

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

EIGHTH REPORT OF THE MONITOR

April 12, 2017

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS DOCUMENT

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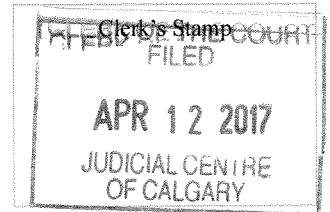


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INTRODUCTION

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 eighth report of the Monitor (the "Eighth Report") is to provide this Honourable Court with the Monitor's comments with respect to the minutes of settlement (the "Settlement Agreement") entered into between Connacher and IDE Technologies Ltd. ("IDE"), subject to, among other things, approval of this Honourable Court and the Monitor's recommendation, and 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 Eighth 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.

IDE SETTLEMENT AGREEMENT

IDE Litigation

8. As described in the affidavit of Merle Johnson sworn on April 10, 2017 (the "April 10th

Johnson Affidavit”), on January 22, 2014, Connacher and IDE entered into a purchase order (the “Purchase Order”) for IDE to deliver two skid mounted MVC-250 evaporator packages (the “Evaporators”) in exchange for Connacher paying approximately \$4.0 million to IDE.

9. During 2014, Connacher paid a total of approximately \$2.01 million towards the price of the Evaporators; however, Connacher never received possession of the Evaporators.
10. After notifying IDE of its failure to perform under the Purchase Order, on June 3, 2016, Connacher commenced an action (the “Action”) against IDE in the Court of Queen’s Bench of Alberta. Connacher filed a Statement of Claim in the Action claiming damages of approximately \$2.2 million representing the amount paid to IDE plus a penalty amount owing pursuant to the terms and conditions of the Purchase Order for IDE’s failure to perform.
11. IDE filed a Statement of Defence in the Action attributing the delay in delivery of the Evaporators to Chamco Industries Ltd. (“Chamco”), a third party sub-contractor of IDE.

IDE Settlement Agreement

12. Connacher and IDE have entered into the Settlement Agreement, as attached to the April 10th Johnson Affidavit, to settle the dispute in respect of IDE’s failure to perform under the Purchase Order.
13. The following is an overview of the key terms of the Settlement Agreement, which is intended as a summary only and does not supersede or vary the binding terms of the actual Settlement Agreement.
14. Pursuant to the Settlement Agreement and subject to the conditions described below and contained therein, Connacher and IDE have agreed as follows:
 - a) IDE and Chamco, as appropriate, will provide Connacher with reasonable access to inspect certain evaporators for the purposes of selecting one evaporator to be transferred to Connacher (the “Selected Unit”);
 - b) Following the inspection, IDE, Connacher and Chamco will execute a delivery receipt confirming that Connacher may remove the Selected Unit;
 - c) Within seven days of the certain conditions of the Settlement Agreement

being met, IDE shall make payment to Connacher in the amount of \$210,000 (the "Settlement Payment");

- d) Within fifteen days of pick-up of the Selected Unit and receipt of the Settlement Payment, Connacher will file a Discontinuance of Claim in the Action on a without cost basis;
- e) IDE will retain ownership of the second Evaporator and Connacher will waive any claim or rights to the second Evaporator; and
- f) Connacher and IDE will execute a mutual release, in the form as attached to the Settlement Agreement, and will indemnify the other for losses that may be sustained by the other as a result of a breach of the Settlement Agreement.

15. The Monitor believes that the Settlement Agreement reflects a fair compromise of the dispute as:

- a) Connacher will obtain the Selected Unit that is required in connection with its ongoing business operations and was paid for by Connacher in 2014. Based upon current ongoing operations, Connacher no longer requires both Evaporators;
- b) The Settlement Agreement avoids costly litigation and Connacher will receive \$210,000, representing the Settlement Payment; and
- c) The Interim Lenders have consented to the Settlement Agreement.

RECOMMENDATION

16. The Monitor respectfully recommends that this Honourable Court approve the Settlement Agreement.

Dated at Calgary, this 12th day of April, 2017.

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

A handwritten signature in black ink, appearing to be 'N. Narfason', with a long horizontal stroke extending to the right.

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

A handwritten signature in black ink, appearing to be 'Peter Chisholm', with a stylized, cursive script.

Peter Chisholm CPA, CA, CIRP, LIT
Vice-President