COURT FILE NUMBER		Clerk's Stamp
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	**FIRST REPORT OF THE MONITOR** June 6, 2016	
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	

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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-36*, as amended (the "CCAA") pursuant to an Order of this Honourable Court (the "Initial Order").

2. Pursuant to the Initial Order, the Court approved a sale and investment solicitation process ("SISP") which has a bid deadline for non-binding letters of intent of June 30, 2016 (the "Phase I Bid Deadline") and a bid deadline for binding offers of July 27, 2016 (the "Phase II Bid Deadline").

3. Ernst & Young Inc. was appointed as Monitor (the "Monitor") of the Company pursuant to the terms of the Initial Order.

4. The purpose of this first report of the Monitor (the "First Report") is to provide this Honourable Court with the Monitor's comments with respect to the following:

    a) the notices issued by the Monitor to the creditors of Connacher in accordance with the Initial Order;

    b) the interim financing credit facility (the "Interim Financing") entered into by Connacher;

    c) an update on the SISP;

    d) the notices issued by Connacher to disclaim certain agreements under section 32 of the CCAA;

    e) the Company's forecast to actual cash flow results for the period May 17, 2016 to May 27, 2016 (the "Reporting Period");

    f) the Company's cash flow projection (the "Cash Flow Projection") for the period May 18, 2016 to August 26, 2016 (the "Forecast Period");

    g) the Company's request for an extension of the stay period and extending the priority of the Charges granted under the Initial Order; and

    h) the Monitor's recommendations.

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

6. Capitalized terms not defined herein are as defined in the Initial Order.

BACKGROUND

7. 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

8. In preparing this First 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.

NOTICE TO CREDITORS

9. Pursuant to the terms of the Initial Order, the Monitor mailed a notice to every known creditor of Connacher having a claim of more than $1,000 against Connacher, notifying the creditor of the making of the Initial Order and advising that a copy of the Order is available on the Monitor's website. The notice also advised that if a creditor was unable to obtain a copy of the Order from the Monitor's website, it could request a copy to be delivered to it.

10. The Monitor published notices of the Initial Order in accordance with the CCAA in the *Calgary Herald* and *Daily Oil Bulletin* on May 27, 2016; and on June 3, 2016.

INTERIM FINANCING

11. Connacher entered into the interim financing credit agreement dated as of May 25, 2016, as authorized in the Initial Order.

12. The Interim Financing is forecast to provide Connacher with sufficient funding to maintain its operations while pursuing a restructuring, including the completion of the SISP.

13. The Interim Financing provides maximum commitments of US$20 million with an initial committed amount of US$11.5 million; to date Connacher has borrowed CAD$7.0 million (US$5.34 million) under the Interim Financing.

INITIAL ORDER CHARGE AMENDMENT

14. Connacher is requesting that the Charges against the property of Connacher (the "Property") granted pursuant to the Initial Order be extended in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise, over the Property, including the Encumbrances (the "Initial Order Charge Amendment").

15. It is a requirement under the Interim Financing that Connacher obtain this extension of the priority for the Interim Lenders' Charge on or before June 16, 2016; failure to do so constitutes a default under the Interim Financing. The beneficiaries of the other Charges have also requested priority over all of the existing Encumbrances.

16. The Monitor considers this request to be reasonable as:

    a) Connacher is serving all parties with encumbrances registered against the Property with notice of this application;

    b) Without access to the Interim Financing, Connacher would not have sufficient funding to pursue its restructuring, including completion of the SISP; and

    c) The Applicant requires the assistance of the beneficiaries of the other Charges during its CCAA proceeding.

SISP

17. Connacher, with the assistance of the Monitor, commenced the marketing process of the SISP on May 18, 2016, immediately following granting of the Initial Order.

18. Marketing efforts undertaken on the SISP include:

    a) On May 19, 2016, Connacher issued a press release setting out the relevant information related to the SISP;

    b) On May 20, 2016, the Monitor distributed a non-confidential teaser letter describing the opportunity to acquire or invest in Connacher or to acquire some, all or substantially all of the property (the "Marketing Teaser") to 131 potentially interested parties based on a list developed by Connacher and the Monitor with consultation from the financial advisor to the lenders that provided the Interim Financing. The Marketing Teaser has also been posted on the Monitor's website;

c) Notices of the SISP were published in the *Daily Oil Bulletin* on May 20, 2016 and May 26, 2016; and

d) Notice of the SISP was published in the *Calgary Herald* on May 25, 2016.

19. Since commencing the SISP, in addition to the initial parties contacted through the distribution of the Marketing Teaser, other parties have contacted the Company or the Monitor to obtain additional information. Parties have signed confidentiality agreements to begin their due diligence on Connacher.

NOTICES ISSUED TO DISCLAIM AGREEMENTS

20. Subsequent to the granting of the Initial Order, Connacher, with the approval of the Monitor, issued the following notices of disclaimer of agreements pursuant to section 32 of the CCAA:

a) Connacher issued a notice dated May 19, 2016 to disclaim a transloading and transportation agreement, as amended, (the "BET Contract") with Bruderheim Energy Terminal Inc. ("BET"). Under the BET Contract, Connacher has "take or pay" transportation commitments to BET with minimum transportation charges of approximately $750,000 per month that Connacher does not require.

b) Connacher issued a notice dated May 19, 2016 to disclaim a dilbit purchase agreement (the "Cenovus Contract") with Cenovus Energy Inc. ("Cenovus"). Under the Cenovus Contract, Cenovus was required to purchase dilbit from Connacher for the months of April, May and June, 2016 at fixed volumes and prices. Connacher is disclaiming the Cenovus Contract because

i. the fixed price under the Cenovus Contract is lower than Connacher could otherwise sell its dilbit and

ii. Cenovus advised that it will not pay Connacher for losses resulting from Cenovus' failure to take dilbit for the months of April and May, 2016 and that it would not pay for any June delivery of dilbit. Cenovus is instead alleging set-off against other liabilities owed by Connacher to BET (an indirect affiliate of Cenovus) which set-off was rejected and denied by Connacher.

Connacher has advised the Monitor that it may be necessary to seek relief from the Court in respect of this matter if it is not consensually resolved between the parties.

c) Connacher issued a notice dated May 31, 2016 to Y Equities Inc. ("Y Equities") to disclaim the lease for its head office space in Calgary, Alberta. Connacher's head office space is significantly larger than it requires and the cost is significantly higher than market rates due increased vacancy rates as a result of the recent decline in oil and gas prices. Connacher is attempting to negotiate an amended lease with Y Equities and in the event it is unable to reach an agreement, Connacher will relocate to lower cost office space.

21. The Monitor approved the above disclaimers. The Monitor has participated in initial discussions with between Connacher and Cenovus and the Monitor's counsel has had preliminary discussions with counsel to Y Equities. The Monitor will continue to render such assistance as it is reasonably able to provide in connection with further dialogue between Connacher and the affected counterparties. The Monitor will provide further updates with respect to the disclaimers as necessary and appropriate.

CASH FLOW PROJECTION BUDGET TO ACTUAL

22. Attached as Appendix "A" to this First 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 "Initial Forecast") previously provided to this Honourable Court in the May 16 Johnson Affidavit. A summary budget to actual analysis is provided in the table below:

Connacher Oil and Gas Limited Budget to actual $000's			Exhibit 1.0
	May 17, 2016 to May 27, 2016		
Cash flow	**Actual**	**Forecast**	**Variance**
Receipts	12,417	12,263	154
Disbursements	12,582	17,452	4,870
Net change in cash	**(165)**	**(5,189)**	**5,024**
Opening cash	15,542	15,044	498
Ending cash	15,377	9,855	5,522
Restricted cash	7,100	7,100	-
Cash (including restricted cash)	**22,477**	**16,955**	**5,522**
Interim financing borrowings			
Opening borrowings	-	-	-
Draws	7,000	7,000	-
Ending borrowings	**7,000**	**7,000**	**-**

23. As set out in the table above, Connacher's total receipts for the Reporting Period were approximated $12.4 million, which is $154,000 higher than the Initial Forecast. Cash receipts include an initial draw of $7.0 million under the Interim Financing.

24. Connacher's total disbursements for the Reporting Period were $12.6 million, which is $4.9 million lower than the Initial Forecast. The variance results primarily from the timing of the CCAA filing. The majority of prepayments and deposits were delayed due to timing and have been included in the cash disbursements during the Forecast Period.

25. Disbursements for the Reporting Period and Initial Forecast include Connacher funding $7.1 million into a segregated bank account to be held as restricted cash for shut-in costs, as described in the proposed report of the Monitor dated May 16, 2016 (the "Proposed Monitor's Report"). Connacher had segregated a further $1.0 million into restricted cash for employee liabilities, as described in the Proposed Monitor's Report; however, the restricted cash for employee liabilities was released into available cash upon Connacher receiving the initial draw of $7.0 million under the Interim Financing.

26. The ending net cash balance, as described above, as at May 27, 2016 was $22.5 million including $7.1 million of restricted cash.

CASH FLOW PROJECTION

27. 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 **Revised Consolidated 13 Week Cash Flow** **For the period of May 28, 2016 to August 26, 2016** **$000's**	**Exhibit 2.0**
Opening available cash	8,237
Restricted cash	7,100
Opening cash (including restricted)	**15,337**
Cash receipts	34,384
Cash disbursements	40,563
Net change in cash	**(6,179)**
Ending available cash	**2,058**
Restricted cash	7,100
Ending cash (including restricted cash)	**9,158**
Interim Financing Borrowings	
Opening borrowings	7,000
Draws	8,000
Ending borrowings	**15,000**

28. As summarized above, Connacher is projecting $34.4 million in cash receipts (including $8.0 million of borrowings under the Interim Financing) against cash disbursements of $40.6 million, resulting in a net decrease in cash of $6.2 million during the Forecast Period.

29. The significant assumptions used by Connacher's management to prepare the Cash Flow Projections are generally consistent with the Initial Forecast with the only adjustments being for timing of receipts and disbursements and updated forecast oil prices.

30. As discussed above, the weekly Cash Flow Projection in Appendix B indicates that Connacher has sufficient liquidity to operating during the Forecast Period.

31. 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

32. Pursuant to the Initial Order, the Stay Period expires on June 16, 2016. Connacher is seeking an extension of the Stay Period up to and including August 16, 2016 (the "Stay Extension").

33. It is the Monitor's view that the Stay Extension is necessary to allow the Company to continue with the SISP and that Connacher is forecast to have sufficient liquidity to operate during the period covered under the Stay Extension.

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

RECOMMENDATIONS

35. The Monitor respectfully recommends that this Honourable Court approve:

    a) the Initial Order Charge Amendment; and

    b) the Stay Extension.

Dated at Calgary, this 6th day of June, 2016.

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

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

Peter Chisholm, CA, CIRP
Vice President

APPENDIX A

Connacher Oil and Gas Limited
Comparison of actual to projected cash flow for the period of May 17 to May 27, 2016
In Thousands of Canadian Dollars

WEEK ENDED	Forecast May-17-16 to May-27-16	Actual May-17-16 to May-27-16	Variance $	Notes
Receipts				
Crude Sales	5,262	5,232	(30)	
Other	1	185	184	1
Total Receipts	5,263	5,417	154	
Disbursements				
Royalties	10	11	(1)	
Oilsands operating expenses	1,244	662	582	2
Diluent/Transportation expenses	2,708	2,299	409	3
General and administrative costs	725	681	44	
Capital Expenditures	46	-	46	
AER Admin Fees	1,000	-	1,000	4
Interim Financing - Financing Fees	826	826	(1)	
Unrealized Foreign Exchange (Gains) and Lo	-	(155)	155	
Supplier Prepayments/Deposits	3,793	203	3,590	5
Total Disbursements	10,351	4,527	5,824	
CASH FLOW FROM OPERATIONS	(5,088)	890	5,978	
Restructuring costs	824	955	(131)	
Funding of Reserves				
Shut-down Costs	7,100	7,100	-	
NET CHANGE IN CASH	(13,012)	(7,165)	5,847	
Opening cash	15,542	15,542	-	
Interim Financing Borrowings	7,000	7,000	-	
Ending Cash	9,530	15,377		
INTERIM FINANCING				
Opening borrowings				
Borrowings	(7,000)	(7,000)	-	
Ending borrowings	(7,000)	(7,000)	-	
RESTRICTED CASH				
Shut-down Costs	7,100	7,100	-	
Total Restricted Cash	8,100	8,100	-	

Notes:

1. Receipt of GST refund

2. Timing difference as April settlement and June prepayment for natural was paid May 30th; however was forecast to be paid on May 25th, the amount of this payment is approximately $730,000.

3. Timing difference as April settlement and June prepayments for certain diluent purchases were not paid on May 25th as forecast; these payments are expected to be made May 31/16 in the amount of $830,000.

4. AER Admin Fee is now forecast to be paid the week ended June 17th, 2016.

5. Timing difference due to delayed payents; supplier prepayments/deposits expected to increase during following weeks.

APPENDIX B

Connacher Oil and Gas Limited
Cash flow forecast for the period of May 28, 2016 to August 26, 2016
$000's CAD

	NOTES	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12	Week 13	
WEEK ENDED		03-Jun-16	10-Jun-16	17-Jun-16	24-Jun-16	01-Jul-16	08-Jul-16	15-Jul-16	22-Jul-16	29-Jul-16	05-Aug-16	12-Aug-16	19-Aug-16	26-Aug-16	Total
Receipts															
Crude Sales		-	-	-	7,873	-	-	-	-	8,503	-			10,007	26,384
Other															
Total Receipts		-	-	-	7,873	-	-	-	-	8,503	-	-	-	10,007	26,384
Disbursements															
Royalties		-	-	-	82	-	-	-	-	106	-	-	-	125	314
Oilsands operating expenses		1,237	1,237	1,237	1,237	942	942	942	942	942	1,223	1,223	1,223	1,223	14,551
Diluent/Transportation expenses		229	229	229	2,791	330	330	330	330	2,914	412	412	412	2,936	11,883
General and administrative costs	Note 2	291	436	211	436	189	89	413	89	413	161	436	111	436	3,712
Office Relocation Costs	Note 2										200				200
Capital Expenditures		62	62	62	62	28	28	28	28	28	30	30	30	30	509
AER Admin Fees	Note 3			1,000											1,000
Interim Financing - Interest	Note 4					86									86
Supplier Prepayments/Deposits		1,200	1,200	1,200											3,600
Long-term Incentive Plan						809									809
Total Disbursements		3,020	3,164	3,940	4,608	2,384	1,389	1,713	1,389	4,404	2,026	2,100	1,776	4,749	36,663
CASH FLOW FROM OPERATIONS		(3,020)	(3,164)	(3,940)	3,265	(2,384)	(1,389)	(1,713)	(1,389)	4,099	(2,026)	(2,100)	(1,776)	5,258	(10,279)
Restructuring costs		550	225	430	230	380	175	330	175	330	150	330	265	330	3,900
NET CHANGE IN CASH		(3,570)	(3,389)	(4,370)	3,035	(2,764)	(1,564)	(2,043)	(1,564)	3,769	(2,176)	(2,430)	(2,041)	4,928	(14,179)
Opening cash		15,337	11,767	8,379	4,009	13,044	10,280	8,716	6,673	5,109	8,878	6,702	6,271	4,230	15,337
DIP Borrowings		-	-	-	6,000	-	-	-	-	-	-	2,000	-	-	8,000
Ending Cash		11,767	8,379	4,009	13,044	10,280	8,716	6,673	5,109	8,878	6,702	6,271	4,230	9,158	9,158
DIP FINANCING															
Opening borrowings		(7,000)	(7,000)	(7,000)	(7,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(15,000)	(15,000)	(7,000)
Borrowings		-	-	-	(6,000)	-	-	-	-	-	-	(2,000)	-	-	(8,000)
Ending borrowings		(7,000)	(7,000)	(7,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(15,000)	(15,000)	(15,000)	(15,000)
RESTRICTED CASH															
Shut-down Costs		7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100
Total Restricted Cash		7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100

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 1.31

Note 2 Office relocation forecast to occur on August 1, 2016; $200k of office relocation costs the week ended August 5, 2016 and office rent reduced from $180,000 per month to $50,000 per month

Note 3 AER Administrative Fees , estimated at $1.0 million and forecast to be paid in June 2016.

Note 4 Interest on interim financing credit facility in accordance with interim financing agreement.