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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	TWELFTH REPORT OF THE MONITOR November 6, 2017
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. Ernst & Young Inc. was appointed as the Monitor (the "Monitor") of the Company pursuant to the terms of the Initial Order.

3. The purpose of this Twelfth Report of the Monitor (the "Twelfth Report") is to provide this Honourable Court with the Monitor's comments with respect to:

   a) the commitment letter dated November 3, 2017 (the "ATB Agreement") issued by Alberta Treasury Branches, operating as ATB Financial, (the "Lender") and accepted by Connacher;

   b) Connacher's request for a first priority charge (the "ATB Charge") to be granted to the Lender over all of the Cash Deposits (as defined below); and

   c) 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 Twelfth 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.

ATB AGREEMENT

8. Connacher has entered into the ATB Agreement, subject to the approval of this Honourable Court, for the following facilities from the Lender:

a) a facility for letters of credit with borrowings to a maximum of $5.0 million, (the "LOC Facility");

b) a commodity hedging facility; and

c) a corporate credit card facility with borrowings to a maximum of $50,000 (the "Credit Card Facility").

9. A redacted version of the ATB Agreement is attached as Exhibit "A" to the affidavit of Jeff Beeston dated November 3, 2017 (the "November 3 Beeston Affidavit"). The quantum of the commitment fee and letter of credit fee have been redacted from this version of the ATB Agreement. An unredacted version of the ATB Agreement has been provided to the Interim Lenders (as defined in the Initial Order), the Monitor and is attached as Confidential Exhibit "1" to the November 3 Beeston Affidavit.

10. The significant financial terms of the ATB Agreement are as follows:

a) a non-refundable commitment fee payable to the Lender upon acceptance of the ATB Agreement;

b) a fee on outstanding letters of credit;

c) the LOC Facility is payable in full on demand by Lender, and the Lender may terminate the LOC Facility at any time; and

d) under the Hedging Facility, the Lender may, in the Lender's discretion, enter into commodity derivatives with Connacher.

11. Connacher shall assign to the Lender, cash deposits (the "Cash Deposits") up to the aggregate amount of $8,555,000 to secure borrowings under the ATB Agreement as follows:

a) $55,000 on account of the Credit Card Facility;

b) 110% of the face amount of each letter of credit of and when issued by the

Lender under the LOC Facility, up to the maximum amount of $5.5 million; and

c) $3.0 million to be pledged at all time on account of the Hedging Facility.

12. Additionally, this Honourable Court shall grant to the Lender, a first priority charge against the Cash Deposits ranking ahead of all other Court ordered charges and security interest in the Cash Deposits.

13. The Monitor is supportive of the ATB Agreement and ATB Charge on the following basis:

a) Connacher presently has $6.5 million (the "Security Deposits") of cash advanced to suppliers as security in order for Connacher to continue receiving goods and services during these CCAA proceedings. The LOC Facility will permit Connacher to replace up to $5.0 million of the Security Deposits with letters of credits resulting in a corresponding return of cash securing Security Deposits to Connacher;

b) the Security Deposits are exposed to credit risk as the Security Deposits could be compromised in the event of an insolvency of a supplier;

c) administering the Security Deposits and payments that were made by credit card, prior to these CCAA proceedings, represents a significant administrative burden on Connacher that will be reduced by utilizing letters of credit and the Credit Card Facility;

d) the Monitor is of the view that the Commitment Fee and LOC Fee are reasonable in the circumstances;

e) without a hedging program, Connacher is directly exposed to crude oil and natural gas price fluctuations. Therefore, any change in actual and forward oil and natural gas prices may have a material impact, positively or negatively, on Connacher's cash flows. Connacher's ability to hedge production through the Hedging Facility will reduce this exposure;

f) the letters of credits under the LOC Facility will replace the Security Deposits. Therefore, the ATB Agreement should provide Connacher with an immediate increase in liquidity through the release of the Security Deposits and is not anticipated to result in a material reduction in assets securing the existing Court ordered charges; and

g) the beneficiaries of the Administrative Charge (as defined in the Initial Order), Connacher's counsel, the Monitor and its counsel, support and consent to the ATB Charge;

h) the Interim Lenders, who are beneficiaries of the Interim Lenders' Charge, support and consent to the ATB Charge; and

i) Connacher has provided notice to its employees who are beneficiaries of the KERP/LTIP Charge (as defined in the Initial Order) of the application for approval of the ATB Charge.

14. The Lender has advised Connacher that the ATB Agreement contains sensitive commercial information, the disclosure of which would be harmful to the Lender's commercial interests. The Lender therefore requires that Connacher seek a sealing order in respect of the unredacted copy of the ATB Agreement as contained at Confidential Exhibit "1" to the November 3 Beeston Affidavit.

RECOMMENDATIONS

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

a) the ATB Agreement;

b) the ATB Charge; and

c) the sealing of the unredacted version of the ATB Agreement.

Dated at Calgary, this 6th day of November, 2017.

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

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