COURT FILE NUMBER		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 CONNACHER OIL AND GAS LIMITED	
DOCUMENT	**SECOND REPORT OF THE MONITOR** **August 5, 2016**	
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: Neil Narfason Telephone: 403-206-5067 Fax: 403-206-5075 Email: neil.narfason@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	

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INTRODUCTION

1. On May 17, 2016 Connacher Oil and Gas Limited (the "Company" or "Connacher"), sought and obtained protection pursuant to the *Companies' Creditors Arrangement Act, R.S.C. 1985, C-36*, as amended (the "CCAA") pursuant to an Order of this Honourable Court (the "Initial Order").

2. Pursuant to the Initial Order, the Court approved a sale and investment solicitation process ("SISP") which had a bid deadline for non-binding letters of intent of June 30, 2016 (the "Phase I Bid Deadline") and a bid deadline for binding offers of July 27, 2016 (the "Phase II Bid Deadline").

3. Ernst & Young Inc. was appointed as Monitor (the "Monitor") of the Company pursuant to the terms of the Initial Order.

4. The purpose of this second report of the Monitor (the "Second Report") is to provide this Honourable Court with the Monitor's comments with respect to the following:

   a) an update on Phase I of the SISP and Connacher's decision to move to Phase II of the SISP;

   b) Connacher's request for an increase to the $750,000 limit of payments to critical suppliers for goods and services provided prior to the date of the Initial Order;

   c) Connacher's head office relocation;

   d) the Company's forecast to actual cash flow results for the period May 28, 2016 to July 29, 2016 (the "Reporting Period");

   e) the Company's cash flow projection (the "Cash Flow Projection") for the period July 30, 2016 to September 16, 2016 (the "Forecast Period");

   f) the Company's request for an extension of the stay period; and

   g) the Monitor's recommendations.

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

6. Capitalized terms not defined herein are as defined in the Initial Order.

BACKGROUND

7. 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

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.

UPDATE ON SISP

9. Connacher, with the assistance of the Monitor, commenced the marketing process of the SISP on May 18, 2016, immediately following granting of the Initial Order.

10. The following is a summary of the key details of the SISP:

    a) the Monitor contacted 152 potential counterparties, including both strategic buyers operating in similar industries as the Company and financial sponsors including private equity funds;

    b) of the parties contacted, a certain number of them signed non-disclosure agreements and then became qualified bidders ("Qualified Bidders");

    c) Qualified Bidders had access to a corporate management presentation on the operations of the Company and a virtual data room, and asked and received responses from Company Management with respect to the business and assets of Connacher; and

    d) Qualified Bidders also had access to management presentations, the opportunity to meet with management and the opportunity to meet with the Monitor and the Company's legal counsel to discuss transaction structuring consideration.

11. Connacher received significant interest in the SISP from various types of parties, including industry participants and financial parties. Connacher and the Monitor have worked closely to ensure that information was made available to potential bidders in a timely and efficient manner, in order to encourage active participation in the process.

12. To address the requests by certain interested parties, on June 24, 2016, Connacher, with the consent of the Interim Financing Agent and Interim Lenders, extended the deadline for Phase I of the SISP (receipt of non-binding letters of intent) to July 14, 2016.

13. Prior to the Phase I Bid Deadline, the Monitor and Connacher received multiple non-binding letters of intent in connection with the SISP. Connacher reviewed and assessed the non-binding letters of intent received, consulted with the Consultation Parties in respect of those bids and determined to proceed to Phase II of the SISP.

14. The Monitor considers Phase I of the SISP to have been carried out in accordance with its terms and that a fulsome marketing of Connacher's business and its assets was undertaken.

15. Connacher is now working with the Monitor to implement Phase II of the SISP.

16. Under the terms of the SISP, final binding bids were due on August 10, 2016 with a closing to occur on or before August 31, 2016.

17. To address the requests by certain interested parties, on August 5, 2016, Connacher, with the consent of the Interim Financing Agent and Interim Lenders, extended the Phase II Bid Deadline of the SISP (receipt of final binding bids) to August 19, 2016 with a closing to occur on or before September 7, 2016.

18. The Monitor believes that this extension to Phase II of the SISP in the interests of the Company in order to allow certain interested parties sufficient time to complete the work required to submit Phase II Bids.

INCREASE IN CRITICAL SUPPLIER CAP

19. Pursuant to the Initial Order, Connacher, with the consent of the Monitor, is permitted to make payments for goods and services supplied to Connacher prior to the date of the Initial Order up to a maximum aggregate amount of $750,000 (the "Critical Supplier Cap").

20. Prior to the initial application in these proceedings, Connacher worked closely with the Monitor to determine which pre-filing creditors would be critical to Connacher's business.

21. Based on recent discussions with Connacher, the Monitor, the Interim Financing Agent and the First Lien Agent and lenders, Connacher has determined that an increase in the Critical Supplier Cap may be required in order to minimize disruption to its production schedule and continue to receive services from certain critical suppliers.

22. The Monitor is satisfied that an increase to the Critical Supplier Cap may be required to continue receiving goods and services from critical suppliers and avoid a disruption of operations at Connacher's facility. The Monitor believes that Connacher's ability to maintain operations are critical to the SISP and the restructuring.

23. The Interim Financing Agent has agreed to an increase in the Critical Supplier Cap on the condition that any payments proposed to be made to critical suppliers above the initial Critical Supplier Cap of $750,000 will be approved in advance by the Interim Financing Agent.

24. Should the proposed increase to the Critical Supplier Cap be approved, Connacher, the Monitor and the Interim Financing Agent will work collectively to identify those necessary payments that will benefit the restructuring.

25. The proposed increase to the Critical Supplier Cap contains sensitive commercial terms which, if made public, could cause serious commercial damage to the business of Connacher. Therefore, the Monitor has prepared a confidential appendix which contains the terms of the proposed increase to the Critical Supplier Cap which is attached hereto as Appendix "C".

OFFICE RELOCATION

26. Subsequent to the Initial Order, Connacher initiated discussions with its landlord, Y Equities Inc., to revisit and amend its office lease agreement. Upon conclusion of these discussions, the parties were unable to reach a revised lease agreement.

27. On June 23, 2016, with the consent of the Monitor, the Interim Financing Agent and the First Lien Agent and lenders, Connacher entered into a one year sub-lease arrangement with Lone Pine Resources Canada.

28. On July 27, 2016, Connacher relocated its corporate offices from its prior location at

900, 332 6th Avenue SW, Calgary, Alberta T2P 0B2 to its new location at 1040, 640 5th Avenue SW, Calgary, Alberta T2P 3G4.

29. The Monitor believes that the lease discussions and subsequent office relocation were conducted by the Company in good faith and were necessary for the cost effective continuation of the Company's operations.

CASH FLOW PROJECTION BUDGET TO ACTUAL

30. Attached as Appendix "A" to this First Report is a summary of the Company's actual receipts and disbursements for the Reporting Period with an analysis of variances from the cash flow forecast (the "Initial Forecast") previously provided to this Honourable Court in the August 2 Johnson Affidavit. A summary budget to actual analysis is provided in the table below:

Connacher Oil and Gas Limited **Exhibit 1.0**
Budget to actual
$000's

Cash flow	**Actual**	**Forecast**	**Variance**
	May-28-16 to July-29-16		
Receipts	25,227	21,553	3,674
Disbursements	29,845	28,711	(1,133)
Net change in cash	**(4,617)**	**(7,159)**	**2,541**
Opening cash	15,377	15,337	40
Ending cash	10,760	8,178	2,581
Restricted cash	7,100	7,100	-
Cash (including restricted cash)	**17,860**	**15,278**	**2,581**
Interim financing borrowings			
Opening borrowings	7,000	7,000	-
Draws	6,000	6,000	-
Ending borrowings	**13,000**	**13,000**	**-**

31. As set out in the table above, Connacher's total receipts for the Reporting Period were approximated $25.227 million, which is $3.674 million higher than the Initial Forecast. Cash receipts include a draw of $6.0 million under the Interim Financing.

32. Connacher's total disbursements for the Reporting Period were $29.845 million, which

is $1.133 million higher than the Initial Forecast. The variance results primarily from (i) higher than forecast prepayment and deposit requirements of suppliers to support ongoing operations, (ii) increase transportation, diluent and natural gas expenditures to support an increase in production, partially offset by lower than forecast restructuring, legal and professional costs invoiced to the Company during this period.

33. Connacher has funded and continues to hold $7.1 million into a segregated bank account to be held as restricted cash for shut-in costs, as described in the proposed report of the Monitor dated May 16, 2016 (the "Proposed Monitor's Report").

34. The ending net cash balance, as described above, as at July 29, 2016 was $17.86 million including $7.1 million of restricted cash.

CASH FLOW PROJECTION

35. The Company, with the assistance of the Monitor, has prepared the Cash Flow Projection for the Forecast Period. Management has prepared the Cash Flow Projection based on the most current information available. The following is a summary of the Cash Flow Projection:

Connacher Oil and Gas Limited	**Exhibit 2.0**
Revised Consolidated 7 Week Cash Flow	
For the period of July 30, 2016 to September 16, 2016	
$000's	
Opening available cash	10,760
Restricted cash	7,100
Opening cash (including restricted)	**17,860**
Cash receipts	13,588
Cash disbursements	22,736
Net change in cash	**(9,148)**
Ending available cash	1,612
Restricted cash	7,100
Ending cash (including restricted cash)	**8,712**
Interim Financing Borrowings	
Opening borrowings	13,000
Draws	2,000
Ending borrowings	**15,000**

36. As summarized above, Connacher is projecting $13.588 million in cash receipts (including $2 million of borrowings under the Interim Financing) against cash disbursements of $22.736 million, resulting in a net decrease in cash of $9.148 million during the Forecast Period.

37. The significant assumptions used by Connacher's management to prepare the Cash Flow Projections are generally consistent with the Initial Forecast with the only adjustments being for timing of receipts and disbursements and updated forecast oil prices.

38. As discussed above, the weekly Cash Flow Projection in Appendix B indicates that Connacher has sufficient liquidity to operating during the Forecast Period.

39. The Monitor has reviewed the assumptions supporting the Cash Flow Projection and believes the assumptions to be reasonable.

THE COMPANY'S REQUEST FOR AN EXTENSION OF THE STAY PERIOD

40. Pursuant to the Initial Order, the Stay Period expires on August 16, 2016. Connacher is seeking an extension of the Stay Period up to and including September 15, 2016 (the "Stay Extension").

41. It is the Monitor's view that the Stay Extension is necessary to allow the Company to continue with the SISP and that Connacher is forecast to have sufficient liquidity to operate during the period covered under the Stay Extension.

42. In the Monitor's view, Connacher is acting in good faith and with due diligence.

RECOMMENDATIONS

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

    a) the increase to the Critical Suppliers Cap; and

    b) the Stay Extension.

Dated at Calgary, this 5th day of August, 2016.

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

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

CASH FLOW PROJECTION BUDGET TO ACTUAL

Connacher Oil and Gas Limited
Comparison of actual to projected cash flow for the period of May 28 to July 29, 2016
In Thousands of Canadian Dollars

WEEK ENDED	Forecast May-28-16 to July-29-16	Actual May-28-16 to July-29-16	Variance $	*Notes*
Receipts				
Crude Sales	15,553	19,006	3,453	1
Other	-	221	221	2
Total Receipts	15,553	19,227	3,674	
Disbursements				
Royalties	139	84	55	
Oilsands operating expenses	9,661	10,860	(1,199)	3
Diluent/Transportation expenses	7,610	12,823	(5,213)	4
General and administrative costs	2,590	2,969	(378)	5
Office Relocation Costs	-	-	-	
Capital Expenditures	390	179	211	6
Key Employee Retention Plan	-	-	-	
AER Admin Fees	1,000	943	57	
Oilsands Monitoring	-	-	-	
Interim Financing - Financing Fees	-	-	-	
Interim Financing - Interest	86	27	60	
Unrealized Foreign Exchange (Gains) and Losses	3,600	(148)	3,748	7
Supplier Prepayments/Deposits	-	899	(899)	8
Long-term Incentive Plan	809	-	809	9
Total Disbursements	25,886	28,636	(2,749)	
CASH FLOW FROM OPERATIONS	(10,334)	(9,409)	925	
Restructuring costs	2,825	1,209	1,616	10
NET CHANGE IN CASH	(13,159)	(10,617)	2,541	
Opening cash	15,337	15,377	40	
Interim Financing Borrowings	6,000	6,000	-	
Ending Cash	8,178	10,760	2,581	
INTERIM FINANCING				
Opening borrowings	(7,000)	(7,000)	-	
Borrowings	(6,000)	(6,000)	-	
Ending borrowings	(13,000)	(13,000)	-	
RESTRICTED CASH				
Shut-down Costs	7,100	7,100	-	
Total Restricted Cash	7,100	7,100	-	

Notes:

1. Improvement in realized oil prices above forecast levels.

2. Receipt of insurance proceeds and payment of remediation obligations for third-party rollover (insurance filing and subsequent clean-up managed by Connacher on behalf of supplier) and collection of camp costs related use as staging area during June Alberta wild fires.

3. Incremental impact of CCAA process on supplier payments. Actual supplier payments were lower than forecast, but offset by an increase in deposits and prepayments to suppliers current and increased production levels.

4. Higher than forecast transportation and diluent payments related to bimonthly prepayment of trucking costs and additional prepayment requirements for diluent and natural gas to support existing production levels and incremental production increases.

5. Principally related to payment of full year lease costs on new office space.

6. Lower than forecast capital expenditure requirements, offset by incremental capital expenditures needed to increase production.

7. Lower than forecast actual foreign exchange gains/losses.

8. Higher than forecast incremental prepayments and deposits to suppliers principally related to key midstream providers.

9. Lower than forecast payments related to the Long-term Incentive Plan.

10. Lower than forecast invoiced restructuring and legal costs.

CASH FLOW PROJECTION

	NOTES	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	
WEEK ENDED		5-Aug-16	12-Aug-16	19-Aug-16	26-Aug-16	2-Sep-16	9-Sep-16	16-Sep-16	Total
Receipts									
Crude Sales		-	-	-	11,588	-	-	-	11,588
Other									
Total Receipts		-	-	-	11,588	-	-	-	11,588
Disbursements									
Royalties		-	-	-	84	-	-	-	84
Oilsands operating expenses		1,555	1,555	1,555	1,555	1,553	1,553	1,553	10,879
Diluent/Transportation expenses		526	526	526	3,595	401	401	401	6,373
General and administrative costs		286	561	236	561	239	189	513	2,585
Office Relocation Costs	Note 2	20							20
Capital Expenditures		30	30	30	30	151	151	151	573
Interim Financing - Interest	Note 3			116					116
Supplier Prepayments/Deposits									-
Total Disbursements		2,417	2,671	2,463	5,825	2,344	2,294	2,618	20,631
CASH FLOW FROM OPERATIONS		(2,417)	(2,671)	(2,463)	5,764	(2,344)	(2,294)	(2,618)	(9,043)
Restructuring costs		150	330	265	330	370	330	330	2,105
NET CHANGE IN CASH		(2,567)	(3,001)	(2,728)	5,434	(2,714)	(2,624)	(2,948)	(11,148)
Opening cash		10,760	8,193	7,192	4,464	9,897	7,184	4,560	10,760
DIP Borrowings		-	2,000	-	-	-	-	-	2,000
Ending Cash		8,193	7,192	4,464	9,897	7,184	4,560	1,612	1,612
DIP FINANCING									
Opening borrowings		(13,000)	(13,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(13,000)
Borrowings		-	(2,000)	-	-	-	-	-	(2,000)
Ending borrowings		(13,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
RESTRICTED CASH									
Shut-down Costs		7,100	7,100	7,100	7,100	7,100	7,100	7,100	-
Total Restricted Cash		7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100

Notes

Management of Connacher have prepared this forecasted cash flow statement based on probable and hypothetical assumptions detailed in the notes below.

The forecast has been prepared solely for the Company's CCAA filing to determine liquidity requirements. Since the projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Note 1 USD to CAD foreign exchange rate of 1.31

Note 2 Connacher completed an office relocation during the week ended July 29, 2016; $300,000 of office relocation costs were incurred and Connacher had prepaid $280,000 of these costs prior to July 30, 2016.

Note 3 Interest on interim financing credit facility in accordance with interim financing agreement.