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JUDICIAL CENTRE
OF CALGARY

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	EIGHTEENTH REPORT OF THE MONITOR OCTOBER 3, 2018
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 / Peter Chisholm Telephone: (403) 206-5067 / (403) 206-5061 Fax: (403) 206-5075 Email: neil.narfason@ca.ey.com/ peter.chisholm@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

TABLE OF CONTENTS OF THE EIGHTEENTH REPORT

APPENDICES

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. Connacher completed a sale and investment solicitation (the "SISP") approved by an Order of this Honourable Court dated March 28, 2018.

4. East River Oil and Gas Ltd. (the "Plan Sponsor") was selected as the Successful Bidder in the SISP. The Qualified Phase II Bid submitted by the Plan Sponsor formed the basis for the CCAA acquisition and plan sponsorship agreement dated August 2, 2018 (the "Plan Sponsorship Agreement") including the plan of compromise and arrangement (the "CCAA Plan") filed by Connacher with this Honourable Court.

5. This Honourable Court granted an Order on August 22, 2018 approving meetings of the Affected Creditors of Connacher to consider and vote upon the CCAA Plan. The Monitor reported its comments and recommendations on the CCAA Plan by way of the Monitor's Seventeenth Report dated August 17, 2018, Confidential Supplement to the Seventeenth Report dated August 17, 2018 and Supplement to the Seventeenth Report dated September 28, 2018 (collectively, the "Seventeenth Report").

6. The purpose of this eighteenth report of the Monitor (the "Eighteenth Report") is to provide this Honourable Court with the Monitor's comments with respect to:

   a) The results of the meetings of creditors (the "Creditors' Meetings") held on October 3, 2018; and

   b) The Monitor's recommendations.

7. All references to dollars are in Canadian currency unless otherwise noted.

8. Capitalized terms not defined herein are as defined in the Initial Order, the SISP, Plan Sponsorship Agreement, the purchase and sale agreement dated August 2, 2018 entered into between Connacher and the Plan Sponsor and the CCAA Plan.

BACKGROUND

9. 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

10. In preparing this Eighteenth 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.

CREDITORS' MEETINGS

11. Pursuant to the Creditors' Meetings Order granted by this Honorable Court on August 22, 2018, there were two classes of creditors established for purposes of considering and voting on the CCAA Plan: (i) the First Lien Lender Class (as defined below); and (ii) the General Creditor Class (as defined below).

First Lien Lenders' Class

12. The First Lien Lenders comprised a single class of creditors (the "First Lien Lenders' Class") for voting purposes.

13. The aggregate amount of the First Lien Lenders' claim under the CCAA Plan is $292.2 million (the "First Lien Lender Claim") based upon principal and accrued interest outstanding as at October 31, 2018. Each First Lien Lender was entitled to vote its *pro rata* share of the First Lien Lender Claim.

14. Monitor's counsel has reviewed the security held by the First Lien Agent on behalf of the First Lien Lenders (the "First Lien Security") 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.

General Creditor Class

15. The general creditors (the "General Creditors") are comprised of all Affected Claims of Connacher with the exception of the:

    a) First Lien Lender Claim (other than the First Lien Deficiency Claim);

    b) Priority Secured Claims (as defined in the CCAA Plan);

    c) Employee Priority Claims (as defined in the CCAA Plan);

    d) Priority Crown Claims (as defined in the CCAA Plan); and

    e) Equity Claims (as defined in the CCAA Plan).

    (the "General Creditor Claims")

16. As the First Lien Claim will not be satisfied in full, the First Lien Lenders are expected to have a deficiency claim, which is estimated to be approximately $116.7 million (the "First Lien Deficiency Claim") and the Second Lien Noteholders (as defined in the Claims Process Order) have a deficiency claim of $71.3 million (the "Second Lien Deficiency Claim") representing the full principal and accrued interest outstanding to the Second Lien Noteholders as at October 31, 2018. Both the First Lien Deficiency Claims and the Second Lien Deficiency Claim are General Creditor Claims.

17. The General Creditors comprised a single class of creditors (the "General Creditor Class") for voting purposes.

Voting Parameters

18. As set out in the CCAA and in the Creditors' Meetings Order, all votes in connection with the CCAA Plan are determined by way of the "double majority" test. To receive approval, two-thirds in value and a majority in number of Affected Creditors with a Voting Claim, present and voting (in person or by proxy) within each class of creditors (the "Required Majority"), must vote in favour of the CCAA Plan in order for the CCAA Plan to be approved by such class.

19. Pursuant to the Creditors' Meetings Order, the quorum required at each Creditors' Meeting is met if one Affected Creditor with an Accepted Claim is present at each

Creditors' Meeting (in person or by proxy) (the "Quorum"). A Quorum was present for both meetings.

20. Separate meetings were held for the vote of the First Lien Lender Class (the "First Lien Lender Meeting") and the vote of the General Creditor Class (the "General Creditor Class Meeting").

21. At the First Lien Lender Meeting, Affected Creditors of the First Lien Lender Class were asked to vote on a single resolution accepting and approving the CCAA Plan. A vote in favour of the CCAA Plan was also deemed to be that Affected Creditors' vote in favour of any General Creditor Claims, including any First Lien Deficiency Claim held by such First Lien Lender for the General Creditor Class Meeting.

22. At the General Creditor Class Meeting, Affected Creditors were also asked to vote on a single resolution accepting and approving the CCAA Plan. As set out in the Seventeenth Report, Affected Creditors in the General Creditor Class with an Accepted Claim of $2,000 or less will receive payment in full of the Accepted Claim under the CCAA Plan and Affected Creditors of the General Creditor Class with an Accepted Claim greater than $2,000 were also entitled to make a Distribution Election in respect of their General Creditor Claim to receive $2,000 on account of their General Creditor Claim under the CCAA Plan (each, a "Convenience Class Creditor" and together, the "Convenience Class Creditors"). Each Convenience Class Creditor was deemed to vote as part of the General Creditor Class in favour of the CCAA Plan, with a Voting Value equal to that Convenience Class Creditor's Accepted Claim. Convenience Class Creditors were not entitled to vote at the General Creditor Class Meeting, whether in person or by proxy. The votes of the Convenience Class Creditors are summarized in the voting results below.

23. Under the Creditors' Meeting Order, Affected Creditors with Disputed Claims were entitled to vote at the Creditors' Meetings with such votes to be tabulated separately subject to the resolution and ultimate approval of the Disputed Claim, either by the Monitor or this Honourable Court. No Creditors holding Disputed Claims voted at the Creditors' Meetings.

Results of Votes

24. The Creditor's Meetings were held on October 3, 2018 at the offices of Cassels Brock & Blackwell LLP, Suite 3810, Bankers Hall West, 888 3rd Street SW, Calgary, Alberta, with the following meeting times for each of the two classes of creditors:

    a) The Creditors' Meeting for the First Lien Lender Class was held at 10:00 a.m. (Calgary time); and

    b) The Creditors' Meeting for the General Creditor Class was held at 10:15 a.m. (Calgary time).

25. Mr. Neil Narfason, Senior Vice President of Ernst & Young Inc., acted as Chair of the Creditors' Meetings. The Company's legal counsel, the Monitor's legal counsel and the Monitor were available at the Creditors' Meetings to answer creditor questions. Copies of the CCAA Plan were made available to each Affected Creditor in attendance at the Creditors' Meetings, upon request.

26. At each of the Creditors' Meetings, a quorum was present and accordingly, the Chair declared each of the Creditors' Meetings to be properly constituted.

27. The votes received in connection with the CCAA Plan were tabulated based on the Required Majority for each of the First Lien Lender Class and the General Creditor Class.

28. Table 1.0 below sets out the results of the votes of the Affected Creditors of the First Lien Lender Class, in respect of the resolution to approve the CCAA Plan.

Connacher Oil and Gas Limited — Table 1.0
Creditors' Meetings - October 3, 2018
First Lien Lender Class - Voting Resuts
CAD $000s

Affected Creditor Class	Total Number of Votes	% of Votes by Number For Plan	% of Votes by Number Against Plan	Total Value of Votes	% of Votes by Value For Plan	% of Votes by Value Against Plan
First Lien Lender Class	18	100%	0%	267,933	100%	0%

29. Table 2.0 below sets out the results of the votes of the Affected Creditors of the General Creditor class, in respect of the resolution to approve the CCAA plan.

Connacher Oil and Gas Limited
Creditors' Meetings - October 3, 2018
General Creditor Class - Voting Results
CAD $000s

Table 2.0

Affected Creditor Class	Total Number of Votes	% of Votes by Number For Plan	% of Votes by Number Against Plan	Total Value of Votes	% of Votes by Value For Plan	% of Votes by Value Against Plan
General Creditor Class	226	100%	0%	179,704	100%	0%

30. As identified above, both the First Lien Lender Class and the General Creditor Class, voting in person or by proxy, approved the CCAA Plan by a majority well in excess of the Required Majority.

31. Table 3.0 below summarizes the Affected Creditors of the General Creditor Class that were deemed to participate in the Convenience Class and the Affected Creditors that elected to participate in the Convenience Class.

Connacher Oil and Gas Limited
Creditors' Meetings - October 3, 2018
Summary of Convenience Class Elections
CAD $000s

Table 3.0

General Creditor Class	Total Number of Elections	Total Value of Elections	Total Value of Claims*
General Creditors - Distribution Elections	10	20	663
General Creditors - Deemed Elections	18	14	14
Second Lien Beneficial Noteholders - Distribution Elections	210	174	3,527

**Represents the total value of Voting Claims that deemed or elected to participate in the Convenience Class, as applicable*

RECOMMENDATIONS

32. The Monitor respectfully recommends that this Honourable Court approve Connacher's motion to sanction the CCAA Plan on the basis that:

a) Notice to Affected Creditors for the Creditors' Meetings held to approve the CCAA Plan was duly given and the Creditors' Meetings were duly constituted;

b) The CCAA Plan is fair and reasonable, pursuant to the analysis and for the reasons set out in the Seventeenth Report;

c) The required Quorum was met at each of the First Lien Lenders Meeting and the General Creditors Meeting;

d) The Affected Creditors of each of the First Lien Lender Class and the General Creditors Class, voting in person or by proxy, approved the CCAA Plan by a majority well in excess of the Required Majority;

e) Notice of the CCAA Plan Sanction Hearing was duly given and no parties have filed any objection or opposition to sanctioning of the CCAA Plan; and

f) To the best of the Monitor's knowledge, Connacher has complied with all statutory requirements of the CCAA and all previous orders of this Honourable Court and has not done or purported to do anything which is not authorized by the CCAA.

Dated at Calgary, this 3rd day of October, 2018.

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

Neil Narfason, CA, CPA, CBV, CIRP, LIT
Senior Vice President

Peter Chisholm CA, CPA, CIRP, LIT
Vice President

APPENDIX ‘A’

Connacher Oil and Gas Limited

Creditors' Meetings - October 3, 2018

CCAA Plan Voting Results

Appendix A

First Lien Lender Class	Number of Votes	% of Votes (Number)	Value of Votes	% of Votes (Value)	Plan Approved?
FOR Plan	18	100%	$ 267,933	100%	
AGAINST Plan	0	0%	$ -	0%	
Total Votes	18	100%	$ 267,933	100%	
Value of First Lien Lender Claim	292,218				
% Value of First Lien Lender Claim Voting	92%				
Requisite: >50% number votes		*Y*			Y
Requisite: 2/3 value of votes				*Y*	

General Creditor Class	Number of Votes	% of Votes (Number)	Value of Votes	% of Votes (Value)	Plan Approved?
FOR Plan	226	100%	$ 179,704	100%	
AGAINST Plan	0	0%	$ -	0%	
Total Votes	226	0%	$ 179,704	0%	
Total Proven Claims	210,599				
% of Proven Claims Voting	85%				
Requisite: >50% number votes		*Y*			Y
Requisite: 2/3 value of votes				*Y*	