COURT FILE NUMBER	1201-01367
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	**SECOND REPORT OF THE MONITOR** **MATERIAL ADVERSE CHANGE REPORT** **April 12, 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, 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 second report (the "Second Report") of the Monitor is to provide this Honourable Court with the Monitor's comments in respect to:

   a) a number of events which negatively affect Cougar Oil and Gas's ability to generate future cash flow and constitute a material adverse change to Cougar Oil and Gas's most recent cash flow forecast for the period of February 17, 2012 to July 31, 2012 (the "Original Cash Flow Projection") filed with the first report of the Monitor dated February 17, 2012;

   b) the impact of the current circumstances on Cougar Oil and Gas including a revised cash flow projection (the "Revised Cash Flow Projection") for the period of March 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 Second 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 Second 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. There have been a number of events that have occurred subsequent to Cougar Oil and Gas filing the Original Cash Flow Projection presented to this Honourable Court in the First Report which will likely result in Cougar Oil and Gas's actual cash flow results being materially less than forecast in the Original Cash Flow Projection. The most significant of these are described below.

10. The Liability Management Rating ("LMR") is the ratio of a licensee's eligible deemed assets in the LLR and other programs administered by the Energy

Resources Conservation Board ("ERCB") as compared to the licensee's deemed liabilities in those programs. The ERCB performs its LMR calculation on the first Saturday of each month for each licensee.

11. Licensees with a LMR ratio of less than 1.0 are required to post a security deposit (the "LMR Deposit") with the ERCB for the shortfall between the values of the licensee's deemed assets and deemed liabilities.

12. With the initial advance from its DIP Facility, Cougar posted a LMR Deposit with the ERCB of approximately $700,000 and the ERCB Closure Orders were lifted on March 2, 2012. Cougar Oil and Gas immediately commenced bringing its wells back on-line and on March 4, 2012 advised the Monitor that six wells were producing at expected levels, however, two wells ("Well 4-2" and "Well 2-1") which Cougar Oil and Gas had forecast to be back on-line in the Original Cash Flow Projection did not restart. Cougar Oil and Gas has a 100% working interest in Well 4-2 and this well was forecast to produce 25 barrels of oil per day for Cougar. Within 10 days of March 4, 2012, two additional wells failed probably due to downhole problems so that four wells of the eight wells that were producing prior to the ERCB shut in are not providing revenue.

13. The Original Cash Flow Projection had forecast net production for Cougar Oil and Gas of approximately 80 barrels of oil per day however with half of the wells not restarting, Cougar Oil and Gas has only had net production of between 47 to 50 barrels of oil per day during the month of March. Cougar Oil and Gas has estimated that it will cost between $25,000 and $30,000 for each pump change out or rod repair using a flush by unit or rod rig to bring the various wells back on-line and bring Cougar Oil and Gas's net production to 80 barrels of oil per day. Cougar Oil and Gas's management has communicated a minimum of two repairs are required depending on working interests and potentially four.

14. The Original Cash Flow Projection had also included capital expenditures of $50,000 in March 2012 to reactivate 6-7-57-1w5 well ("Well 6-7"). The Original Cash Flow Projection forecast Well 6-7 to produce 17 net barrels of oil for

Cougar Oil and Gas in March 2012 and 17 net barrels of oil for Cougar in April 2012. Furthermore, reactivating Well 6-7 in March 2012 reduced the LMR Security Deposit required in June, July and August 2012 by approximately $200,000. Cougar Oil and Gas had anticipated reactivating Well 6-7 in the middle of March 2012, however, the service company contracted to reactivate the well has communicated to Cougar Oil and Gas that due to spring break up and some recent snow fall, the service company will not be able to reactivate Well 6-7 until late April 2012.

15. Cougar Oil and Gas's disbursements and forecast expenditures have been relatively consistent with those forecast in the Original Cash Flow Projection with the exception of the following:

    a) Valeo Power Corporation ("Valeo") which supplies electricity of Cougar Oil and Gas's oil properties has requested a prepayment of $78,681.86 equivalent to 2.5 months average cost to continue supplying electricity to Cougar's oil properties. Cougar had forecast that it would prepay Valeo on a monthly basis and, therefore, this will cause a negative variance of $50,000 as compared to the Original Cash Flow Projection if Cougar is unable to negotiate a lower prepayment amount; and

    b) vandalism at Well 6-7 which resulted in a minor oil spill which Cougar Oil and Gas was able to immediately contain and has estimated will cost approximately $10,000 to clean up. The vandalism and spill have been reported to and filed with the ERCB and the RCMP.

16. The President and Chief Operating Officer of Cougar Oil and Gas, Mr. Glenn Watt, announced his resignation and his last day was effective March 30, 2012. Cougar Oil and Gas believes that the role of Mr. Watt can be replaced by having Mr. Bill Tighe, Chief Executive Officer of Cougar, more involved in the operational side of Cougar and employing consultants to assist in work over

programs. Cougar Oil and Gas believes that the reduction in forecast salaries as a result of Mr. Watt's resignation will offset the expense of hiring consultants to assist on well work over programs.

17. On April 10, 2012, the following directors resigned from the Cougar Oil and Gas board:

    a) Mr. Les Owens;

    b) Mr. Paul Galachiuk;

    c) Mr. Michael Hamilton; and

    d) Mr. Lee Lischka.

18. The remaining directors of Cougar Oil and Gas are Mr. William S. Tighe, Mr. Glenn Watt and Mr. William E. Brimacombe.

19. Cougar Oil and Gas was able to sell certain non-producing oil and gas properties (the "Buck Lake Properties") located in the vicinity of Buck Lake, Alberta to Richards Oil and Gas Limited ("Richards"). The consideration received by Cougar Oil and Gas from Richards for the sale of the Buck Lake Properties was $10 however the transaction reduced the LMR Security Deposits required for April by $392,000. The sale of the Buck Lake Properties was consented to by the Monitor and no-interest letters with respect to the Buck Lake Properties were executed by the Canadian Western Bank ("CWB") and Zentrum Energie Trust AG ("Zentrum"). The affect of the sale of the Buck Lake Properties has been reflected on the Revised Cash Flow Projection as the effect reduced the future LMR Deposit funding level.

IMPACT OF CURRENT CIRCUMSTANCES

20. 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.

21. 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 \$540,000 as compared to cash surplus of approximately \$160,000 forecast as at July 31, 2012 per the Original Cash Flow Forecast Projection. The Revised Cash Flow Projection differs from the Original Cash Flow Projection based primarily upon the following assumptions:

a) reduced oil production revenue of approximately \$600,000 for the Forecast Period due to well reactivation issues as described above and delays due to spring break up;

b) \$285,000 of DIP Facility Advances Forecast to be received in March 2012 per the Original Cash Flow Forecast Projection have been moved to May 2012 in the Revised Cash Flow Forecast Projection;

c) increased LRM Deposit payments of \$300,000 during the Forecast Period due to reduced production volumes as a result of the well reactivation issues as described above; and

d) prepayments required by suppliers in excess of those forecast in the Original Cash Flow Forecast Projection.

22. Based on the Revised Cash Flow Projections and the state of funding under the DIP Facility, the Monitor understands that Cougar Oil and Gas has enough funds to operate until April 20, 2012 at which time the Company will be out of funds to operate.

PROPOSED RESOLUTION OF CURRENT CIRCUMSTANCES

23. The current adverse circumstances have been reviewed by CWB, Cougar Oil and Gas's first secured creditor, and Zentrum, Cougar Oil and Gas's DIP Facility provider and third secured creditor. Cougar Oil and Gas and Zentrum are presently in discussions to enter into an amended financing facility (the "Amended DIP Facility") which may increase the funding available to Cougar Oil

and Gas and allow Cougar Oil and Gas to continue to restructure under the CCAA.

24. In the absence of the Amended DIP Facility or another source of financing available to Cougar Oil and Gas, Cougar Oil and Gas would likely be placed into liquidation. If this was to occur its oil and gas assets would potentially be subject to an expedited sale process.

Dated at Calgary, this 12th day of April, 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 April 1, 2012 to July 31, 2012
CDN $

Month Ending	Notes	April 2012 Forecast	May 2012 Forecast	June 2012 Forecast	July 2012 Forecast	Total
Receipts						
Petroleum and natural gas revenue	2	113,434	120,541	212,039	256,721	**702,735**
Debtor-in-possession financing and subsequent finan	3	565,000	385,000	-	-	**950,000**
Non-operated joint venture revenue		5,180	5,180	5,180	5,180	**20,721**
GST Received		5,672	6,027	10,602	12,836	**35,137**
Overhead recovery		4,195	4,195	4,195	4,195	**16,780**
Joint Venture Receipts		3,767	30,462	24,184	21,546	**79,959**
Total Receipts		697,247	551,405	256,200	300,479	**1,805,332**
Disbursements						
Operating expenses		197,517	125,500	125,500	125,500	**574,017**
General & administrative expenses		125,194	105,505	105,505	105,505	**441,709**
Maintenance expenditures and taxes	4	75,127	72,615	-	-	**147,742**
ERCB LLR deposit	5	110,488	155,510	217,094	145,260	**628,352**
Mineral and Surface lease rentals & Acquis		7,150	8,064	1,044	14,447	**30,705**
Joint Venture payments		-	13,456	8,207	14,452	**36,115**
GST Paid		21,197	16,231	12,600	12,600	**62,629**
Contingency		27,264	19,812	12,550	12,550	**72,176**
DIP Financing Fees		11,300	7,700	-	-	**19,000**
DIP Interest Payments		13,767	20,100	22,667	22,667	**79,200**
CCAA professional fees	6	75,111	70,000	70,000	70,000	**285,111**
Total Disbursements		664,115	614,492	575,167	522,981	**2,376,756**
Net Cash Flow		33,132	(63,087)	(318,967)	(222,502)	**(571,424)**
Opening Cash		30,971	64,103	1,016	(317,951)	**30,971**
Ending Cash		64,103	1,016	(317,951)	(540,453)	**(540,453)**

Notes:

Management of Cougar Oil and Gas Canada, Inc. have prepared this Projected Cash Flow Statement based on the probable and hypothetical assumptions detailed in Notes 1 - 6. Consequently, actual results will likely vary from performance projected and such variations may be material.

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. DIP Facility Advances from Zentrum of $950,000 forecast to be received during Forecast Period.

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

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