COURT FILE NUMBER: 1601-06131

COURT: COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE: CALGARY

APPLICANT: 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: **THIRD REPORT OF THE MONITOR**

August 18, 2016

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT:

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INTRODUCTION

1. On May 17, 2016 (the "Filing Date") 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. 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 third report of the Monitor (the "Third Report") is to provide this Honourable Court with the Monitor's comments with respect to the Company's proposed claims process and the Monitor's recommendation.

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.

BACKGROUND

6. 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").

7. In accordance with the SISP, Connacher extended the Phase I Bid Deadline (receipt of non-binding letters of intent) to July 14, 2016 and the Phase II Bid Deadline (receipt of binding bids) to August 19, 2016.

8. 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

9. 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.

PROPOSED CLAIMS PROCESS

10. The Company has filed an application seeking this Honourable Court's approval of a procedure for the filing and review of claims against the Company and its directors and officers (the "Claims Process Order").

11. The claims process as set out in the Claims Process Order (the "Claims Process") will establish claims against Connacher and its directors and officers as at the Filing Date and arising from the Company's disclaimer or resiliation of leases or contracts subsequent to the Filing Date (collectively, the "Claims").

12. For the convenience of the Court, the following is a summary of the Claims Process. In the event of any discrepancy between this Third Report and the Claims Process Order, the Claims Process Order shall prevail.

Notice to File Proofs of Claim

13. The Monitor shall cause a claims package (a "Claims Package") to be sent to each known claimant by regular prepaid mail on or before 11:59 pm, MST, August 31, 2016. The Claims Package shall include a notice to creditors, substantially in the form of Schedule "B" to the Claims Process Order.

14. The Monitor shall cause a newspaper notice of the Claims Process (the "Newspaper Notice to Claimants") to be published on two separate occasions in each of the *Daily Oil Bulletin*, *Calgary Herald* and *Globe and Mail* (National Edition) on or before August 31, 2016. The Newspaper Notice to Claimants shall be substantially in the form of Schedule "A" to the Claims Process Order.

15. The Monitor shall cause the Claims Package, the Newspaper Notice to Claimants and the Claims Process Order to be posted on the website it has created in these proceedings.

16. Where a Claim arises from the disclaimer of a lease or contract subsequent to the granting of the Initial Order, it will be considered a 'Restructuring Period Claim'. Any notices of disclaimer or resiliation delivered to a person by the Company after the date of the Claims Process Order will be accompanied by a Claims Package.

17. The Monitor shall cause a copy of the Claims Package in the Claims Process to be sent to any person requesting such material as soon as practicable.

First Lien Agent and Second Lien Trustee – Proofs of Claim

18. In light of potential administrative burdens that would arise if the lenders under the First Lien Credit Agreement and the Second Lien Indenture (each as defined in the Claims Process Order) were required to file individual proofs of claim, at the request of counsel to the First Lien Agent, the Company has agreed to a modified procedure for these parties.

19. Within 14 days of the issuance of the Claims Process Order, the Company shall send to the First Lien Agent and the Second Lien Trustee (as defined in the Claims Process Order), a notice stating the amount owed by the Company to each the First Lien Agent or Second Lien Trustee, on behalf of their respective lenders, as at the Filing Date.

20. The First Lien Agent and the Second Lien Trustee shall each have 15 days from receipt of the notice to confirm the accuracy of its Claim or advise the Company and the Monitor of a dispute. If the First Lien Agent or Second Lien Trustee confirms the amount, or does not respond, the amount set out in the applicable notice shall be deemed to be the amounts (including any accrued amounts) owing by the Company under the First Lien Credit Agreement or Second Lien Indenture, as applicable, for the purposes of voting and distributions under the Plan, unless the amounts of such Claims are otherwise agreed to in writing by the Company, the First Lien Agent or Second Lien Trustee (as applicable) and the Monitor, in which case such agreement shall govern.

21. In the event that the First Lien Agent or the Second Lien Trustee disputes the amount set out in the applicable notice, the Claim shall be determined by the Court, unless otherwise agreed by the First Lien Agent or Second Lien Trustee, as applicable, the Company and the Monitor, in writing.

22. Monitor's counsel has reviewed the security held on behalf of the First Lien Agent and Second Lien Trustee by Computershare Trust Company of Canada as security trustee in respect of amounts owing under the First Lien Credit Agreement and Second Lien Indenture 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.

D&O Claims

23. The Claims Process Order also calls for Claims against the directors and officers of the Company ("D&O Claims") on the basis that such Claims arise in their capacity as directors and officers of the Company.

24. To the extent that a D&O Claim is filed in accordance with the Claims Process, a corresponding Claim is deemed to have been filed by the applicable director or officer against the Company where such director or officer is entitled to an indemnity from the Company.

25. The Company shall consult with the applicable director or officer regarding any D&O Claims.

Claims Bar Date

26. A claimant must deliver a Proof of Claim (as defined in the Claims Process Order) setting out its Claim as at the Filing Date (a "Pre-Filing Claim") so that it is received by the Monitor and the Company no later than 5:00 PM, MST, September 26, 2016 (the "Claims Bar Date"), or in the case of a Restructuring Period Claim, the later of the Claims Bar Date or 15 days following the date on which the relevant lease or agreement is disclaimed ("the Restructuring Period Claims Bar Date").

27. In the case of a claimant who has a Claim against a director or officer arising from the resiliation or termination by the Company of an agreement on or after the Filing Date, such Claim shall be considered a "D&O Restructuring Period Claim" and the claimant must deliver a Proof of Claim so that it is received by the Monitor and the Company no later than the Restructuring Period Claims Bar Date.

28. The Company shall review each proof of claim received by the Claims Bar Date or Restructuring Period Claims Bar Date, as applicable and shall revise or disallow the Pre-Filing Claim or Restructuring Period Claim, with the assistance of the Monitor.

29. The Company shall further consult with counsel to the First Lien Agent and the Interim Financing Agent prior to accepting, revising or rejecting any Claims that exceed $500,000 as submitted.

Disputed Claims

30. If the Company, with the assistance of the Monitor, determines to revise or disallow a Pre-Filing Claim or Restructuring Period Claim, the Monitor shall send a notice of revision or disallowance to the claimant (a "Notice of Revision or Disallowance").

31. Any claimant who disputes the classification or amount of its Pre-Filing Claim or Restructuring Period Claim as set forth in a Notice of Revision or Disallowance shall deliver a notice of dispute (a "Notice of Dispute") to the Monitor by 5:00 p.m., MST, on the day that is fifteen (15) days after the date of the Notice of Revision or Disallowance (the "Dispute Deadline").

32. Any creditor who fails to deliver a Notice of Dispute by the Dispute Deadline shall be deemed to accept the classification and the amount of its Pre-Filing Claim or Restructuring Period Claim as set out in the Notice of Revision or Disallowance and such Pre-Filing Claim or Restructuring Period Claim as set out in the Notice of Revision or Disallowance shall constitute a Accepted Claim (as defined in the Claims Process Order).

33. Upon receipt of a Notice of Dispute, the Company may with the assistance of the Monitor, attempt to consensually resolve the classification and amount of the Pre-Filing Claim or Restructuring Period Claim with the claimant.

34. In the event that the Company and the claimant cannot settle the Claim, the Company, the claimant or the Monitor may bring an application before the Court for resolution of the dispute.

RECOMMENDATION

35. The Company, in consultation with the Monitor, the Interim Financing Agent and the First Lien Agent, believes that establishing the Claims Process now will allow the Company to make an informed decision regarding bids received in the SISP and better evaluate, and ultimately timely implement, the available restructuring options either through a sale or a plan of arrangement.

36. The Monitor further believes that the Claims Process provides reasonable timelines for the Claims of creditors to be submitted and considered.

37. The Monitor respectfully recommends that this Honourable Court approve the Claims Process.

Dated at Calgary, this 18th 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