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 A PLAN OF COMPROMISE OR ARRANGEMENT OF CONNACHER OIL AND GAS LIMITED	
DOCUMENT	**PROPOSED MONITOR'S REPORT** May 16, 2016	
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	<u>PROPOSED 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	

INTRODUCTION

1. Ernst & Young Inc. ("EY" or the "Proposed Monitor") understands that Connacher Oil and Gas Limited ("Connacher" or the "Company") intends to bring an application before the Court seeking, among other things, an initial order (the "Proposed Initial Order") under the *Companies' Creditors Arrangement Act* R.S.C. 1985, c. C-36, as amended (the "CCAA") in order to initiate a restructuring of its business and affairs under the CCAA. Connacher proposes that EY be appointed as Monitor in the CCAA proceedings.

2. This proposed report (the "Proposed Monitor's Report") has been prepared by the Proposed Monitor prior to and in contemplation of its appointment as Monitor in Connacher's CCAA proceedings.

3. EY was engaged by the Company in January, 2015 and re-engaged by the Special Committee to Connacher's Board of Directors (the "Special Committee") in March, 2016 as financial advisor to assist Connacher and the Special Committee with evaluating strategic options for the business. This work does not create any conflict for EY to act as Monitor in Connacher's CCAA proceedings.

PURPOSE

4. The purpose of this Proposed Monitor's Report is to provide the Court with the Proposed Monitor's comments in respect of:

   a) Background information on recent developments at Connacher;

   b) The proposed interim financing (the "Interim Financing") arranged by Connacher;

   c) The provision in the Proposed Initial Order that Connacher be authorized to treat as restricted cash the funds necessary to address a potential requirement to 'shut-in' the existing wells and to potentially fund one bi-weekly payroll cycle;

   d) The Court ordered charges sought by Connacher in the Proposed Initial Order to address administration costs, the Interim Financing, Directors and Officers (hereinafter referred to as "Directors and Officers") liabilities and the Company's proposed key employee retention plan ("KERP") and Long Term Incentive Plan ("LTIP");

e) The Company's proposed sale and investment solicitation process ("SISP"); and

f) Connacher's cash flow forecast (the "Cash-Flow Statement") for the period of May 16, 2016 to August 12, 2016 (the "Forecast Period") prepared in accordance with section 10(2) of the CCAA.

TERMS OF REFERENCE AND DISCLAIMER

5. In preparing this Proposed Monitor's Report, EY has been provided with, and has relied upon, unaudited financial information, the Company's books and records, financial information prepared by the Company and discussions with Connacher management ("Management") (collectively the "Information"). Except as described herein in respect of Connacher's cash flow statement:

   a) the Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided however it has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such Information and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance in respect of such Information contained in this Proposed Monitor's Report.

   b) Some of the information referred to in this Proposed Monitor's Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Chartered Professional Accountants Canada Handbook, has not been performed.

6. Future oriented financial information referred to in this Proposed Monitor's Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

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

EY's QUALIFICATIONS TO ACT AS MONITOR

8. EY is a trustee within the meaning of section 2(1) of the Bankruptcy and Insolvency Act (Canada). Further, EY is not subject to any of the restrictions on who may be appointed as Monitor set out in section 11.7(2) of the CCAA.

BACKGROUND

9. Connacher is a TSX publicly listed oil and gas exploration, development and production Company headquartered in Calgary, Alberta under the ticker symbol CLC. Connacher's principal asset is a 100 per cent interest in approximately 440 million barrels of proved and probable bitumen reserves on the Company's Great Divide oil sands leases near Fort McMurray, Alberta. The Company operates two steam assisted gravity drainage facilities at these oil sands leases.

10. Further background regarding Connacher and its operations is provided in the affidavit of Merle Johnson sworn May 16, 2016, and included with Connacner's application materials (the "Johnson Affidavit").

11. The Company announced on March 11, 2016 that it had initiated a process to investigate, evaluate and consider possible financing and restructuring alternatives. A Special Committee of the Board was formed to assist with this process.

12. Also on March 11, 2016, Connacher announced that it had elected to exercise its right to defer the cash payment of interest payable on March 31, 2016 on certain 12% convertible notes due 2018 until June 30, 2016 or such later date as Connacher may elect. The Company had previously elected to defer other interest payments previously due on these notes such that the total deferred interest owing by the Company is approximately US $3.8 million.

13. On March 31, 2016, Connacher announced that it had entered into a forbearance agreement (the "Forbearance Agreement") with Credit Suisse AG, Cayman Islands Branch, as administrative agent (or any successor thereto, the "Administrative Agent") and certain lenders under the Credit Agreement, dated as of May 23, 2014 (as amended, restated, supplemented, or otherwise modified from time to time (including as amended pursuant to the Amendment No. 1 dated May 8, 2015), the "Credit Agreement"). Under the terms of the Forbearance Agreement, among other things, the first lien lenders agreed to forbear from exercising their enforcement rights and

remedies arising on account of the failure of Connacher to pay the interest and principal payments due on March 31, 2016 until the earlier to occur of April 30, 2016, the occurrence of an event of default under the Credit Agreement unrelated to the failure to pay principal and interest due on March 31, 2016, or the occurrence of a default or breach of representation by the Company under the Forbearance Agreement.

14. On May 2, 2016, the parties to the Forbearance Agreement entered into a second forbearance agreement (the "Second Forbearance Agreement") which, subject to its terms, extended the forbearance period to May 16, 2016.

INTERIM FINANCING

15. As identified in the Cash Flow Statement (discussed more fully and defined below), a copy of which is attached at Exhibit "I" to the Johnson Affidavit, Connacher has an immediate need for additional funding. This is further demonstrated by the draw request schedule included as part of the Approved Budget (as defined in the proposed Interim Financing documents) which reflects a draw of $7.0 million in the week of May 23, 2016. Without this funding, Connacher will not be able to maintain its operations or proceed with this restructuring process (including the SISP as discussed below).

16. To that end, Connacher initiated discussions with its key financial stakeholders in order to arrange the additional funding necessary to support it during its proposed CCAA proceeding. During the discussions with Wilmington Trust, National Association (in its capacity as administrative agent (the "Agent") for certain of Connacher's existing first lien lenders, the Agent and it's legal counsel clearly stated that they would oppose any attempt by Connacher to arrange any new financing that 'primed' their position. The Special Committee, as guided by their counsel and in consultation with the Proposed Monitor, determined that, under the circumstances, it was advisable to attempt to arrange interim financing from the Agent. As such, Connacher undertook extensive discussions with the Agent to negotiate the terms of the proposed Interim Financing.

17. Ultimately the proposed Interim Financing, if approved, will be provided through the Agent for and on behalf of a group of interim lenders who are lenders under Connacher's existing first lien credit agreement. The structure of the proposed Interim Financing is such that any lender whose pro-rata share of the commitments under the interim financing facility is equal to such interim lender's pro-rata shares under the

existing first lien credit agreement will be "Pro Rata Interim Lenders" under the interim financing facility. Interim lenders whose pro-rata share of the commitments under the interim financing facility exceeds such interim lender's pro-rata share of its commitments under the existing first lien credit agreement will be "Non Pro-Rata Interim Lenders". More details of the discussions leading to the proposed Interim Financing are provided in the Johnson Affidavit.

18. The terms of the proposed Interim Financing were primarily negotiated by the Special Committee, Connacher's legal advisors, the Agent and legal counsel to the Agent. The Proposed Monitor was kept up to date on these discussions, was consulted on certain issues and had direct discussions with the Agent's financial advisor on the mechanics for making draws under the proposed Interim Financing and reporting variances between actual results and the Approved Budget (as defined in the Interim Financing documents). The Approved Budget itself is based on the Cash Flow Statement, includes a projected draw schedule and provides for cash to be restricted for specific purposes as discussed below.

19. The significant financial terms of the Interim Financing are as follows:

a) Maximum Amount - US$20,000,000 with initial committed amount of US$11,500,000

b) Up-front fee - 3% for each Pro-Rata Interim Lender and 5% for each Non Pro-Rata Interim Lender, in the first instance in respect of the initial committed amount of US$11,500,000. Additional upfront fees in the same percentage will be paid by Connacher in connection with the increase beyond the initial committed amount. Connacher shall pay each Non-Pro Rata Interim Lender an additional fee of 5% of the initial committed amount and 5% of additional committed amounts on the date that the interim facility is repaid in full.

c) Interest rate - either the Alternate Base Rate (as defined in the pre-filing secured credit agreement) plus 9% or the Adjusted LIBO Rate (as defined in the pre-filing secured credit agreement) plus 10%.

d) Other - Annual agency fee of US$60,000 payable on closing of first advance and annually thereafter.

20. Unlike conventional oil and gas exploration and production companies, there are no recent comparable transactions where an oil sands developer has sourced interim financing in a CCAA proceeding. As a result, there are no directly comparable interim financing transactions against which to bench-mark the financial terms of the proposed Interim Financing. The Proposed Monitor notes that the current economic climate combined with Connacher's current financial circumstances has created a situation in which it would be challenging for Connacher to source interim financing from a party other than the Agent. Accordingly, while the interest rate and other fees are, on their face, higher than what might be seen in a conventional exploration and production scenario, the Proposed Monitor is of the view that the financial terms of the proposed Interim Financing, when considered in the context of Connacher's current situation, are reasonable.

21. Beyond the financial terms of the Interim Financing, we are advised that the interim lenders require that Connacher, as a condition of providing the Interim Financing, must initiate the SISP immediately on the granting of the Initial Order. The Interim Financing provides Connacher with sufficient funding to undertake the SISP.

22. The Proposed Monitor supports Connacher's request for approval of the Interim Financing on the terms proposed and the priority of the Interim Financing charge contemplated therein particularly given Connacher's need for immediate liquidity and the Proposed Monitor's view that Connacher has considered the alternatives available to it and has determined that the terms proposed by the Agent are the best terms available in the circumstances.

RESTRICTED CASH

Shut-in Costs

22. Connacher's oil sands extraction operations are regulated by the Alberta Energy Regulator ("AER"), among other regulatory bodies. AER regulations cover virtually all aspects of Connacher's operations, including in the event that operations are temporarily or permanently halted. We are advised by the Company that at this time, it has a positive working relationship with the AER and is in full compliance with the applicable regulations.

23. As noted above, the Company, if the Initial Order, Interim Financing and SISP are approved by the Court, expects to initiate the SISP immediately. However, in the event that a potential Successful Bid (as that term is defined in the proposed SISP, a draft of which is attached to Connacher's application materials) is not identified during the SISP, it is possible that Connacher will not have access to the necessary funds or funding to continue operations. In that case, Connacher may then need to take steps to cease operating, at least temporarily. The AER regulations include certain provisions governing the cessation of operations. Further, AER regulations provide that neither the Company nor its creditors may remove any equipment from a site without AER's consent during any abandonment or reclamation work possibly eliminating one source of funds that would otherwise be available to fund the costs associated with a temporary or permanent halt in operations. Accordingly, Connacher must ensure that it has sufficient funds set aside to effect an appropriate 'shut-in' of its operations.

24. Connacher has worked with the Proposed Monitor to assess the steps necessary and the related costs that would be incurred by the Company to comply with the applicable regulations if it needs to cease operating. The steps include:

a) Taking production off-line;

b) Cleaning out the wells;

c) Removing waste materials from the site;

d) Mechanical work to properly 'hibernate' the equipment; and

e) Various other measures and the labour to implement them.

25. In total, covering both of Connacher's processing facilities, the projected cost to complete this work is approximately $7.1 million and would take approximately 14 days.

26. In addition to complying with the AER regulations, properly 'shutting in' the operations provides the best opportunity to minimize any impairment to the resource pools, the asset that underlies Connacher's business.

27. To ensure that Connacher is in a position to discharge its obligations pursuant to the AER regulations, Connacher proposes to establish restricted cash of $7.1 million to be held pending further order of this Court, for the purposes of undertaking a shut-in of its

operations, if ultimately necessary. While creating a restricted cash amount at the start of the CCAA proceedings reduces the cash available to Connacher, any other approach creates the risk that adequate funds would not be available to properly hibernate operations if that became necessary. The Approved Budget supporting the proposed Interim Financing specifically recognizes the $7.1 million as restricted cash.

28. Based on the forgoing, the Proposed Monitor is of the view that creating restricted cash of $7.1 million and having this restricted cash reflected in the Approved Budget, pending further order of this Court, for the purpose of ensuring necessary funds are available to perform a "shut in" of Connacher's wells and operating assets, if ultimately necessary, is reasonable and appropriate in the circumstances.

Payroll

29. Connacher's bi-weekly payroll (paid gross through a payroll service and paid current to the payroll date) is approximately $750,000. As such, Connacher also proposes to establish a restricted cash amount of $1,000,000 to be held pending the initial draw under the Interim Financing, for purposes of funding at least one bi-weekly payroll cycle, if necessary, including in the event that Connacher in required to implement an orderly wind down of its business and operations. The Approved Budget supporting the proposed Interim Financing specifically recognizes the $1.0 million as restricted cash until such time as the first draw is made. The Proposed Monitor believes that this restricted cash is reasonable and appropriate in the circumstances.

COURT ORDERED CHARGES SOUGHT IN THE PROPOSED INITIAL ORDER

30. The Proposed Initial Order provides for four charges. The proposed Interim Financing is discussed above and as such is not discussed again here.

Administration Charge

31. The Proposed Initial Order provides for a charge in favour of the Monitor, counsel to the Monitor, and the Company's Canadian and U.S. counsel as security for the professional fees and disbursements incurred both before and after the granting of the Proposed Initial Order (the "Administration Charge"). The Administration Charge will be in the amount of $1,500,000. Pursuant to the Proposed Initial Order, the Administration Charge will rank in priority to the Interim Financing charge, the Directors' Charge and the KERP/LTIP Charge (each as defined below).

32. In the weeks prior to the CCAA filing, Connacher paid retainers to its legal advisors and to the Proposed Monitor. The Proposed Monitor holds a retainer of $300,000. EY also holds a $50,000 retainer with respect to its engagement as financial advisor to the Special Committee which will be applied and/or returned as and when EY's final invoice is settled.

33. The Proposed Monitor believes that the Administration Charge in the amount of $1,500,000 is reasonable and appropriate in the circumstances after considering, among other factors, the complexity of the proceedings, the potential work required by the professionals at peak times during this proceeding and the amount of similar Court approved charges in comparable proceedings.

Directors' Charge

34. The Proposed Initial Order provides for a charge in favour of the Company's Directors and Officers (the "Directors' Charge"), initially in the amount of $1,000,000 increasing automatically without further order of the Court to $2,000,000 at the time of the first advance under the proposed Interim Financing, as security for any obligations or liabilities that may arise against the Directors and Officers after the commencement of the CCAA proceedings. The Directors' Charge would not apply in the event that any such obligation or liability of the Directors or Officers is incurred due to such Directors' or Officers' gross negligence or wilful misconduct or to the extent that the Directors have coverage under any directors' and officers' insurance policies.

35. The Directors' Charge is initially to cover potential Director's and Officer's liabilities that may arise pursuant to either or both of the *Oil Sands Conservation Act* ("OSCA") and the *Environmental Protection and Enhancement Act* ("EPEA") for any company offences under such legislation, including relating to abandoned wells and site reclamation. The charge then increases to cover the potential Director's and Officer's liabilities for unpaid wages and related source deductions when the cash initially restricted for that purpose is released for use in operations.

36. As discussed above with respect to the Interim Financing and restricted cash amounts and below in the context of Connacher's cash flow statement, cash flow is very limited and dependent on the Interim Financing. While Connacher anticipates fully complying with all regulations, circumstances could arise where Connacher cannot comply on a timely basis or at all despite its best intentions.

37. The Proposed Monitor believes that the Directors' Charge in the initial amount of $1,000,000 then increasing to $2,000,000 as provided above and its priority behind the Administration Charge and the Interim Financing charge is reasonable and appropriate in the circumstances after considering, among other factors, Connacher's cash position and Cash Flow Statement, the complexity of Connacher's operations, the strict regulatory environment and the amount of similar Court approved charges in comparable proceedings.

KERP / LTIP Charge

38. The Company believes that retaining certain key employees until the proposed restructuring is completed will be critical to executing a successful restructuring. The identified key employees will have lead roles in operations, finance and the SISP. Without these key employees, the Company believes that its ability to successfully restructure will be compromised.

39. Accordingly, Connacher's Board of Directors has approved a KERP in the total amount of $1,120,000, subject to approval of the Court. Employees entitled to receive the KERP will not receive payments under the LTIP (discussed below). Full details of the KERP, including employee names, annual salaries and proposed retention payments, have been provided to the Court on a confidential basis in a schedule attached to the Johnson Affidavit included with Connacher's application materials.

40. Connacher has reviewed the proposed KERP terms with significant stakeholders. We are advised that those stakeholders support the terms of the KERP.

41. The Proposed Monitor believes that the proposed KERP and related proposed charge is reasonable given the complexity of the proceedings, the potential work required by the key employees and the amount of similar Court approved KERP's (and related Court approved charges) in comparable proceedings.

42. The Proposed Monitor understands that in 2013, Connacher's Board approved the LTIP for the Company's employees and on July 1, 2013 and July 1, 2014, the Board granted awards in the favour of the LTIP beneficiaries which will vest in favour of the employees on July 1, 2016 and July 1, 2017 (the "LTIP Grants"). The LTIP Grants are subject to certain conditions contained in the LTIP, including that they will only be payable to employees still employed on the applicable vesting date.

43. The Proposed Monitor understands that based on the recent revisions to the LTIP and Connacher's current employee compliment (excluding those employees covered by the KERP), the amount due under the LTIP Grants is $809,000. Payment timing would match the proposed timing of payments under the KERP. Full details of the LTIP, including employee names, annual salaries and proposed payments, have been provided to the Court on a confidential basis in a schedule attached to the Johnson Affidavit included with Connacher's application materials.

44. The LTIP is an important component of the compensation for the Company's employees and will be key to incentivizing the workforce. In order to provide comfort to the employees that these payments will be made, the Company has proposed that the obligations under the LTIP also be secured by the KERP/LTIP Charge.

45. The Proposed Monitor believes that the proposed charge in favour of the beneficiaries of the LTIP, to be shared with the beneficiaries of the KERP, is appropriate and reasonable in the circumstances, and the Proposed Monitor believes that the quantum of the proposed KERP/LTIP Charge in the amount of $1,929,000 is appropriate having regard to the potential obligations of the Company under the KERP and LTIP.

SISP

46. In addition to the requirement under the proposed Interim Financing (without which Connacher will run out of cash to operate almost immediately), Connacher believes that it is appropriate to begin the SISP immediately in order to develop an understanding of the market's view of Connacher and identify any parties that may be interested in investing in Connacher or purchasing some or all of Connacher's assets. Critically, an initial five to six week period to canvass the market and obtain 'expressions of interest' must be concluded before the beginning of July when traditionally much of Calgary, and the oil and gas industry centered there, changes their focus from business activities to client-centered hospitality activities and holidays

47. Connacher has advised the Proposed Monitor that it expects that many of the potential participants in the proposed SISP will be familiar with Connacher's business and assets given Connacher's financing activities in 2014 and recapitalization in 2015. Further, Connacher has advised the Proposed Monitor that the financial and operational aspects of Connacher's business are relatively easy to understand and that, in Connacher's

view, parties will be able to conduct due diligence within the proposed time frames as set out in the proposed SISP.

48. The SISP, which Connacher would undertake with the assistance and oversight of the Proposed Monitor, would involve the following steps (as more specifically described in Schedule A to the proposed Initial Order):

a) Publish a notice of the SISP indicating the assets available, the timeline for the process and the deadline for submitting bids;

b) Contact identified potential interested parties and provide an overview of Connacher's operations;

c) Obtain executed Confidentiality Agreements and therefore facilitate access to the Company's data room and Management presentations;

d) On or before June 30, 2016, review offers received and determine if there is one or multiple bids that are appropriate for further negotiation and/or completing a transaction;

e) On or before July 27, 2016, receive final, binding offers of purchase and/or investment from potential purchasers and/or investors;

f) On or before August 8, 2016, receive Court approval to enter into a purchase and sale agreement or other agreement related to a purchase and sale and/or investment transaction; and

g) On or before August 31, 2016, complete the sale and/or investment transacations.

49. Given Connacher's limited funds, net use of cash as reflected in the Cash Flow Statement and the requirements under the proposed Interim Financing , the Proposed Monitor believes that initiating the SISP at this time and the proposed timelines are appropriate in the circumstances. In particular, the Proposed Monitor is satisfied that the proposed timelines 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.

CONNACHER'S CASH FLOW STATEMENT

50. A copy of the Cash-Flow Statement is appended as Exhibit "I" to the "Johnson Affidavit. A copy of the signed Cash-Flow Statement, Notes and a report containing the prescribed representations of the Company regarding the preparation of the Cash Flow Statement are attached hereto as Appendix "A".

51. In preparing the Cash-Flow Statement, Management has used the probable and hypothetical assumptions set out in notes 1 to 4 to the Cash-Flow Statement.

52. As indicated in the Cash-Flow Statement, the Company estimates that it will have total receipts of approximately $20,147,000 and total operating disbursements of approximately $40,818,000 for the Forecast Period. As reflected in the Cash-Flow Statement, as set out in the Johnson Affidavit and as reflected in the Approved Budget, the Company will begin to draw on the proposed Interim Financing almost immediately in order to have sufficient funds to satisfy its projected uses of cash to the initial expiration of the stay of proceedings sought in the proposed Initial Order. Beyond the date of the initial stay of proceedings, the Company will require additional draws on the proposed Interim Financing if it is to continue to operate.

Proposed Monitor's review of the Cash-Flow Statement

53. We have reviewed the Cash-Flow Statement in our capacity as Proposed Monitor of the Company. The Proposed Monitor's Report provides the Court with our findings with respect to our review of the Company's Cash-Flow Statement as to its reasonableness in accordance with section 23(1)(b) of the CCAA.

54. Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by certain of the Management and employees of the Company. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash-Flow Statement. We have also reviewed the support provided by Management for the probable assumptions and the preparation and presentation of the Cash-Flow Statement.

Proposed Monitor's opinion on Cash-Flow Statement

55. Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

    a) the hypothetical assumptions are not consistent with the purpose of the Cash-Flow Statement;

    b) as at the date of this report, the probable assumptions developed by Management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash-Flow Statement, given the hypothetical assumptions; or

    c) the Cash-Flow Statement does not reflect the probable and hypothetical assumptions.

56. Since the Cash-Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the Cash-Flow Statement will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by us in preparing this report.

57. The Cash-Flow Statement has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

Dated at Calgary, this 16th day of May, 2016.

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

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

APPENDIX A

Connacher
OIL AND GAS LIMITED

May 16, 2016

Ernst & Young Inc.

1000, 440-2nd Ave SW

Calgary AB T2P 5E9

Attention: Neil Narfason, Senior Vice President

Dear Sir:

Re: **Proceedings under the Companies' Creditors Arrangements Act ("CCAA")**

Responsibilities/Obligations and Disclosure with Respect to Cash Flow Projections

In connection with the application by Connacher Oil and Gas Limited ("Connacher") for the commencement of proceedings under the CCAA, the management of Connacher has prepared the attached Cash Flow Projection and the assumptions on which the Cash Flow Projection is based.

Connacher confirms that:

1. The hypothetical assumptions are reasonable and consistent with the purpose of the projections, and the probable assumptions are suitably supported and consistent with the plans of the debtor company and provide a reasonable basis for the projections. All such assumptions are disclosed in Notes 1 to 4.

2. Since the projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

3. The projections have been prepared solely for the purpose described in Notes 1 to 4, using the probable and hypothetical assumptions set out in Notes 1 to 4. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Yours Truly,

Jeff Beeston
Chief Financial Officer

Connacher Oil and Gas Limited
Cash flow forecast for the period of May 13, 2016 to August 12, 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	TOTAL
WEEK ENDED		20-May-16	27-May-16	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	13 Weeks
Receipts															
Crude Sales		-	5,262	-	-	-	7,206	-	-	-	-	7,679	-		20,147
Other															
Total Receipts	-	-	5,262	-	-	-	7,206	-	-	-	-	7,679	-	-	20,147
Disbursements															
Royalties		-	10	-	-	-	43	-	-	-	-	58	-	-	110
Oilsands operating expenses		1,131	1,131	1,222	1,222	1,222	1,222	945	945	945	945	945	1,243	1,243	14,362
Diluent/Transportation expenses		403	2,798	375	375	375	2,893	291	291	291	291	2,813	364	364	11,922
General and administrative costs	Note 2	111	458	291	458	211	458	189	89	436	89	436	161	458	3,847
Office Relocation Costs	Note 2												200		200
Capital Expenditures		23	23	62	62	62	62	-	28	28	28	28	30	30	467
AER Admin Fees	Note 3		1,000												1,000
Interim Financing - Financing Fees	Note 4		527												527
Interim Financing - Interest	Note 4							86							86
Supplier Prepayments/Deposits		1,897	1,935												3,833
Long-term Incentive Plan								809							809
Total Disbursements		3,565	7,882	1,950	2,117	1,870	4,678	2,321	1,354	1,700	1,354	4,280	1,998	2,095	37,163
CASH FLOW FROM OPERATIONS		(3,565)	(2,620)	(1,950)	(2,117)	(1,870)	2,528	(2,321)	(1,354)	(1,700)	(1,354)	3,400	(1,998)	(2,095)	(17,016)
Restructuring costs		-	350	550	225	430	230	380	175	330	175	330	150	330	3,655
Funding of Reserves															-
Shut-down Costs		7,100													7,100
Employee Liabilities		1,000	(1,000)												-
NET CHANGE IN CASH		(11,665)	(1,970)	(2,500)	(2,342)	(2,300)	2,298	(2,701)	(1,529)	(2,030)	(1,529)	3,070	(2,148)	(2,425)	(27,771)
Opening cash		15,044	3,378	8,408	5,908	3,566	1,266	9,564	6,863	5,335	3,305	1,776	4,846	2,698	15,044
DIP Borrowings		-	7,000	-	-	-	6,000	-	-	-	-	-	-	2,000	15,000
Ending Cash		3,378	8,408	5,908	3,566	1,266	9,564	6,863	5,335	3,305	1,776	4,846	2,698	2,273	2,273
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)	-
Borrowings		-	(7,000)	-	-	-	(6,000)	-	-	-	-	-	-	(2,000)	(15,000)
Ending 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)
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
Employee Liabilities		1,000	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Restricted Cash		8,100	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

Jeff Beeston, CFO
Connacher Oil and Gas Limited

May 16, 2016
Date

Connacher Oil and Gas Limited
Cash flow forecast for the period of May 13, 2016 to August 12, 2016
$000's CAD

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 1.30

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 commencing August 2016.

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

Note 4 Interim financing fees and interest in accordance with interim financing agreement.