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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 CONNACHER OIL AND GAS LIMITED
DOCUMENT	AMENDED TWENTY-FIRST REPORT OF THE MONITOR MAY 15, 2019
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	<u>MONITOR</u> ERNST & YOUNG INC. Calgary City Centre 2200, 215 - 2nd Street SW Calgary, Alberta T2P 1M4 Attention: Peter Chisholm Telephone: (403) 206-5061 Fax: (403) 206-5075 Email: peter.chisholm@ca.ey.com <u>COUNSEL</u> McCarthy Tétrault LLP Suite 4000, 421 7th Avenue SW Calgary, Alberta T2P 4K9 Attn: Sean Collins Walker MacLeod Telephone: 403-260-3531 403-460-3710 Email: scollins@mccarthy.ca wmacleod@mccarthy.ca

CLERK OF THE COURT
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CALGARY, ALBERTA

TABLE OF CONTENTS OF THE AMENDED TWENTY-FIRST REPORT

INTRODUCTION

1. On May 17, 2016 (the “Filing Date”), Connacher Oil and Gas Limited (the “Company” or “Connacher”), sought and obtained protection 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. Ernst & Young Inc. was appointed as Monitor (the “Monitor”) of the Company pursuant to the terms of the Initial Order.

3. The purpose of this twenty-first report of the Monitor (the “Twenty-First Report”) is to provide this Honourable Court with the Monitor’s comments with respect to:

   a) Connacher’s request for approval and authorization to enter into the amended and restated support agreement (the “Amended and Restated Support Agreement”) between Connacher, certain First Lien Lenders (the “Consenting First Lien Lenders”) and the First Lien Agent (as defined in the Initial Order);

   b) a summary of the proposed plan of compromise and arrangement (the “2019 CCAA Plan”) under the CCAA and the Monitor’s comments and analysis regarding the 2019 CCAA Plan;

   c) Connacher’s request to call, hold and conduct a meeting of the First Lien Lender Class and a meeting of the General Creditor Class (together, the “2019 Creditors' Meetings”) to consider and vote on the 2019 CCAA Plan;

   d) Connacher’s request to approve a credit bid key employee retention program (the “Credit Bid KERP”) and to direct that all obligations under the proposed Credit Bid KERP be secured by the KEIP Charge; and

   e) the Monitor's recommendations.

4. All references to dollars are in Canadian currency unless otherwise noted.

5. Capitalized terms not defined herein are as defined in the Initial Order, Amended and Restated Support Agreement or 2019 CCAA Plan.

BACKGROUND

6. A support agreement (the “Original Support Agreement”) was entered into among

Connacher, the Consenting First Lien Lenders (who hold in excess of 75% of the principal amount of debt outstanding under the first lien credit agreement dated May 23, 2014), and the First Lien Agent. The Original Support Agreement was approved by an Order of this Honourable Court dated March 28, 2018 (the "Support Agreement, SISP & KEIP Approval Order").

7. A key term of the Original Support Agreement was the requirement for Connacher to undertake the renewed SISP to identify a "Superior Transaction". A Superior Transaction was defined as a transaction that provided cash consideration of at least $90 million plus cash consideration sufficient to pay all claims ranking in priority to or *pari passu* with the claims of the First Lien Lenders, excluding Connacher's cash-on-hand (the "Minimum Consideration Threshold").

8. If Connacher determined at any point that a Superior Transaction was not available through the SISP, Connacher, the First Lien Agent and the Consenting First Lien Lenders were, subject to certain conditions, obliged to complete a transaction whereby the First Lien Agent would form a purchaser corporation to "credit bid" a portion of the first lien debt in exchange for acquiring all or substantially all of the assets of Connacher (the "Original Credit Bid Transaction").

9. The renewed SISP was approved pursuant to the Support Agreement, SISP & KEIP Approval Order. Connacher, in conjunction with the Monitor and Houlihan Lokey Capital, Inc. (the "Financial Advisor"), undertook and completed the SISP.

10. As a result of the SISP, Connacher and East River Oil and Gas Ltd. ("East River") entered into transaction agreements (the "East River Transaction Agreements") to undertake a going concern sale of Connacher's business to East River through either:

a) the implementation of a CCAA plan (the "2018 CCAA Plan") of compromise and arrangement; or

b) in the event of a CCAA Plan Termination Event (as defined in the CCAA Acquisition and Plan Sponsorship Agreement between Connacher and East River dated August 2, 2018, as amended), a sale of substantially all of Connacher's assets (the "East River Purchase Transaction") and together with the 2018 CCAA Plan transaction, the "East River Transactions").

11. Connacher was authorized to enter into the East River Transactions pursuant to Orders of this Honourable Court dated August 22, 2018.

12. Connacher's affected creditors unanimously voted to approve the 2018 CCAA Plan on October 3, 2018 and the 2018 CCAA Plan was sanctioned by this Honourable Court on October 4, 2018.

13. The outside dates to implement the East River Transactions were extended several times in order to provide East River additional time to obtain the required regulatory approvals from the People's Republic of China (the "East River PRC Approvals") necessary to implement the East River Transactions.

14. In January 2019, East River once again notified Connacher and the Monitor that it would not be able to obtain the East River PRC Approvals by the then January 31, 2019 outside date and requested a further extension of the outside date to March 29, 2019.

15. On February 1, 2019, after consulting with the Monitor and obtaining the consent of the Consenting First Lien Lenders, East River and Connacher executed the "Outside Date Amending Agreement No. 2" which, subject to and conditional upon East River paying an additional deposit of $2,000,000 to the Monitor by 5:00 p.m. (Mountain time) on February 15, 2019 (the "February 15 Deposit"), amended the Outside Date to:

a) March 29, 2019; or

b) such other date(s) and on such other terms as may be agreed by East River and Connacher with the consent of the Consenting First Lien Lenders and in consultation with the Monitor.

16. The Outside Date Amending Agreement No. 2 further stipulated, among other things, that East River's deposits previously paid to the Monitor in the aggregate amount of $13,500,000 (the "East River Deposits") were immediately forfeited to and for the account of Connacher as a result of East River's failure to obtain the East River PRC Approvals and close the East River Transactions by January 31, 2019.

17. East River failed to deliver the February 15 Deposit or complete the East River Transactions by February 15, 2019.

18. On February 16, 2019, Connacher delivered a termination notice (the "Termination Notice") to East River terminating the East River Transactions and, by extension, the 2018 CCAA Plan. The Termination Notice also confirmed the automatic forfeiture of the East River Deposits.

19. On February 19, 2019, pursuant to the Outside Date Amending Agreement No. 2, the Monitor transferred the East River Deposits to Connacher. On March 6, 2019, the Monitor transferred an additional $139,251 to Connacher representing interest earned on the East River Deposits.

20. By means of a broadly disseminated news release (the "News Release") dated February 19, 2019, Connacher announced the termination of the East River Transactions and its intention to move forward with the Original Credit Bid Transaction. A copy of the News Release is attached as Exhibit "C" to the Affidavit of Jeff Beeston dated March 4, 2019.

21. Subsequent to the termination of the East River Transactions, the Consenting First Lien Lenders advised Connacher that they wished to further consider the structure of the Original Credit Bid Transaction, including potentially pursuing the Original Credit Bid Transaction through a plan of compromise and arrangement under the CCAA.

22. On March 4, 2019, Connacher, the Consenting First Lien Lenders and the First Lien Agent entered into a "Support Agreement Amending Agreement", which among other things:

a) extended the Credit Bid Trigger Date (as defined in the Original Support Agreement) to March 8, 2019 or such other date(s) as may be agreed by Connacher and the Consenting First Lien Lenders; and

b) extended the Outside Date (as defined in the Original Support Agreement) to May 31, 2019 or such other date(s) as may be agreed by Connacher and the Consenting First Lien Lenders.

23. Connacher and the Consenting First Lien Lenders further extended the Credit Bid Trigger Date to May 16, 2019 in order to provide additional time for the parties to continue their ongoing discussions on potential amendments to the structure of the Original Credit Bid Transaction, and further agreed to extend the Outside Date to June 28, 2019.

24. Additional background information on Connacher and these CCAA proceedings is

available on the Monitor's website at www.ey.com/ca/connacheroilandgas.

TERMS OF REFERENCE AND DISCLAIMER

25. In preparing this Twenty-First 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 AND RESTATED SUPPORT AGREEMENT

26. Connacher, with assistance of the Monitor and the Financial Advisor, has negotiated the Amended and Restated Support Agreement with the First Lien Agent and the Consenting First Lien Lenders. A redacted version of the Amended and Restated Support Agreement is attached as Exhibit "A" to the Affidavit of Richard Comstock dated May 7, 2019.

27. The key terms of the Amended and Restated Support Agreement include the following:

a) Connacher will proceed to complete a transaction whereby the First Lien Lenders will own Connacher's business through an exchange of a portion of the first lien debt for new senior secured debt of Connacher and all of Connacher's equity by way of the 2019 CCAA Plan (the "Plan Transaction");

b) if a CCAA Plan Termination Event occurs (as discussed below), the First Lien Agent will form a purchaser (the "NewCo") that will "credit bid" a portion of the first lien debt in exchange for acquiring all or substantially all of the assets of Connacher (the "Credit Bid Transaction");

c) the Plan Transaction is more particularly described in the term sheet attached as Schedule "B" to the Amended and Restated Support Agreement (the "Plan Term Sheet");

d) the term sheet attached as Schedule "D" to the Amended and Restated Support Agreement (the "Credit Bid Term Sheet") includes certain conditions precedent to the Credit Bid Transaction including all governmental or regulatory approvals on terms satisfactory to the Consenting First Lien Lenders, including all necessary approvals from the Alberta Energy Regulator (“AER”);

e) the Consenting First Lien Lenders agree to use commercially reasonable efforts to support the closing of the Plan Transaction or the Credit Bid Transaction and forebear from exercising any default-related rights or other powers against Connacher;

f) the following constitute a “CCAA Plan Termination Event”:

   i. within five days of the applicable times set forth in the Amended and Restated Support Agreement, the Amended and Restated Support Agreement Approval Order, the 2019 Creditors’ Meetings Order or the 2019 Plan Sanction Order are not granted or the 2019 CCAA Plan is not implemented;

   ii. the requisite creditor approval of the 2019 CCAA Plan is not obtained at the 2019 Creditor’s Meetings; or

   iii. Connacher and the Consenting First Lien Lenders jointly determine that it is no longer viable to implement the Plan Transaction;

g) in the event of a CCAA Plan Termination Event, Connacher, the First Lien Agent and the Consenting First Lien Lenders will promptly proceed to implement the Credit Bid Transaction; and

h) the Amended and Restated Support Agreement is subject to approval of this Honourable Court.

Credit Bid Transaction - Purchase and Sale Agreement

28. The purchase and sale agreement (the “PSA”) attached as Schedule “E” to the Amended and Restated Support Agreement outlines the terms under which NewCo would acquire all or substantially all of the assets of Connacher pursuant to the Credit Bid Transaction.

29. The key terms of the PSA and the Credit Bid Transaction include the following:

a) Connacher shall transfer to NewCo all or substantially all of its assets including Connacher’s cash-on-hand as at the closing date;

b) NewCo shall assume substantially all of Connacher's post-CCAA filing trade payables;

c) NewCo shall make offers of employment to all employees of Connacher and assume all related obligations; and

d) reserves shall be funded by Connacher, in advance of closing the Credit Bid Transaction, for purposes of settling all claims ranking in priority to or *pari passu* with the claims of the First Lien Lenders including the Court-ordered charges and pay for the cost of winding down Connacher.

30. Connacher will not seek Court approval of the PSA unless a CCAA Plan Termination Event occurs. If the PSA is ultimately pursued, the Monitor will provide its comments on the proposed form of vesting order being sought by Connacher when it applies for approval of the PSA.

OVERVIEW OF THE 2019 CCAA PLAN

31. Should the required majorities of Affected Creditors of Connacher vote in favour of the 2019 CCAA Plan and should this Honourable Court grant the 2019 Plan Sanction Order, the following is an overview of the key steps to be undertaken pursuant to the 2019 CCAA Plan. (This is a summary only and does not supersede or vary the terms of the actual 2019 CCAA Plan).

Plan Implementation Fund

32. Connacher shall deliver to the Monitor, on or before the effective date under the 2019 CCAA Plan (the "Effective Date"), from Connacher's cash on hand the aggregate amount necessary, as determined by the Monitor and Connacher, with the consent of the Majority Consenting First Lien Lenders, to:

a) establish the General Creditor Pool (as defined below);

b) satisfy the CCAA Charges and the claims secured by the CCAA Charges in accordance with the 2019 CCAA Plan;

c) establish an administrative reserve fund (the "Administrative Reserve Fund") of $750,000 to fund professional fees of its counsel, the Monitor and the Monitor's counsel associated with implementing the 2019 CCAA Plan;

d) satisfy the Priority Secured Claims and the amount, if any, required to be held in the Priority Secured Claims Reserve;

e) satisfy Crown Priority Claims that were outstanding on the Filing Date;

f) satisfy Employee Priority Claims; and

g) establish the Municipal Tax Fund.

Municipal Tax Fund

33. The Regional Municipality of Wood Buffalo (the "Municipality") asserted a Priority Secured Claim against Connacher arising from property taxes outstanding as at the Filing Date and property taxes accruing until December 31, 2018 but remaining unpaid as of September 1, 2018 in the aggregate sum of $14.0 million (collectively, the "Municipal Tax Claims").

34. Pursuant to the East River Transaction Agreements, one-third (1/3) of the Municipal Tax Claims for the calendar year 2018 (the "Remaining Municipal Tax Claims") would be unaffected under the 2018 CCAA Plan.

35. On September 24, 2018, Connacher and the Municipality entered into a settlement agreement (the "Wood Buffalo Settlement Agreement") settling the Municipal Tax Claims other than the Remaining Municipal Tax Claims (the "Settled Municipal Tax Claims"). The Wood Buffalo Settlement Agreement was approved by this Court on October 4, 2018. On October 11, 2018, Connacher paid the Municipality $8.0 million in full satisfaction of the Settled Municipal Tax Claims in accordance with the Wood Buffalo Settlement Agreement.

36. Property taxes owed by Connacher to the Municipality have continued to accrue subsequent to September 1, 2018 and have not been settled. Pursuant to the 2019 CCAA Plan, the Monitor shall hold an amount (the "Municipal Tax Fund") equal to the Remaining Municipal Tax Claims and any municipal tax claims owing or to be owing for the calendar year 2019, which constitute the Municipality's alleged priority secured claim, in a separate trust account. The Municipal Tax Fund shall be funded from the Plan Implementation Fund.

37. The Monitor, in consultation with the Municipality, Connacher and the Consenting First Lien Lenders, shall assess the quantum, validity and enforceability of the Municipality's alleged priority secured claim.

38. No distributions shall be made from the Municipal Tax Fund absent a written agreement between the Municipality, Connacher, the Monitor and the Majority Consenting First Lien Lenders, or an Order of this Honourable Court.

Voting and Distributions under the 2019 CCAA Plan

39. For the purposes of voting upon and receiving a distribution under the 2019 CCAA Plan, the Affected Creditors are to be segregated between two classes, the First Lien Lender Class (as defined below) and the General Creditor Class (as defined below).

First Lien Lender Class

40. The First Lien Lenders shall comprise a single class of creditors (the "First Lien Lender Class") for voting purposes.

41. The amount of the First Lien Lenders' claim under the 2019 CCAA Plan is $292.2 million (the "First Lien Lender Claim") based upon principal and accrued interest outstanding as at October 31, 2018.

42. Monitor's counsel has reviewed the security held on behalf of the First Lien Agent (the "First Lien Security") and has issued an opinion that, subject to usual and customary assumptions and qualifications, all security held is valid, enforceable and would rank in priority to any subsequently appointed trustee in bankruptcy of the Company.

43. On the Effective Date, the First Lien Lenders shall be entitled to receive the following:

a) Each Tranche A Lender shall receive in respect of the principal of its Tranche A Loans its *pro rata* share of the obligations under the New Senior Secured Term Facility; and

b) each Tranche A Lender and Tranche B Lender shall receive in respect of, in the case of a Tranche A Lender, the accrued interest on its Tranche A Loans, and, in the case of a Tranche B Lender, the principal and accrued interest of its Tranche B Loans, its *pro rata* share of the New Shares.

44. The unsecured portion of First Lien Lender Claim in the aggregate sum of $117.0 million is defined as the “First Lien Deficiency Claim” and shall be a General Creditor Claim under the 2019 CCAA Plan.

General Creditor Class

45. The general creditors (the “General Creditors”) are comprised of all Affected Claims of Connacher with the exception of the:

a) First Lien Lender Claim (other than the First Lien Deficiency Claim);

b) Priority Secured Claims including the Municipal Tax Claims;

c) Employee Priority Claims;

d) Crown Priority Claims; and

e) Equity Claims.

(the “General Creditor Claims”)

46. As the First Lien Claim will not be satisfied in full and the First Lien Lenders have a deficiency claim in an amount equal to the First Lien Deficiency Claim, the Second Lien Noteholders shall have a deficiency claim of $71.3 million (the “Second Lien Deficiency Claim”) representing the full principal and accrued interest outstanding to the Second Lien Noteholders as at October 31, 2018. The Second Lien Deficiency Claim is a General Creditor Claim.

47. The General Creditors shall comprise a single class of creditors (the “General Creditor Class”) for voting purposes.

48. The General Creditor Pool available for distribution to the General Creditors shall be comprised of the following:

a) Funds sufficient to satisfy a Convenience Class, whereby:

i. General Creditors (including Beneficial Noteholders who comply with the terms of the 2019 Creditors’ Meetings Order) with claims less than $2,000 shall be satisfied in full; and

ii. General Creditors (including Beneficial Noteholders who comply with the terms of the 2019 Creditors' Meetings Order) with claims equal to or in excess of $2,000 shall have the option to elect to be Convenience Class Creditors by agreeing to reduce their claims to $2,000 and receive $2,000; and

b) $500,000 to be distributed on a *pro rata* basis of accepted claims of General Creditors that do not participate in the Convenience Class.

49. The Monitor notes that any distributions from the General Creditor Pool on account of claims of Beneficial Noteholders will be made to the Second Lien Trustee and may therefore be subject to any rights held by the Second Lien Trustee under the Second Lien Indenture to deduct its costs and expenses from any such distributions to Beneficial Noteholders.

Claims of Connacher's Affected Creditors

50. The 2019 CCAA Plan effects a compromise and arrangement of Affected Claims of Connacher. Affected Claims include Claims of creditors with Accepted Claims and Disputed Claims (both as defined and described below) and excludes Unaffected Claims (as defined below).

51. Accepted Claims ("Accepted Claims") are claims of Affected Creditors determined in accordance with the Claims Procedure Order, the Supplemental Claims Procedure Order and the 2019 CCAA Plan.

52. Disputed claims ("Disputed Claims") are claims that have not yet been determined to be Accepted Claims in whole or in part in accordance with the Claims Procedure Order or the Supplemental Claims Procedure Order. Holders of Disputed Claims are not entitled to receive a distribution under the 2019 CCAA Plan until such time as the Disputed Claim has been determined to be an Accepted Claim in accordance with the Claims Procedure Order or Supplemental Claims Procedure Order.

Unaffected Claims under the 2019 CCAA Plan

53. Unaffected Claims under the 2019 CCAA Plan include claims in respect of:

a) Post-Filing Claims provided that any Post-Filing Claims that were required to be preserved pursuant to the Supplemental Claims Procedure Order have been preserved;

b) Claims that have been preserved in accordance with the Claims Procedure Order or the Supplemental Claims Procedure Order that relate to the contractual rights of one of more creditors against directors (CCAA section 5.1(2)(a));

c) Claims that have been preserved in accordance with the Claims Procedure Order or the Supplemental Claims Procedure Order that are based on allegations of misrepresentations made by directors to creditors or of wrongful or oppressive conduct by directors (CCAA section 5.1(2)(b));

d) Claims which have been preserved in accordance with the Claims Procedure Order or the Supplemental Claims Procedure Order that cannot be compromised due to the provisions of section 19(2) of the CCAA, except any Claims to which section 10.11 of the 2019 CCAA Plan applies which shall be Affected Claims for the purposes of the 2019 CCAA Plan;[1]

e) an "Insured Claim" whereby the claimant elects to pursue an action for a Claim where Connacher is insured under a policy for the claim and the claimant waives any right to recover such Insured Claim from Connacher or under the 2019 CCAA Plan;

f) any indebtedness, liability or obligation of Connacher to BEH under the BEH Royalty Agreement;

g) any indebtedness outstanding to ATB under the ATB Credit Facilities; and

h) any obligation of the Company under the Credit Bid KERP (as discussed below) which is not yet due and owing, or has not been satisfied in full, as at the Effective Date.

54. Unaffected Claims are not eligible to vote and will not be compromised pursuant to the 2019 CCAA Plan.

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[1] The Monitor is not aware of any Claims of the nature described in subparagraphs 52 (b)-(d).

55. As Affected Claims are being compromised under the 2019 CCAA Plan and will, with the exception of the Convenience Class Claims, not be repaid in full, holders of Equity Claims are not permitted to vote on or receive a recovery under the 2019 CCAA Plan.

Priority Secured Claims

56. The Monitor shall establish a reserve (the "Priority Secured Claim Reserve") to satisfy any claim alleging a security interest ranking in priority to the First Lien Security. The Priority Secured Claim Reserve shall be funded from the Plan Implementation Fund.

57. Any portion of Priority Secured Claim Reserve not required to satisfy a Priority Secured Claim determined to rank in priority to the First Lien Security shall be released and returned by the Monitor to the Company.

Crown Priority Claims & Employee Priority Claims

58. The Monitor shall establish a reserve (the "Crown Priority Claim Reserve") in the full amount of any crown claims per section 6(3) of the CCAA being the "Crown Priority Claims" outstanding against Connacher at the Filing Date or for the period ending on the Filing Date.

59. The Monitor shall also establish a reserve (the "Employee Priority Claim Reserve") in the full amount of any unpaid employee claims per section 6(5)(a) of the CCAA being the "Employee Priority Claims".

60. The Crown Priority Claim Reserve and Employee Priority Claim Reserve shall be funded from the Plan Implementation Fund. As soon as practical following the Effective Date, the Monitor will settle, on behalf of Connacher, the Crown Priority Claims with the Crown Priority Claim Reserve.

Releases under the 2019 CCAA Plan

61. The 2019 CCAA Plan contains releases against the directors and officers of Connacher, current and former employees, advisors, legal counsel and agents from all claims, other than those arising on the basis of criminal or fraudulent acts having taken place, or those carved out pursuant to section 5.1(2) of the CCAA.

62. The Monitor notes that all of the parties benefitting from the proposed releases (the "Released Parties") have played a significant role in Connacher's CCAA proceedings.

63. The proposed Sanction Order will include customary provisions for such Orders, including provisions giving effect to the releases contained in the 2019 CCAA Plan. The Monitor notes Section 8.1(j) of the 2019 CCAA Plan, which states that the Sanction Order will provide as follows:

a) any Claims which have been preserved in accordance with the Claims Procedure Order or the Supplemental Claims Procedure Order against Directors that cannot be compromised due to the provisions of section 5.1(2) of the CCAA will be limited in recovery to the proceeds of any Directors insurance policies.

b) this provision will not directly release the Directors from Claims that cannot be released under section 5.1(2) of the CCAA. However, the Monitor understands that the intent of the Sanction Order is to limit recovery on all Claims against Directors to proceeds available from applicable director insurance policies (collectively, the "Insurance Policies"). The Monitor further understands that Connacher carries Insurance Policies for its Directors in the amount of $60.0 million. Limiting the recovery of any Claims against Directors solely to the proceeds available from the Insurance Policies could have the practical effect of "releasing" the Directors of certain liability, including any liability for section 5.1(2) Claims.

c) to the extent that any valid Director Claims are covered by the Insurance Policies and payments are made thereunder, holders of such Director Claims would not appear to be materially prejudiced by this provision of the proposed Sanction Order. However, to the extent that valid Director Claims, if any, exceed the $60.0 million limit on the Insurance Policies or are not covered by the Insurance Policies, the effect of this provision of the proposed Sanction Order appears to be that the holders of such valid Director Claims would either lose any ability to recover or otherwise have their ability to recover limited to the amount of the Insurance Policies.

64. The Monitor notes that the D&O Claims that were filed pursuant to the Claims Procedure Order and Supplemental Claims Procedure Order have either been resolved or withdrawn and as such no allowed D&O Claims currently exist. The Monitor intends to provide its

further views on the Sanction Order, including the provisions relating to the release of Claims against Directors, when the application for the Sanction Order is made.

65. The Monitor, Financial Advisor, the First Lien Agent, the Collateral Trustee (as defined in the 2019 CCAA Plan), the Second Lien Trustee, the Consenting First Lien Lenders, advisors to the Consenting First Lien Lenders and their current and former directors, officers and employees, legal counsel and agents will be released on the Effective Date from all claims other than those arising on the basis of willful misconduct, criminal or fraudulent acts having taken place.

66. The Monitor understands that the releases being sought by Connacher under the 2019 CCAA Plan are critical to the Released Parties' support of the 2019 CCAA Plan, and is supportive of the releases.

OVERVIEW OF THE 2019 CREDITORS' MEETINGS ORDER

67. Connacher is seeking Court approval of the 2019 Creditors' Meetings Order, which provides, among other things, for procedures for the identification and solicitation of votes from creditors on the 2019 CCAA Plan. The 2019 Creditors' Meetings Order is substantially similar to the Creditors' Meetings Order granted by this Honourable Court on August 22, 2018, with necessary modifications to remove East River as plan sponsor and to update certain procedures.

68. The 2019 Creditors' Meetings Order proposes, among other things, that:

a) the 2019 Creditors' Meetings for approval of the 2019 CCAA Plan be held on June 19, 2019 at the offices of Cassels Brock & Blackwell LLP located at Suite 3810, Bankers Hall West, 888 3rd Street SW, Calgary, AB T2P 5C5, Canada, commencing as follows:

    i. First Lien Lender Class Meeting to be held at 11:30 am (Calgary time); and

    ii. General Creditor Class Meeting to be held at 11:45 am (Calgary time);

b) the Monitor shall act as the Chair of each of the 2019 Creditors' Meetings, and decide all matters relating to the conduct of the 2019 Creditors' Meetings;

c) the Monitor may appoint scrutineers and a secretary for the 2019 Creditors' Meetings;

d) the Monitor shall publish notice of the 2019 Creditors' Meetings for approval of the 2019 CCAA Plan in the *Daily Oil Bulletin*, *Calgary Herald* and the *Globe and Mail (National Edition)* on or before May 23, 2019;

e) within one business day of the granting of the 2019 Creditors' Meetings Order, the First Lien Agent shall provide Connacher and the Monitor with a listing of the Beneficial First Lien Lenders. The Monitor will send, on or prior to May 21, 2019 (the "Mailing Date"), the First Lien Lenders Meeting Materials (as defined in the 2019 Creditors' Meetings Order) to the First Lien Agent for distribution to the Beneficial First Lien Lenders. The Monitor will also provide a copy of the First Lien Lenders Meeting Materials to counsel to the Consenting First Lien Lenders;

f) Kingsdale Advisors (the "Solicitation Agent"), shall provide Connacher and the Monitor with the Participant Holders List within one business day of the granting of the 2019 Creditors' Meetings Order;

g) on or before May 27, 2019, the Solicitation Agent shall send the Beneficial Noteholder Information Package (as defined in the 2019 Creditors' Meetings Order) to the Second Lien Trustee, Broadridge Financial Solutions Inc. ("Broadridge"), and other mailing intermediaries for distribution to each Beneficial Noteholder;

h) the Monitor, with assistance from Connacher, will send the General Creditors Meeting Materials on the Mailing Date to all General Creditors (with the exception of the First Lien Lenders and Second Lien Noteholders) who are eligible to vote at the General Creditor Class Meeting as listed within the 2019 Creditors' Meetings Order; and

i) in the event the 2019 CCAA Plan is approved by the Required Majorities (as defined below) of the Affected Creditors, Connacher is to bring an application seeking an order sanctioning the 2019 CCAA Plan. A hearing has been scheduled for this purpose on June 20, 2019.

Voting

69. The Rules with respect to voting on the 2019 CCAA Plan include the following:

a) Vote of the First Lien Lender Class: At the First Lien Lender Meeting, the beneficial holders of the First Lien Claim are entitled to one vote as a member of the First Lien

Lender Class and the vote will have a value equal to the dollar value of the Beneficial First Lien Lenders' *pro rata* share of the First Lien Lender Claim.

b) Vote of the General Creditor Class: General Creditors are entitled to one vote as a member of the General Creditor Class, and the vote will have a value equal to the dollar value of such General Creditor's General Creditor Claim (including any *pro rata* share of the First Lien Deficiency Claim or Second Lien Deficiency Claim).

General Creditors participating in the Convenience Class shall be deemed to have voted in favour of the 2019 CCAA Plan.

c) In addition, General Creditors with Disputed Claims against Connacher are entitled to attend the General Creditor Meeting and are entitled to one vote. The Monitor is required to keep a separate record of votes cast by General Creditors with Disputed Claims and to report on such votes at the Sanction Hearing. If approval or non-approval of the 2019 CCAA Plan would be altered by the votes cast in respect of Disputed Claims, this is to be included in the Monitor's reporting at the Sanction Hearing and the Monitor may, in such circumstances, request a deferral of the Sanction Hearing or make a request to the Court for directions. If the Disputed Claim is ultimately determined to be an Accepted Claim, the vote will have the dollar value attributable to such Accepted Claim. If the Disputed Claim is ultimately disallowed, the vote will not be counted for any purposes.

70. The majorities required (the "Required Majorities") for the 2019 CCAA Plan to be approved by its creditors are an affirmative vote in both the First Lien Lender Class and General Creditor Class from the majority in number and 66 2/3% in value of all voting creditors with Accepted Claims.

71. Under the proposed 2019 Creditors' Meetings Order, the First Lien Agent shall provide Connacher and the Monitor with a listing of the Beneficial First Lien Lenders within one day of the granting of the 2019 Creditors' Meetings Order. Therefore, the Monitor does not have the number of Beneficial First Lien Lenders voting in the First Lien Lender Class at this time.

72. The Monitor estimates that General Creditor Claims eligible to vote upon the 2019 CCAA Plan will total $217.3 million (the "General Creditor Voting Claims").

Connacher Oil and Gas Limited — Table 1.0
General Creditor Voting Claims
CAD$000's

General Creditor Claims	Notes	No. of Claims	Value of Claims
First Lien Deficiency Claim	*1*	TBD	117,000
Second Lien Deficiency Claim	2	TBD	71,315
General Creditor Claims	*3*	92	28,981
Total General Creditor Claims, as filed		TBD	217,296

73. The General Creditor Voting Claims represent the unsecured Claims filed against Connacher pursuant to the Claims Procedure Order and Supplemental Claims Procedure Order, as follows:

a) The First Lien Deficiency Claim has been deemed to be $117.0 million under the 2019 CCAA Plan and was determined based upon the deficiency the First Lien Lenders were estimated to incur under the 2018 CCAA Plan. In the Monitor's view this is a reasonable approximation of a minimum level of the First Lien Deficiency Claim, given that the SISP did not yield any higher or better offers;

b) The Second Lien Deficiency Claim is $71.3 million in accordance with the 2019 CCAA Plan, representing principal and accrued interest outstanding to the Second Lien Noteholders as at October 31, 2018. The entire balance of the Second Lien Claim represents the Second Lien Deficiency Claim, a General Creditor Claim; and

c) Connacher, with the assistance of the Monitor, has reviewed the General Creditor Claims. The Monitor issued notices of revision and disallowance where Claims did not agree with Connacher's books and records and all disputes arising from the issuance of these notices have been fully resolved. General Creditors (other than the First Lien Lenders and the Second Lien Noteholders) with 92 proofs of claim representing unsecured claims with an aggregate value of $29.0 million shall be eligible to vote upon the 2019 CCAA Plan.

Conditions Precedent to Implementation of the 2019 CCAA Plan

74. The implementation of the 2019 CCAA Plan is subject to, among other things, the following conditions precedent:

a) Connacher, the Consenting First Lien Lenders and the First Lien Agent shall have complied with all provisions of the Amended and Restated Support Agreement;

b) all conditions of the Amended and Restated Support Agreement shall have been satisfied or waived;

c) the 2019 CCAA Plan shall have been approved by the Requisite Majorities of both the First Lien Lender Class and General Creditor Class at the 2019 Creditors' Meetings;

d) the Sanction Order shall have been granted by this Honourable Court; and

e) the Monitor shall have received the Plan Implementation Fund from Connacher.

Implementation of the 2019 CCAA Plan

75. The following shall be effected upon the implementation of the 2019 CCAA Plan:

a) Plan Implementation Fund: The Monitor shall hold the Plan Implementation Fund to be distributed by the Monitor in accordance with the 2019 CCAA Plan;

b) Cancellation of existing Equity Claims: Connacher's issued and outstanding Equity Claims shall be cancelled without any return of capital;

c) Issuance of New Common Shares: Connacher shall issue New Shares to the First Lien Lenders (as discussed above) that shall constitute all of the issued and outstanding shares of Connacher;

d) Issuance of the New Senior Secured Term Facility: Each Tranche A Lender under the First Lien Credit Agreement shall receive in respect of the principal amount of its Tranche A Loans its *pro rata* share of the obligations under the New Senior Secured Term Facility;

e) Discharge of the CCAA Charges: The CCAA Charges shall be released as against the property of Connacher and the Plan Implementation Fund. The CCAA Charges will thereafter be secured as follows:

i. the Administration Reserve Fund will stand in the place of the Administration Charge to secure obligations previously secured by such charge;

ii. the Directors' Charge Claims Reserve will stand in the place of the Directors' Charge to secure obligations, if any, previously secured by the Directors' Charge; and

iii. the Retention Plan Claims Reserve will stand in the place of the KERP/LTIP Charge, KEIP Charge and Financial Advisor Charge to secure obligations, if any, previously secured by such charges;

f) Compromise of the Affected Claims: In exchange for the consideration offered in the 2019 CCAA Plan, the Affected Claims against Connacher shall be compromised and forever extinguished.

MONITOR'S ANALYSIS OF THE 2019 CCAA PLAN

76. The 2019 CCAA Plan was negotiated between Connacher, the First Lien Agent and Consenting First Lien Lenders and upholds the integrity of the Original Support Agreement, approved by this Honourable Court.

77. The recovery to the General Creditors of Connacher is consistent with the recovery that the General Creditors would have been eligible to receive under the 2018 CCAA Plan. The 2018 CCAA Plan was negotiated between Connacher and East River based upon the Qualified Phase II Bid submitted by East River which represented the highest recovery to creditors of Connacher identified in the renewed SISP.

78. Considering the East River Transactions have been terminated, the Monitor is of the view that the only alternative to the 2019 CCAA Plan or Credit Bid Transaction is a liquidation of Connacher's property.

79. Based upon the SISP, a liquidation of Connacher would not fully repay the indebtedness outstanding to the First Lien Lenders and not provide a recovery to the Second Lien Noteholders or General Creditors.

First Lien Lenders

80. Under the 2019 CCAA Plan, the First Lien Lenders will own and control the Company. The 2019 CCAA Plan represents the backstop transaction that was to be entered into between Connacher and the First Lien Lenders pursuant to the Original Support Agreement in the event that a Superior Transaction was not consummated through the SISP.

81. The First Lien Lenders shall be eligible to receive the following under the 2019 CCAA Plan:

    a) New Senior Secured Term Facility: each Tranche A Lender under the First Lien Credit Agreement shall receive in respect of the principal amount of its Tranche A Loans its *pro rata* share of the obligations due under the New Senior Secured Term Facility to be entered into by Connacher. The principal due under the New Senior Secured Term Facility shall be US$41,837,684.35. Fees, interest and amortization terms of the New Senior Secured Term Facility are described in the Plan Term Sheet; and

b) New Shares: each Tranche A Lender and Tranche B Lender shall receive in respect of, in the case of a Tranche A Lender, the accrued interest on its Tranche A Loans, and, in the case of a Tranche B Lender, the principal and accrued interest of its Tranche B Loans, its *pro rata* share of the New Shares. The New Shares are to be designated “Class A Common Shares” and constitute all of the issued and outstanding shares of Connacher.

General Creditors

82. Connacher’s cash-on-hand shall be used to establish the General Creditor Pool in the amount of $500,000 plus the amount required to satisfy the Convenience Class Claims under the 2019 CCAA Plan.

83. The following is an estimate of the distributions to the General Creditors of Connacher under the 2019 CCAA Plan as compared to the Credit Bid Transaction:

Connacher Oil and Gas Limited — Table 2.0
Estimated Recoveries (2019 CCAA Plan vs. Credit Bid Transaction)
CAD$ thousands

	2019 CCAA Plan		Credit Bid Transaction	
Creditor Class	$	%	$	%
General Creditors[1]	500	0.24%	-	-
Convenience Class[2]	299		-	-
Total	799		-	-

[1]Estimated distribution to General Creditors based upon the First Lien Deficiency Claim, Second Lien Deficiency Claim and proven Claims of General Creditors, excluding the estimated of Claims of General Creditors that elect to participate in the Convenience Class.

[2]Estimated value of proven Claim of General Creditors expected to participate in the Convenience Class including Second Lien Noteholders that elected to participate in the Convenience Class when voting upon the 2018 CCAA Plan.

Distribution to Convenience Class

84. General Creditors (other than Beneficial Noteholders) with General Creditor Claims less than $2,000 shall be deemed to participate in the Convenience Class and have their Claims paid in full.

85. General Creditors (other than Beneficial Noteholders) with General Creditor Claims greater than or equal to $2,000 will also have the option to elect to participate in the Convenience Class fixing their claim at $2,000 for the purposes of receiving a distribution under the Convenience Class.

86. Beneficial Noteholders with General Class Claims in any amount will not be deemed to make a Distribution Election and must submit a Voting Information and Election Form in accordance with the 2019 Creditors' Meetings Order in order to join the Convenience Class. Distributions to Beneficial Noteholders who have validly joined the Convenience Class may be subject to any rights held by the Second Lien Trustee under the Second Lien Indenture to deduct its costs and expenses from any such distributions.

87. Based on the current estimates of creditor recoveries detailed above, the Monitor estimates that General Creditors owed less than approximately $900,000 will receive a higher recovery under the 2019 CCAA Plan should they elect to participate in the Convenience Class.

88. Based upon the composition of Claims filed pursuant to the Claims Procedure Order and the Supplemental Claims Procedure Order, the Monitor estimates that 70 General Creditors for an aggregate distribution of $118,375 will participate in the Convenience Class (excluding Beneficial Second Lien Noteholders). Additional Beneficial Second Lien Noteholders or holders of the First Lien Deficiency Claim may elect to participate in the Convenience Class.

Conclusion

89. The Monitor considers the 2019 CCAA Plan to be fair and reasonable as the Affected Creditors are projected to receive a greater recovery than under the Credit Bid Transaction or a liquidation of Connacher.

90. The Monitor is supportive of the 2019 CCAA Plan based upon the following:

a) the recovery to the General Creditors of Connacher is consistent with the recovery that the General Creditors would have been eligible to receive under the 2018 CCAA Plan. The 2018 CCAA Plan was negotiated between Connacher and East River based upon the Qualified Phase II Bid submitted by East River which represented the highest recovery to creditors of Connacher identified in the renewed SISP. The renewed SISP was approved by this Honourable Court and constituted a broad marketing process including the Financial Advisor contacting 230 potential counterparties, including both oil and gas companies and private equity funds;

b) the Amended and Restated Support Agreement and 2019 CCAA Plan were approved by the Monitor and Special Committee;

c) the Monitor believes that the Amended and Restated Support Agreement and 2019 CCAA Plan were negotiated between Connacher and the Consenting First Lien Lenders and First Lien Agent at arm's length, in good faith, and are commercially reasonable;

d) the Convenience Class represents additional recoveries to the General Creditors in excess of the $500,000 allocated to the General Creditor Pool and will provide cost and time savings associated with implementing and administering the 2019 CCAA Plan;

e) the Monitor believes that based upon the composition and nature of Connacher's Affected Creditors, it is reasonable for the 2019 CCAA Plan to be subject to approval by two classes of creditors, being (1) the First Lien Lender Class comprised of the First Lien Lenders holding the First Lien Security and (2) the General Creditors Class comprised of all Affected Creditors other than the First Lien Lenders (to the extent of the First Lien Deficiency Claim); and

f) section 36.1 of the CCAA provides that Sections 95 to 101 of the Bankruptcy and Insolvency Act (the "BIA") apply to proceedings under the CCAA. Pursuant to these sections, a court may, on application by the Monitor under the CCAA, declare preference transactions and transfers at undervalue (collectively, a "Preference Transaction") be void as against the Monitor or, in the case of transfers at undervalue, order any party to (or privy to) the transfer to pay the difference in value between the consideration received by the debtor and the value given by the debtor. Connacher's independent auditor issued an unqualified audit opinion dated

April 26, 2019 stating that in its opinion, the financial statements present fairly, in all material respects, the financial position of Connacher as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards. The Monitor has performed a review of Connacher's annual financial statements for the twelve months ending December 31, 2018 and 2017 and has not identified any transactions that would constitute a Preference Transaction. The Monitor is also not aware of any facts that would suggest that the Company has engaged in Preference Transactions in the period before December 31, 2016. Based on the foregoing, the Monitor is of the opinion that it is reasonable to include the provision that sections 95 to 101 of the Bankruptcy and Insolvency Act (Canada) do not apply in respect of the Plan.

CREDIT BID KEY EMPLOYEE RETENTION PROGRAM

91. Throughout these CCAA proceedings, Connacher has implemented certain key employee retention plans to ensure that Connacher retained its key employees while it pursued its restructuring efforts.

92. Pursuant to the Support Agreement, SISP & KEIP Approval Order, Connacher sought and obtained approval of a key employee incentive plan (the "KEIP") for a limited number of employees (the "Key Employees") who were essential to the success of the renewed SISP.

93. The KEIP is secured by a charge on Connacher's property (the "KEIP Charge") granted by this Honourable Court pursuant to the Support Agreement, SISP & KEIP Approval Order, which ranks subordinate to all other existing Charges.

94. The KEIP was developed to maximize value in the SISP through a structure that did not stipulate payment unless a Superior Transaction was achieved. Further, the payment under the KEIP was tied to the amount of proceeds realized in the SISP under a Superior Transaction.

95. As a result of the termination of the East River Transactions, no payments became owing pursuant to the KEIP. However, if a third-party transaction is entered into in accordance with the Amended and Restated Support Agreement, such transaction shall constitute a

Superior Transaction and may result in KEIP payments becoming payable to the Key Employees.

96. In connection with the Amended and Restated Support Agreement, Connacher and the Consenting First Lien Lenders developed a new key employee retention and incentive program (the "Credit Bid KERP") for a limited number of employees (the "Credit Bid KERP Beneficiaries") who are integral to the implementation of the Plan Transaction or the Credit Bid Transaction. The details of the Credit Bid KERP are included in Confidential Exhibit "1" to the Affidavit of Merle Johnson dated May 6, 2019.

97. The Credit Bid KERP is proposed to be secured by the KEIP Charge.

98. The Credit Bid KERP is structured to incentivize the Credit Bid KERP Beneficiaries to successfully implement the Plan Transaction or the Credit Bid Transaction and remain with Connacher through and following the implementation of either transaction.

99. Payments under the Credit Bid KERP are tied to significant milestones in Connacher's restructuring process or to important events for Connacher's long-term prospects after the implementation of a transaction. The proposed payments have been approved by the Consenting First Lien Lenders and the Special Committee.

100. The Monitor recommends the Credit Bid KERP as:

a) the Credit Bid KERP is structured in a manner to incentivize the Credit Bid KERP Beneficiaries to successfully complete the Plan Transaction or the Credit Bid Transaction;

b) the Credit Bid KERP Beneficiaries are essential to the success of Connacher's restructuring efforts, as their experience and knowledge of Connacher's business and operations are critical to completing a transaction and cannot be easily replaced;

c) the loss of one of more Credit Bid KERP Beneficiaries would negatively impact the efforts to complete a transaction;

d) the payments under the Credit Bid KERP are only earned if significant milestones are achieved and are in-line with incentive plans in similar Court-supervised restructurings; and

e) the Credit Bid KERP was approved by the Monitor and Special Committee and is supported by the Consenting First Lien Lenders.

SEALING REQUEST

101. The Monitor is supportive of the sealing order being sought by Connacher in connection with the Credit Bid KERP, which contains personal information regarding the Credit Bid KERP Beneficiaries. Disclosure of the Credit Bid KERP would be harmful to such individuals' privacy interests. Similarly, the Monitor is supportive of Connacher's request to seal the holdings of the Consenting First Lien Lenders and the redacted schedules to the PSA, as such materials are commercially sensitive to the Consenting First Lien Lenders and to Connacher.

RECOMMENDATIONS

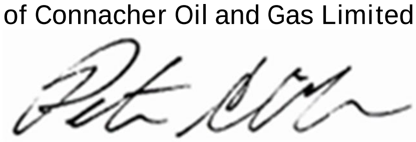
102. The Monitor respectfully recommends that this Honourable Court approve:

a) the Amended and Restated Support Agreement Approval Order (including the sealing provisions contained therein); and

b) the 2019 Creditors' Meeting Order.

Dated at Calgary, this 15th day of May, 2019.

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



Peter Chisholm CA, CPA, CIRP, LIT
Vice President