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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	**FOURTEENTH REPORT OF THE MONITOR** **February 22, 2018**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**MONITOR**

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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 fourteenth report of the Monitor (the "**Fourteenth Report**") is to provide this Honourable Court with the Monitor's comments with respect to:

   a) an update on the CCAA proceedings since the thirteenth report of the Monitor dated January 25, 2018 (the "**Thirteenth Report**");

   b) the Company's retention of Houlihan Lokey Capital, Inc. (the "**Financial Advisor**" or "**Houlihan**") to provide financial advisory services to Connacher in developing and, if approved, implementing the renewed sale and investment solicitation process ("**SISP**") and a corresponding financial advisor charge to secure Houlihan's fees and costs; and

   c) the Company's request to have the Confidential Exhibit "1" to the Beeston Affidavit (as defined below) containing the unredacted Houlihan engagement letter sealed;

   d) the Monitor's request to have the Confidential Supplement to the Fourteenth Report (as defined below) sealed; 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 and the affidavit of Jeff Beeston sworn February 20, 2018 (the "**Beeston Affidavit**").

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 Fourteenth 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 CCAA PROCEEDINGS

8. Connacher closed the royalty transaction (the "**Royalty Agreement**") with Burgess Energy Holdings, LLC ("**BEH**") in accordance with the Order of this Honourable Court dated January 29, 2018. The Monitor filed its Monitor's Certificate on January 30, 2018 declaring that the conditions precedent to the vesting of the Royalty to BEH, including the payment of consideration from BEH to Connacher, were satisfied.

9. Connacher fully repaid its borrowings under the Interim Financing with the consideration received from the Royalty Transaction. Upon filing of the Monitor's Certificate on January 30, 2018, the Interim Lenders' Charge was released and terminated.

10. The Company, in consultation with the Monitor, has been engaged in discussions with its key lenders on a renewed SISP to be undertaken by Connacher, which is anticipated to be supported by a restructuring transaction from Connacher's First Lien Lenders. Connacher is finalizing the terms of the renewed SISP and the restructuring transaction and will be seeking approval from this Honorable Court for the renewed SISP in a subsequent application expected to be heard in late March 2018.

RETENTION OF FINANCIAL ADVISOR AND FA CHARGE

11. In late 2017 and early 2018, Connacher and the Special Committee, with the input of the First Lien Lenders, solicited proposals from certain investment banks (the

"**Investment Banks**") to provide financial advisory services to Connacher in developing and, if approved, implementing the renewed SISP.

12. Based on review of the Investment Banks' proposals, Connacher interviewed certain of the Investment Banks and, in consultation with the Special Committee, Interim Lenders and the Monitor, selected Houlihan to act as the exclusive Financial Advisor in connection with the renewed SISP.

13. Connacher and Houlihan have entered into an agreement for these financial advisory services dated February 6, 2018 (the "**Houlihan Engagement Letter**"). The Houlihan Engagement Letter is conditional upon the approval of this Honourable Court on or before February 28, 2018.

14. Connacher, at the request of Houlihan, is seeking to seal the unredacted copy of the Houlihan Engagement Letter that is attached as Confidential Exhibit 1 to the Beeston Affidavit. A redacted copy of the Houlihan Engagement Letter is attached as Exhibit A to the Beeston Affidavit.

15. Connacher is further seeking a Court-ordered charge the ("**FA Charge**") on Connacher's property to secure the payment of Houlihan's fees and costs arising from the Houlihan Engagement Letter. It is proposed that the FA Charge will rank subordinate to the Court-ordered charges previously ordered in these proceedings but in priority to all other security interests, charges and encumbrances.

16. The Monitor is supportive of the retention of Houlihan as Financial Advisor and the granting of the FA Charge to Houlihan based upon the following:

a) Connacher, in consultation with the Special Committee and the First Lien Lenders, solicited proposals and interviewed multiple investment banks to act as Financial Advisor;

b) The engagement of a financial advisory firm is critical to the development and implementation of a renewed SISP. The objective of the renewed SISP is to identify a transaction (including either a sale or a plan) designed to benefit Connacher's stakeholders;

c) Based on the Monitor's previous experience with the retention of financial advisors in CCAA proceedings, the Monitor considers the terms and fees associated with Connacher's engagement of Houlihan to be reasonable in the circumstances;

d) The FA Charge shall rank behind all other Court-ordered charges and the granting of Court-ordered charges as security to financial advisors is a consistent practice in similar CCAA proceedings; and

e) The retention of Houlihan as Financial Advisor and the FA Charge was approved by the Special Committee and is supported by the First Lien Lenders.

CONFIDENTIAL SUPPLEMENT TO THE FOURTEEN REPORT

17. The Monitor has issued a Confidential Supplement to this Fourteenth Report dated February 22, 2018 (the "**Confidential Supplement to the Fourteenth Report**") which contains the Monitor's analysis of the fee structure containing within the Houlihan Engagement Letter.

18. The Monitor understands from its discussions with Houlihan that the financial terms in the Houlihan Engagement Letter are unique to this transaction. Furthermore, Houlihan has advised the Monitor that (a) disclosure of the financial terms could harm its business in that its competitors will learn the financial terms Houlihan offered in connection with securing this engagement; and (b) it expects that the financial terms will be maintained in confidence. The Monitor is thus seeking this Court's approval to seal the Confidential Supplement to the Fourteenth Report on the basis that such approval is necessary in order to prevent a serious risk to an important commercial interest; namely, the financial terms of Houlihan's engagement. There are no alternative measures available to protect the risk.

RECOMMENDATIONS

19. The Monitor recommends that this Honourable Court:

a) approve the Houlihan Engagement Letter;

b) grant the FA Charge; and

c) approve the sealing of Confidential Exhibit "1" to the Beeston Affidavit containing an unredacted version of the Houlihan Engagement Letter and the Confidential Supplement to the Fourteenth Report of the Monitor, on the Court file.

Dated at Calgary, this 22nd day of February, 2018.

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

Neil Narfason, CPA, CA, CIRP, LIT, CBV
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