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Recovery Report:

Connacher Finance Corp.'s US\$195 Million Bank Financing

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Primary Credit Analyst: Jamie Koutsoukis, Toronto (1) 416-507-2552;
jamie_koutsoukis@standardandpoors.com
Secondary Credit Analyst: Michelle Dathorne, Toronto (1) 416-507-2563;
michelle_dathorne@standardandpoors.com

On Sept. 6, 2006, Standard & Poor's Ratings Services assigned its bank loan and recovery ratings to Connacher Finance Corp.'s (Connacher) proposed seven-year US\$180 million secured term loan B facility and Montana Refining Company, Inc.'s five-year US\$15 million secured revolving credit facility. The facilities are rated 'BB-' (one notch above the corporate credit rating), with a recovery rating of '1', indicating an expectation for full (100%) recovery of principal in the event of a payment default.

The proposed term loan B facility will be used to fund construction costs for Pod I of the Great Divide project, refinance costs of existing indebtedness related to the acquisition of the Montana refinery, fund a precompletion debt service account and pay for financing costs. The working capital facility will be used to fund the working capital needs of the Montana Refining Company, Inc. (MRC). The term loan B borrower will be Connacher Finance Corp., the secured working capital facility borrower will be Montana Refining Company, Inc., and the bank facilities will be secured by a first priority security interest on all the Great Divide Project's assets and leases, which include Pod I, the Montana refinery, and related contracts.

(For the corporate credit rating rationale on Connacher Oil and Gas Limited, see Standard & Poor's research report published earlier today.)

Table 1

Connacher Finance Corp.

Facility/Issue	Issue rating	Recovery rating	Expected recovery (%)	Term (years)	Repayment
US\$180 mil. term loan B	BB-	1	100	7	1% per year, remainder due at maturity
US\$15 mil. secured revolving credit facility*	BB-	1	100	5	Due at maturity

*Borrower: Montana Refining Company, Inc.

Recovery Analysis**Simulated default scenario**

In a default scenario, Standard & Poor's assumes MRC's US\$15 million revolving credit facility will be fully drawn. Elements of a default scenario could include a deterioration in the company's financial performance, resulting in lower cash flows available to service the debt. Deterioration could result from a period of depressed oil and gas prices that, combined with an escalation in break-even costs for the company, could exhaust the company's liquidity and result in payment default.

Valuation and results

Under a default scenario, we employ a discrete asset methodology whereby the value of Connacher's Great Divide project and refinery are assumed to be sold at distressed values. The main value of Connacher's Great Divide Project is its 69.6 million barrels of booked probable reserves. Standard &

Poor's severely reduced the oil and gas collateral values based on the stress case WTI price of US\$30. Using this price assumption and an asset valuation model, the projected first-lien debt coverage exceeded 1x, which provides full recovery.

Transaction Summary

Table 2

Connacher Finance Corp.–Transaction Summary

Borrower	The term loan B borrower is Connacher Finance Corp., a special purpose holding company formed for the sole purpose of owning certain subsidiaries of Connacher Oil and Gas Ltd. which are (i) operating a 8,400-barrel per day independent refinery located in Montana, U.S., and (ii) developing, constructing, owning, and operating all phases (pods) of the Great Divide oil sands project. The secured working capital facility borrower is Montana Refining Company, Inc.
Guarantors	Borrowings under the term loan B facility will be guaranteed by each direct and indirect, future and existing, subsidiary of the Connacher Finance Corp. which include: Great Divide Holding Corp., Montana Refining Corp. (MRC), Great Divide Oil Corp., Great Divide Oil Sands Partnership, and Great Divide Pipeline Corp. The borrower and the guarantors (other than MRC) shall each provide an unconditional guaranty of all obligations of MRC in respect of the working capital facility.
Structure	The term loan facility will amortize 1% per year with the balance at maturity. Scheduled amortization of the B loan will commence on the earlier of (i) the last day of the first fiscal quarter occurring after the fiscal quarter during which the completion date of Pod I occurs and (ii) Dec. 31, 2008. There will be no amortization on the revolver.
Security package	The facilities will be secured by a first priority security interest on all the Great Divide Project's assets and leases, which include Pod I, the Montana refinery, and related contracts.
Incremental facilities	Incremental pari passu term loan facilities and revolving commitments up to US\$150 million are allowed for development of additional Pods (excluding Pod I) in the Great Divide project subject to tests by the lenders.
Legal jurisdiction/issues	Canada and the U.S. No material issue.
Key covenants	Covenants include maximum total consolidated debt to EBITDA of 5.00x, and a minimum interest coverage ratio of 2.0x.

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