COURT FILE NUMBER	1601-06131	CLERK OF THE COURT FILED JAN 05 2017 Clerk's Stamp JUDICIAL CENTRE OF CALGARY
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	**SIXTH REPORT OF THE MONITOR** January 5, 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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APPENDICES

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 sixth report of the Monitor (the "**Sixth 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) the approval and modification agreement # 2 dated December 16, 2016 (the "**Second Amendment Agreement**") amending certain provisions of the Interim Financing Credit Facility (as defined in the Initial Order);

   c) the Company's forecast to actual cash flow results for the period October 29, 2016 to December 30, 2016 (the "**Reporting Period**");

   d) the Company's cash flow projection (the "**Cash Flow Projection**") for the period December 31, 2016 to June 30, 2017 (the "**Forecast Period**");

   e) the Company's request for an extension (the "**Stay Extension**") of the stay period to June 30, 2017 (the "**Stay Period**"); and

   f) the Monitor's recommendation.

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 Sixth 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 AND STRATEGIC OPTIONS

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 (both as defined in the Initial Order), 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 reviewed the Phase II Bids with the Interim Lenders and the other Consultation Parties (as defined in the SISP) and entered into discussions with certain of the Phase II Bidders to explore transaction opportunities.

10. Subsequent to the Phase II Bid Deadline, there was an improvement in the price of crude oil resulting in improved liquidity for Connacher. The price of crude oil further improved due to a November 30, 2016 decision by the Organization of Petroleum Exporting Countries to cut oil production.

11. Due to the recovery in market conditions for Connacher, the Interim Lenders were opposed to acting on the results of the SISP.

12. Connacher believes 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**").

13. Connacher intends to use the proposed Stay Period to assess and implement the appropriate Strategic Options, while also exploring a creditor-sponsored alternative to a

sale with the Interim Lenders, with a view of securing and ultimately implementing a viable exit from these CCAA proceedings.

SECOND AMENDMENT AGREEMENT

14. On December 16, 2016, the Company and the Interim Lenders entered into the Second Amendment Agreement to amend certain provision of the Interim Financing Credit Facility including:

    a) extending the maturity date of the Interim Financing from May 17, 2017 to December 31, 2017;

    b) permitting Connacher to hedge 100% of its production volumes (increased from 50% of production volumes); and

    c) increasing permitted forward sales and/or supply contracts from a maximum of three months to a maximum of 12 months.

15. The amendments under the Second Amendment Agreement will limit Connacher's exposure to commodity price volatility and stabilize its cash flow by permitting it to secure hedging contracts to sell its production and purchase inputs at fixed prices for an extended period.

CASH FLOW PROJECTION - BUDGET TO ACTUAL

16. Attached as Appendix "**A**" to this Sixth 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 "**Fifth Report Forecast**") previously provided to this Honourable Court in the Fifth Report of the Monitor dated November 9, 2016.

17. 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

Cash flow	**Actual**	**Forecast**	**Variance**
	Oct-29-16 to Dec-30-16		
Receipts	30,530	30,591	(61)
Disbursements	27,840	30,014	2,174
Net change in cash	**2,690**	**577**	**2,113**
Opening cash	8,028	8,028	0
Ending cash	10,718	8,605	2,114
Restricted cash	7,200	7,200	-
Cash (including restricted cash)	**17,918**	**15,805**	**2,114**
Interim financing borrowings			
Opening borrowings	14,915	14,915	(0)
Draws	6,722	6,385	337
Ending borrowings	**21,637**	**21,300**	**337**

18. As set out in the table above, Connacher's total receipts for the Reporting Period were approximately $30.5 million, which is $61,000 lower than the Fifth Report Forecast.

19. Connacher's total disbursements for the Reporting Period were $27.8 million, which is $2.2 million lower than the Fifth Report Forecast. The variance results primarily from:

a) lower than forecast operating costs due to reduced overtime on-site;

b) lower than forecast production driving lower production-related operating costs.

c) lower than forecast general and administrative costs resulting from a difference in payment timing due to the closure of Connacher's offices during the December holiday period; and

d) lower than forecast capital expenditures related to slower than forecast supplier invoicing resulting in the deferral of certain cash payments for incurred capital expenditures.

20. Connacher has funded and continues to hold $7.20 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. The ending net cash balance, as described above, as at December 30, 2016 was $17.9 million including $7.2 million of restricted cash.

CASH FLOW PROJECTION - FORECAST

22. 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 26 Week Cash Flow
For the period of December 31, 2016 to June 30, 2017
$000's

Opening available cash	10,718
Restricted cash	7,200
Opening cash (including restricted)	**17,918**
Cash receipts	101,591
Cash disbursements	105,708
Net change in cash	(4,117)
Ending available cash	6,601
Restricted cash	7,200
Ending cash (including restricted cash)	**13,801**
Interim Financing Borrowings	
Opening borrowings	21,637
Draws	-
Ending borrowings	**21,637**

23. As summarized above, Connacher is projecting $101.6 million in cash receipts and cash disbursements of $105.7 million, resulting in a net decrease in cash of $4.1 million during the Forecast Period.

24. The significant assumptions used by Connacher's management to prepare the Cash Flow Projections are generally consistent with the Fifth 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.

25. Oil prices, including WTI and the price differential that Canadian oil production sells at relative to WTI, continue to experience increased volatility. Connacher is directly exposed to these price fluctuations as the Company does not presently have a hedging program in place. 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.

26. The Company is currently exploring options to hedge the price received for its production and entering into long-term supply contracts, to reduce exposure to commodity price volatility. As described herein, Connacher intends to use the flexibility provided under the Second Amendment Agreement and the requested Stay Extension to identify and implement Strategic Options including viable hedging programs. As Connacher has not committed to any hedging programs or long-term supply contracts at this time, they are not reflected in the Cash Flow Projection.

27. 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

28. Pursuant to an Order of this Honourable Court dated November 14, 2016, the stay period expires on January 13, 2016. Connacher is seeking a Stay Extension to extend the stay period up to and including June 30, 2017.

29. It is the Monitor's view that the Stay Extension is reasonable and necessary to allow the Company to pursue the Strategic Options and develop a viable exit to these CCAA Proceedings.

30. The Monitor understands that the Interim Financing Agent and the First Lien Agent (as defined in the Initial Order) each support the proposed Stay Extension.

31. Connacher is forecast to have sufficient liquidity to operate during the Forecast Period covered under the proposed Stay Extension.

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

RECOMMENDATION

33. The Monitor respectfully recommends that this Honourable Court approve the Stay Extension.

Dated at Calgary, this 5th day of January, 2017.

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

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

APPENDIX A

CASH FLOW PROJECTION BUDGET TO ACTUAL

Connacher Oil and Gas Limited
Comparison of actual to projected cash flow for the period of October 29 to December 30, 2016
In Thousands of Canadian Dollars

	Forecast Oct-29-16 to Dec-30-16	Actual Oct-29-16 to Dec-30-16	Variance $	Notes
Receipts				
Crude Sales	24,206	23,759	(447)	
Other	-	49	49	
Total Receipts	24,206	23,808	(398)	
Disbursements				
Royalties	263	244	19	
Oilsands operating expenses	13,013	11,815	1,198	1
Diluent/Transportation expenses	11,429	11,757	(329)	
General and administrative costs	2,478	2,154	324	2
Capital Expenditures	1,738	902	836	3
Interim Financing - Interest	493	575	(82)	
Supplier Prepayments/Deposits	-	(85)	85	
Total Disbursements	29,414	27,363	2,051	
CASH FLOW FROM OPERATIONS	(5,208)	(3,555)	1,653	
Restructuring costs	600	477	123	
NET CHANGE IN CASH	(5,808)	(4,032)	1,776	
Opening cash	8,028	8,028	0	
Interim Financing Borrowings	6,385	6,722	337	4
Ending Cash	8,605	10,718	2,114	
INTERIM FINANCING				
Opening borrowings	(14,915)	(14,915)	(0)	
Borrowings	(6,385)	(6,722)	337	
Ending borrowings	(21,300)	(21,637)	337	
RESTRICTED CASH				
Shut-down Costs	7,100	7,100	-	
BCOGC	100	100	-	
Total Restricted Cash	7,200	7,200	-	

Notes:

1. Lower than forecast operating costs were due to reduced overtime costs on site and lower production levels than forecast, resulting in lower operating costs.

2. Lower than forecast general and administrative costs due to timing difference for monthly payments as a result of the holiday period at the end of December.

3. Lower capital expenditure costs are due to forecast timing differences with no payments during the last week of the reporting period. Furthermore, the timing of invoices being received has been slower than forecast.

4. Higher than forecast CAD demoninated interim borrowing resulting from a change in the USD-CAD exchange rate.

APPENDIX B

CASH FLOW PROJECTION

CASH FLOW PROJECTION

	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7
WEEK ENDED	06-Jan-17	13-Jan-17	20-Jan-17	27-Jan-17	03-Feb-17	10-Feb-17	17-Feb-17
Receipts							
Crude Sales	-	-	-	13,578	-	-	-
Other	-	-	-	-	-	-	-
Total Receipts	-	-	-	13,578	-	-	-
Disbursements							
Royalties	-	-	-	208	-	-	-
Oilsands operating expenses	899	899	899	3,301	884	884	884
Diluent/Transportation expenses	637	637	637	5,331	575	575	575
General and administrative costs	127	401	127	401	127	127	401
Capital Expenditures	214	214	214	214	214	214	214
DIP interest	478	-	-	-	-	-	-
Total Disbursements	2,354	2,149	1,876	9,454	1,799	1,799	2,072
CASH FLOW FROM OPERATIONS	(2,354)	(2,149)	(1,876)	4,124	(1,799)	(1,799)	(2,072)
Restructuring costs	-	-	-	300	-	-	-
NET CHANGE IN CASH	(2,354)	(2,149)	(1,876)	3,824	(1,799)	(1,799)	(2,072)
Opening cash	10,718	8,364	6,214	4,338	8,162	6,363	4,564
DIP Borrowings	-	-	-	-	-	-	-
Ending Cash	8,364	6,214	4,338	8,162	6,363	4,564	2,492
DIP FINANCING							
Opening borrowings	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)
Borrowings	-	-	-	-	-	-	-
Ending borrowings	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)
RESTRICTED CASH							
Shut-down Costs	7,100	7,100	7,100	7,100	7,100	7,100	7,100
BCOGC	100	100	100	100	100	100	100
Total Restricted Cash	7,200	7,200	7,200	7,200	7,200	7,200	7,200

CASH FLOW PROJECTION - CONTINUED

	Week 8	Week 9	Week 10	Week 11	Week 12	Week 13	Week 14
WEEK ENDED	24-Feb-17	03-Mar-17	10-Mar-17	17-Mar-17	24-Mar-17	31-Mar-17	07-Apr-17
Receipts							
Crude Sales	15,972	-	-	-	16,228	-	-
Other	-	-	-	-	-	-	-
Total Receipts	15,972	-	-	-	16,228	-	-
Disbursements							
Royalties	266	-	-	-	-	305	-
Oilsands operating expenses	3,475	688	688	688	688	3,029	1,523
Diluent/Transportation expenses	6,014	538	538	538	538	5,108	576
General and administrative costs	127	343	70	423	70	423	127
Capital Expenditures	214	141	141	141	141	141	176
DIP interest	-	-	-	-	-	-	-
Total Disbursements	10,097	1,709	1,436	1,789	1,436	9,006	2,402
CASH FLOW FROM OPERATIONS	5,875	(1,709)	(1,436)	(1,789)	14,792	(9,006)	(2,402)
Restructuring costs	300	-	-	-	-	300	-
NET CHANGE IN CASH	5,575	(1,709)	(1,436)	(1,789)	14,792	(9,306)	(2,402)
Opening cash	2,492	8,067	6,357	4,921	3,132	17,924	8,618
DIP Borrowings	-	-	-	-	-	-	-
Ending Cash	8,067	6,357	4,921	3,132	17,924	8,618	6,216
DIP FINANCING							
Opening borrowings	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)
Borrowings	-	-	-	-	-	-	-
Ending borrowings	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)
RESTRICTED CASH							
Shut-down Costs	7,100	7,100	7,100	7,100	7,100	7,100	7,100
BCOGC	100	100	100	100	100	100	100
Total Restricted Cash	7,200	7,200	7,200	7,200	7,200	7,200	7,200

CASH FLOW PROJECTION - CONTINUED

	Week 15	Week 16	Week 17	Week 18	Week 19	Week 20	Week 21
WEEK ENDED	14-Apr-17	21-Apr-17	28-Apr-17	05-May-17	12-May-17	19-May-17	26-May-17
Receipts							
Crude Sales	-	-	18,935	-	-	-	17,012
Other	-	-	-	-	-	-	-
Total Receipts	-	-	18,935	-	-	-	17,012
Disbursements							
Royalties	-	-	371	-	-	-	357
Oilsands operating expenses	1,523	1,523	4,038	903	903	903	3,338
Diluent/Transportation expenses	576	576	5,891	653	653	653	5,764
General and administrative costs	401	127	401	127	401	127	427
Capital Expenditures	176	176	176	176	176	176	176
DIP interest	-	-	-	-	-	-	-
Total Disbursements	2,675	2,402	10,876	1,860	2,133	1,860	10,062
CASH FLOW FROM OPERATIONS	(2,675)	(2,402)	8,059	(1,860)	(2,133)	(1,860)	6,950
Restructuring costs	-	-	300	-	-	-	300
NET CHANGE IN CASH	(2,675)	(2,402)	7,759	(1,860)	(2,133)	(1,860)	6,650
Opening cash	6,216	3,541	1,139	8,898	7,038	4,905	3,045
DIP Borrowings	-	-	-	-	-	-	-
Ending Cash	3,541	1,139	8,898	7,038	4,905	3,045	9,695
DIP FINANCING							
Opening borrowings	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)
Borrowings	-	-	-	-	-	-	-
Ending borrowings	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)
RESTRICTED CASH							
Shut-down Costs	7,100	7,100	7,100	7,100	7,100	7,100	7,100
BCOGC	100	100	100	100	100	100	100
Total Restricted Cash	7,200	7,200	7,200	7,200	7,200	7,200	7,200

	Week 22	Week 23	Week 24	Week 25	Week 26	
WEEK ENDED	02-Jun-17	09-Jun-17	16-Jun-17	23-Jun-17	30-Jun-17	Total
Receipts						
Crude Sales	-	-	-	19,866	-	101,591
Other	-	-	-	-	-	-
Total Receipts	-	-	-	19,866	-	101,591
Disbursements						
Royalties	-	-	-	-	427	1,933
Oilsands operating expenses	667	667	667	667	7,849	43,072
Diluent/Transportation expenses	511	511	511	511	5,736	45,363
General and administrative costs	375	102	375	102	975	7,235
Capital Expenditures	141	141	141	141	141	4,526
DIP interest	-	-	-	-	1,301	1,779
Total Disbursements	1,695	1,421	1,695	1,421	16,429	103,908
CASH FLOW FROM OPERATIONS	(1,695)	(1,421)	(1,695)	18,445	(16,429)	(2,317)
Restructuring costs	-	-	-	-	300	1,800
NET CHANGE IN CASH	(1,695)	(1,421)	(1,695)	18,445	(16,729)	(4,117)
Opening cash	9,695	8,001	6,579	4,885	23,330	10,718
DIP Borrowings	-	-	-	-	-	-
Ending Cash	8,001	6,579	4,885	23,330	6,601	6,601
DIP FINANCING						
Opening borrowings	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)
Borrowings	-	-	-	-	-	-
Ending borrowings	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)	(21,637)
RESTRICTED CASH						
Shut-down Costs	7,100	7,100	7,100	7,100	7,100	7,100
BCOGC	100	100	100	100	100	100
Total Restricted Cash	7,200	7,200	7,200	7,200	7,200	7,200

CASH FLOW PROJECTION – CONTINUED

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 1.343