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	**THIRD REPORT OF THE MONITOR** **APRIL 27, 2012**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**MONITOR** 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

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

   a) the request for approval of the amended and reinstated debtor-in-possession financing agreement (the "Amended DIP Facility");

   b) the application for an order approving the asset conveyance agreement (the "Conveyance Agreement") for the sale of mineral leases to four undeveloped parcels of land (the "Four Parcels of Undeveloped Land") owned by Cougar Oil and Gas to Zentrum and vesting title to the Four Parcels of Undeveloped Land with Zentrum;

   c) the revised cash flow projections (the "Revised Cash Flow Projection") from April, 2012 to July 31, 2012 (the "Forecast Period"); and

   d) the Monitor's recommendations.

4. Capitalized terms not defined in this Third 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 Third 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.

AMENDED DIP FACILITY

9. Due to the material adverse changes in Cougar Oil and Gas which have occurred subsequent to the Initial Filing Date and described in further detail in the Second Report dated April 12, 2012, Zentrum was unwilling to advance any further funds to Cougar Oil and Gas under the Original DIP Facility (defined below) and Cougar Oil and Gas was required to negotiate revised debtor-in-possession financing with Zentrum.

Orignal DIP Facility

10. Cougar Oil and Gas arranged with Zentrum (specifically a nominee company of Zentrum's, 1650253 Alberta Ltd.), the third secured creditor of Cougar Oil and Gas and a shareholder in Cougar Oil and Gas, to provide Cougar Oil and Gas with a debtor-in-possession credit facility (the "Original DIP Facility") of $1.7 million through various advances during the period of February 24, 2012 to May 31, 2012. The Original DIP Facility was approved pursuant to an order of this Honourable Court dated February 23, 2012.

11. To date $860,488.20 (the "Original Advances") has been advanced from Zentrum to Cougar Oil and Gas under the Original DIP Facility. The Original Advances have been fully deposited with the Energy Resources Conservation Board ("ERCB") as a security deposit (the "LMR Deposit") for the shortfall (as calculated by ERCB) between the value of the Cougar Oil and Gas's deemed assets and its deemed liabilities. Zentrum has a first secured charge over the LMR Security Deposit in accordance with the Original DIP Facility.

12. The Original DIP Facility contained a condition that Cougar Oil & Gas had to meet or exceed a minimum level of monthly oil production volumes (the "Minimum Oil Production Volumes"), unless this condition, if not met, was waived by Zentrum, prior to advancing further funds under the Original DIP Facility. More specifically, the Original DIP Facility required that:

a) Cougar Oil and Gas to provide Zentrum with a written plan to repair existing wells to bring production levels of Cougar Oil and Gas up to approximately 200 barrels per day; and

b) Cougar Oil and Gas to provide Zentrum with evidence that Cougar Oil and Gas's production levels had returned to levels equal to the less of:

   i. a full month's production immediately prior to the shut-in required by the ERCB closure orders which resulted in Cougar Oil and Gas shutting in its wells during late January 2012; and

   ii. an average of 110 barrels per day for a full month.

13. As a result of the difficulties encountered by Cougar Oil and Gas as described in the Second Report, Cougar Oil and Gas was unable to achieve the Minimum Oil Production Volumes required per the Original DIP Facility and Zentrum ceased providing advances under the Original DIP Facility.

Amended DIP Facility

14. Cougar Oil and Gas has entered into the Amended DIP Facility with Zentrum subject to the approval of this Honourable Court. The Amended DIP Facility provides that Zentrum will advance Cougar Oil and Gas maximum aggregate principle in the amount of $2,150,000 (the "DIP Advances") including the Original Advances.

15. The relevant terms that have been amended from the Original DIP Facility in the Amended DIP Facility are as follows:

   a) the maximum principle amount to be advanced has been increased from $1.7 million to $2.15 million;

b) the Minimum Oil Production Volumes have been removed as a condition precedent to DIP Advances under the Amended DIP Facility;

c) the following conditions now have to be satisfied on or before the date of the DIP Advances:

   i. no material adverse change in the financial condition or operations of Cougar Oil and Gas;

   ii. no events of default per the Amended DIP Facility has occurred and is continuing or will occur as a result of the DIP Advance; and

   iii. representations and warranties per the Amended DIP Facility are true and correct.

d) there are no specific dates that the DIP Advances are to be funded from under the Amended DIP Facility, however, Cougar Oil and Gas is required to provide at least two days notice to Zentrum to request an advance. All further DIP Advances are at Zentrum's sole and exclusive discretion;

e) no additional deposits or payments are to be made to the ERCB for LMR Security Deposits other than those forecast in the aggregate amount of $1,493,352 on the specific dates per the Amended DIP Facility; and

f) Cougar is responsible to pay all of Zentrum's out-of-pocket expenses associated with the DIP Facility up to an amount of $75,000 ($40,000 per the Original DIP Facility).

16. The relevant terms of the Amended DIP Facility which have remained unchanged from the Original DIP Facility are as follows:

a) the Amended DIP Facility shall have a first ranking charge against the LMR Security Deposit to the extent that the DIP Advances fund the LMR Security Deposit and the remaining Amended DIP Facility shall have a security ranking behind only the Administration Charge, the Directors' Charge and the Canadian Western Bank's ("CWB") security;

b) Cougar Oil and Gas is required to repay the entire principle amount on the earlier of February 24, 2013 or the date on which Cougar Oil and Gas's proceedings under the CCAA are terminated;

c) Cougar Oil and Gas is required to make interest payments to Zentrum on a monthly basis based upon the principle outstanding on the DIP Facility and a rate of 16% per annum;

d) Cougar Oil and Gas is required to pay a fee of 2% on each of the DIP Advances; and

e) Cougar Oil and Gas is required to pay to Zentrum, within three days of receipt, any funds returned from the ERCB as a result of a reduction in the LMR Security Deposit.

17. The Monitor understands that Cougar Oil and Gas has the following secured creditors:

a) CWB is owed approximately $2.4 million under an operating loan which is secured by a floating first charge on all of Cougar Oil and Gas's assets (the "CWB Loan");

b) Sword Energy Inc. ("Sword") is owed approximately $2.81 million relalting to a vendor take back mortgage (the "Sword Loan") and Sword Loan is secured by a charge, subordinated to CWB, on the Trout Property and other assets of Cougar Oil and Gas; and

c) Zentrum is owed approximately $2.75 million under several convertible debentures (the "Zentrum Debentures") secured by a third ranking fixed and floating mortgage over all of Cougar Oil and Gas Inc.'s assets.

18. The cash flow projection for the period of February 17, 2012 to July 31, 2012 attached to the First Report dated February 17, 2012 filed in support of the Original DIP Facility forecast that Cougar Oil and Gas would require $1.7 million in DIP Advances under the Original DIP Facility of which approximately $1.2 million would be deposited with the ERCB to satisfy the forecast LMR Security Deposit requirements.

19. The Revised Cash Flow Forecast attached hereto as Appendix A, forecasts that Cougar Oil and Gas requires $2.15 million in DIP Advances under the Amended DIP Facility of which approximately $1.5 million will deposited with the ERCB to satisfy the revised forecast LMR Security Deposit requirements. As compared to the Original DIP Facility, CWB will be primed by an additional $300,000 and Sword an additional $450,000 as a result of the increased DIP Advances forecast to be advanced to Cougar Oil and Gas under the Amended DIP Facility

20. In the absence of Amended DIP Facility, Cougar Oil and Gas would be unable to post the LMR 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.

21. In the Monitor's view, a expedited sales process while the oil and gas assets are shut-in and the most recent oil production volumes are significantly lower than historical volumes due to wells not restarting would likely result in a lower recovery than if Cougar Oil and Gas receives the financing from the Amended

Dip Facility required to post the LMR Security Deposits and fund capital expenditures to increase production volumes.

22. The Monitor further understands that all of Cougar Oil and Gas's secured creditors have been provided notice of the application for court approval of the Amended DIP Facility.

23. Accordingly, the Monitor considers the Amended DIP Facility to be reasonable and necessary in order to maintain and preserve business operations, and to allow the time for development of a restructuring, which, the Monitor understands, will likely to entail a Court approved sale process. The Monitor understands that Cougar Oil & Gas will be filing an application for a sale process within the next week.

SALE OF FOUR PARCELS OF UNDEVELOPED LAND

24. Cougar Oil and Gas has executed the Conveyance Agreement to sell its leases for the Four Parcels of Undeveloped Land the Trout Lake region of Alberta to Zentrum for \$50,000 (The "Trout Land Sale"). The \$50,000 is required immediately by Cougar Oil and Gas to get caught up on outstanding post-filing trade payables which have been accumulating as material adverse changes to Cougar Oil and Gas's financial position as described in the Second Report.

25. The Monitor has reviewed the documents associated with Cougar Oil and Gas initially acquiring the leases for the Undeveloped Properties and has confirmed that the leases for the Undeveloped Properties cost less than \$25,000 and require the owner to pay annual rental fees of less than \$1,000 on each parcel. The leases for the Undeveloped Properties are for five year terms and commenced on July 7, 2010 for one of the parcels and August 25, 2011 for the remaining three parcels. The Monitor further understands that Cougar Oil and Gas has not made any capital expenditures on the Undeveloped Properties.

26. The Monitor considers the terms of the Trout Land Sale to be reasonable in the circumstances.

REVISED CASH FLOW FORECAST THROUGH JULY 31, 2012

27. The Company, with the assistance of the Monitor, has prepared the Revised Cash Flow Projection for the Forecast Period which has been attached hereto as Appendix A to this report. Management has prepared the Forecast based on the most current information available. The table below summarizes cash flow for the Forecast Period:

Cash flow Forecast
April 1, 2012 - July 31, 2012

RECEIPTS	
Petroleum and natural gas revenue	702,735
Debtor-in-possession financing	1,450,000
Sale of Assets	50,000
Non-operated joint venture revenue	20,721
GST Received	35,137
Overhead recovery	16,780
Joint Venture Receipts	79,959
Total receipts	**2,355,332**
DISBURSEMENTS	
Operating expenses	574,017
General & administrative expenses	426,709
Capital expenditures	147,742
ERCB LLR deposit	628,352
Mineral and Surface lease rentals & acquisitions	30,705
Joint Venture payments	36,115
GST Paid	62,629
Contingency	72,176
DIP Financing Fees and Interest Payments	113,889
CCAA professional fees	285,111
Total disbursements	**2,377,445**
NET CASH FLOWS	(22,113)
OPENING CASH	30,971
NET CHANGE IN CASH FLOWS	(22,113)
ENDING CASH	**8,858**

28. As summarized above, Cougar Oil and Gas is projecting total cash receipts of approximately $2.4 million against cash disbursements of approximately $2.4 million, resulting in a net decrease in cash of approximately $22,000 during the Forecast Period.

29. The Monitor has reviewed the assumptions supporting the Forecast and believes the assumptions to be reasonable.

30. Significant assumptions made by Cougar Oil and Gas's management with respect to the Forecast are:

    a) Revenue collected from oil and gas properties of approximately $700,000;

    b) DIP Advances of $1.45 million will be provided by Zentrum in addition to the $700,000 that was provided prior to April 1, 2012 resulting in Cougar Oil and Gas drawing down on the entire Amended DIP Facility borrowings of $2.15 million;

    c) Operating expenses and general and administrative expenses are based on historical results;

    d) Minimal capital expenditures to bring wells back on-line to increase production where cost effective;

    e) Posting of approximately $630,000 LRM Security Deposit with the ERCB in addition to the $700,000 which was posted prior to April 1, 2012; and

    f) Professional fees relate to the costs of the Monitor and legal counsel.

31. Based on the above assumptions, the Forecast indicates that Cougar Oil and Gas will have sufficient cash throughout the Forecast Period.

RECOMMENDATIONS

32. The Monitor recommends that this Honourable Court approve:

    a) the Amended DIP Facility; and

    b) the Trout Land Sale.

Dated at Calgary, this 27th 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

APPENDIX A

APPENDIX A

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 financing	3	515,000	385,000	326,662	223,338	**1,450,000**
Sale of Assets		50,000				**50,000**
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	582,862	523,817	**2,355,332**
Disbursements						
Operating expenses		197,517	125,500	125,500	125,500	**574,017**
General & administrative expenses		125,194	100,505	100,505	100,505	**426,709**
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		10,300	7,700	6,533	4,467	**29,000**
DIP Interest Payments		13,433	19,433	24,178	27,844	**84,889**
CCAA professional fees	6	75,111	70,000	70,000	70,000	**285,111**
Total Disbursements		662,782	608,826	578,212	527,626	**2,377,445**
Net Cash Flow		34,466	(57,421)	4,651	(3,809)	**(22,113)**
Opening Cash		30,971	65,436	8,016	12,666	**30,971**
Ending Cash		65,436	8,016	12,666	8,858	**8,858**

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 approxaimtely $1.5 million 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.