



COURT FILE NO. B301-163430

COURT COURT OF KING'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

IN THE MATTER OF THE *BANKRUPTCY AND INSOLVENCY ACT*, RSC
1985, C C-8, AS AMENDED

AND IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A
PROPOSAL OF CLEO ENERGY CORP.

APPLICANTS CLEO ENERGY CORP.

DOCUMENT **AFFIDAVIT**

ADDRESS FOR
SERVICE AND
CONTACT
INFORMATION OF
PARTY FILING THIS
DOCUMENT

Gowling WLG (Canada) LLP
1600, 421 – 7th Avenue SW
Calgary, AB T2P 4K9

Attn: **Sam Gabor/Tom Cumming**

Phone: (403) 298-1946 / (403) 298-1938

Fax: (403) 263-9193

File No.: G10010664

AFFIDAVIT OF CHRIS LEWIS
Sworn January 20, 2025

I, **CHRIS LEWIS**, of the City of Calgary, in the Province of Alberta, **MAKE OATH AND SAY THAT:**

1. I am the sole Director, Executive Chairman, and Chief Executive Officer of Cleo Energy Corp. ("**Cleo**"). As such I have personal knowledge of the matters herein deposed to, except where stated to be based upon information and belief, in which case I verily believe same to be true.
2. I am authorized to swear this Affidavit as corporate representative of Cleo.
3. In preparing this Affidavit, I consulted with Cleo's management and their legal, financial and other advisors. I also reviewed Cleo's business records relevant to these proceedings and have satisfied myself that I am possessed of sufficient information and knowledge to swear this Affidavit.
4. All references to dollar amounts contained herein are to Canadian Dollars unless otherwise stated.

Relief Requested

5. This Affidavit is sworn in support of an Application by Cleo for an Order under the *Bankruptcy and Insolvency Act*, RSC 1985, c B-3, as amended (the “**BIA**”) for the following relief:
- (a) abridging the time for service of notice of this Application, deeming service of notice of this Application to be good and sufficient, and declaring that there is no other person who ought to have been served with notice of this Application;
 - (b) approving Cleo’s proposed sale and solicitation process (“**Sale Process**”), substantially in the form attached as **Appendix “A”** to the Order, and declaring the Sale Process to be commercially reasonable;
 - (c) authorizing and directing the Cleo, with the advice and assistance of the Proposal Trustee and Sayer, to conduct the Sale Process and do all things reasonably necessary to give full effect thereto; and
 - (d) such further and other relief as Cleo may request and this Honourable Court may grant.

Unless defined in this Affidavit, capitalized terms have the meanings given to them in the Sale Process.

Background

6. Cleo is a privately owned oil and gas operator of medium gravity oil based in Calgary, Alberta with operations throughout East Central Alberta that has been operating since its incorporation in 2016. Cleo is a wholly owned subsidiary of Chimera Management Group Ltd. Cleo does not own shares in any other corporation.
7. Cleo’s revenue is primarily linked to the productivity of its wells, as well as the market price of oil.
8. Cleo has recently experienced a significant reduction in production levels due to several factors, including:
- (a) lack of repair and maintenance required at several of its main producing fields causing shut ins of wells;

- (b) shut downs of its oil producing assets following verbal directives issued to Cleo by the Alberta Energy Regulator (“**AER**”);
- (c) thefts and vandalism at its oil and gas fields causing shutdowns over time and a recent complete shut down of Cleo’s largest oil and gas field; and
- (d) lower prices recovered by Cleo for its oil and gas production.

As a result of these issues, Cleo is currently unable to meet its obligations as they become due and its liabilities exceed its assets.

- 9. Cleo has total indebtedness of approximately \$24,102,898, of which approximately \$6.7 million is secured indebtedness owing to a number of secured creditors.
- 10. On December 8, 2024, Cleo filed a notice of intention to make a proposal (a “**NOI**”, and the proceedings commenced thereby, the “**Proposal Proceedings**”) under Section 50.4 of Division I of Part III of the *BIA* with the Office of the Superintendent of Bankruptcy (the “**OSB**”). Alvarez & Marsal Canada Inc. (“**A&M**”) was named as proposal trustee of Cleo.
- 11. On December 26, 2024, the Honourable Justice M.H. Hollins released an endorsement preventing Trafigura Canada Limited (“**Trafigura**”) from exercising set-off of amounts owing to Cleo by Trafigura under a commercial agreement dated July 12, 2024 against un-matured amounts owing to Trafigura by Cleo under a prepayment agreement dated July 9, 2024.
- 12. On January 6, 2025, the Honourable Justice Lema granted an Order:
 - (a) extending the period within which Cleo is required to file a proposal to February 21, 2025;
 - (b) granting in favour of the Proposal Trustee and its counsel and counsel for Cleo a super-priority security and charge against on all present and after-acquired property of Cleo to secure their reasonable professional fees and disbursements;
 - (c) approving an interim financing facility (the “**Interim Loan**”) in the maximum principal amount of \$750,000 and granting a super-priority charge to secure the obligations of Cleo to the interim lender under the DIP Loan; and

- (d) granting a charge in favour of the directors and officers of Cleo to secure Cleo's obligation to indemnify the directors and officers in respect of certain liabilities incurred by them during the Proposal Proceedings.

Sale Process

13. Cleo and the Proposal Trustee have developed the Sale Process under which all of Cleo's Property will be marketed and sold. Cleo has also engaged Sayer Energy Advisors ("**Sayer**") to act as sales agent in the Sales Process and to assist and advise Cleo and the Proposal Trustee in there carrying out of the Sale Process. The Sale Process can also accommodate an investment transaction pursuant to which Cleo is restructured.
14. Cleo, with the assistance of Sayer and the Proposal Trustee, is in the process of compiling a list of strategic and financial parties who may be interested in bidding in the Sale Process ("**Potential Bidders**") and has prepared the templates of a non-disclosure agreement (a "**NDA**"), non-binding letter of intent (a "**Non-Binding LOI**") and an asset purchase agreement (a "**Template APA**"). Sayer is in the process of creating a virtual data room (the "**VDR**") which will include due diligence and information pertaining to Cleo's business, operations and property. Sayer is also preparing a teaser letter describing the Sale Process and inviting interested parties to participate and bid in the Sale Process (the "**Teaser**").
15. Should this Honourable Court grant an Order giving the relief sought herein:
- (a) Sayer and the Company will contact known Potential Bidders to determine their interest in participating in the Sale Process by forwarding them the Teaser, and if interested, providing them with a copy of the Sale Process and NDA; and
- (b) Sayer will publish notices of the Sale Process in the Daily Oil Bulletin, Insolvency Insider and any other publications or newswires identified by the Proposal Trustee.
16. The Sale Process contemplates a two phase marketing process with the following milestones:

Date	Action
January 22, 2025	Date of launch of the Sale Process
February 25, 2025, or such later date as determined by the Proposal Trustee in consultation with Cleo and Sayer (the " Non-Binding LOI Submission Date ")	Date by which a Non-Binding Bid must be submitted

Date	Action
March 13, 2025, or such later date as determined by the Proposal Trustee in consultation with Cleo and Sayer (the “ Binding Bid Submission Date ”)	Date by which a Qualified Bid must be submitted
Week of March 24, 2025, or as soon thereafter as Court time can be confirmed, or such later date as determined by the Proposal Trustee in consultation with Cleo and Sayer	Proposed week within which Court approval of one or more sales will be sought
March 31, 2025, or 3 days after Court approval is obtained (a “ Target Closing Date ”)	Proposed closing date for sales
April 18, 2025 (the “ Outside Date ”)	Outside date for completing sale transactions

Under the Sale Process, the Proposal Trustee has the discretion to modify the milestone dates set out above.

17. In the first phase of the Sale Process, the Proposal Trustee, Cleo and Sayer will send the Teasers to Potential Bidders to make them aware of the Sale Process. Potential Bidders who sign NDAs are given access to the VDR in order to carry out due diligence.
18. Any Potential Bidder interesting in bidding must submit a Non-Binding LOI by no later than the Non-Binding LOI Submission Date. The Non-Binding LOI must comply with the requirements set out in paragraph 23 of the Sale Process, including setting out the proposed structure of the consideration payable under the proposed transaction, providing sufficient disclosure of their financial condition and credit quality (or enhancements) so as to allow the Proposal Trustee to make a reasonable determination as to the Potential Bidder’s financial and other capabilities to consummate such transaction, and confirming that the Potential Bidder satisfies AER requirements for holding licenses.
19. Following the Non-Binding LOI Submission Date, the Proposal Trustee, in consultation with Cleo and Sayer, will review each Non-Binding LOI to determine whether the Potential Bidder has complied with the requirements of paragraph 23 of the Sale Process, has a *bona fide* interest in concluding a transaction, and has the financial wherewithal to conclude a transaction. Provided that the Proposal Trustee determines these requirements are satisfied, such Potential Bidder will be designated a qualified bidder (a “**Qualified Bidder**”), whereupon it can advance to the second phase. If the Proposal Trustee concludes that no Qualified LOI is likely to result in a Successful Bid, the Proposal Trustee, in consultation with Cleo and Sayer, may terminate the Sale Process.
20. In the second phase, Qualified Bidders may carry out additional due diligence. In the second phase, a Qualified Bidder must submit a binding basis in the form of the template asset purchase agreement

(a “**Qualified Bid**”) included in the VDR which complies with the requirements set out in paragraph 28 of the Sale Process by no later than the Binding Bid Submission Date. These requirements include:

- (a) submitting a deposit in an amount equal to 15% of the proposed cash consideration contemplated by the Qualified Bid, which will become non-refundable upon the Qualified Bid becoming a Successful Bid (other than in the circumstances contemplated in the Successful Bid);
- (b) evidence of financial wherewithal to complete the transaction;
- (c) the Qualified Bid cannot be conditional on internal approvals, the outcome of any unperformed due diligence, or obtaining financing;
- (d) the Qualified Bid and transaction contemplated thereby must be in compliance with AER requirements; and
- (e) the Qualified Bid must disclaim any break-up or similar fees.

The transaction contemplated by the Qualified Bid must be on an “as is, where is” basis and without surviving representations or warranties of any kind, nature, or description, other than as specifically included in the definitive documents.

21. Following the Binding Bid Submission Date, the Proposal Trustee, in consultation with Cleo and Sayer, will review each Qualified Bid to determine (a) whether the Qualified Bid is in compliance with paragraph 28 of the Sale Process, (b) whether the proposed consideration is adequate, and (c) whether the proposed transaction is in the best interests of Cleo, considering, among other things, the criteria set out in paragraph 29 of the Sale Process. The Proposal Trustee may seek clarification of the proposed terms and negotiate with the Qualified Bidder, and seek a revised Qualified Bid. The Proposal Trustee, in consultation with Cleo and Sayer, may but is not obligated to select the highest or best Qualified Bid(s) (each, a “**Successful Bid**”, and such Qualified Bidder, the “**Successful Bidder**”) and designate any back-up bids. If the Proposal Trustee determines that no Qualified Bid is likely to result in a Successful Bid, the Proposal Trustee may terminate the Sale Process.
22. Once one or more Successful Bids have been identified, Cleo or the Proposal Trustee will apply to this Honourable Court for an Order approving the Successful Bid(s), authorizing Cleo to enter into

any agreements required to implement the Successful Bid(s) and, if applicable, vesting the Property subject thereto in the Successful Bidder(s) free and clear of all encumbrances. The Sale Process contemplates that the transaction(s) contemplated by the Successful Bid(s) will close by the Target Closing Date, and in any event by no later than the Outside Date.

23. I believe that the Sale Process is fair and reasonable in the circumstances and provides an appropriate framework to identify and complete one or more value-maximizing transactions:
- (a) the Proposal Trustee has a great deal of experience with insolvent oil and gas producers and with Court approved sale processes designed to maximize value;
 - (b) Sayer has deep experience in marketing and selling the assets of oil and gas producers;
 - (c) Potential Bidders should have sufficient time within which to carry out due diligence and determine whether they are interested in acquiring Property; and
 - (d) the Proposal Trustee, Sayer and Cleo have identified a significant number of parties interested in participating in the Sale Process as Potential Bidders.

Current Financial Condition of Cleo

24. As indicated in the 13-week cash flow forecast ending April 4, 2025 (the “**Cash Flow Forecast**”), Cleo has sufficient funding from its revenues and the DIP Loan to fund it to the week of February 7, 2025. Cleo is working on arranging additional interim loan financing with either the Interim Lender or other parties who may potentially be interested, failing which Cleo will potentially sell a fields to one of its secured creditors, partly in repayment of debt and partly for cash consideration. While I am optimistic that Cleo will secure sufficient working capital to complete the Sale Process, either through an additional interim loan or the sale of assets, Cleo’s current financial circumstances highlight the need to have an expeditious and efficient Sale Process.
25. With its extremely limited working capital, I believe that the only realistic opportunity to sell the Property on a going concern basis or enter into some kind of investment and restructuring transaction is pursuant to the Sale Process.
26. While the time-lines in the Sale Process are compressed, both the Proposal Trustee and Sayer have informed me that they believe there is sufficient time within which to identify and complete value-maximizing transactions and therefore, I believe that the Sale Process is appropriately structured to

- ## Conclusion

- SWORN BEFORE ME at Calgary, Alberta,
this 20th day of January, 2025.

A handwritten signature in black ink, appearing to be "JH". The letters are stylized and connected, with a long horizontal stroke extending from the end of the signature.

A Commissioner for Oaths/Notary Public in
and for the Province of Alberta

Stefan Hreno
Student-at-Law

CHRIS LEWIS