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COURT FILE NUMBER	1601-06131
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	**FIFTH REPORT OF THE MONITOR** **November 9, 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. 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 fifth report of the Monitor (the "Fifth Report") is to provide this Honourable Court with the Monitor's comments with respect to the following:

    a) an update on Connacher's sale and investment solicitation process (the "SISP");

    b) an update on the claims process being conducted by Connacher and the Monitor;

    c) the additional availability under the interim financing (the "Interim Financing") approved by the interim financing lenders (the "Interim Financing Lenders");

    d) the Company's forecast to actual cash flow results for the period August 27, 2016 to October 28, 2016 (the "Reporting Period");

    e) the Company's cash flow projection (the "Cash Flow Projection") for the period October 29, 2016 to January 13, 2017 (the "Forecast Period");

    f) the Company's request for an extension of the stay period to January 13, 2017;

    g) a proposed supplemental key employee retention plan (the "Supplemental KERP") to be secured under the existing KERP/LTIP Charge (as created and defined by the Initial Order); and

    h) 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.

BACKGROUND

6. 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

7. In preparing this Fifth 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 THE SISP

8. As identified in the second report of the Monitor dated August 5, 2016 (the "Second Report"), Connacher, with the consent of the Interim Financing Agent and Interim Lenders, extended the phase II bid deadline under the SISP to August 19, 2016 (the "Phase II Bid Deadline").

9. On or about the Phase II Bid Deadline, Connacher received multiple bids to acquire the property and/or business of Connacher (the "Phase II Bids"). Connacher and the Monitor have reviewed the Phase II Bids with the Interim Lenders and the other Consultation Parties (as defined in the SISP). Based upon the feedback from the Interim Lenders and other Consultation Parties, Connacher and the Monitor are continuing discussions and negotiations with certain bidders that submitted Phase II Bids.

10. In parallel with those discussions, Connacher and the Interim Lenders (which are comprised of the First Lien Lenders (as defined in the SISP) and holders of the second lien debt) are engaged in discussions to explore potential creditor sponsored alternative restructuring options for Connacher.

UPDATE ON CLAIMS PROCESS

11. Pursuant to the claims procedure order granted by this Honourable Court on August 24,

2016 (the "Claims Procedure Order"), claimants were required to file any claims against Connacher or its directors or officers by 5:00 p.m. MT on September 26, 2016 (the "Claims Bar Date").

12. 89 claims were submitted in accordance with the Claims Procedure Order by the Claims Bar Date, as follows:

Unsecured Claims[1] - $31,483,058

Secured Claims - $258,227,774

D&O Claims - $228,174

13. In addition, three claims totalling $152,744 were submitted following the Claims Bar Date.

14. Connacher and the Monitor are in the process of reviewing and considering the claims submitted.

ADDITIONAL AVAILABILITY UNDER THE INTERIM FINANCING

15. As permitted under the terms of the Initial Order and the Interim Financing, on October 26, 2016, Connacher entered into an agreement with the Interim Lenders to, among other things, waive certain defaults in connection with the SISP timeline and provide additional availability to Connacher under the Interim Financing in the amount of US$5,021,164.00 (the "Additional Availability"). The Additional Availability under the Interim Financing is forecast to provide Connacher with sufficient liquidity through the proposed extension of the Stay Period.

16. The Additional Availability was contemplated in the Interim Financing Credit Facility (as defined in the Initial Order) approved by this Honourable Court in the Initial Order and Connacher's total borrowings will remain within the US$20.0 million principal amount limit contained in the Initial Order.

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[1] Unsecured claims include Restructuring Period Claims and D&O Indemnity Claims as defined in the Claims Procedure Order.

CASH FLOW PROJECTION - BUDGET TO ACTUAL

17. Attached as Appendix "A" to this Fifth 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 "Fourth Report Forecast") previously provided to this Honourable Court in the Fourth Report of the Monitor dated September 8, 2016. 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

	Aug-27-16 to Oct-28-16		
Cash flow	**Actual**	**Forecast**	**Variance**
Receipts	20,576	22,255	(1,680)
Disbursements	26,042	28,623	2,581
Net change in cash	**(5,467)**	**(6,368)**	**901**
Opening cash	13,595	13,595	-
Restriction of cash for BCOGC	(100)	-	(100)
Ending cash	8,028	7,227	801
Restricted cash	7,200	7,100	100
Cash (including restricted cash)	**15,228**	**14,327**	**901**
Interim financing borrowings			
Opening borrowings	14,915	14,915	-
Draws	-	-	-
Ending borrowings	**14,915**	**14,915**	**-**

18. As set out in the table above, Connacher's total receipts for the Reporting Period were approximately $20.6 million, which is $1.68 million lower than the Fourth Report Forecast primarily as a result of:

a) lower spot prices received for non-contracted crude sales as compared to forecast prices; and

b) a higher than forecast differential received by Connacher on its crude sales relative to West Texas Intermediate crude prices ("WTI"). This differential is market driven and is impacted by a range of market factors, including, but not limited to, the cost associated with transporting Canadian crude to the U.S. gulf coast, the relative competing price from other heavy oil sources at the U.S. gulf coast, and the limited range of alternative end market destinations currently available for Canadian oil production.

19. Connacher's total disbursements for the Reporting Period were $26.0 million, which is $2.6 million lower than the Fourth Report Forecast. The variance results primarily from:

a) lower than forecast production costs, specifically related to fluid handling, chemical, field salaries and maintenance costs; and

b) lower than forecast restructuring costs, legal and professional fees invoiced to and paid by the Company during the Reporting Period, partially offset by the payment of quarterly interest owing on the Interim Financing and higher than forecast administration and benefit costs.

20. 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 report of the proposed Monitor dated May 16, 2016 and directed in the Initial Order.

21. Following discussions with the Monitor and the Interim Lenders, the Company has also reserved an additional $100,000 for the completion of certain site remediation and rehabilitation costs for previously abandoned wells in British Columbia.

22. The ending net cash balance, as described above, as at October 28, 2016 was $15.2 million including $7.2 million of restricted cash.

CASH FLOW PROJECTION - FORECAST

23. 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 11 Week Cash Flow	
For the period of October 29 to January 13, 2017	
$000's	
Opening available cash	8,028
Restricted cash	7,200
Opening cash (including restricted)	**15,228**
Cash receipts	30,591
Cash disbursements	34,203
Net change in cash	(3,612)
Ending available cash	4,416
Restricted cash	7,200
Ending cash (including restricted cash)	**11,616**
Interim Financing Borrowings	
Opening borrowings	14,915
Draws	6,385
Ending borrowings	**21,300**

24. As summarized above, Connacher is projecting $30.6 million in cash receipts and cash disbursements of $34.2 million, resulting in a net decrease in cash of $3.6 million during the Forecast Period.

25. The significant assumptions used by Connacher's management to prepare the Cash Flow Projections are generally consistent with the Fourth Report Forecast and have been updated for adjustments for the timing of receipts and disbursements and forecast oil prices, production volume estimates, pricing based on current contract rates, operating costs and general and administrative costs.

26. At present, oil prices, including WTI and the price differential that Canadian oil production sells at relative to WTI, are experiencing increased volatility. Connacher is directly exposed to these price fluctuations as the Company does not presently have a hedging program. As a result, any change in actual and forward oil prices relative to forecast levels may have a material impact, positively or negatively, on the Company's cash flows.

27. As discussed above, on October 26, 2016, Connacher secured the Additional Availability under the Interim Financing in the amount of approximately US$5.0 million (approximately CAD$6.7 million). The Additional Availability is forecast to provide Connacher sufficient liquidity to continue operating throughout the Forecast Period.

28. 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

29. Pursuant to an Order of this Honourable Court dated September 13, 2016, the Stay Period expires on November 15, 2016. Connacher is seeking an extension of the Stay Period up to and including January 13, 2017 (the "Stay Extension").

30. It is the Monitor's view that the Stay Extension is necessary to allow the Company to continue with the sale and restructuring discussions noted above. Connacher is forecasted to have sufficient liquidity to operate during the period covered under the Stay Extension.

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

KERP AND SUPPLEMENTAL KERP

32. On September 30, 2016, all amounts owing pursuant to the key employee retention plan (the "Initial KERP") authorized by the Initial Order and the payments due under Connacher's existing long term incentive plan (the "LTIP") were paid in full by Connacher.

33. Connacher has proposed a Supplemental KERP to ensure retention of key management employees during the ongoing CCAA proceedings and formulation of a restructuring.

34. The proposed Supplemental KERP covers 10 members of management, including executives, and would be paid upon certain defined milestones , including an outside date of May 15, 2017, The amounts to be paid under the proposed Supplemental KERP are set out in the Confidential KERP Summary as referenced in the Merle Johnson's affidavit sworn on November 7, 2016.

35. The proposed Supplemental KERP will be secured under the KERP/LTIP Charge created by the Initial Order. The Initial KERP and the payments due under the LTIP were paid on September 30, 2016 creating sufficient availability under the KERP/LTIP Charge to

secure the Supplemental KERP. The KERP/LTIP Charge is subordinated to the other charges granted by the Initial Order and, therefore, securing the Supplemental KERP under the KERP/LTIP Charge does not prime other stakeholders that were granted charges under the Initial Order.

36. Connacher has reviewed the proposed Supplemental KERP terms with the Interim Lenders. We are advised that the Interim Lenders support the terms of the Supplemental KERP.

37. The Monitor believes that the proposed Supplemental KERP and the proposal to secure the Supplemental KERP under the existing KERP/LTIP Charge is reasonable in the circumstances and is required due to the work required by the key employees to develop and implement a restructuring and is consistent with the amounts paid in similar Court-approved KERP's (and related Court approved charges) in comparable proceedings. Accordingly, the Monitor supports the proposed Supplemental KERP and the proposal to secured the Supplemental KERP under the existing KERP/LTIP Charge.

RECOMMENDATIONS

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

    a) the Stay Extension; and

    b) the Supplemental KERP.

Dated at Calgary, this 9th day of November, 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 August 27 to October 28, 2016
In Thousands of Canadian Dollars

WEEK ENDED		Forecast Aug-27-16 to Oct-28-16	Actual Aug-27-16 to Oct-28-16	Variance $	Notes
Receipts					
Crude Sales		22,255	20,527	(1,728)	1
Other		-	49	49	
Total Receipts		22,255	20,576	(1,680)	
Disbursements					
Royalties		215	65	150	
Oilsands operating expenses		12,160	10,941	1,220	2
Diluent/Transportation expenses		10,274	10,058	216	
General and administrative costs		1,786	2,296	(510)	3
Office Relocation Costs		-	-	-	
Capital Expenditures		109	86	23	
Key Employee Retention Plan		1,929	1,902	27	
Interim Financing - Interest		-	476	(476)	4
Unrealized Foreign Exchange (Gains) and Losses		-	(77)	77	
Supplier Prepayments/Deposits		-	(437)	437	
Total Disbursements		26,473	25,310	1,164	
CASH FLOW FROM OPERATIONS		(4,218)	(4,734)	(516)	
Restructuring costs		2,150	733	1,417	5
NET CHANGE IN CASH		(6,368)	(5,467)	901	
Opening cash		13,595	13,595	-	
Restriction of cash for BCOGC		-	(100)	(100)	6
Interim Financing Borrowings		-	-	-	
Ending Cash		7,227	8,028	801	
INTERIM FINANCING					
Opening borrowings		(14,915)	(14,915)	-	
Borrowings		-	-	-	
Ending borrowings		(14,915)	(14,915)	-	
RESTRICTED CASH					
Shut-down Costs		7,100	7,100	-	
BCOGC		-	100	100	6
Total Restricted Cash		7,100	7,200	100	

Notes:

1. Lower than forecast total sales related to movements in the price of oil impacting floating rate dilbit sales.

2. Lower than forecast operating expenses driven primarily by lowerproduction costs.

3. General and administrative costs were higher than forecast due to higher adminstration and benefit costs.

4. Higher interest costs relate to the payment of quarterly interest owing on the Company's interim financing.

5. Lower than forecast restructuring and professional fees invoiced to the Company during the period.

6. The Company has also reserved an additional $100,000 for the completion of certain site remediation and rehabilitation costs for previously abandoned wells in British Columbia.

CASH FLOW PROJECTION

	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	
WEEK ENDED	04-Nov-16	11-Nov-16	18-Nov-16	25-Nov-16	02-Dec-16	09-Dec-16	16-Dec-16	23-Dec-16	30-Dec-16	06-Jan-17	13-Jan-17	Total
Receipts												
Crude Sales	-	-	-	12,818	-	-	-	11,387	-	-	-	24,206
Other	-	-	-	-	-	-	-	-	-	-	-	-
Total Receipts	-	-	-	12,818	-	-	-	11,387	-	-	-	24,206
Disbursements												
Royalties	-	-	-	163	-	-	-	-	100	-	-	263
Oilsands operating expenses	563	563	563	4,499	548	548	548	4,633	548	643	643	14,300
Diluent/Transportation expenses	905	905	905	3,024	725	725	725	2,792	725	899	899	13,226
General and administrative costs	227	642	227	242	162	162	477	162	177	202	476	3,156
Capital Expenditures	56	56	56	56	303	303	303	303	303	214	214	2,165
DIP interest	-	-	-	-	-	-	-	-	493	-	-	493
Key Employee Retention Plan	-	-	-	-	-	-	-	-	-	-	-	-
Total Disbursements	1,751	2,166	1,751	7,984	1,737	1,737	2,052	7,890	2,345	1,958	2,231	33,603
CASH FLOW FROM OPERATIONS	(1,751)	(2,166)	(1,751)	4,834	(1,737)	(1,737)	(2,052)	3,497	(2,345)	(1,958)	(2,231)	(9,397)
Restructuring costs	-	-	-	300	-	-	-	-	300	-	-	600
NET CHANGE IN CASH	(1,751)	(2,166)	(1,751)	4,534	(1,737)	(1,737)	(2,052)	3,497	(2,645)	(1,958)	(2,231)	(9,997)
Opening cash	15,228	13,477	13,688	13,980	18,514	16,777	15,040	14,952	18,450	15,805	13,847	15,228
DIP Borrowings	-	2,378	2,043	-	-	-	1,964	-	-			6,385
Ending Cash	13,477	13,688	13,980	18,514	16,777	15,040	14,952	18,450	15,805	13,847	11,616	11,616
DIP FINANCING												
Opening borrowings	(14,915)	(14,915)	(17,293)	(19,336)	(19,336)	(19,336)	(19,336)	(21,300)	(21,300)	(21,300)	(21,300)	(14,915)
Borrowings	-	(2,378)	(2,043)	-	-	-	(1,964)	-	-	-	-	(6,385)
Ending borrowings	(14,915)	(17,293)	(19,336)	(19,336)	(19,336)	(19,336)	(21,300)	(21,300)	(21,300)	(21,300)	(21,300)	(21,300)
RESTRICTED CASH												
Shut-down Costs	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100
BCOGC	100	100	100	100	100	100	100	100	100	100	100	100
Total Restricted Cash	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200

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 1.3380