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	**FOURTH REPORT OF THE MONITOR** **May 4, 2012**	
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	<u>**MONITOR**</u> ERNST & YOUNG 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	

TABLE OF CONTENTS OF THE FOURTH REPORT

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 fourth report (the "Fourth Report") of the Monitor is to provide this Honourable Court with the Monitor's comments in respect of the following:

   a) a sales and solicitation process proposed by Cougar Oil and Gas to solicit offers from parties interested in acquiring the property of Cougar Oil and Gas (the "SSP");

   b) the asset purchase agreement from 1650253 Alberta Ltd. ("165") to purchase all or substantially all of the property (the "Property") of Cougar Oil and Gas (the "Stalking Horse APA"). The Stalking Horse APA acts as the stalking horse offer (the "Stalking Horse Offer") in the SSP; and

   c) the Monitor's recommendations.

4. Capitalized terms not defined in this Fourth 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 Fourth 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.

SALES AND SOLICATION PROCESS

Background

9. Since the Initial Filing Date, Cougar Oil and Gas has encountered several adverse events (the "Adverse Events") which have resulted in a material adverse change to Cougar Oil and Gas's cash flow projections previously filed with this Honourable Court, further information with respect to these issues is described in the second report of the monitor dated April 12, 2012.

10. As a result of the Adverse Events, Cougar Oil and Gas was unable to continue operating without additional financing and on April 30, 2012 this Honourable Court granted an order approving an amended debtor-in-possession credit facility

(the "Amended Dip Facility") between Cougar Oil and Gas and 165. The Amended DIP Facility increased Cougar Oil and Gas's debtor-in-possession borrowings from $1.7 million to $2.15 million and would provide Cougar Oil and Gas with sufficient cash flow to operate until July 31, 2012 based upon management's most recent cash flow projections.

11. Future advances to Cougar Oil and Gas under the Amended DIP Facility are at the discretion of 165. The Monitor understands that 165 will not continue to advance borrowings to Cougar Oil and Gas unless Cougar Oil and Gas undertakes a SSP for the property of Cougar Oil and Gas which incorporates the Stalking Horse Offer from 165.

12. In the absence of the advances under the Amended DIP Facility, Cougar Oil and Gas would be unable to post the liability rating management security deposits in order to prevent the ERCB from issuing a closure order to have its wells shut-in and Cougar Oil and Gas would be unable to fund the capital expenditures required to bring oil production volumes back to the level before the ERCB closure orders were issued in late January 2012. Furthermore, Cougar Oil and Gas would not have sufficient funding to continue to operate in these CCAA proceedings and would likely be placed into liquidation with their oil and gas assets being subject to an expedited sale process. Cougar Oil and Gas is proposing to oversee the SSP with the assistance of the Monitor. A copy of the SSP is appended to the affidavit of William Tighe dated May 3, 2012 as Exhibit "A".

Overview of SSP

13. An overview of the major steps of the SSP proposed by Cougar Oil and Gas is as follows:

    a) Commencement of contacting potential parties interested in purchasing the Property during the week of May 7, 2012;

b) Advertisement of the SSP placed in the Daily Oil Bulletin and issuance of press release describing the SSP to the Canadian Newswire and major financial centres in the United Statements during the week of May 7, 2012;

c) All potential bidders that have executed a non-disclosure agreement will be provided with a confidential information memorandum ("CIM") describing the property of Cougar Oil and Gas, a CD containing electronic due diligence documents and access to a data room located at Cougar Oil and Gas's head office in Calgary, Alberta;

d) As a result of the Stalking Horse Offer, Cougar Oil and Gas and the Monitor will make it clear in its marketing documents that the consideration in any offer must be in excess of the Threshold Consideration (defined as being the consideration payable under the Stalking Horse Offer, the breakage fee of $123,000 (the "Breakage Fee") and $25,000);

e) Deadline for receipt of non-binding letters of intent ("LOI's") by 5:00 PM (Mountain Daylight Time) on June 1, 2012 ("LOI Deadline");

f) Immediately following the LOI Deadline, Cougar Oil and Gas, in consultation with the Monitor, will review the LOI's to assess whether any of the LOI's constitute an offer superior to the Stalking Horse Offer (a "Superior Offer");

g) If a Superior Offer is not received, Cougar Oil and Gas will apply to this Honourable Court for a termination of the SSP and a court order approving the Stalking Horse APA;

h) If a Superior Offer is received, Cougar Oil and Gas will contact each Qualified Bidder to submit a final, binding proposal in the form of a purchase and sale agreement ("Sales Proposal") in accordance with the qualifications required per the SSP by 5:00 PM (Mountain Daylight Time) on June 15, 2012 ("Sale Proposal Deadline"). The Sale Proposal will have to be accompanied by a refundable deposit in the amount of the lesser of $500,000 or 5% of the Purchase Price;

i) If one or more Sale Proposals is received that constitutes a Superior Offer, Cougar Oil and Gas shall proceed to conduct an auction (the "Auction") at 9:30 am on June 19, 2012;

j) The Auction will include the following procedures:

   i. Cougar Oil and Gas, the Monitor, any parties that submitted Superior Offer in the form of a Sales Proposals and 165 are the only parties able to attend the Auction;

   ii. each auction bidder will receive a copy of the highest Superior Offer and this will be used as the starting bid;

   iii. each incremental bid shall provide value of at least $250,000; and

   iv. Cougar Oil and Gas, in consultation with the Monitor, shall select the highest bid (the "Selected Superior Offer") as well as the second highest bid (the "Alternate Bid");

k) Cougar Oil and Gas will proceed to enter into a definitive agreement with the party that submitted the Selected Superior Bid conditional upon approval of this Honourable Court and on closing before June 30, 2012; and

l) If Cougar Oil and Gas is unable to consummate a sale with the party submitting the Selected Superior Offer than it is authorized, but not directed, to negotiate an agreement with the party submitting the Alternate Bid. The Alternate Bid shall remain open until July 15, 2012.

STALKING HORSE OFFER

14. 165 will participate in the SSP through the Stalking Horse Offer. 165 submitted a draft agreement of purchase and sale ("165 APA") for the purchase of the assets of Cougar Oil and Gas. A copy of the 165 APA is appended to the affidavit of Bill Tighe dated May 4, 2012 as Exhibit "A". The Monitor understands that the 165 APA, when finalized, will be substantially in the form of the APA as attached to the affidavit of Bill Tighe dated May 4, 2012 as Exhibit "A".

15. 165 as a participant in the SSP will be at arm's length to the process and will not be entitled to confidential information such as the number of other interested parties, the extent of their due diligence or the terms of other offers.

16. The Stalking Horse Offer is for a purchase price (the "Purchase Price") equal to the outstanding obligations under the Administrative Charge plus the balance owing under the Amended DIP Facility plus the obligation owing under the Director's Charge plus the amount owing under the CWB loan and all applicable taxes, which sum shall be comprised of:

    a) A certified cheque, bank draft or wire transfer in an amount equal to the debt owing from Cougar Oil and Gas under the Administrative Charge, the Directors' Charge and CWB under their secured debt (including professional fees and costs); and

    b) the balance by way of set-off as against the debt outstanding under the Amended DIP Facility.

17. The Purchase Price represents the amounts outstanding under the following:

    a) the Administrative Charge;

    b) the Director's Charge;

    c) the CWB Loan; and

d) the Amended DIP Facility.

18. If 165 is the successful purchaser, the Purchase Price may be satisfied by some combination of the assumption of CWB Loan and the Amended DIP Facility.

19. The Stalking Horse Offer will remain subject to Court approval.

BREAKAGE FEE AND THRESHOLD CONSIDERATION ANALYSIS

20. The 165 APA contemplates a Breakage Fee of $123,000 which would be payable in the event that a Superior Offer becomes a successful bid that is approved by the Court, or in the event that the transaction is not completed for any other reason than a result of a breach by the buyer or the non-satisfaction of the mutual conditions.

21. The Monitor has analyzed the Breakage Fee as compared to the overall estimated transaction value, and recent break fees approved by this Honourable Court as outlined below, and believes that the quantum of the Breakage Fee is reasonable in the circumstances to compensate 165 for the time, costs and expenses in relation to entering into the 165 APA.

Matter	Break Fee ("BF")	Estimated Transaction Value (“ETV”)	BF % of ETV	Note
EarthRenew et. Al	$150,000	$5,100,000	2.90%	a
Trident et. Al	$10,000,000	$735,000,000	1.4% / 2.7%	b
Action Energy et. Al	$2,000,000	$30,000,000	6.70%	c
WellPoint Systems et. Al	$750,000	$28,000,000	2.70%	d
Cougar Oil and Gas Canada Inc.	$123,000	$4,500,000	2.73%	e

a) Purchase and Sale Agreement between RSM Richter Inc. as Monitor of EarthRenew Companies and 0890241 B.C. Ltd. with a contemplated purchase price of $5.1 million and the Priority Debt (defined as indebtedness arising out of the Monitor’s Charge and any other charges created under the Appointment Order) and a transaction break fee of $150,000 received Court approval on January 28, 2011;

b) Sale and Investor Solicitation Process (“Trident SISP”) in the Trident Exploration Corporation matter received court approval on February 18, 2010. The Trident SISP contemplated that, in addition to an expense reimbursement, the Backstop Parties would be entitled to an Equity Put Fee of $10 million for entering into the Commitment Letter which was an integral part of the Trident SISP which contemplated a total enterprise value for Trident of $735 million. As a result, the equity put fee would be calculated as a percentage of total enterprise value as 1.4% or 2.7% , depending on whether the anticipated expense reimbursement was included or excluded assumption of certain unsecured liabilities;

c) Purchase and Sale Agreement between Ernst & Young Inc. as Monitor of Action Energy Inc. and Westfire Energy Ltd. with a purchase price of $30,000,000 and a $2,000,000 transaction break fee received Court approval on November 5, 2009;

d) Purchase and Sale Agreement between Ernst & Young Inc., as Receiver of Wellpoint Systems et al., and WellPoint Acquisitionco Inc. with a purchase price of $28 million and a transaction break fee of $750,000; and

e) 165 APA between Cougar Oil and Gas and 165 with an estimated purchase price of $4.5 million and a transaction break fee of $123,000.

22. The SSP also provides that an offer will qualify as a Superior Offer only in the event that the offer is excess of the consideration payable under the Stalking Horse Offer, the Breakage Fee and $25,000. Given the time and professional costs that would be associated with the Auction, the Monitor believes that the additional $25,000 consideration requirement in the definition of Threshold

Consideration is reasonable in the circumstances.

RECOMMENDATIONS

23. The Monitor recommends that this Honourable Court approve:

a) the SSP; and

b) the Stalking Horse APA.

Dated at Calgary, this 4th 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