Q1

INTERIM REPORT 2004

FIRST QUARTER REPORT 2004 HIGHLIGHTS:

- Twelfth consecutive quarter of production increases with average daily production 58 percent higher than a year ago and natural gas sales up 87 percent
- Revenue increased 52 percent over same period last year
- Cash flow from operations up 21 percent, despite lower prices due to a strong Canadian dollar
- Thirteen wells drilled in the period and all were cased
- A significant oil discovery was made at Tompkins, Saskatchewan
- Conventional proved and probable reserves grew three percent after production; 10 percent present worth increased approximately 15 percent from year-end 2003 levels to $48.4 million
- Independent evaluator recognized 53 million barrels of possible recoverable bitumen reserves and assigned a 10 percent present worth of $161 million to one of several identified accumulations at Connacher's Great Divide Project

	Three Months Ended March 31		
	2004	2003	% Change
FINANCIAL			
($000 except per share amounts)			
Total Revenue	**3,290**	2,164	52
Cash flow from operations [1]	**944**	779	21
Per basic and diluted share	**0.02**	0.03	(33)
Net earnings (loss) [2]	**(689)**	166	-
Per basic and diluted share	**(0.01)**	0.01	-
Capital expenditures	**10,391**	10,768	(4)
Bank debt	**20,600**	10,650	93
Working capital deficiency	**9,850**	864	1,040
Net debt	**30,450**	11,514	164
Shareholders' equity [2]	**21,655**	7,113	204
Total assets [2]	**60,038**	23,824	152
Common shares outstanding (000)			
Weighted average			
Basic	**46,067**	25,021	84
Diluted	**50,119**	25,528	96
End of period			
Issued	**46,153**	28,717	61
Fully diluted	**53,957**	43,551	24
OPERATING			
Daily production			
Crude oil (bbl/d)	**859**	582	48
Natural gas (mcf/d)	**2,268**	1,216	87
Barrels of oil equivalent (boe/d) [3]	**1,237**	785	58
Prices			
Oil ($/bbl)			
Canada	**29.71**	30.99	(4)
Argentina	**42.24**	46.72	(10)
Total	**30.41**	32.22	(6)
Natural gas ($/mcf)			
Canada	**5.68**	7.21	(21)
Argentina	**0.24**	0.32	(25)
Total	**4.42**	4.03	10
Barrels of oil equivalent ($/boe)	**29.22**	30.15	(3)
Netback ($/boe)	**13.76**	17.36	(21)

(1) Cash flow from operations as set out in the company's Consolidated Statement of Cash Flows and cash flow per share are not measures that have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures presented by others.

(2) Comparative figures have been restated to reflect changes in accounting policies.

(3) All references to barrels of oil equivalent (boe) are calculated on the basis of 6 mcf : 1 bbl.

Connacher continued to make progress during the first quarter of 2004, although operationally it was a challenging period for the company.

The company's major challenge was at Cabri, Saskatchewan where natural gas production failed to meet expectations. This resulted from a number of factors, including mechanical and surface facility problems, many of which arose due to extremely cold weather conditions which persisted for approximately two months after startup on December 21, 2003. Also, the company faced challenges in handling associated water, and more particularly silty mud produced with natural gas, which inhibited natural gas volumes. This may have been exacerbated by the erratic nature of plant operation and intermittent shutdowns which were experienced. The company was also delayed in applying solutions by an early spring breakup, which restricted access.

Remedial work has now commenced at the company's Cabri North property following the lifting of road bans. To optimize production from the existing wells, a series of initiatives are underway to handle production of water and mud, minimize downtime and increase flow velocity. Additionally, eight new wells are in the process of being connected to the pipeline gathering system.

Like other shallow gas plays under development in Alberta and Saskatchewan, the tight Milk River reservoirs at Cabri are sensitive to completion and startup techniques. Tests are ongoing to determine if startup procedures and first quarter challenges resulted in damage to the reservoir. The ability to calibrate initial test data to sustainable and predictable production rates is the goal. This knowledge is necessary for Connacher to further evaluate the potential of its inventory of infill-drilling and exploitation locations in the Cabri area.

During the first quarter of 2004 Connacher invested $10.4 million in drilling, land acquisition, completion of eleven coreholes on its oil sands property and on plant and equipment. Thirteen new wells were drilled during the quarter and all were cased. These included six wells at Tompkins, completing the earning program under a farm-in agreement; six at Cabri, (three infill natural gas wells at Cabri North and three new natural gas wells on the Cabri River block) and one earning well at Claydon, all in Saskatchewan. A significant new oil discovery was made at Tompkins, results of which remain confidential.

Production levels were up 58 percent over 2003 but only modestly above fourth quarter levels, due to the impact of cold weather on heavy oil production at Islay and also lower natural gas sales from this region. Subsequent to the reporting period oil volumes have improved modestly. A higher natural gas price was also secured for Argentinian production, which should contribute to stronger results for the balance of the year.

Proposed capital initiatives for the rest of the year include follow-up infill drilling on the Cabri North block and exploitation drilling on the Cabri River block for Milk River gas, subject to success on the remedial program. Follow-up development drilling on the Tompkins block is planned, as is exploitation drilling at Battrum East and exploration drilling at Claydon, all in southwest Saskatchewan.

To facilitate these planned expenditures, reduce debt and focus on its core areas, the company plans to sell its conventional heavy oil properties in Alberta at Islay and at Lloydminster and reorganize its holdings in Argentina. In addition, as part of obtaining a joint venture partner, the company anticipates monetizing a portion of its interest in the Great Divide project. It is also contemplated that, as required, additional equity will be raised during the year.

Connacher has adopted a policy of obtaining an independent evaluation of its oil and gas reserves on a quarterly basis. In accordance with this policy the company received an updated reserve report with an effective date of March 31, 2004. The report was prepared for the company by DeGolyer and MacNaughton Canada Ltd. (D&M), formerly Outtrim Szabo Associates Ltd., which prepared the company's year-end report. The company's proved and probable reserves at March 31, 2004 were 5.8 mmboe, a three percent increase over year-end levels, after deducting first quarter 2004 production. These reserves were forecast to generate future net revenue of $73.3 million, with a present worth discounted at 10 percent of $48.4 million. The increase in present worth of approximately 15 percent over year-end values is due to higher D&M price forecasts as of April 1, 2004 and the increase in reserve volumes.

Of considerable additional significance in the D&M report is the recognition of possible reserves in one of several prospective bitumen bearing McMurray channels in Connacher's Great Divide SAGD oil sands project. In early 2004 Connacher acquired an 84 section (53,760 acre) land position in this area, which is located approximately 80 kilometers southwest of Fort McMurray, Alberta. During the first quarter, a channel underlying approximately two sections (1,280 acres) was delineated with 11 core holes. The D&M report assigns 52.7 million barrels of recoverable bitumen to this channel. Production of these reserves is forecast to generate $581 million of future net revenue, with a present worth discounted at 10 percent of $161 million after a capital investment of $230 million over a 25 year project life. Connacher intends to seek out a joint-venture partner to assist in a commercial SAGD development of these reserves because of the large capital outlays required for a project of this kind prior to production startup. Total capital outlays thus far, including acquisition costs for the project, have been $3 million.

The following table summarizes the results contained in the updated D&M report.

Remaining Reserves and Future Net Revenue
Escalating Prices at April 1, 2004
Company Share – Escalated Dollar Economics

	Remaining Reserves (1)						Future Net Revenue (4,5,6)		
	Crude Oil		Natural Gas		NGLs		Undis-counted	Discounted	
Reserve Category	**Gross (2)**	**Net (3)**	**Gross (2)**	**Net (3)**	**Gross (2)**	**Net (3)**		**at 8%**	**at 10%**
	stb	**stb**	**mmcf**	**mmcf**	**bbl**	**bbl**	**$000**	**$000**	**$000**
Proved Developed									
Producing	1,647,129	1,401,190	2,898	2,711	2,416	1,699	28,208	23,453	22,525
Non-Producing	180,311	150,676	1,363	1,207	-	-	5,910	4,729	4,683
Total Proved Developed	1,827,440	1,551,866	4,261	3,918	2,416	1,699	34,118	28,182	27,028
Proved Undeveloped	418,858	383,111	1,019	956	-	-	5,103	3,529	3,225
TOTAL PROVED	2,246,298	1,934,977	5,280	4,874	2,416	1,699	39,221	31,711	30,253
Probable	2,124,033	1,807,804	3,067	2,848	1,245	887	34,067	20,081	18,097
TOTAL Proved & Probable	4,370,331	3,742,781	8,347	7,722	3,661	2,586	73,288	51,792	48,350
Possible(3)	54,015,665	53,370,507	991	976	118	103	600,361	216,574	169,789
TOTAL Proved & Probable & Possible	58,385,996	57,113,288	9,338	8,698	3,779	2,689	673,649	268,366	218,139

(1) During the reporting period the company adopted a policy of securing quarterly updates of its reserve reports as prepared by an independent evaluator. The reserve estimates for the period ended March 31, 2004 were prepared in accordance with National Instrument 51-101 (NI 51-101). Under NI 51-101, proved reserve assignments are based on a 90 percent certainty that total quantities recovered will equal or exceed proved reserve estimates. Proved plus probable reserves are the most likely case and are based on a 50 percent certainty that they will equal or exceed estimates. The new standard provides for a more conservative evaluation of proved and probable reserves, particularly on new wells where production history has not yet been established. The change to proved and probable reserve definitions implemented by NI 51-101 for the year ended December 31, 2003, may make reserve quantity and reserve valuation comparisons to prior years difficult. Possible reserves were also assigned to certain properties and are those reserves less certain to be recovered than probable reserves. There is at least a 10 percent probability that the quantities actually recorded will exceed the sum of the estimate of proved plus probable plus possible reserves.

(2) Before royalty deduction, net to company interest.

(3) After royalty deduction, net to company interest.

(4) The values do not necessarily represent the fair market value.

(5) Excluding ARTC, which is evaluated separately and is forecast to have an undiscounted value of $4.4 million, an eight percent discounted value of $2.5 million and a 10 percent discounted value of $2.2 million for total proved, probable and possible reserves.

(6) Before income taxes and indirect costs and after capital costs and future abandonment costs net of salvage value.

(7) May not add due to rounding.

Respectfully submitted on behalf of the board,

Signed,

"R.A. Gusella"

Richard A. Gusella
President and Chief Executive Officer
May 11, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is dated as of May 11, 2004 and should be read in conjunction with the Consolidated Financial Statements of Connacher Oil and Gas Limited for the three month period ended March 31, 2004 and 2003 as contained in this interim report. This discussion and analysis provides management's view of the financial condition of the company and the results of its operations for the reporting periods. Information contained in this report contains forward-looking information based on current expectations, estimates and projections of future production, capital expenditures and available sources of financing. It should be noted forward-looking information involves a number of risks and uncertainties and actual results may vary materially from those anticipated by the company. These risks and uncertainties include, but are not limited to, changes in market conditions, law or governing policy, operating conditions and costs, operating performance, demand for oil and gas, price and exchange rate fluctuation, currency controls, commercial negotiations and technical and economic factors. Per barrel of oil equivalent (boe) amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil (6:1). The conversion is based on an energy equivalency conversion method primarily applicable to the burner tip and does not necessarily represent a value equivalency at the wellhead.

CORPORATE GROWTH OVERVIEW

Corporate Growth

	Three Months Ended March 31		
	2004	2003	2002
FINANCIAL (unaudited)			
($)			
Total assets (1)	**60,037,703**	23,824,103	5,629,335
Shareholders' equity (1)	**21,655,047**	7,113,052	2,554,100
Bank debt and note payable	**20,600,000**	10,650,000	2,222,530
Total revenue	**3,289,937**	2,164,257	679,089
Cash flow from operations (2)	**943,740**	779,036	59,814
Net earnings (loss) (1)	**(689,298)**	165,912	(200,886)
OPERATING			
Daily production / sales volumes			
Oil (bbl/d)	**859**	582	237
Natural gas (mcf/d)	**2,268**	1,216	1,340
boe/d (@ 6:1)	**1,237**	785	460
Proved and probable reserves			
Oil & liquids (mbbls)	**4,374**	n/a	n/a
Natural gas (mmcf)	**8,347**	n/a	n/a
Equivalent (mboe)	**5,765**	n/a	n/a
Proved plus probable plus possible reserves (mboe)	**59,946**	n/a	n/a

(1) Restated for the effects of changes in accounting policies as set out in note 1 to the March 31, 2004 Consolidated Financial Statements.

(2) Cash flow from operations as set out in the company's Consolidated Statement of Cash Flows is not a measure that has any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures presented by others.

(3) No dividends were paid by the company in the last three years.

Connacher's management has redirected the company's affairs to Canada following a recapitalization and reconstitution of the management and board of directors in July 2001. Since that time the company has selectively acquired oil and gas properties and developed prospects to successfully build shareholder value. Growth has been rapid but calculated. In its early stage of development, the company focused on heavier oil properties because they could be acquired on favorable terms and because of management's expertise and success in developing these types of assets. In 2003 the company balanced its assets with lighter oil and more natural gas, primarily through internal development and to some extent by way of acquisition as suitably priced opportunities were identified. The table above portrays the growth achieved over the past three years.

In 2002 the company purchased producing oil and natural gas properties in the Lloydminster/ Islay region of central eastern Alberta for $4 million and completed a well workover program and drilled 12 wells in that region, completing eight oil wells and two natural gas wells.

In 2003 the company purchased producing oil and natural gas properties in the Battrum region of southwest Saskatchewan for $10 million. Subsequently, the company expanded into the Milk River gas play at Cabri, Saskatchewan and also drilled 59 gross wells (57 net wells), mostly in the second half of the year.

In January 2004 the company acquired approximately 54,000 acres of oil sands rights at its Great Divide project 80 kilometers southwest of Fort McMurray, Alberta. Subsequently eleven core holes were drilled to delineate one of several identified oil-bearing channels. Possible recoverable reserves of 52.7 million barrels were assigned to this channel by independent evaluators.

FINANCIAL AND OPERATING REVIEW - First Quarter Results
(Unaudited)

Revenue, Production and Pricing

Total revenue for the three month period ended March 31, 2004 increased 52 percent to $3.3 million compared to $2.2 million in 2003 and only $700,000 in 2002. This reflects a 58 percent increase in sales volumes offset by a 3 percent decrease in average product pricing in 2004. Canadian revenues were $3.1 million, up 58 percent from $2.0 million in 2003, while Argentine revenues were down slightly to $198,000 from $213,000 last year.

Revenue increases in 2004 and 2003 reflect significant production growth, primarily in Canada, where the company has focused most of its capital spending. This included major property acquisitions in early 2002 and early 2003 followed up with aggressive drilling and workover programs. These programs focused on oil and natural gas, with increases in oil production volumes more in evidence thus far. New natural gas production commenced in late December 2003 after construction of a gathering system and natural gas plant at Cabri.

On an equivalent basis the most significant increase occurred in Canadian oil production. Canadian natural gas sales rose 87 percent in 2004 as new reserves at Cabri commenced production on December 21, 2003. Realized production was below expectations due to weather-related mechanical and then resultant reservoir issues. Argentinian production has remained stable at around 150 boe/d in the past three years. On an equivalent basis, Connacher's 2004 production of 1,237 boe/d was 58 percent higher than in 2003, and was almost triple that of 2002.

As evidenced by the results, management focused on expanding its Canadian asset base, thereby increasing the impact of and contribution from domestic operations to solidify a lower-risk cash flow stream. This can then be redeployed in growth expenditures. With Canadian production growing and the contribution from Argentina relatively flat, in the first quarter of 2004 about 90 percent of Connacher's sale volumes were being produced in Canada, compared to only 17 percent in 2001 when the company was reorganized.

Connacher is continuing its pursuit of a growth profile to expand its reserve base and increase production levels in 2004.

Production and Pricing

	Three Months Ended March 31		
	2004	2003	2002
Daily production / sales volumes			
Oil – bbl/d			
Canada	811	537	188
Argentina	48	45	49
Total	**859**	**582**	**237**
Natural Gas –mcf/d			
Canada	1,740	656	797
Argentina	528	560	543
Total	**2,268**	**1,216**	**1,340**
boe – boe/d			
Canada	1,101	646	321
Argentina	136	139	139
Total	**1,237**	**785**	**460**
Product pricing			
Oil – per bbl			
Canada	$29.71	$30.99	$21.02
Argentina	$42.24	$46.72	$26.64
Average	**$30.41**	**$32.22**	**$22.17**
Natural gas – per mcf			
Canada	$5.68	$7.21	$2.32
Argentina	$0.24	$0.32	$0.67
Average	**$4.42**	**$4.03**	**$1.65**
boe – per boe			
Canada	$30.87	$33.07	$18.07
Argentina	$15.92	$16.57	$11.97
Average	**$29.22**	**$30.15**	**$16.22**

Although US dollar-denominated crude oil prices have remained strong and despite a lighter product mix, the impact of the rising Canadian dollar had the effect of reducing our Canadian dollar selling price by six percent in 2004 compared to the prior year period.

Canadian natural gas prices were also below 2003 levels. Argentinean natural gas prices continued to be weak reflecting the relative strength of the Canadian dollar and the continued price freeze at one peso per mcf in Argentina. Subsequent to the reporting period, these contract prices were renegotiated at new higher levels approximately double current prices.

Connacher's 2004 realized price per boe declined three percent to $29.22 from $30.15 per boe in 2003. To mitigate the vagaries of volatile price swings in the market for crude oil, which are beyond the control of the company, management employs a modest hedging strategy to fix the selling prices of a portion of its domestic oil sales in Canadian dollars. Being a small producer with medium gravity and heavy oil representing a meaningful percentage of total production, from time to time the company could be vulnerable to reduced pricing and variations in quality differential adjustments. Furthermore, as the company finances a portion of its growth with a bank debt component, it could be faced with the possible redirection of cash flow to debt reduction instead of growth expenditures during periods of low prices which fall below the price deck employed by its lender. Accordingly, in early 2003 the company hedged 250 bbl/d of its Islay heavy crude oil production until February 28, 2004 at $30.83 per barrel for LLB Hardisty. A further 250 bbl/d of its Battrum crude was contracted until March 31, 2004 at a fixed price for WTI of $45.60 per barrel before deduction of the related crude oil price differential.

The company has renewed its Islay heavy crude oil hedge for 200 bbl/d for one year from March 1, 2004 until February 28, 2005 at a WTI reference price of Cdn. $42.67 before a quality differential adjustment. Certain other benefits accrue to Connacher in conjunction with the hedge as provided by the purchaser of the crude oil produced in this region. Effective April 1, 2004 the 250 bbl/d Battrum crude oil hedge was renewed for one year at a WTI reference price of $44.08 before premium and quality differential adjustments.

The company's reported revenues include gains and/or losses realized on the hedges; they are not separately reported in the consolidated financial statements. Crude oil revenues realized in 2004 would have been higher than reported had the company not entered into the hedges by approximately $45,000.

ROYALTIES

Royalties represent charges against production or revenue by governments and landowners. Royalties in 2004 were $605,000 ($5.38 per boe, or 18 percent of oil and gas revenue) compared to $408,000 ($5.78 per boe, or 19 percent of oil and gas revenue) in 2003. The table below provides further detail by country for each year.

	Royalties			
	2004		2003	
	Total	**Per boe**	Total	Per boe
Canada	$ 586,269	$5.85	$384,140	$6.61
percentage of total oil and gas revenue	19.0%		20.0%	
Argentina	$18,978	$ 1.53	$24,337	$1.95
percentage of total oil and gas revenue	9.6%		11.8%	
Total	**$605,247**	**$5.37**	**$408,477**	**$5.78**
percentage of total oil and gas revenue	**18.4%**		**19.2%**	

The increase in royalties year over year reflects increased sales volumes; the unit cost and royalty percentages are comparable with prior periods.

OPERATING EXPENSES AND OPERATING NETBACKS

Company Operating Netbacks - combined Canada and Argentina (1)

	2004		2003		% Change 2004 - 2003	
	Total	**Per boe**	Total	Per boe	Total	Per boe
Average daily production (boe)	**1,237**		**785**		**58%**	
Oil and natural gas revenue	$ 3,289,501	$ 29.22	$ 2,129,056	$ 30.15	55%	(3%)
Other income	436		35,201	0.50	(99%)	-
Total revenue	3,289,937	29.22	2,164,257	30.65	52%	(5%)
Royalties	(605,247)	(5.37)	(408,477)	(5.78)	48%	(7%)
Net revenue	2,684,690	23.85	1,755,780	24.87	53%	(4%)
Operating costs	(1,135,994)	(10.09)	(530,205)	(7.51)	114%	34%
Operating Netback	**$ 1,548,696**	**$ 13.76**	**$ 1,225,575**	**$ 17.36**	**26%**	**(21%)**

(1) Calculated by dividing related revenue and costs by total boe produced, resulting in an overall combined company netback.

Operating expenses increased by 114 percent year over year to $1.1 million, primarily reflecting higher production levels. Unit costs rose to $10.09 per boe compared to $7.51 per boe in 2003. Operating costs rose due to problems associated with the commencement of production at Cabri and the impact of cold weather on heavy oil production. Efforts continue to reduce these costs. As production is increased, unit costs will decline when fixed costs are spread over the increased volumes. Argentinian unit operating costs were up to $5.10 per boe as peso expenses increased following the 2002 devaluation of the Argentine peso. When converted to higher valued Canadian dollars for reporting purposes, costs are still low.

In Canada the overall operating netback in 2004 was $14.31 per boe (2003 - $18.44) while in Argentina it was $9.29 per boe (2003 - $9.48). Argentina's modest decline reflected a higher cost structure with a devalued peso and weak natural gas prices. Canadian netbacks weakened as prices fell and costs rose into the first quarter.

2004 Operating Netbacks by Country and Product
Per unit netbacks are calculated by dividing netbacks by sales volumes.
Operating netbacks by product type and by country are indicated below.

	Canada						Argentina			
	Light oil		Heavy oil		Natural gas		Light oil		Natural gas	
	Total	Per bbl	Total	Per bbl	Total	Per mcf	Total	Per bbl	Total	Per mcf
Average daily production	**545 bbl/d**		**266 bbl/d**		**1,740 mcf/d**		**48 bbl/d**		**528 mcf/d**	
Oil and natural gas revenue	**1,615,563**	**$32.58**	**576,005**	**$23.82**	**900,344**	**$5.68**	**186,238**	**$42.64**	**11,351**	**$0.24**
Royalties	(421,560)	$(8.50)	(142,539)	$(5.88)	(22,170)	$(0.14)	(17,900)	$(4.10)	(1,078)	$(0.02)
Operating costs	(405,403)	$(8.18)	(343,346)	$(14.18)	(323,984)	$(2.04)	(58,690)	$(13.44)	(4,571)	$(0.10)
Netback	**788,600**	**$15.90**	**90,120**	**$3.72**	**554,190**	**$3.50**	**109,648**	**$25.10**	**5,702**	**$0.12**

GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative (G&A) expenses increased by 49 percent in 2004, reflecting additional staff as the company expanded its scale and scope of operations. Total G&A expenses were $449,000 in 2004, and included a non-cash stock option expense of $41,000, reflecting the fair value of all stock options granted during the period. In 2003, $301,000 (including stock option expense of $7,800) was expensed.

G&A expenses per boe decreased six percent to $3.99 from $4.25 in 2003. Further reductions per produced boe are anticipated as production volumes expand.

During the reporting period the company charged $200,000 to Retained Earnings to recognize the fair value of stock options granted to employees in past years consistent with the adoption of a policy to expense the fair value of all options granted to employees.

INTEREST AND FOREIGN EXCHANGE

In the first quarter of 2004, the company utilized available lines of bank credit to finance a portion of its activities. Accordingly, while interest rates continued at relatively low levels, total interest expense increased to $197,000 in 2004, compared to $133,000 reported last year. Unit costs declined to $1.75 per boe in 2004 compared to $1.88 per boe in 2003, as debt and related interest costs grew but at a slower rate than production.

The impact of a fluctuating US dollar and Argentine peso relative to the Canadian dollar, when translating foreign denominated financial statements and operating results, was nominal in 2004 and 2003. The company's main exposure to foreign currency risk relates to pricing crude oil sales, which are denominated in US dollars. However, some of this risk has been mitigated by hedging a portion of the company's crude oil production in Canadian dollar denominated hedge contracts.

DEPRECIATION, DEPLETION AND ACCRETION (DD&A) AND CEILING TEST

DD&A expense of $2 million in 2004 is significantly higher than the $596,000 reported in the first quarter of 2003 because of the significant increase in oil and gas capital assets and production volumes.

In 2004, the company prospectively adopted the new oil and gas "full cost" accounting guideline, which re-defines the way the "ceiling test" is calculated, and the related new CICA standard respecting impairment of long-lived assets. The adoption of these new policies had no impact on the company's financial results and no write down was warranted.

In 2004, the company also retroactively adopted the new CICA policy to account for and report obligations to retire long-lived assets. The impact of this change is detailed in the financial statements for the reporting period.

On a unit of production basis, DD&A per boe was $17.96 in 2004 and $8.43 in 2003. This increase is due to the significant increase in oil and gas capital assets, the conservative nature of determining and reporting proved reserve estimates pursuant to NI 51-101 and not booking significant new reserves from first quarter 2004 drilling in the proved category.

INCOME TAXES

Recoverable future taxes of $430,000 were recognized in the first quarter of 2004, representing the benefit of the reported loss.

There was no provision required for current income taxes in 2004. The charge of $21,137 in 2003 represents minimum cash income taxes payable in respect of the company's Argentinian branch operations for that year. Income earned in Canada will continue to be sheltered from Canadian income taxes until the company utilizes its approximately $56 million of deductible tax pools and operating loss carry forwards, which are supplemented by ongoing capital programs.

NET EARNINGS AND SHARES OUTSTANDING

For 2004, a loss of $689,000 or $0.01 per basic and diluted share compared to earnings in 2003 of $166,000 or $0.01 per basic and diluted share, after restating for the change in accounting for asset retirement obligations as detailed in the financial statements for the reporting period.

For 2004 weighted average shares outstanding were 46,067,000 (2003–25,021,000) and weighted average diluted shares outstanding, as calculated by the treasury stock method, were 50,119,000 (2003 – 25,528,000).

As at May 11, 2004, the company had the following securities issued and outstanding:
- 47,237,680 common shares;
- 3,794,390 share purchase warrants; and
- 3,000,000 share purchase options.

Exercise rights and terms of the warrants and options are detailed in the notes to the financial statements for the reporting period.

Net Earnings (Loss) - Combined Canada and Argentina

	2004		2003		% Change	
	Total	Per boe	Total	Per boe	Total	Per boe
Operating netback	**$1,548,696**	**$13.76**	**$1,225,575**	**$17.36**	**26%**	**(21%)**
General & administrative	(449,268)	(3.99)	(300,606)	(4.25)	49%	(6%)
Interest	(196,688)	(1.75)	(132,596)	(1.88)	48%	(7%)
Foreign exchange loss	(29)	-	(9,479)	(0.13)	n/a	n/a
Depletion and depreciation (1)	(2,022,009)	(17.96)	(595,845)	(8.43)	286%	142%
Tax recovery (expense)	430,000	3.82	(21,137)	(0.30)	n/a	n/a
Net earnings (loss) (1)	**$(689,298)**	**$(6.12)**	**$165,912**	**$2.35**	**n/a**	**n/a**

(1) Comparative figures have been restated to reflect changes in accounting policies.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations as set out in the company's Consolidated Statements of Cash Flows and cash flow per share do not have standardized meanings prescribed by generally accepted accounting principles and therefore may not be comparable to similar measures used by other companies. Nevertheless, Connacher's management uses cash flow from operations and cash flow per share as a performance measurement.

Cash flow from operations for 2004 was $944,000 ($0.02 per basic and diluted share) compared to $779,000 ($0.03 per basic and diluted share) in 2003. This 21 percent improvement primarily reflects increased production, as prices were three percent lower and cash costs were higher.

Cash flow per boe was $8.39 in 2004, compared to $11.03 in 2003, a 24 percent decline. This represented 29 percent of selling price in 2004 compared to 37 percent in 2003.

While the company generated positive cash flow in 2004, it also utilized equity financing, borrowings, cash balances and trade credit to fund its capital program.

Capital expenditures in 2004 totaled $10.4 million as follows:
- $1.9 million for drilling 11 core holes in the Great Divide oil sands project;
- $5.5 million for drilling, equipping and completing 13 net wells, and for workovers;
- $900,000 for production facilities at Cabri; and
- $2.1 million to acquire seismic, administrative assets and additional acreage at Crown sales.

All but $35,000 of these expenditures were in Canada. In Argentina, expenditures were capitalized costs. The company's capital expenditures are generally discretionary and can be adjusted for drilling results or changes in cash flow regardless of the source of change, including variations in prices received for crude oil and natural gas sales. Certain of the company's expenditures are renounced to investors who acquire flow-through common shares. Generally such expenditures are exploratory in nature; this may influence expenditure types if such financing methods have been employed during a given year or period.

These 2004 expenditures were financed from operating cash flow ($944,000), new equity including proceeds from the exercise of share purchase warrants and stock options ($91,000), net new loans ($8.5 million) and cash balances ($800,000). At March 31, 2004, Connacher's working capital deficit was $28.7 million, including bank loans of $18.9 million, which are now required to be reported as a current liability. At March 31, 2004 the company's total bank debt was $20.6 million. The company's working capital deficit and bank loans at March 31, 2004 were at higher levels than originally planned. Debt levels rose in early 2004 as a consequence of the company maintaining an active capital program, but not immediately realizing anticipated increases in operating cash flow. The operating cash flow shortfall was primarily caused by lower-than-expected gas sales at Cabri. This was due to operational problems, in part caused by and also compounded by, extremely cold weather conditions. These problems in turn may have caused some collateral damage to current well productivity and future performance. A remedial program is underway to determine the extent of the collateral damage and to increase production from the area.

As at March 31, 2004, the company's bank has waived compliance of debt covenants relating to working capital. The bank is also conducting its annual review of the company's reserves and credit facility. This review will likely result in a reduction to the facility.

In anvance of any possible changes to the banking facility, the company is undertaking actions to reduce its working capital deficiency. These actions include the possible sale of certain conventional heavy oil properties, the reorganization of Connacher's Argentinean holdings, monetization of a portion of its oil sands interests and the raising of additional funds from the sale of common shares. The success and extent of these initiatives will also determine the magnitude of the company's capital program during the balance of the year. It is expected these programs will be financed from available cash flow, surplus proceeds from the initiatives and other sources of funds which might become available to the company.

As at March 31, 2004, the company had available a $20.8 million revolving line of credit (LOC) and a $10 million acquisition / development line of credit (AD Line), against which were drawn $17.9 million and $2.7, respectively. The company does not have capital lease obligations, capital or purchase commitments or any other off-balance sheet debt. The company is not subject to any outstanding legal claims, nor any environmental or safety claims.

Connacher has a commitment to incur $5 million of resource expenditures before December 31, 2004 related to December 2003 financing of flow-through shares. The company estimates approximately $3.8 million of its commitment has been fulfilled as at March 31, 2004.

QUARTERLY RESULTS

The ensuing table summarizes results for the past nine quarterly reporting periods.

	2002				2003				2004
Three Months Ended	**Mar 31**	**Jun 30**	**Sept 30**	**Dec 31**	**Mar 31**	**Jun 30**	**Sept 30**	**Dec 31**	**Mar 31**
Financial Highlights									
($000 except per share amounts) – Unaudited									
Total Revenue, gross	679	917	1,075	1,655	2,164	2,474	2,491	2,853	**3,290**
Cash flow from operations (1)	60	257	234	496	779	821	745	1,008	**944**
Basic, per share	-	0.02	0.01	0.02	0.03	0.02	0.02	0.03	**0.02**
Diluted, per share	-	0.02	0.01	0.02	0.03	0.03	0.02	0.02	**0.02**
Net earnings (loss) (2)	(201)	(45)	(32)	486	166	44	2,815	653	**(689)**
Basic, per share	-	-	-	0.03	0.01	0.01	0.08	0.03	**(0.01)**
Diluted, per share	-	-	-	0.03	0.01	0.01	0.07	0.03	**(0.01)**
Capital Spending	4,123	1,182	1,941	1,768	10,768	4,272	5,715	15,015	**10,391**
Bank debt	1,729	450	1,850	2,100	10,650	12,500	13,800	12,100	**20,600**
Working capital deficiency (surplus)	(313)	658	1,008	846	864	179	2,695	8,994	**9,850**
Note payable	494	477	465	458	-	-	-	-	**-**
Net debt	1,910	1,585	3,323	3,404	11,514	12,679	16,495	21,094	**30,450**
Shareholders' equity (2)	2,554	3,481	3,098	5,110	7,113	9,469	13,315	24,182	**21,655**
Operating Highlights									
Production									
Natural gas (mcf/d)	1,340	1,536	1,123	1,462	1,216	1,033	1,012	1,496	**2,268**
Crude oil (bbl/d)	237	288	364	469	582	752	839	978	**859**
Equivalent (boe/d) (6:1)	460	544	551	713	785	924	1,008	1,228	**1,237**
Pricing									
Crude oil ($/bbl)	22.17	23.63	25.97	27.36	32.22	33.10	29.40	26.96	**30.41**
Natural gas ($/mcf)	1.65	2.09	1.93	3.29	4.03	2.18	2.35	3.02	**4.42**
Selected Highlights ($/boe)									
Weighted average sales price	16.38	18.51	21.20	25.24	30.15	29.37	26.84	25.17	**29.22**
Other income	0.16	0.10	0.11	0.49	0.50	0.04	0.03	0.10	**-**
Royalties, net of ARTC	2.17	2.17	3.21	3.62	5.78	5.20	5.08	4.23	**5.37**
Operating expenses	7.63	6.18	7.74	9.31	7.51	7.46	7.89	10.29	**10.09**
Netback	6.74	10.26	10.36	12.80	17.36	16.75	13.90	10.75	**13.76**
Common Share Information									
Shares outstanding at end of period (000)	17,971	21,671	21,671	24,175	28,717	34,082	36,512	45,903	**46,153**
Weighted average shares outstanding for the period									
Basic (000)	17,013	18,426	21,671	22,408	25,021	29,421	35,820	39,022	**46,067**
Diluted (000)	17,013	18,426	22,443	23,626	25,528	31,945	38,817	42,138	**50,119**
Volume traded during quarter (000)	106	231	191	418	6,031	8,342	10,027	15,045	**28,579**
Common share price ($)									
High	0.42	0.42	0.68	0.58	0.45	0.76	0.87	1.60	**1.75**
Low	0.20	0.26	0.25	0.32	0.31	0.40	0.65	0.74	**0.66**
Close (end of period)	0.38	0.35	0.50	0.43	0.42	0.71	0.75	1.60	**0.87**

(1) Cash flow from operations as set out in the company's Consolidated Statements of Cash Flows and cash flow per share are not measures that have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures presented by others.
(2) Comparative figures have been restated to reflect changes in accounting policies.
(3) All references to barrels of oil equivalent (boe) are calculated on the basis of 6 mcf : 1 bbl.

ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

In applying generally accepted accounting principles (GAAP), certain judgments, assumptions and estimates are required which could have a significant impact on financial results. The most significant estimates for the company are of its crude oil and natural gas reserves.

Capitalized costs are depleted, depreciated and amortized on a unit of production basis over the life of the oil and gas reserves; the carrying value of capitalized costs are compared to a recoverable ceiling value utilizing these reserve estimates. Reserve revisions could have a significant consequence to the determination of earnings. The reserve estimates used by Connacher have been evaluated and reported upon by experienced independent petroleum engineering consultants, in accordance with regulatory standards (NI 51-101).

There have been many recent changes made and proposed to Canadian and international accounting standards. Recently, the company adopted new policies respecting hedge accounting, cash flow reporting, financial instruments recognition and measurement, disclosure of guarantees, impairment of long-lived assets, disposal of long-lived assets and discontinued operations, stock-based compensation, the new full cost method of oil and gas accounting, asset retirement obligations, and flow-through shares. The impact of these changes has been disclosed in the March 31, 2004 consolidated financial statements.

OUTLOOK

The company's business plan for 2004 contemplates continued growth. To accomplish this, the company plans an active capital program on oil and gas property acquisition and development drilling, mostly in Canada.

Forecast operating cash flow, new bank borrowings, property sales, joint venturing and new equity to be raised in 2004 will finance Connacher's planned 2004 capital spending program.

In November 2003, Connacher issued guidance for its anticipated operating and financial results for 2004. Events, including some beyond the company's control, have required the company to reduce its expectations and reassess and reschedule its planned capital program for 2004. The company has decided to discontinue the issuance of detailed guidance due to the difficulty in forecasting for a high growth company in a long-term business, when results could be significantly affected in the short term or quarter-to-quarter by drilling outcomes and timing.

All estimates and statements which have been issued with respect to 2004 guidance were or are forward-looking statements. This involves inherent risks and uncertainties where actual results will differ and such differences could be material. There can be no assurance Connacher will achieve the drilling results and levels of production it might assume in its 2004 plan or any subsequent versions thereof. In addition, oil and gas prices are subject to fluctuation and there can be no assurance that the prices assumed for the 2004 plan or any variation thereof will be attained.

BUSINESS RISKS

Connacher, being a junior oil and gas exploration, development and production company, is exposed to certain risks and uncertainties inherent in the oil and gas business. Furthermore, being a smaller independent company, it is exposed to financing and other risks which may impair its ability to realize on its assets or to capitalize on opportunities which might become available to it. Additionally, because the company operates in various jurisdictions, it may become exposed to other risks including currency fluctuations, political risk and varying forms of fiscal regimes or changes thereto which may impair its ability to conduct profitable operations. Connacher experienced these developments in Argentina in late 2001, 2002 and some continued into 2003.

The risks arising in the oil and gas industry include price fluctuations for both crude oil and natural gas over which the company has limited control; risks arising from exploration and development activities; production risks associated with the depletion of reservoirs and the ability to market production. Additional risks include environmental and safety concerns.

The company relies on access to capital markets for new equity to supplement internally generated cash flow and bank borrowings to finance its growth plans. Periodically, these markets may not be receptive to offerings of new equity from treasury, whether by way of private placement or public offerings. This may be further complicated by the limited market liquidity for shares of smaller companies, limiting access to institutional investors. An increased emphasis on flow-through share financings may accelerate the pace at which junior oil and gas companies become cash-taxable, which could reduce cash flow available for capital expenditures on growth projects. Periodic fluctuations in energy prices may also affect lending policies of the company's banker, whether for existing loans or new borrowings. This in turn could limit growth prospects over the short run or may even require the company to dedicate cash flow, dispose of properties or raise new equity to reduce bank borrowings under circumstances of declining energy prices or disappointing drilling results.

The success of the company's capital programs as embodied in its productivity and reserve base could also impact its prospective liquidity and pace of future activities. Control of finding, development, operating and overhead costs per boe is an important criterion in determining company growth, success and access to new capital sources.

The company attempts to mitigate its business and operational risk exposures by maintaining comprehensive insurance coverage on its assets and operations, by employing or contracting competent technicians and professionals, by instituting and maintaining operational health, safety and environmental standards and procedures and by maintaining a prudent approach to exploration and development activities. The company also addresses and regularly reports on the impact of risks to its shareholders, writing down the carrying values of assets that may not be recoverable.

Furthermore, the company generally relies on equity financing and a bias towards conservative financing of its operations under normal industry conditions to offset the inherent risks of domestic and international oil and gas exploration, development and production activities. The company has entered into forward sale, fixed price contracts to mitigate reduced product price risk and foreign exchange risk during periods of price improvement, primarily with a view to assuring the availability of funds for capital programs and to enhance the creditworthiness of its assets with its lenders. While hedging activities may have opportunity costs when realized prices exceed hedged pricing, such transactions are not meant to be speculative and are considered within the broader framework of financial stability and flexibility.

CONNACHER OIL AND GAS LIMITED

Consolidated Balance Sheets

(unaudited)

	March 31, 2004 $	December 31, 2003 $
		(Restated - Note 3)
ASSETS		
CURRENT		
Cash	-	627,302
Accounts receivable	2,240,101	2,657,150
Loan receivable	135,593	135,848
Prepaid expenses	440,471	297,009
	2,816,165	3,717,309
Deposits - long term	279,700	279,700
Future income tax asset	3,062,320	4,602,320
Property and equipment, net (Notes 1 & 3)	53,879,518	45,177,648
	60,037,703	53,776,977
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities	12,665,956	12,710,892
Bank loans (Note 2)	18,890,000	12,100,000
	31,555,956	24,810,892
Long term bank debt (Note 2)	1,710,000	-
Asset retirement obligations (Note 3)	5,116,700	4,784,000
SHAREHOLDERS' EQUITY		
Share capital and contributed surplus (Note 4)	18,156,765	19,994,505
Retained earnings	3,498,282	4,187,580
	21,655,047	24,182,085
	60,037,703	53,776,977

Approved by the Board
(signed) "S.D. McGregor" Director
(signed) "G.W. Freeman" Director

CONNACHER OIL AND GAS LIMITED

Consolidated Statements of Operations and Retained Earnings

(unaudited)

	Three months ended March 31, 2004 $	Three months ended March 31, 2003 $
		(Restated - Note 3)
REVENUE		
Petroleum and natural gas sales	**3,289,501**	2,129,056
Interest and other income	**436**	35,201
	3,289,937	2,164,257
Royalties	**(605,247)**	(408,477)
	2,684,690	1,755,780
EXPENSES		
Operating	**1,135,994**	530,205
General and administrative	**449,268**	300,606
Interest	**196,688**	132,596
Foreign exchange loss	**29**	9,479
Depletion and depreciation	**2,022,009**	595,845
	3,803,988	1,568,731
EARNINGS (LOSS) BEFORE INCOME TAXES	**(1,119,298)**	187,049
CURRENT INCOME TAXES (Note 5)	**-**	21,137
FUTURE INCOME TAXES (RECOVERY) (Note 5)	**(430,000)**	-
NET EARNINGS (LOSS)	**(689,298)**	165,912
RETAINED EARNINGS, BEGINNING OF PERIOD	**4,691,036**	500,720
CHANGES IN ACCOUNTING POLICIES (Note 1)	**(503,456)**	(468,585)
RETAINED EARNINGS, BEGINNING OF PERIOD, RESTATED	**4,187,580**	32,135
RETAINED EARNINGS, END OF PERIOD	**3,498,282**	198,047
EARNINGS (LOSS) PER SHARE, Basic and Diluted	**(0.01)**	0.01
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
Basic	**46,066,941**	25,021,409
Diluted	**50,118,664**	25,528,035

CONNACHER OIL AND GAS LIMITED

Consolidated Statements of Cash Flows

(unaudited)

	Three months ended March 31, 2004	Three months ended March 31, 2003
	$	$
		(Restated - Note 3)
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings (loss)	**(689,298)**	165,912
Items not affecting cash:		
Depletion and depreciation	**2,022,009**	595,845
Stock-based compensation (Note1)	**41,000**	7,800
Foreign exchange loss	**29**	9,479
Future income tax recovery	**(430,000)**	-
Cash flow from operations	**943,740**	779,036
Changes in non-cash working capital	**228,906**	(144,305)
	1,172,646	634,731
FINANCING		
Increase in share capital	**91,260**	1,888,389
Increase in bank loans	**8,500,000**	8,550,000
Decrease in note payable	**-**	(457,806)
	8,591,260	9,980,583
INVESTING		
Acquisition and development of oil and gas properties	**(10,391,208)**	(10,768,303)
NET DECREASE IN CASH	**(627,302)**	(152,989)
CASH, BEGINNING OF PERIOD	**627,302**	248,949
CASH, END OF PERIOD	**-**	95,960
SUPPLEMENTARY INFORMATION - CASH PAYMENTS		
Interest	**196,688**	132,596
Income taxes	**-**	-

CONNACHER OIL AND GAS LIMITED
Notes to the Consolidated Financial Statements
Period Ended March 31, 2004 and 2003 (unaudited)

1. ACCOUNTING POLICIES

These interim financial statements follow the same accounting policies and methods as the most recent audited annual financial statements except for the following changes.

Asset retirement obligations:

Effective January 1, 2004, the company has adopted retroactively, with restatement of prior periods, the Canadian Institute of Chartered Accountants' (CICA) new standard on Asset Retirement Obligations. This new section requires liability recognition for retirement obligations associated with long-lived assets, which would include abandonment of oil and natural gas wells, related facilities, compressors and gas plants, removal of equipment from leased acreage and returning such land to its original condition. Under the new standard, the estimated fair value of each asset retirement obligation is recorded in the period a well or related asset is drilled, constructed or acquired. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset at the company's credit-adjusted risk-free interest rate. The obligation is reviewed regularly by management based upon current regulations, costs, technologies and industry standards. The discounted obligation is initially capitalized as part of the carrying amount of the related oil and natural gas properties and a corresponding liability is recognized. The increase in oil and natural gas properties is depleted and depreciated on the same basis as the remainder of the oil and natural gas properties. The liability is accreted against income until it is settled or the property is sold and is included as a component of depletion and depreciation expense. Actual restoration expenditures are charged to the accumulated obligation as incurred. Prior to 2004, the company estimated costs of dismantlement, removal and site restoration and recorded them over the remaining life of the proved reserves on the unit-of-production basis. The annual provision was included in depletion and depreciation expense and was accrued as a future site restoration liability on the balance sheet. Actual restoration expenditures were charged to the accumulated obligation as incurred. The cumulative earnings impact of $303,456 at January 1, 2004 ($468,585 at January 1, 2003), as a result of adopting the new standard has been charged to opening Retained Earnings. The impact of adopting this new accounting policy was to increase the net loss by $200,000 (for the first three months of 2003 it reduced net earnings by $106,000).

Stock-based compensation:

Effective January 1, 2004, the company has adopted retroactively, without restatement of prior periods, the CICA's new standard on stock-based compensation. This new standard requires that the fair value of stock options granted (as at the date of grant) to both employees and non-employees be expensed over the vesting period. Stock compensation expense is included in general and administrative expenses. The company previously expensed the fair value of stock options granted to only non-employees. This change resulted in a $200,000 decrease in the opening Retained Earnings balance and a $200,000 increase in the opening balance of Contributed Surplus. The impact of adopting this new accounting policy was to increase the loss by $41,000 (2003 - nil).

Property and equipment - oil and gas:

Effective January 1, 2004, the company prospectively adopted Accounting Guideline 16, "Oil and Gas Accounting - Full Cost" (AcG-16), which replaces Accounting Guideline 5, "Full Cost Accounting in the Oil and Gas Industry". AcG-16 modifies how the ceiling test is performed and is consistent with CICA section 3063, "Impairment of Long-Lived Assets" (CICA 3063), which the Company also adopted in 2004. The new standards prescribe the recognition of impairment only if the carrying amount of a long-lived asset is not recoverable from its estimated undiscounted future cash flows. The impairment amount is the difference between the carrying amount and the estimated fair value of the asset. This approach incorporates risks and uncertainties in the expected future cash flows, which are discounted using a risk free rate. The adoption of AcG-16 and CICA 3063 had no effect on the company's financial results.

Certain information and disclosures normally included in the company's annual audited financial statements have been condensed or omitted. Accordingly, these interim financial statements should be read in conjunction with the most recent audited annual financial statements and notes included in the company's annual report for the year ended December 31, 2003.

2. BANK LOANS

At March 31, 2004 the company had the following loan facilities: a $20.75 million Revolving Reducing Demand Loan (LOC), at bank prime + 3/8 percent; and a $10 million Non-Revolving Acquisition / Development Demand Loan (AD Line), at bank prime + ¾ percent. These facilities are secured by a $50 million fixed and floating charge debenture and a general assignment of book debts. At March 31, 2004, the following amounts were drawn on these facilities: $17.9 million on the LOC and $2.7 million on the AD Line. No reduction is applicable to, nor are any principal repayments required, on the LOC; the AD Line requires monthly repayments of $90,000 beginning in April 2004.

As at March 31, 2004, the company had a working capital deficiency and its banker has waived compliance with its debt covenant. The company's banker is currently conducting its annual review of the company's reserves and credit facility, which will likely result in a reduction to the facility.

In advance of any possible reduction, the company is undertaking actions to reduce its working capital deficiency. These actions include the possible sale of certain conventional heavy oil properties, the reorganization of Connacher's Argentinean holdings, monetization of a portion of its oil sands interersts and the raising of additional funds from the sale of common shares. The success and extent of these initiatives will in part determine the magnitude of the company's capital program during the balance of the year.

3. ASSET RETIREMENT OBLIGATIONS

The company retroactively adopted the new CICA recommendations on the recognition of obligations to retire long-lived assets. The change was effective January 1, 2004 and the revision was applied retroactively. The impact was as follows:

Consolidated Balance Sheet - as at December 31, 2003

	As Reported	Change	As Restated
	$	$	$
Assets			
Property and equipment, net	41,269,748	3,907,900	45,177,648
Future income tax asset	4,402,320	200,000	4,602,320
Liabilities and shareholders equity			
Asset retirement obligation	-	4,784,000	4,784,000
Provision for site restoration and abandonment	372,644	(372,644)	-
Retained earnings	4,691,036	(303,456)	4,387,580

Consolidated Statement of Operations and Retained Earnings - Three months ended March 31, 2003

	As Reported	Change	As Restated
Depletion and depreciation (including accretion)	489,845	106,000	595,845
Net earnings	271,912	(106,000)	165,912

At March 31, 2004, the estimated total undiscounted amount required to settle the asset retirement obligations was $9 million. These obligations will be settled based on the useful lives of the underlying assets, which currently extend up to 15 years into the future. This amount has been discounted using a credit-adjusted risk-free interest rate of 5%.

Changes to asset retirement obligations were as follows:

	Three months ended March 31, 2004
	$
Asset retirement obligations, December 31, 2003	4,784,000
Liabilities incurred during period	272,900
Liabilities settled during period	-
Accretion (included in depletion expense)	59,800
Asset retirement obligations, March 31, 2004	5,116,700

4. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Authorized
The authorized share capital is comprised of the following:

Unlimited number of common voting shares
Unlimited number of first preferred shares
Unlimited number of second preferred shares

Issued
Only common shares have been issued by the company.

	Number of Shares	Amount
Share Capital:		$
Balance, Share Capital, December 31, 2003	45,902,925	19,616,172
Issued upon exercise of options	135,000	40,200
Issued upon exercise of warrants	115,000	60,700
Tax effect of expenditures renounced in 2003		(1,970,000)
Share issue costs		(3,740)
Warrants exercised		(3,200)
Balance, Share Capital, March 31, 2004	46,152,925	17,740,132
Contributed Surplus:		
Balance, Contributed Surplus, December 31, 2003, restated (Note 1)		378,333
Fair value of share options granted in 2004		41,000
Share options exercised		(2,700)
Balance, Contributed Surplus, March 31, 2004		416,633
Total Share Capital and Contributed Surplus:		
December 31, 2003		19,994,505
March 31, 2004		18,156,765

Stock Options

A summary of the company's outstanding stock option grants, as at March 31, 2004 is presented below:

	Number of Shares	Weighted Average Exercise Price $
Outstanding, beginning of period	2,830,000	0.45
Granted	240,000	1.33
Exercised	(135,000)	0.28
Outstanding, end of period	2,935,000	0.53

All stock options have been granted for a period of five years. Stock options granted prior to 2004 are fully vested; options granted in 2004 vest 1/3 upon grant, 1/3 one year after grant and 1/3 two years after grant. The table below summarizes unexercised stock options:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)
$0.20 - $0.30	960,000	3.3
$0.31 - $0.50	1,035,000	4.1
$0.51 - $1.00	670,000	4.5
>$1.00	270,000	4.9
	2,935,000	

During 2004 a compensatory non-cash expense of $41,000 was recorded in general and administrative expenses, reflecting the fair value of all share options granted during the period.

The fair value of each option granted is calculated on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions for grants as follows:

Risk free interest rate	3.0%
Option life (years)	5
Expected volatility	53%

(a) *Share purchase warrants*

A summary of the company's outstanding share purchase warrants, as at March 31, 2004 and changes during the period is presented below:

Outstanding, beginning of period	4,984,145
Issued in the period	-
Exercised in the period	(115,000)
Outstanding, end of period	4,869,145

The 4,869,145 warrants outstanding are exercisable to purchase common shares from treasury as follows:

(ii) 437,930 common shares at $0.50 per share until their expiry on June 20, 2004;
(iii) 310,303 common shares at $1.18 per share until their expiry on December 9, 2004; and
(iv) 4,120,912 common shares at $0.50 per share until their expiry on February 28, 2005.

(b) In the first quarter of 2004, the company recognized the tax effect of the $5 million of flow through expenditures renounced in December 2003. To date, approximately $3.8 million of this commitment has been met.

(c) *Per share amounts*

The calculation of weighted average diluted shares outstanding excludes the impact of 270,000 stock options and 310,303 warrants which are anti-dilutive.

5. INCOME TAXES

The 2003 current income tax provision of $21,137 is in respect of Argentina taxes.

The following table reconciles income taxes calculated at the Canadian statutory rate with actual income taxes:

	Three months ended March 31	
	2004 $	**2003** $
Earnings (loss) before income taxes	(1,119,298)	187,049
Canadian statutory rate	41.65%	42.15%
Expected income taxes	(466,200)	78,800
Non-deductible Crown payments	125,000	126,000
Canadian resource allowance	(100,000)	(100,000)
Benefit of tax deductions not previously recognized	11,200	(104,800)
Foreign taxes	-	21,137
	(430,000)	21,137

At March 31, 2004, the company had approximately $50 million of deductible tax pools and approximately $6 million of non-capital losses available for deduction against future taxable income.

6. SEGMENTED INFORMATION

The company has operations in Canada and Argentina; all operating activities are related to exploration, development and production of petroleum and natural gas.

	Canada $	**Argentina** $	**Total** $
Three months ended March 31, 2004			
Revenue, gross	3,092,348	197,589	3,289,937
Net earnings (loss)	(726,919)	37,621	(689,298)
Property and equipment	53,278,807	600,711	53,879,518
Capital expenditures	10,334,217	56,991	10,391,208
Total assets	59,032,102	1,005,601	60,037,703
Three months ended March 31, 2003			
Revenue, gross	1,951,120	213,137	2,164,257
Net earnings	122,975	42,937	165,912
Property and equipment	21,492,919	41,750	21,534,669
Capital expenditures	10,746,524	21,779	10,768,303
Total assets	23,226,755	597,348	23,824,103

CORPORATE INFORMATION

BOARD OF DIRECTORS

Richard A. Gusella
President and Chief Executive Officer
Connacher Oil and Gas Limited, Calgary

Charles W. Berard
Partner
Macleod Dixon LLP, Calgary

Colin Evans
President
Evans & Co. Inc., Calgary

Gary W. Freeman
Cofounder and Director
Spirit Energy, Calgary

Stewart D. McGregor
President
Camun Consulting, Calgary

OFFICERS AND MANAGEMENT

Richard A. Gusella
President and Chief Executive Officer

Peter D. Sametz
Vice President, Operations

Richard R. Kines, C.A.
Chief Financial Officer

Timothy J. O'Rourke, C.E.T.
General Manager, Production

Songning Shen
Exploration Manager

Jennifer K. Kennedy
Secretary
Partner, Macleod Dixon LLP

AUDITORS
Deloitte & Touche LLP, Calgary

BANKERS
National Bank of Canada, Calgary

SOLICITORS
Macleod Dixon LLP, Calgary

RESERVOIR ENGINEERS
DeGolyer and MacNaughton Canada Limited, Calgary

REGISTRAR AND TRANSFER AGENT
Valiant Trust Company, Calgary
Equity Transfer Services Inc., Toronto

SUBSIDIARIES
COGL Resources Ltd.
Great Divide Oil Corporation

STOCK EXCHANGE LISTING
Toronto Stock Exchange
Trading Symbol: CLL

HEAD OFFICE
Suite 1400, 530-8th Avenue SW
Calgary, Alberta T2P 3S8
Tel: (403) 538-6201
Fax: (403) 538-6225

www.connacheroil.com
inquiries@connacheroil.com

ABBREVIATIONS

ARTC	Alberta Royalty Tax Credit
bbls	barrels
bbls/d	barrels per day
bcf	billion cubic feet
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
GJ	gigajoule
Mbbls	thousand barrels
Mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmbbls	million barrels
mmboe	million barrels of oil equivalent
mmcf	million cubic feet
mmcf/d	million cubic feet per day
NGLs	natural gas liquids
PV	present value
WI	working interest
WTI	West Texas Intermediate