated in the previous marketing efforts.

NEXT STEPS

41. The Receiver will provide a further report to the Canadian Court and the US Court with respect to any material matters as they arise and the results of US SISP and the Canadian SISP.

All of which is respectfully submitted this 22nd day of December 2021.

FTI Consulting Canada Inc.,
in its capacity as receiver and manager
of the assets, undertakings and properties of
Cuda Energy Inc., Cuda Oil and Gas Inc.,
Cuda Energy LLC and Junex Inc.



Deryck Helkaa
Senior Managing Director, CA, CPA, CIRP, LIT



Dustin Olver
Senior Managing Director, CA, CPA, CIRP, LIT