COURT FILE NUMBER	1201-01367	Clerk's Stamp
COURT	COURT OF QUEEN'S BENCH OF ALBERTA	
JUDICIAL CENTRE	CALGARY	
APPLICANTS	IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c.C-36, AS AMENDED AND IN THE MATTER OF COUGAR OIL AND GAS CANADA, INC.	
DOCUMENT	**FIFTH REPORT OF THE MONITOR** **MATERIAL ADVERSE CHANGE REPORT #2** **May 10, 2012**	
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**MONITOR** **Ernst & Young Inc.** 1000, 440 - 2nd Avenue SW Calgary, Alberta T2P 5E9 Attention: Neil Narfason / Peter Chisholm Telephone: 403-206-5067 / 403-206-5061 Fax: 403-206-5075 Email: neil.narfason@ca.ey.com peter.chisholm@ca.ey.com	

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INTRODUCTION

1. On February 3, 2012 (the "Initial Filing Date"), Cougar Oil and Gas Canada Inc. ("Cougar Oil and Gas" or the "Company") sought and obtained protection from their creditors under the Companies' Creditors Arrangement Act, R.S.C. 1985 c. C-36, as amended, (the "CCAA") pursuant to an order of this Honourable Court (the "Initial Order").

2. Pursuant to the Initial Order, Ernst & Young Inc. was appointed monitor of the Cougar Oil and Gas (the "Monitor").

3. The purpose of this fifth report (the "Fifth Report") of the Monitor is to provide this Honourable Court with the Monitor's comments in respect to:

    a) 1650253 Alberta Ltd.'s ("165")decision, based on a variety of factors, not to advance Cougar Oil and Gas further borrowings in accordance with the interim financing facility (the "Amended DIP Facility") approved by an order of this Honourable Court dated April 30, 2012 (the "Amended DIP Facility Order"). 165's decision to not provide further borrowing advances under the Amended DIP Facility constitutes a material adverse change to Cougar Oil and Gas's most recent cash flow forecast for the period of April 1, 2012 to July 31, 2012 (the "Third Report Cash Flow Projection") filed with the third report of the Monitor dated April 27, 2012;

    b) the impact of the current circumstances on Cougar Oil and Gas including a revised cash flow projection (the "Cash Flow Projection") for the period of May 1, 2012 to July 31, 2012 (the "Forecast Period"); and

    c) proposed resolutions to Cougar Oil and Gas's current circumstances.

4. Capitalized terms not defined in this Fifth Report are as defined in the Initial Order.

BACKGROUND

5. Cougar Oil and Gas is a publicly traded oil and gas exploration and production company focussing on the exploration and development of Canadian based onshore oil and gas properties.

6. Cougar Oil and Gas has experienced a number of significant setbacks in the last year which have caused it to experience serious financial difficulties and file for protection under the CCAA.

7. For further background on Cougar Oil and Gas and its CCAA proceedings please refer to the Monitor's website:

   http://www.ey.com/ca/cougaroilandgas

TERMS OF REFERENCE

8. In preparing this Fifth Report, the Monitor has relied upon unaudited financial information, company records and discussions with management of the Company. The Monitor has not performed an audit, review or other verification of such information. An examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Future orientated financial information relied upon in this report is based on management's assumptions regarding future events and actual results achieved will vary from this information and the variations may be material.

MATERIAL ADVERSE CHANGE

9. Pursuant to an order of this Honourable Court dated February 23, 2012, Cougar Oil and Gas entered into a debtor-in-possession credit agreement (the "Original DIP Facility") with 165 for 165 to provide Cougar Oil and Gas maximum borrowings of $1.7 million to finance operations within these CCAA proceedings until July 31, 2012. Due a number of unfortunate circumstances encountered by Cougar Oil and Gas as described in the second report of the Monitor dated April 12, 2012, Cougar Oil and Gas was required to apply to this Honourable Court for approval of the Amended DIP Facility increasing the maximum debtor-in-possession borrowings from $1.7 million per the Original DIP Facility to $2.15 million per the Amended DIP Facility. The Amended DIP Facility was approved pursuant to an order of this Honourable Court dated April 30, 2012.

10. After the granting of the Amended Dip Facility Cougar Oil and Gas intended to seek an application for a sales solicitation process ("SSP") outlining a marketing process to sell the property of Cougar Oil and Gas which was to include a stalking horse offer from 165 (the "Stalking Horse Offer"). The SSP and Stalking Horse Offer are described in further detail in the Fourth Report of the Monitor dated May 4, 2012. Effectively, the Amended DIP Facility was implemented to allow Cougar Oil and Gas sufficient funding to run the proposed SSP.

11. Cougar Oil and Gas's secured creditors (the "Secured Creditors") continued to negotiate the final terms of the SSP and Stalking Horse Offer however, it was determined on May 8, 2012 that Secured Creditors could not agree on the final terms of the SSP and the Stalking Horse Offer and, as a result, 165 communicated that it would provide no further funding under the Amended DIP Facility.

12. The following resignations have now occurred:

    a) the Chief Financial Officer of Cougar Oil and Gas, Mr. Richard Carmichael, announced his resignation and his last day was effective May 9, 2012; and

b) Mr. William E. Brimacombe resigned as a director from the Cougar Oil and Gas board effective May 9, 2012.

13. The remaining directors of Cougar Oil and Gas are Mr. William S. Tighe and Mr. Glenn Watt.

IMPACT OF CURRENT CIRCUMSTANCES

14. Based on the above-noted changes to Cougar Oil and Gas's operations, Cougar Oil and Gas has prepared the Revised Cash Flow Projection which has been attached hereto as Appendix "A".

15. The Revised Cash Flow Projection indicates that Cougar Oil and Gas will be cash flow negative over the Forecast Period by a total of approximately $1.3 million.

16. The Monitor further understands that as at May 10, 2012, Cougar Oil and Gas has approximately $230,000 owing to trade creditors and employees for goods and services provided subsequent to the Initial Filing Date. As at May 10, 2012 Cougar Oil and Gas has $400.00 of cash.

17. The reason Cougar Oil and Gas has post-CCAA payables and no ability to pay those amounts is due to the fact that management expected to receive sufficient advances under either the Original or Amended DIP Facility to satisfy those obligations.

REQUEST FOR THE TERMINATION OF CCAA PROCEEDINGS

18. Pursuant to the Initial Order, as amended, the Stay Period continues to and including May 23, 2012. Cougar Oil and Gas is seeking an order to terminate the CCAA Proceedings (the "CCAA Termination Order") effective May 11, 2011.

19. The Monitor supports the Company's request for the CCAA Termination Order, and believes that the CCAA Termination Order is necessary given, given, among other things:

a) There is approximately $230,000 of outstanding post-CCAA payables that have no ability to be funded;

b) that the Company's Cash Flow Forecast demonstrates required debtor-in-possession financing of approximately $330,000 to continue operations until May 31, 2012 and no DIP Financing is in place or available to fund the CCAA Proceedings; and

c) Canadian Western Bank ("CWB"), Cougar Oil and Gas's first secured lender after the administrative charge, the Directors' and Officers' charge and certain borrowings under the Amended DIP Facility, is seeking an order (the "Receivership Order") to have a receiver appointed over the property of Cougar Oil and Gas. The Monitor understands that Cougar Oil and Gas will not be opposing CWB's application for the Receivership Order.

RECOMMENDATION

20. The Monitor recommends that this Honourable Court approve the CCAA Termination Order.

Dated at Calgary, this 10th day of May, 2012.

ERNST & YOUNG INC.
in its capacity as the Monitor
of Cougar Oil and Gas

Neil Narfason, CA•CIRP, CBV
Senior Vice-President

Peter Chisholm, CA
Manager

Cougar Oil and Gas Canada, Inc.
Cash Flow Forecast for the period of May 1, 2012 to July 31, 2012
CDN $

Month Ending	Notes	May 2012 Forecast	June 2012 Forecast	July 2012 Forecast	Total
Receipts					
Petroleum and natural gas revenue	2	72,420	72,420	72,420	**217,260**
Debtor-in-possession financing and subsequent financing		-	-	-	**-**
Sale of Assets		50,000	-	-	**50,000**
Non-operated joint venture revenue		55,180	5,180	5,180	**65,541**
GST Received		3,621	3,621	3,621	**10,863**
Overhead recovery		4,195	4,195	4,195	**12,585**
Joint Venture Receipts		27,462	16,234	21,627	**65,323**
Total Receipts		212,878	101,650	107,043	**421,572**
Disbursements					
Operating expenses		90,000	90,000	90,000	**270,000**
General & administrative expenses		101,100	59,100	59,100	**219,300**
Maintenance expenditures and taxes	3	17,174	72,841	-	**90,015**
ERCB LLR deposit	4	-	409,183	135,639	**544,821**
Mineral and Surface lease rentals & Acquis		8,064	1,044	14,447	**23,555**
Joint Venture payments		13,456	7,185	7,185	**27,826**
GST Paid		21,464	12,147	8,505	**42,116**
Contingency		10,717	16,284	9,000	**36,001**
DIP Financing Fees		-	-	-	**-**
DIP Interest Payments		11,074	11,746	16,892	**39,712**
CCAA professional fees	5	270,000	70,000	70,000	**410,000**
Total Disbursements		543,049	749,529	410,768	**1,703,346**
Net Cash Flow		(330,171)	(647,879)	(303,724)	**(1,281,774)**
Opening Cash		3,984	(326,187)	(974,066)	**3,984**
Ending Cash		(326,187)	(974,066)	(1,277,790)	**(1,277,790)**

Notes:

1. Receipts and disbursements are based upon historical results and forecasted production levels.

2. Petroleum and Natural Gas Revenues are received on the 25th of the month following production.

3. Estimated Capital Expenditures are considered necessary for the general preservation, maintenance and upgrade of the capital assets.

4. Estimated ERCB deposit required based on 12 month rolling production and capital expenditures to add additional future production.

5. CCAA professional fees for May 2012 include accrued professional fees of approximately $200,000 incurred during the period of February 3, 2012 to April 30, 2012 and $70,000 to be incurred in May 2012. June 2012 and July 2012 professional fees forecast to on a monthly basis.