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	**FIFTEENTH REPORT OF THE MONITOR** **MARCH 22, 2018**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**MONITOR** ERNST & YOUNG INC. Calgary City Centre 2200, 215 - 2nd Street SW Calgary, Alberta T2P 1M4 Attention: Neil Narfason / Peter Chisholm Telephone: (403) 206-5067 / (403) 206-5061 Fax: (403) 206-5075 Email: neil.narfason@ca.ey.com/ peter.chisholm@ca.ey.com **COUNSEL** 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 (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 fifteenth report of the Monitor (the "**Fifteenth Report**") is to provide this Honourable Court with an overview of:

   a) Connacher's request for approval and authorization to enter into the Support Agreement (the "**Support Agreement**") between Connacher, certain First Lien Lenders (the "**Consenting First Lien Lenders**") and the First Lien Agent (as defined in the Initial Order);

   b) Connacher's request for approval of the renewed sale and investment solicitation process ("**SISP**") and authorizing Connacher, Houlihan Lokey Capital, Inc. (the "**Financial Advisor**") and the Monitor to perform their obligations under the SISP;

   c) Connacher's request for approval of a key employee incentive plan (the "**KEIP**") and the granting of a charge in favour of the beneficiaries of the KEIP against the property of Connacher (the "**KEIP Charge**"); and

   d) 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, the SISP or the Support Agreement.

BACKGROUND

6. Pursuant to the Initial Order, the Court approved a sale and investment solicitation process (the "**Initial SISP**") which had a bid deadline for non-binding letters of intent of June 30, 2016 and a bid deadline for binding offers of July 27, 2016. Connacher, with the consent of the Interim Financing Agent and Interim Lenders (both as defined in the

Initial Order), extended the phase II bid deadline under the Initial SISP to August 19, 2016.

7. On or about the Phase II Bid Deadline, Connacher received multiple bids to acquire the property and/or business of Connacher.

8. Connacher, in consultation and with the support of the Monitor and the Interim Lenders, elected not to select a Successful Bid (as defined in the Initial Order).

9. Connacher believed that improved market conditions may present opportunities to enhance stakeholder recoveries, such as long-term contract negotiations and hedging opportunities to stabilize and/or enhance cash flow and strategic transactions or a sale, that were not previously available or economical (the "**Strategic Options**").

10. During these CCAA proceedings, Connacher has assessed and implemented several Strategic Options including the Royalty Agreement as defined and approved by an Order of this Honourable Court dated January 29, 2018.

11. Connacher also explored a creditor-sponsored alternative to a sale with the First Lien Lenders (as defined in the Initial Order) and with a view of commencing the renewed SISP, Connacher retained the Financial Advisor pursuant an engagement letter (the "**Engagement Letter**") approved by an Order of this Honourable Court dated February 28, 2018. This Engagement Letter contemplated that the Financial Advisor would assist in developing and implementing the proposed renewed SISP (as described below).

12. 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

13. In preparing this Fifteenth 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.

SUPPORT AGREEMENT

14. Connacher, with the assistance of the Monitor and the Financial Advisor, has negotiated the Support Agreement with the First Lien Agent and the Consenting First Lien Lenders. A redacted version of the Support Agreement is attached as exhibit "**A**" to the affidavit of Merle Johnson dated March 19, 2018 (the "**Johnson Affidavit No. 11**").

15. The key terms of the Support Agreement include the following:

    a) Connacher is obligated to undertake the renewed SISP to identify a transaction (a "**Superior Transaction**") that provides cash consideration of at least CDN$90 million plus cash consideration sufficient to pay all claims ranking *pari passu* with or in priority to the First Lien Lenders, excluding Connacher's cash-on-hand (the "**Minimum Consideration Threshold**");

    b) Should Connacher determine that a Superior Transaction is not available through the SISP, Connacher will proceed to complete a transaction whereby the First Lien Agent will form a purchaser ("**NewCo**") that will "credit bid" a portion of the first lien debt in exchange for acquiring all or substantially of the assets of Connacher as set out in the PSA (as defined below) (the "**Restructuring Transaction**");

    c) The term sheet (the "**Term Sheet**") attached as schedule "B" to the Support Agreement includes certain conditions precedent to the Restructuring Transaction including all governmental or regulatory approvals on terms satisfactory to the Consenting First Lien Lenders, including all necessary approvals from the Alberta Energy Regulator ("**AER**");

    d) The Consenting First Lien Lenders shall agree to use commercially reasonable efforts to support the closing of a Superior Transaction or the Restructuring Transaction and forbear from exercising any default-related rights or other powers against Connacher;

    e) The Support Agreement may be terminated upon the implementation of a Superior Transaction, the Restructuring Transaction or the outside date (the ("**Outside Date**"). The Outside Date is September 30, 2018 or such other date agreed upon between majority of the Consenting First Lien Lenders and Connacher; and

    f) The Support Agreement is subject to approval of this Honourable Court.

Restructuring Transaction - Purchase and Sale Agreement

16. The purchase and sale agreement (the "**PSA**") attached as schedule "C" to the Support Agreement outlines the terms under which the First Lien Lenders would acquire all or substantially all of the property of Connacher pursuant to a Restructuring Transaction.

17. The key terms of the PSA and the Restructuring Transaction include the following:

    a) Connacher shall transfer to Newco all or substantially all of its assets including Connacher's cash-on-hand as at the closing date;

    b) Newco shall assume substantially all of Connacher's post-CCAA filing trade payables;

    c) Newco shall make offers of employment to all employees of Connacher and assume all related obligations; and

    d) Reserves shall be funded by Connacher, in advance of closing the Restructuring Transaction, for the purposes of settling all claims in priority to the claims of the First Lien Lenders including the Charges and pay for the cost of winding down Connacher.

18. As the Restructuring Transaction is an asset transaction and the First Lien Lenders would be incurring a significant shortfall under the Restructuring Transaction, there would not be a recovery to the pre-filing creditors of Connacher ranking subordinate to the claims of the First Lien Lenders.

19. Connacher will not seek Court approval of the PSA unless and until no Superior Transaction is selected pursuant to the SISP. If the PSA is ultimately pursued, the Monitor will provide its comments on the proposed form of vesting order being sought by Connacher when it applies for approval of the PSA.

SALE AND INVESTMENT SOLICITATION PROCESS

20. 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 supported by the aforementioned Restructuring Transaction. A copy of the proposed SISP is attached as exhibit "**B**" to the Johnson Affidavit No. 11.

21. A high-level overview of the SISP is as follows:

Marketing Process and Timeline

a) The process will commence as soon as reasonably practicable upon approval by this Honourable Court;

b) The SISP shall be advertised in a press release to be disseminated through Canada Newswire and any such additional news outlets as deemed appropriate by the Company, in consultation with the Financial Advisor and the Monitor;

c) The Financial Advisor will prepare and deliver a non-confidential teaser letter (the "**Teaser Letter**") describing the opportunity to acquire the Property of Connacher to prospective purchasers ("**Potential Bidders**"). The Teaser will be posted on the Monitor's website as soon as practicable following the issuance of the Court approval of the SISP;

d) The Financial Advisor will contact Potential Bidders via telephone and/or e-mail to describe the opportunity to acquire the Property of Connacher;

e) Potential Bidders that execute a confidentiality agreement will be provided additional information via a confidential information memorandum ("**CIM**") and access to an electronic data room; and

f) The proposed timeline and key dates with respect to this SISP are as follows:

Milestone	Deadline
Phase I Bid Deadline	May 23, 2018
Phase II Bid Deadline	June 20, 2018
Court Approval of Successful Bid	July 17, 2018
Closing of Transaction	August 17, 2018

Phase I Bid Process

a) All Potential Bidders that are parties to a confidentiality agreement with Connacher and have executed an acknowledgement of the SISP procedures in form and substance satisfactory to the Company (the "**SISP Acknowledgment**") shall be deemed to be a qualified phase I bidder (a "**Qualified Phase I Bidder**") and will be promptly notified of such classification by the Financial Advisor.

b) Qualified Phase I Bidders will be provided with a copy of the CIM, access to the Phase I Data Room and any further information requested by the Qualified Phase I Bidder that the Company deems appropriate.

c) A Qualified Phase I Bidder, if it wishes to submit a bid, must deliver written copies of a non-binding letter of intent (a "**Phase I Bid**") to the Financial Advisor (with copies to Connacher and the Monitor) to be received by them no later than 12:00 p.m. (Mountain Time) on May 23, 2018, or such other date or time as may be agreed by the Company, with the consent of the Consenting First Lien Lenders and in consultation with the Financial Advisor and the Monitor (the "**Phase I Bid Deadline**").

d) A Phase I Bid will be deemed to be a "Qualified Phase I Bid" only if the Phase I Bid complies with the requirements pursuant to Paragraph 17 of the SISP, including but not limited to the requirement that it must be in excess of the Minimum Consideration Threshold. The Company has the right to waive compliance with one or more of the requirements of a Qualified Phase I Bidder, except for the requirement that the net sale or investment proceeds must meet the Minimum Consideration Threshold.

e) The Company, in consultation with the Financial Advisor, Consenting First Lien Lenders and the Monitor, will assess the Phase I Bids received by the Phase I Bid Deadline and determine whether such bids constitute Qualified Phase I Bids;

f) The Company, in consultation with the Financial Advisor, Consenting First Lien Lenders and the Monitor, will consider any bid on behalf of a creditor of Connacher under which all or a portion of the consideration being offered under the bid includes the compromise of all or a portion of indebtedness owing from Connacher to the creditor;

g) The Financial Advisor shall notify each party that submits a Phase I Bid in writing as to whether such party has been determined to be a Phase II bidder ("**Phase II Bidder**") and therefore shall be permitted to proceed to Phase II; and

h) If a Qualified Phase I Bid is not received, the SISP will be terminated and Connacher will proceed with the Restructuring Transaction, including seeking court approval of the PSA and vesting title to the Property to Newco.

Phase II Bid Process

a) Phase II of the SISP will be limited to those parties that submitted a Qualified Phase I Bid and were identified by Connacher (in consultation with the Financial Advisor, Consenting First Lien Lenders and the Monitor) as a Phase II Bidder. No party shall enter Phase II of the SISP without having participated in Phase I of the SISP.

b) The Financial Advisor and Connacher shall allow each Phase II Bidder such further access to due diligence materials and information, management presentations and site visits as they deem appropriate in its reasonable business judgement and subject to competitive and other business considerations.

c) A Phase II Bidder that wishes to make a formal offer to purchase the Property shall submit a binding offer (a "**Phase II Bid**") to the Financial Advisor (with copies to Connacher and the Monitor) to be received by them no later than 12:00 p.m. (Mountain Time) on June 20, 2018, or such other date or time as may be agreed by the Company, with the consent of the Consenting First Lien Lenders and in consultation with the Financial Advisor and the Monitor (the "**Phase II Bid Deadline**").

d) Such Phase II Bid shall be a "Qualified Phase II Bid" (and such Phase II Bidder shall be a "**Qualified Phase II Bidder**") only if the Phase II Bid meets all of the requirements of a Qualified Phase II Bid in accordance with Paragraph 26 of the SISP. With the consent of the Monitor, Connacher has the right to waive compliance with one or more of the requirements of a Qualified Phase II Bidder, except for the requirement that the net sale or investment proceeds must meet the Minimum Consideration Threshold.

e) The Company, in consultation with the Financial Advisor, Consenting First Lien Lenders and the Monitor, will assess the Phase II Bids received by the Phase II Bid Deadline and determine within five Business Days whether or not each such bid constitutes a Qualified Phase II Bid.

f) The Company, in consultation with the Financial Advisor, the Monitor and the Consenting First Lien Lenders, also reserves the right to:

   i. request that certain Qualified Phase II Bidders revisit their Phase II Bids in the event that multiple Qualified Phase II Bids are competitive; or

   ii. commence an auction process (the "**Auction**") with respect to multiple Qualified Phase II Bids, pursuant to and in accordance with the auction procedures approved by the Company with the consent of the Consenting First Lien Lenders and in consultation with the Financial Advisor and the Monitor.

Definitive Agreement and Court Approval

a) If a Successful Bid is chosen and a Definitive Agreement has been negotiated and settled in respect of a Successful Bid whether pursuant to paragraph 29 of the SISP or as a result of an Auction, the person who made the Successful Bid shall be the "**Successful Bidder**".

b) Any Definitive Agreement entered into by Connacher with a Successful Bidder, in consultation with the Consenting First Lien Lenders and the Monitor, shall contain as a condition of that agreement, that the agreement is subject to Court approval, and the Successful Bidder will complete or waive all of its due diligence requirements prior to the Company's application for Court approval of the transaction.

c) Connacher shall apply to this Court for an order approving the Successful Bid and authorizing the Company to enter into any and all necessary agreements with respect to the Successful Bidder, as well as an order vesting title to the Property in the name of the Successful Bidder.

d) If no Successful Bid is chosen, the SISP will be terminated and Connacher will proceed with the Restructuring Transaction, including seeking court approval of the PSA and vesting title to the Property to Newco.

MONITOR'S OPINION OF THE SUPPORT AGREEMENT AND SISP

22. The Monitor is supportive of the Support Agreement and SISP on the following basis:

    a) The Restructuring Transaction is a going-concern transaction whereby Newco will assume the post-filing CCAA liabilities of Connacher and make offers to all of the employees of Connacher. The Support Agreement will provide stability to Connacher throughout the SISP;

    b) The Support Agreement and PSA set a transparent floor price of $90 million (plus certain priority amounts) for a Superior Transaction and will reduce the efforts and costs expended by Connacher and the Financial Advisor on potential bidders that would not have been successful in the SISP;

    c) The Support Agreement and SISP has been approved by the Monitor and Special Committee;

    d) The Support Agreement and SISP are supported by the First Lien Agent and the Consenting First Lien Lenders. The First Lien Lenders represent Connacher's first ranking secured creditor, subordinate to the Charges, and are owed in excess of USD$200 million; and

    e) The Monitor is satisfied that the proposed timelines under the SISP will allow arm's-length market participants sufficient time to assess the opportunity to purchase and/or invest in Connacher and, if such participants are selected to proceed to the second phase of the proposed SISP, there is sufficient time for such parties to submit a binding offer of purchase and/or investment.

23. The Monitor is supportive of the sealing order being sought by Connacher in connection with the Support Agreement, which contains commercially sensitive information related to Connacher's business and operations and the holdings of the Consenting First Lien Lenders. The disclosure of this information could be harmful to Connacher's commercial interests and potentially jeopardize the integrity of the SISP.

KEY EMPLOYEE INCENTIVE PLAN

24. Connacher is seeking this Court's approval of a KEIP for a limited number of employees (the "**Key Employees**") who are essential to the success of the renewed SISP. The details of the KEIP are contained within confidential exhibit "2" to the Johnson Affidavit No. 11.

25. The KEIP is to be secured by the proposed KEIP Charge against the property of Connacher, to be granted by this Honourable Court, which will shall rank subordinate to the existing Charges.

26. Connacher developed the KEIP bonuses with the assistance of the Monitor and Financial Advisor in order to maximize value in the SISP. The proposed payments have been approved by the Consenting First Lien Lenders and the Special Committee.

27. The KEIP was developed to maximize value in the SISP and therefore is structured such that that there is no payment unless a Superior Transaction is achieved. The payment under the KEIP is dependent on the aggregate gross consideration received for the sale of the Connacher's assets, excluding cash-on-hand at the time of closing, under a Superior Transaction.

28. The Monitor has compared the proposed KEIP to incentive programs developed to maximize transaction value on similar Court-supervised restructurings (the "**KEIP Comparatives**") and has concluded that the terms of the KEIP, including payments relative to transaction value, are consistent with the KEIP Comparatives.

29. The Monitor recommends the KEIP and KEIP Charge as:

a) The KEIP is structured in a manner to incentivize the Key Employees to obtain a Superior Transaction and to maximize transaction value under such a Superior Transaction;

b) The Key Employees are each essential to the success of the SISP, as their experience and knowledge of Connacher's business and operations are critical to soliciting third party bids and could not easily be replaced during the solicitation period;

c) The payments under the KEIP are only earned in the event of a Superior Transaction and are in-line with incentive plans in similar Court-supervised restructurings;

d) The KEIP Charge is subordinate to all other Court-ordered CCAA Charges and is in priority to the claims of the First Lien Lenders with secured claims in excess of USD$200 million; and

e) The KEIP and KEIP Charge was approved by the Monitor and Special Committee and is supported by the Consenting First Lien Lenders.

30. The Monitor is supportive of the sealing order being sought by Connacher in connection with the KEIP, which contains commercially sensitive information. Disclosure the KEIP could be harmful to the SISP and the commercial interests of Connacher and its stakeholders.

RECOMMENDATIONS

31. The Monitor respectfully recommends that this Honourable Court approve the:

a) Support Agreement;

b) SISP;

c) KEIP;

d) KEIP Charge;

e) sealing of the unredacted Support Agreement attached as Confidential Exhibit "1" to the Johnson Affidavit No. 11; and

f) sealing of the details of the KEIP attached as Confidential Exhibit "2" to the Johnson Affidavit No. 11.

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

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

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