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COURT COURT OF KING'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

IN THE MATTER OF THE BANKRUPTCY AND  
INSOLVENCY ACT, RSC 1985, C B-3, AS AMENDED

AND IN THE MATTER OF THE NOTICE OF INTENTION TO  
MAKE A PROPOSAL OF FREE REIN RESOURCES LTD.

DOCUMENT

**THIRD REPORT OF FTI CONSULTING CANADA INC., IN  
ITS CAPACITY AS PROPOSAL TRUSTEE OF FREE REIN  
RESOURCES LTD.**

**September 28, 2023**

ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
PARTY FILING THIS  
DOCUMENT

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**THIRD REPORT OF THE PROPOSAL TRUSTEE**

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## INTRODUCTION

1. On June 12, 2023 (the “**Filing Date**”), Free Rein Resources Ltd. (“**Free Rein**” or the “**Company**”), a private corporation formed under the laws of Alberta filed a Notice of Intention (the “**NOI**”) to make a proposal pursuant to subsection 50.4(1) of the *Bankruptcy and Insolvency Act* (Canada) (the “**BIA**”).
2. FTI Consulting Canada Inc. (“**FTI**”) was appointed as proposal trustee (FTI in such capacity, the “**Proposal Trustee**”) in the NOI proceedings of Free Rein (the “**Proceedings**”).
3. 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; 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.
4. On August 25, 2023, the Court, granted an Order (the “**August 25 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 investor solicitation process (the “**SISP**”) and the Stalking Horse Term Sheet (as defined in the SISP); and
  - (c) authorized the Proposal Trustee, with the assistance of the Company, to administer the SISP.

5. This third report of the Proposal Trustee (the “**Third Report**”) is filed in connection with the Company’s application currently scheduled to be heard on October 5, 2023 (the “**October 5 Application**”), seeking an Order from the Court, among other things, extending the time for Free Rein to file a proposal to November 23, 2023 (the “**Stay Period**”).
6. Electronic copies of all materials filed by the Company in connection with the October 5 Application and other statutory materials are available on the Proposal Trustee’s website at: <http://cfcanada.fticonsulting.com/freerein>.

## **PURPOSE**

7. The Proposal Trustee has reviewed the Court materials filed by the Company in support of the October 5 Application. The purpose of this Third Report is to provide information to this Honourable Court pertaining to:
  - (a) the Company’s operations and assets;
  - (b) the status of the Company’s restructuring efforts, including comments on the SISP;
  - (c) budget to actual cash flow results for the period ended September 23, 2023;
  - (d) the Company’s updated cash flow statement (the “**Cash Flow Statement**”) for the period ending November 25, 2023;
  - (e) the Company’s request for an extension to the Stay Period; and
  - (f) the Proposal Trustee’s conclusions and recommendations.

## TERMS OF REFERENCE

8. In preparing this Third report, the Proposal Trustee has relied upon unaudited financial information, other information available to the Proposal Trustee and, where appropriate, the Company's books and records and discussions with various parties (collectively, the "**Information**").
9. Except as described in this Third Report:
  - (a) the Proposal Trustee 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 Proposal Trustee 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.
10. The Proposal Trustee has prepared this Third Report in connection with the October 5 Application. This Third Report should not be relied on for other purposes.
11. Information and advice described in this Second Report that has been provided to the Proposal Trustee by its legal counsel, Cassels Brock & Blackwell LLP (the "**Proposal Trustee's Counsel**"), was provided to assist the Proposal Trustee 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.

12. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.
13. Capitalized terms not otherwise defined herein have the meaning ascribed to them in the SISP and Stalking Horse Term Sheet.

## **P&NG ASSETS & OPERATIONS**

14. The primary objectives of these Proceedings are to:
  - (a) ensure the Company has the necessary stability to maintain ongoing operations while it seeks to restructure its financial affairs; and
  - (b) provide a forum to effectuate a restructuring transaction (“**Restructuring Transaction**”) for the benefit of the Company’s creditors and preserve Free Rein’s going concern business.
15. The Company’s petroleum and natural gas assets (“**P&NG Assets**”) are located primarily in Central Alberta in the Golden Spike area.
16. Since the Filing Date the Company has maintained the operation of the P&NG Assets without any material disruption and the P&NG Assets are currently producing approximately 490 boe/d.

## **SALE AND INVESTMENT SOLICITATION PROCESS**

17. As described in the Second Report, the Proposal Trustee, with the assistance of the Company, was authorized to administer the SISP to broadly canvas potential purchasers and investors in a structured manner to maximize value for the benefit of the Company’s creditors and stakeholders.
18. As noted in the Second Report, the versions of the SISP and Stalking Horse Term Sheet attached to the Affidavit of Terry McCallum sworn on August 18, 2023, as Exhibits “A” and “B” were in draft form and Free Rein, Invico and the Proposal Trustee were in the process of finalizing those

documents. The Proposal Trustee can advise the Court that the final versions of the SISP and Stalking Horse Term Sheet (which were attached as schedules to the August 25 Order) were not materially different than the draft versions.

19. The SISP required the Proposal Trustee and the Company to meet various milestones including:

(a) as soon as reasonably practicable, but no later than September 1, 2023:

- the Company, in consultation with the Proposal Trustee and the Stalking Horse Bidder, will prepare a list of Known Potential Bidders;
- the Proposal Trustee shall cause the Notice of the SISP Procedure to be published in the *BOE Report*, *the Daily Oil Bulletin*, and *the Insolvency Insider*;
- the Company, in consultation with the Proposal Trustee, shall prepare the Teaser Letter describing the Opportunity to submit an Alternative Transaction and inviting recipients to execute a non-disclosure agreement (“NDA”) in order to participate in the SISP; and
- the Proposal Trustee shall post the Teaser Letter and NDA on its website at <http://cfcanada.fticonsulting.com/freerein>.

(b) the Proposal Trustee, with the assistance of the Company, will have prepared a virtual data room (“VDR”).

20. For ease of reference, key dates included in the SISP are set out in the table below:

| <b>Milestone</b>  | <b>Deadline</b>   |
|---|-------------------|
| Free Rein, the Proposal Trustee and Stalking Horse Bidder to create list of Known Potential Bidders and distribute Teaser Letters and NDAs to Known Potential Bidders | September 1, 2023 |
| Free Rein and the Proposal Trustee to prepare and have available for Potential Bidders access to the VDR  | September 8, 2023 |
| Phase 1 Bid Deadline  | October 2, 2023   |
| Phase 2 Bid Deadline  | November 6, 2023  |
| Closing Date Deadline   | December 11, 2023 |

21. The Proposal Trustee can advise that the September milestones set out in SISP were met and the Proposal Trustee and the Company have continued to advance the SISP. Given the Phase 1 Bid Deadline is on October 2, 2023, the Proposal Trustee intends to maintain the confidentiality of the process and will report to this Honourable Court on the results of the SISP at a later date.



## BUDGET TO ACTUAL RESULTS

22. The Company's actual cash flows as compared to those contained in the cash flow statement for the five week period of August 20, to September 23, 2023, is summarized below.

| 5 Week Period Ended September 23, 2023 | Actual       | Forecast      | Variance       |
|--|--------------|---------------|----------------|
| (C\$ 000s)                             |              |               |                |
| <b>Receipts</b>                        |              |               |                |
| Net production revenue                 | \$ 481       | \$ 506        | \$ (25)        |
| Other receipts                         | 33           | -             | 33             |
| <b>Total - Receipts</b>                | <b>513</b>   | <b>506</b>    | <b>7</b>       |
| <b>Disbursements</b>                   |              |               |                |
| Royalties                              | (49)         | (29)          | (21)           |
| Transportation costs                   | (40)         | (38)          | (3)            |
| Operating expenses                     | (232)        | (140)         | (93)           |
| Capex                                  | -            | -             | -              |
| SG&A expense                           | (150)        | (130)         | (20)           |
| Professional fees                      | (70)         | (125)         | 55             |
| <b>Total - Disbursements</b>           | <b>(542)</b> | <b>(461)</b>  | <b>(81)</b>    |
| <b>Net cash flow</b>                   | <b>(28)</b>  | <b>45</b>     | <b>(74)</b>    |
| Opening cash                           | 55           | 55            | -              |
| Net cash flow                          | (28)         | 45            | (74)           |
| <b>Ending cash</b>                     | <b>\$ 26</b> | <b>\$ 100</b> | <b>\$ (74)</b> |

23. The variances in actual receipts and disbursements as compared to the Cash Flow Statement are primarily due to the following:
- Receipts: positive variance of approximately 7,000 primarily due to lower realized pricing for the Company's natural gas liquids than forecast and offset by higher realized pricing for oil and the reversal of certain stale dated cheques for pre-filing amounts;
  - Disbursements: negative variance of approximately \$81,000 primarily comprised of the following:
    - higher royalty payments than forecast in the period (reversal of positive variance from prior periods);

- higher operating costs than forecast due to one of the Company’s vendors netting amounts that were owed for prior periods against revenue receipts and requiring prepayment for other periods;
- SG&A higher than budget partially due to the Company engaging a third-party consultant who the Company believes may be able to bring unique capital/financing solutions to the Company. This expense was not contemplated in the prior forecast. Additional details regarding the engagement of the third-party consultant are set out below;
- professional fees were lower than forecast as some amounts have accrued but remain unpaid and therefore, a portion of the variance is expected to reverse in future periods.

24. As at September 23, 2023, the Company had approximately \$26,000 of cash on hand.

#### **COMPANY’S ENGAGEMENT OF THIRD-PARTY CONSULTANT**

25. The Company contacted the Proposal Trustee to discuss the possible engagement consultant (the “**Consultant**”). The Company advised the Proposal Trustee that it believed that the Consultant may be able to bring unique capital/financing solutions to the Company with the intention that such capital/financing solutions could support the repayment of Invico and fund a proposal to the Company’s creditors.
26. As part of these discussions, the Proposal Trustee advised the Company that as a result of the ongoing SISP, it did not believe it was necessary to engage a consultant. Further, the Proposal Trustee advised that if a consultant were engaged, the Proposal Trustee would not support the fees of the consultant being covered by a charge on the Company’s assets and that it would be preferable to have the Consultant paid on a success fee basis, as a result of, among other things, the Company’s relatively tight cash flow position.

27. Ultimately, the Company advised the Proposal Trustee that it had engaged the Consultant and the Proposal Trustee understands that the Consultant was paid a retainer of \$50,000.

## CASH FLOW STATEMENT

28. The Company, in consultation with the Proposal Trustee, has prepared an updated Cash Flow Statement to estimate the Company’s liquidity for the period from September 24, 2023, to November 25, 2023 (the “**Forecast Period**”), a summary of which is presented below. A copy of the Cash Flow Statement is attached hereto as Appendix “A”.

| <b>Cash Flow Statement</b>   |                |
|------------------------------|----------------|
| <b>(C\$ 000s)</b>            | <b>Total</b>   |
| <b>Receipts</b>              |                |
| Net production revenue       | \$ 1,416       |
| Other receipts               | -              |
| <b>Total - Receipts</b>      | <b>1,416</b>   |
| <b>Disbursements</b>         |                |
| Royalties                    | (51)           |
| Transportation costs         | (110)          |
| Operating expenses           | (376)          |
| Capex                        | -              |
| SG&A expense                 | (300)          |
| Professional fees            | (350)          |
| GST remittance               | (17)           |
| <b>Total - Disbursements</b> | <b>(1,204)</b> |
| <b>Net cash flow</b>         | <b>212</b>     |
| Opening cash                 | 26             |
| Net cash flow                | 212            |
| <b>Ending cash</b>           | <b>\$ 239</b>  |

29. The Cash Flow Statement projects the Company will have net cash flow of approximately \$212,000 over the Forecast Period, including:
- (a) cash receipts of approximately \$1.4 million, primarily related to the collections from the sale of petroleum and natural gas substances;

- (b) cash disbursements of approximately \$1.2 million primarily related to trade payments, payroll and benefits, other operating disbursements and professional fees.
- 30. The Cash Flow Statement does not contemplate the payment of any amounts to secured creditors, including principal and interest. The Proposal Trustee is of the view that this is appropriate in light of:
  - (a) the relatively accelerated timeline provided for by the extension of the Stay Period;
  - (b) to ensure that cash resources are maintained to facilitate the Company's restructuring efforts; and
  - (c) to minimize any potential prejudice to other post-filing creditors by paying amounts accruing to secured creditors.
- 31. The Cash Flow Statement has been prepared by the Company using probable and hypothetical assumptions set out in the notes to the Cash Flow Statement, including assumptions that goods and services incurred after the Filing Date are paid when incurred.
- 32. The Proposal Trustee's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to the Information supplied to it by the Company. Since probable and hypothetical assumptions need not be supported, the Proposal Trustee's procedures were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement, and there are no material assumptions contained therein which seem unreasonable in the circumstances.
- 33. Based on the Proposal Trustee's review, as at the date of this Third Report, nothing has come to its attention that causes it to believe that, in all material respects:

- (a) the probable and hypothetical assumptions are not consistent with the purpose of the Cash Flow Statement; and
- (b) the probable and hypothetical assumptions developed by the Company are not supported and consistent with the plan of the Company or do not provide a reasonable basis for the Cash Flow Statement.

## **PROPOSAL TRUSTEE'S CONCLUSIONS AND RECOMMENDATIONS**

- 34. The stay of proceedings expires on October 9, 2023. At the October 5 Application, the Company is requesting an extension of the stay of proceedings to November 23, 2023.
- 35. The Proposal Trustee is of the view that the requested extension of the stay of proceedings is appropriate pursuant to section 50.4(9) of the BIA for the following reasons:
  - (a) the Company and its management are acting in good faith and with due diligence in taking steps to facilitate a restructuring of the business;
  - (b) the extension of the Stay Period will allow sufficient time for the Company to advance the SISP enhancing the likelihood of a viable proposal being presented;
  - (c) the Cash Flow Statement indicates that the Company will have sufficient liquidity to continue to fund operations and the cost of the Proceedings to November 25, 2023;
  - (d) the Proposal Trustee is not aware of any reason that the extension of the Stay Period would materially prejudice any creditors.

36. Based on the foregoing, Proposal Trustee supports the relief being sought by the Company and respectfully recommends that the Court grant the relief referenced in paragraph 5 herein.

All of which is respectfully submitted this 28th day of September 2023.

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



Name: Dustin Olver, CPA, CA, CIRP, LIT  
Title: Senior Managing Director,  
FTI Consulting Canada Inc.

Third Report of FTI Consulting Canada Inc.,  
In its capacity as Proposal Trustee of Free Rein Resources Ltd.

## **Appendix “A” – Cash Flow Statement for the period ending November 25, 2023**

Free Rein Resources Ltd.

Cash Flow Statement for the period from September 24, 2023 to November 25, 2023

| Cash Flow Statement<br>(C\$ 000s) | Week 1<br>30-Sep | Week 2<br>7-Oct | Week 3<br>14-Oct | Week 4<br>21-Oct | Week 5<br>28-Oct | Week 6<br>4-Nov | Week 7<br>11-Nov | Week 8<br>18-Nov | Week 9<br>25-Nov | Total          | Notes |
|-----------------------------------|------------------|-----------------|------------------|------------------|------------------|-----------------|------------------|------------------|------------------|----------------|-------|
| <b>Receipts</b>                   |                  |                 |                  |                  |                  |                 |                  |                  |                  |                |       |
| Net production revenue            | \$ 402           | \$ -            | \$ -             | \$ -             | \$ 494           | \$ -            | \$ -             | \$ -             | \$ 520           | \$ 1,416       | 1     |
| Other receipts                    | -                | -               | -                | -                | -                | -               | -                | -                | -                | -              |       |
| <b>Total - Receipts</b>           | <b>402</b>       | <b>-</b>        | <b>-</b>         | <b>-</b>         | <b>494</b>       | <b>-</b>        | <b>-</b>         | <b>-</b>         | <b>520</b>       | <b>1,416</b>   |       |
| <b>Disbursements</b>              |                  |                 |                  |                  |                  |                 |                  |                  |                  |                |       |
| Royalties                         | -                | -               | (23)             | -                | -                | -               | (28)             | -                | -                | (51)           | 2     |
| Transportation costs              | (29)             | -               | -                | -                | -                | (40)            | -                | -                | (41)             | (110)          | 3     |
| Operating expenses                | (77)             | (30)            | -                | -                | -                | (117)           | (30)             | -                | (122)            | (376)          | 4     |
| Capex                             | -                | -               | -                | -                | -                | -               | -                | -                | -                | -              | 5     |
| SG&A expense                      | (97)             | -               | (73)             | -                | (57)             | -               | -                | (73)             | -                | (300)          | 6     |
| Professional fees                 | (100)            | -               | -                | -                | (125)            | -               | -                | -                | (125)            | (350)          | 7     |
| GST remittance                    | -                | -               | -                | -                | -                | -               | -                | -                | (17)             | (17)           |       |
| <b>Total - Disbursements</b>      | <b>(303)</b>     | <b>(30)</b>     | <b>(95)</b>      | <b>-</b>         | <b>(182)</b>     | <b>(157)</b>    | <b>(58)</b>      | <b>(73)</b>      | <b>(306)</b>     | <b>(1,204)</b> |       |
| <b>Net cash flow</b>              | <b>99</b>        | <b>(30)</b>     | <b>(95)</b>      | <b>-</b>         | <b>312</b>       | <b>(157)</b>    | <b>(58)</b>      | <b>(73)</b>      | <b>214</b>       | <b>212</b>     |       |
| Opening cash                      | 26               | 125             | 95               | 0                | 0                | 312             | 155              | 97               | 24               | 26             |       |
| Net cash flow                     | 99               | (30)            | (95)             | -                | 312              | (157)           | (58)             | (73)             | 214              | 212            |       |
| <b>Ending cash</b>                | <b>\$ 125</b>    | <b>\$ 95</b>    | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 312</b>    | <b>\$ 155</b>   | <b>\$ 97</b>     | <b>\$ 24</b>     | <b>\$ 239</b>    | <b>\$ 239</b>  |       |



FREE REIN RESOURCES LTD.  
Per: Terry McCallum, CEO



FTI CONSULTING CANADA INC., TRUSTEE UNDER THE NOTICE  
OF INTENTION TO MAKE A PROPOSAL  
Per: Dustin Olver, LIT

**Notes:**

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 September 24, 2023 to November 25, 2023. 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 proposal trustee and its counsel and FRR's legal counsel.