Q2

INTERIM REPORT 2004

SECOND QUARTER 2004 REPORT
KEY FACTS:

- Debt reduction program well underway; Islay, Lloydminster and Cabri sold for $17.8 million, transactions completed in July, strengthening financial condition.
- Record production in second quarter at 1,314 boe/d, up 42 percent over 2003 and up 49 percent for the six months ended June 30, 2004.
- Thirteenth successive quarter of production growth.
- Tompkins oil discovery averaged 69 bbl/d with minimal water since production commenced in March; follow-up drilling likely this fall.
- Efforts continuing to further strengthen the company's financial condition and to secure a partner for the Great Divide oil sands project.

	Three Months Ended June 30			Six Months Ended June 30		
	2004	2003	% Change	2004	2003	% Change
FINANCIAL						
($000 except per share amounts)						
Total revenue	**3,556**	2,474	44	**6,846**	4,638	48
Cash flow from operations (1)	**516**	821	(37)	**1,460**	1,600	(9)
Per basic and diluted share	**0.01**	0.02	(50)	**0.03**	0.05	(40)
Net earnings (loss) (2)	**(1,268)**	44	-	**(1,957)**	210	-
Per basic and diluted share	**(0.03)**	-	-	**(0.04)**	0.01	-
Capital Expenditures	**2,602**	4,271	(39)	**12,994**	15,040	(14)
Bank debt				**23,655**	12,500	
Working capital deficiency				**8,357**	179	
Net debt				**32,012**	12,679	152
Shareholders' equity (2)				**20,933**	9,469	121
Total assets (2)				**60,531**	28,998	109
Common shares outstanding (000)						
Weighted average						
Basic	**47,042**	29,421	60	**46,553**	27,233	71
Diluted	**48,496**	31,945	52	**49,150**	28,436	73
End of period						
Issued				**47,368**	34,082	
Fully diluted				**54,590**	43,841	
OPERATING						
Daily production						
Crude oil (bbl/d)	**1,004**	752	34	**932**	668	40
Natural gas (mcf/d)	**1,860**	1,033	80	**2,064**	1,124	84
Barrels of oil equivalent (boe/d) (3)	**1,314**	924	42	**1,276**	855	49
Prices						
Oil ($/bbl)						
Canada	**28.74**	33.17	(13)	**29.18**	32.24	(9)
Argentina	**43.41**	32.12	35	**42.80**	39.26	9
Total	**29.46**	33.10	(11)	**29.90**	32.72	(9)
Natural gas ($/mcf)						
Canada	**6.57**	4.71	39	**6.08**	6.19	(2)
Argentina	**0.86**	0.23	274	**0.53**	0.27	96
Total	**5.11**	2.18	134	**4.73**	3.18	49
Barrels of oil equivalent ($/boe)	**29.74**	29.37	1	**29.49**	29.73	(1)
Operating netback ($/boe)	**12.53**	16.75	(25)	**13.12**	17.02	(23)

(1) Cash flow from operations 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. It is calculated as total revenue less all cash charges for royalties, operating costs, G&A, interest and cash taxes, if any.

(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.

During the second quarter, Connacher's focus was on debt reduction. The company's net debt had risen to unacceptably high levels during the first quarter 2004 primarily related to capital spending and then remedial efforts at Cabri, Saskatchewan. Unfortunately, despite positive test results which had resulted in the decision to develop Cabri North, we were unable to overcome the impact of startup problems, likely associated reservoir damage and higher volumes of associated water and mud than originally indicated. As a consequence and despite a variety of remedial initiatives, Connacher was unable to significantly improve well and field productivity beyond the 1.25 mmcf/d -1.5 mmcf/d level, which represented approximately 25 percent of expectations.

This had a domino effect, as lower production translated into lower revenue, cash flow, recoverable reserve estimates and related loan value and left the company with no choice but to monetize some of its assets to reduce net debt. Lower corporate reserve estimates and values arising from the introduction of National Instrument 51-101 (NI 51-101) also compromised loan values to some extent.

Connacher initially selected its conventional Islay and Lloydminster heavy oil properties as sale candidates because of the relatively high ratio of appraised value to loan value, as the sale of any producing property results in an attendant reduction in the company's overall credit capacity. We also focused on these properties as their operating costs were rising due to their relative maturity.

The sales campaign was successful and resulted in a favorable price by industry standards. We also completed the sale of Cabri North and shallow rights under the associated undeveloped land which we had acquired for future exploration if Cabri North had performed as expected. Connacher retained all deep rights, which are prospective for Jurassic Roseray and Upper Shaunavon oil which is produced in the area.

Proceeds from the two sales totaled $17.8 million, which were applied to reduce bank debt and trade payables. These initiatives have substantially improved Connacher's overall financial condition, despite the impact on production levels, which are currently between 700 and 750 boe/d.

Further initiatives to complete the reconstruction of the company's balance sheet are underway. The thrust of these initiatives is to improve working capital and to position Connacher to reactivate its growth expenditure programs on its well situated and highly prospective conventional acreage at Battrum and Tompkins in southeast Saskatchewan. During late 2003 and early 2004 Connacher completed 10 wells at Tompkins and earned 60%-100% working interests in over 37,000 acres in two large blocks. One of these wells at 5-19-14-20 W3M is an Upper Shaunavon oil discovery which had an initial production rate exceeding 200 bbl/d and, after normal declines, has produced at an average rate of 69 bbl/d with minimal water during the 124 days it has been onstream. Follow up drilling has been restricted by environmental considerations but we plan to initiate new drilling and seismic in September. A number of other locations have been identified and available offsetting Crown land was acquired earlier this year.

Connacher also drilled a prospective Upper Shaunavon natural gas well at Tompkins North in its earning program and plans a follow-up well in a structurally higher position later this year. If successful, these two wells could provide volumes which could largely replace the sold Cabri volumes, with much lower operating costs. These wells could be tied in quickly as infrastructure is nearby.

Also, a number of indicated Second White Specks natural gas wells were drilled and are standing logged and cased on the Tompkins South acreage block. Further testing is warranted to determine the optimum exploitation alternative.

At Battrum, a 3-D seismic program over 100-percent owned acreage was completed and is being interpreted. Interpretation of 2-D seismic acquired over Connacher's extensive acreage to the north of the Battrum Units is also progressing. These lands were primarily acquired for their Jurassic oil potential, drilling of which will await completion of the assessment program. Connacher also continues to assess the merits of an alkaline surfactant polymer ("ASP") pilot flood to enhance productivity and reserve recoveries at Battrum, made more appealing by the high current oil price regime.

Our evaluation of the high-potential Great Divide, Alberta oil sands project continues. Planning is proceeding with respect to environmental and engineering studies preparatory to the submission of a 2005 application for regulatory approval. This could lead to commercial SAGD exploitation of the first of several channels indicated on our extensive acreage holdings in the area. Our target remains to bring between 10,000 – 12,000 bbl/d of oil on-stream in early 2006 with sequential development of other channels at similar production rates thereafter, as warranted by our ongoing evaluation work.

Connacher is attempting to secure a financial partner for its Great Divide project in conjunction with its ongoing efforts to further strengthen the company's balance sheet and financial condition. When successful, capital markets will likely begin to recognize the potential of both the company's conventional and oil sands properties.

In Argentina, natural gas prices have improved considerably in recent months, resulting in improved netbacks and operating income. Further increases are anticipated as the country's economy improves and stabilizes. Recent industry transactions underscore a growing level of interest in Argentina's oil industry, fortified by the improving natural gas pricing and high oil prices. Connacher continues to examine its holdings and remains partial to a restructuring which would result in the recovery of cash and retention of an indirect equity stake in the assets, thereby enabling participation in the upside potential of the Puesto Morales/Rinconada concession.

To say the events of 2004 have been disappointing would be an understatement. We entered the year with great optimism that our Cabri North property would produce up to 5 mmcf/d on a sustainable basis, and that we could parlay into further growth of our natural gas volumes by drilling up the prospective 40,000 plus acres we had acquired in the region. This did not happen and now will not occur, since we did not have the financial wherewithal to withstand this disappointment while trying to remedy the situation.

In the circumstances our decision was to cut our losses, salvage the best and most prospective assets we owned and redirect the affairs of the corporation. This process is nearing completion and when done, Connacher will again be able to refocus on growth and value enhancement. Our assets at Battrum and Tompkins are attractive with recognized upside potential for both oil and natural gas. Our Great Divide oil sands project has the potential to be a company maker and we are endeavouring to secure the financing to realize the underlying value. This remains our priority. Finally, our Argentinean property has both exploratory and exploitation potential to be realized.

In light of the significant asset dispositions which occurred subsequent to the end of the reporting period, combined with the absence of new drilling, Connacher elected not to incur the expense of an updated reserve report for the three months ended June 20, 2004. Our quarterly update policy will be reviewed during the third quarter 2004 if activity levels accelerate and there is an attendant material impact on reserves and productivity.

On a proforma basis, after deducting the proved and probable reserve volumes and the associated 10 percent present worth of the future net revenue of the disposed properties from the estimates contained in the April 29, 2004 reserve report prepared by DeGolyer and MacNaughton Canada Limited ("D&M"), and before adjusting for second quarter 2004 production, the Company's proved and probable reserve base would approximate 3.7 million boe with a 10 percent present worth of $26.7 million. Connacher also owns 54 million barrels of possible recoverable reserves, largely associated with its Great Divide oilsands project. D&M assigned an additional 10 percent present worth to the Great Divide reserves of $170 million after provision for the capital required to develop the first stage of this project. Accordingly, the estimated pro forma 10 percent present worth of the future net revenue of the Company's proved, probable and possible reserves is $197 million. Proved, probable and possible reserves have the meanings ascribed to them in NI 51-101 and the D&M report containing these estimates was prepared in accordance with this policy instrument.

Respectfully submitted on behalf of the Board of Directors,

Signed,

"R.A. Gusella"

Richard A. Gusella
President and Chief Executive Officer
August 9, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

The following is dated as of August 9, 2004 and should be read in conjunction with the Consolidated Financial Statements of Connacher Oil and Gas Limited for the six month period ended June 30, 2004 and 2003 as contained in this interim report and the MD&A and audited consolidated financial statements for the year ended December 31, 2003. 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 million 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.

FINANCIAL AND OPERATING REVIEW – First Half Results
(Unaudited)

REVENUE, PRODUCTION AND PRICING

Total revenue for the three months ended June 30, 2004 of $3.6 million increased 44 percent from the comparative 2003 period. Total revenue for the six month period ended June 30, 2004 increased 48 percent to $6.8 million compared to $4.6 million in 2003. This reflects a 43 percent increase in sales volumes for the second quarter and a 49 percent increase for the six month period, while average product pricing was relatively unchanged. For the six months Canadian revenues were $6.4 million, up 51 percent from $4.2 million in 2003. Argentinean revenues were up 21 percent to $430,000 from $356,000 last year, reflecting increased product pricing on comparable sales volumes.

Revenue increases in 2004 reflect production growth in Canada, where the company has focused most of its capital spending.

Production volumes were 42 percent higher in the second quarter 2004 compared to 2003 and were 49 percent higher in the 6 month period compared to the prior year. Canadian oil production and natural gas sales were significantly higher. Oil sales rose 34 percent in the second quarter 2004 and were 40 percent higher than in the first half 2003. Natural gas sales rose over 180 percent in the first six months of 2004 compared to last year, reflecting new production at Cabri. Second quarter 2004 boe sales were also six percent above first quarter volumes, with oil production 17 percent above first quarter levels, more than offsetting an 18 percent reduction in natural gas sales. Connacher's production growth in the second quarter marked the thirteenth successive quarter of increased sales volumes.

Production and Pricing

	Three Months Ended June 30			Six Months Ended June 30		
	2004	**2003**	**% change**	**2004**	**2003**	**% change**
Daily production/sales volumes						
Oil - bbl/d						
Canada	**955**	705	35	**883**	621	42
Argentina	**49**	47	4	**49**	47	4
Total	**1,004**	752	34	**932**	668	40
Natural Gas - mcf/d						
Canada	**1,383**	449	208	**1,562**	552	183
Argentina	**477**	584	(18)	**502**	572	(12)
Total	**1,860**	1,033	80	**2,064**	1,124	84
Boe/d						
Canada	**1,185**	780	52	**1,143**	713	60
Argentina	**129**	144	(10)	**133**	142	(6)
Total	**1,314**	924	43	**1,276**	855	49
Product pricing ($)						
Oil - per bbl						
Canada	**28.74**	33.17	(13)	**29.18**	32.24	(9)
Argentina	**43.41**	32.12	35	**42.80**	39.26	9
Average	**29.46**	33.10	(11)	**29.90**	32.72	(9)
Natural gas - per mcf						
Canada	**6.57**	4.71	39	**6.08**	6.19	(2)
Argentina	**0.86**	0.23	274	**0.53**	0.27	96
Average	**5.11**	2.18	134	**4.73**	3.18	49
Per boe						
Canada	**30.82**	32.70	(6)	**30.84**	32.87	(6)
Argentina	**19.83**	11.35	75	**17.82**	13.90	28
Average	**29.74**	29.37	1	**29.49**	29.73	(1)

Prices in 2004 were firm and relatively unchanged from 2003. The company's reported revenues include gains and/or losses realized on hedging activities, which are not separately reported in the consolidated financial statements. Crude oil revenues realized in 2004 were lower by approximately $327,000 than would have been reported had the company not entered into the hedges. As a result, year to date realized prices for Canadian oil production declined nine percent from 2003.

First half 2004 Canadian natural gas prices at $6.08 per mcf were below levels realized in 2003 when they averaged $6.19 per mcf, but were 39 percent higher in the second quarter compared to last year. Argentinean natural gas prices have strengthened based on a new gas sales contract but still remain below fair market levels. Further improvement is anticipated in the next year.

ROYALTIES

Royalties represent charges against production or revenue by governments and landowners. Royalties in 2004 were $1,317,000 ($5.68 per boe, or 19 percent of oil and gas revenue) compared to $846,000 ($5.48 per boe, or 18 percent of oil and gas revenue) in 2003. The table below provides further detail by country for each year.

	Royalties For the Six Months Ended June 30			
	2004		2003	
	Total	**Per boe**	Total	Per boe
Canada	**$1,246,947**	**$5.99**	$811,138	$6.28
percentage of total oil and gas revenue	**19%**		19%	
Argentina	**$70,178**	**$2.91**	$34,441	$1.35
percentage of total oil and gas revenue	**16%**		9%	
Total	**$1,317,125**	**$5.68**	$845,579	$5.48
percentage of total oil and gas revenue	**19%**		18%	

The increase in royalties year over year reflects increased sales volumes; the overall corporate unit costs and royalty percentages are comparable with the prior year, although Argentinean rates were higher.

OPERATING EXPENSES AND OPERATING NETBACKS

Company Operating Netbacks - combined Canada and Argentina (1)
For the Six Months Ended June 30

	2004		**2003**		**% Change 2004 - 2003**	
	Total	**Per boe**	**Total**	**Per boe**	**Total**	**Per boe**
Average daily production (boe)	1,276		855		49	
Oil and natural gas revenue	**$6,846,040**	**$29.49**	$4,599,676	$29.73	49	(1)
Other income	**-**		38,148	0.25	-	-
Total revenue	**6,846,040**	**29.49**	4,637,824	29.98	48	(2)
Royalties	**1,317,125**	**5.68**	845,579	5.48	56	4
Net revenue	**5,528,915**	**23.81**	3,792,245	24.50	46	(3)
Operating costs	**2,482,279**	**10.69**	1,157,816	7.48	114	43
Operating Netback	**$3,046,636**	**$13.12**	$2,634,429	$17.02	16	(23)

(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 in both the second quarter and first half 2004 to $1.3 million and $2.5 million respectively, primarily reflecting higher production levels. Unit costs rose in the year to date to $10.69 per boe compared to $7.48 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. Canadian costs at $11.31 per boe were higher than target for the reasons cited above.

Efforts will continue to control operating costs. As production is increased, unit costs will diminish when fixed costs are spread over the increased volumes. Also, the sale of both Islay and Cabri high cost production should result in a significant reduction in overall and unit costs. Operating costs for new production at Tompkins are also below average due to limited water handling. Despite rising peso expenses, Argentinean unit operating costs of $5.33 per boe are relatively low, reflecting a weak peso and a strong Canadian dollar.

In Canada the operating netback in 2004 was $13.53 per boe (2003 - $18.55) while in Argentina it was $9.58 per boe (2003 - $7.87). Argentina's modest increase reflected stronger natural gas prices. Canadian netbacks weakened as prices fell and costs rose in 2004. Low netback heavy oil and natural gas properties were sold in July 2004. This should result in a higher corporate netback in future reporting periods. Connacher's light oil netbacks in Canada and Argentina were at acceptable levels of $18.94 and $22.61, respectively.

Operating Netbacks by Country and Product
For the Six Months Ended June 30, 2004
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	561 bbl/d		322 bbl/d		1,562 mcf/d		49 bbl/d		502 mcf/d	
Oil and natural gas revenue	$3,350,912	$32.81	$1,337,614	$22.83	$1,727,264	$6.08	$381,717	$42.80	$48,533	$0.53
Royalties	714,197	6.99	257,488	4.39	275,262	.97	64,250	7.20	5,928	0.06
Operating costs	702,517	6.88	684,801	11.69	966,250	3.40	115,841	12.99	12,870	0.14
Operating netback	$1,934,198	$18.94	$395,325	$6.75	$485,752	$1.71	$201,626	$22.61	$29,735	$0.33

GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative (G&A) expenses increased by 73 percent to $1,137,700 in 2004 compared to $675,600 in 2003 as significantly higher public company costs, audit fees, legal fees, independent engineering expenses and annual meeting fees were expensed as incurred in the second quarter. Previously these were normalized over the full fiscal year. G&A expenses include non-cash stock option expenses of $41,000 in 2004 and $7,800 in 2003. G&A expenses per boe rose 15 percent to $4.90 from $4.25 in 2003.

INTEREST AND FOREIGN EXCHANGE

While interest rates continued at relatively low levels, higher debt levels caused total interest and bank fee expenses to increase to $490,000 in 2004, compared to $344,000 reported last year. Unit costs declined to $2.11 per boe in 2004 compared to $2.22 per boe in 2003 as overall production grew faster than total financial charges.

The impact of a fluctuating US dollar and Argentinean peso relative to the Canadian dollar, when translating foreign denominated financial statements and operating results, has been nominal. The company's main exposure to foreign currency risk relates to crude oil prices, 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)

DD&A expense of $4.1 million in 2004 was significantly higher than the $1,369,000 reported in the first half of 2003 because of the significant increase in oil and gas capital expenditures and production volumes.

On a unit of production basis, DD&A per boe was higher at $17.69 in 2004 compared to $8.85 in 2003. This increase is due to the significant increase in oil and gas capital expenditures, the relatively conservative nature of determining and reporting proved reserve estimates pursuant to N1 51-101, and disappointing drilling and production results, especially at Cabri North. Efforts will be made to improve future finding, development and acquisition costs to reduce these non-cash charges.

INCOME TAXES

Recoverable future taxes of $730,000 were recognized in the first half of 2004, representing the benefit of the reported loss.

There was no provision required for current income taxes in 2004. The charge of $40,628 in 2003 represents income taxes recognized in respect of the company's Argentinean branch operations for that year. Income earned in Canada will continue to be sheltered from Canadian income taxes until the company utilizes it's approximately $58 million of deductible tax pools and operating loss carry forwards, which are supplemented by ongoing capital programs.

NET EARNINGS AND SHARES OUTSTANDING

Net Earnings (Loss)
For the Six Months Ended June 30

	2004		2003		% Change	
	Total	**Per boe**	**Total**	**Per boe**	**Total**	**Per boe**
Operating netback	**$3,046,636**	**$13.12**	$2,634,429	$17.02	16	(23)
General & administrative	**(1,137,683)**	**(4.90)**	(657,643)	(4.25)	73	15
Interest	**(490,020)**	**(2.11)**	(344,118)	(2.22)	42	(5)
Foreign exchange gain (loss)	**1,557**	**-**	(13,252)	(0.09)	-	-
Depletion, depreciation, accretion	**(4,107,591)**	**(17.69)**	(1,369,029)	(8.85)	200	100
Taxes	**730,000**	**3.14**	(40,628)	(0.26)	-	-
Net earnings (loss)	**$(1,957,101)**	**$(8.43)**	$209,759	$1.35	-	-

During the first six months of 2004, the company incurred a loss of $1,957,101 or $0.04 per basic and diluted share compared to (restated) earnings in 2003 of $209,759 or $0.01 per basic and diluted share. The prior year loss has been restated as a consequence of the adoption of new accounting policies as reported herein and in the consolidated financial statements.

For 2004 the weighted average shares outstanding was 46,553,000 (2003–27,233,000) and weighted average diluted shares outstanding, as calculated by the treasury stock method, were 49,150,000 (2003 – 27,977,000).

As at August 9, 2004, the company had the following securities issued and outstanding:
- 47,367,680 common shares;
- 3,363,460 share purchase warrants; and
- 3,859,000 share purchase options.

Details of the exercise rights and terms of the warrants and options are noted in the Consolidated Financial Statements, included in this quarterly report.

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 are not measures that have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures presented by other companies. Nevertheless, Connacher's management uses cash flow from operations and cash flow per share as a performance measurement. It is calculated as total revenue less all cash charges for royalties, operating costs, G&A, interest and cash taxes, if any.

Cash flow from operations for 2004 was $1,460,000 ($0.03 per basic and diluted share) compared to $1,600,000 ($0.05 per basic and diluted share) in 2003. This reduction primarily reflects higher production costs, G&A and interest expenses offset by higher production volumes. Cash flow in the second quarter of 2004 was particularly weak due to higher operating costs at Cabri North.

As a result, despite higher volumes, cash flow per boe was $6.29 in 2004, compared to $10.34 in 2003, a 39 percent decline. This represented 21 percent of selling price in 2004 compared to 35 percent in 2003.

Capital expenditures in 2004 were largely undertaken in Canada and totaled $13 million as follows:
- $7.5 million for drilling, equipping, completing 13 net wells at Tompkins and Cabri;
- $3.2 million for land and drilling 11 core holes in the Great Divide oil sands project;
- $1.3 million for production facilities at Cabri; and
- $1 million to acquire additional undeveloped acreage at Crown sales, conduct seismic programs and minor amounts for administrative assets.

Second quarter 2004 expenditures were only $2.6 million, as spending was curtailed due to the company's financial condition. Most of these expenditures were at Cabri and Tompkins in April 2004 near the end of the drilling season. Outlays were minimal in May and June 2004. In Argentina capital expenditures of $66, 000 related to evaluation of currently-held assets and new business opportunities. 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.

The company's 2004 capital expenditures were financed from operating cash flow ($1,460,000), new equity including proceeds from the exercise of share purchase warrants and stock options ($628,000), net new loans ($10,285,000) and cash balances ($627,000). At June 30, 2004, Connacher's net debt was $32.0 million, including bank loans of $23.7 million, and a working capital deficit of $8.3 million.

As at June 30, 2004, the company had available a $15.5 million revolving reducing line of credit (LOC) and an $8.5 million Term Demand Loan. The company does not have capital lease obligations, any capital or purchase commitments or any other off-balance sheet debt. The company is not subject to any outstanding legal claims or any environmental or safety claims. Connacher had a commitment to incur $5 million of resource expenditures before December 31, 2004 related to the December 2003 financing of flow-through shares. This commitment had been fulfilled as at June 30, 2004.

Subsequent to the reporting period, the company sold certain of its producing and non-producing properties at Islay/Lloydminster, Alberta and Cabri, Saskatchewan for proceeds of $17.8 million. The $8.5 million Term Demand Loan was repaid in full, the LOC was reduced to below $8 million and the balance of the proceeds was applied to the reduction of trade payables. While these transactions significantly reduced Connacher's indebtedness as of July 1, 2004 (the "effective date") they also resulted in an immediate reduction in production to 700-750 boe/d with attendant reductions in revenue and cash flow. The reduction of the company's reserve base may result in a reduction in the company's LOC to a level in closer proximity to current bank indebtedness of approximately $8 million.

Connacher's credit facility is subject to an August 15, 2004 review, which in part is expected to result in the aforementioned outcome. Consequently future expansion will be dependent upon the success of the company in securing additional capital to prove up new reserves and production, by monetizing a portion of its oil sands or Argentinean assets, or a combination thereof. Adding value through successful drilling with joint venture partners would also enhance credit capacity, as would continued higher oil and natural gas prices.

At June 30, 2004 Connacher had a working capital deficit and its banker waived compliance with the related debt covenant until the August 15, 2004 review date. Connacher is examining numerous alternatives with a view to reducing or eliminating its working capital deficit in the near term and restoring its growth expenditure program. Connacher anticipates continued lender and creditor cooperation until it completes its financing program. There can be no assurance, however, that the company will be successful in these initiatives and the corporation is working with its lender and creditors to maintain their continued cooperation until these efforts are completed. In the interim, the company is limiting its capital program and any cash flow being generated is being dedicated to an equitable and timely repayment of obligations until new capital is secured.

QUARTERLY RESULTS

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

Selected Quarterly Information (unaudited):

	2002				2003				2004	
Three Months Ended	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**	**Mar 31**	**Jun 30**
Financial Highlights										
($000 except per share amounts)										
Total revenue	679	917	1,075	1,655	2,164	2,474	2,491	2,853	3,290	**3,556**
Cash flow from operations (1)	60	257	234	496	779	821	745	1,008	944	**516**
Basic, per share (1)	-	0.02	0.01	0.02	0.03	0.02	0.02	0.03	0.02	**0.01**
Diluted, per share (1)	-	0.02	0.01	0.02	0.03	0.02	0.02	0.02	0.02	**0.01**
Net earnings (loss)(2)	(201)	(45)	(32)	486	166	44	2,815	653	(689)	**(1,268)**
Basic, per share (2)	-	-	-	0.03	0.01	-	0.08	0.03	(0.01)	**(0.03)**
Diluted, per share (2)	-	-	-	0.03	0.01	-	0.07	0.03	(0.01)	**(0.03)**
Capital expenditures	4,123	1,182	1,941	1,768	10,768	4,271	5,715	15,015	10,391	**2,603**
Bank debt	1,729	450	1,850	2,100	10,650	12,500	13,800	12,100	20,600	**23,655**
Working capital deficiency (surplus)	(313)	658	1,008	846	864	179	2,695	8,994	9,850	**8,357**
Note payable	494	477	465	458	-	-	-	-	-	**-**
Net debt	1,910	1,585	3,323	3,404	11,514	12,679	16,495	21,094	30,450	**32,012**
Shareholders' equity(2)	2,554	3,481	3,098	5,110	7,113	9,469	13,315	24,182	21,655	**20,933**
Operating Highlights										
Production										
Natural gas (mcf/d)	1,340	1,536	1,123	1,462	1,216	1,033	1,012	1,496	2,268	**1,860**
Crude oil (bbl/d)	237	288	364	469	582	752	839	978	859	**1,004**
Equivalent (boe/d)	460	544	551	713	785	924	1,008	1,228	1,237	**1,324**
Pricing										
Crude oil ($/bbl)	22.17	23.63	25.97	27.36	32.22	33.10	29.40	26.96	30.41	**29.46**
Natural gas ($/mcf)	1.65	2.09	1.93	3.29	4.03	2.18	2.35	3.02	4.42	**5.11**
Selected Highlights ($/boe)										
Weighted average sales price	16.38	18.51	21.20	25.24	30.15	29.37	26.84	25.17	29.22	**29.74**
Other income	0.16	0.10	0.11	0.49	0.50	0.040	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	**5.95**
Operating expenses	7.63	6.18	7.74	9.31	7.51	7.46	7.89	10.29	10.09	**11.26**
Operating netback	6.74	10.26	10.36	12.80	17.36	16.75	13.90	10.75	13.76	**12.53**
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	**47,368**
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	**47,042**
Diluted (000)	17,013	18,426	22,443	23,626	25,528	31,945	38,817	42,138	50,119	**48,496**
Volume traded during quarter (000)	106	231	191	418	6,031	8,342	10,027	15,045	20,706	**17,820**
Common share price ($)										
High	0.42	0.42	0.68	0.58	0.45	0.76	0.87	1.60	1.75	**1.08**
Low	0.20	0.26	0.25	0.32	0.31	0.40	0.65	0.74	0.73	**0.34**
Close (end of period)	0.38	0.35	0.50	0.43	0.42	0.71	0.75	1.60	0.78	**0.40**

(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 GAPP and therefore may not be comparable to similar measures presented by other companies. It is calculated as total revenue less all cash charges for royalties, operating costs, G&A, interest and cash taxes, if any.

(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, and provisions are made to account for future well site restoration and abandonment costs 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). In addition, the company evaluates its undeveloped properties, major development projects and recoverability of its future tax asset for impairment.

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 and 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 June 30, 2004 consolidated financial statements.

OUTLOOK

The company's business plan for 2004 contemplated continued growth. To achieve this, the company planned an active capital program, oil and gas property acquisitions and development drilling, mostly in Canada. Disappointing production results at Cabri North, Saskatchewan and rising short-term indebtedness necessitated a change in policy and approach, as the company lost momentum and had to retrench and reduce its scale of operation to lower associated financial risk and reduce debt.

In November 2003, Connacher issued guidance for its anticipated operating and financial results for 2004. Events, including some beyond the company's control, 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 have assumed 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.

Connacher is now in the midst of restructuring its financial condition and refocusing its activities primarily at Battrum and Tompkins in southwest Saskatchewan and at its Great Divide oil sands project in northeast Alberta.

The corporation needs to raise additional capital to further reduce indebtedness, to restore its growth expenditures and to capitalize on the potential of its properties. This program, which may include additional asset sales and monetization or restructuring of its oilsands and Argentinean interests, is being pursued vigorously with a number of interested parties. There can be no assurance these initiatives will result in the company accessing the funding it requires to restore its activities to more normal levels, and in the interim Connacher requires continued creditor and lender cooperation. Available funds are being equitably dedicated to a reduction of short-term liabilities until new funding is arranged.

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 reflected 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)

	June 30, 2004 $	December 31, 2003 $
ASSETS		(Restated-Notes 1&3)
CURRENT		
Cash	-	627,302
Accounts receivable	1,972,100	2,657,150
Loan receivable	122,444	135,848
Prepaid expenses	313,105	297,009
	2,407,649	3,717,309
Deposits	275,305	279,700
Future income tax asset	3,362,320	4,602,320
Property and equipment, net (Notes 1, 3 & 6)	54,485,626	45,177,648
	60,530,900	53,776,977
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities (note 6)	10,765,075	12,710,892
Bank loans (Notes 2 & 6)	23,654,535	12,100,000
	34,419,610	24,810,892
Asset retirement obligations (Note 3)	5,177,866	4,784,000
SHAREHOLDERS' EQUITY		
Share capital and contributed surplus (Note 4)	18,702,945	19,994,505
Retained earnings	2,230,479	4,187,580
	20,933,424	24,182,085
	60,530,900	53,776,977

Contingencies (Notes 2&6)

Approved by the Board
(signed) "S.D. Mc Gregor" Director
(signed) "C.M. Evans" Director

CONNACHER OIL AND GAS LIMITED

Consolidated Statements of Operations and Retained Earnings

(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	**2004**	2003
	$	$	**$**	$
		(Restated-Notes 1&3)		(Restated-Notes 1&3)
REVENUE				
Petroleum and natural gas sales	**3,556,538**	2,470,620	**6,846,040**	4,599,676
Interest and other income	**(436)**	2,947	**-**	38,148
	3,556,102	2,473,567	**6,846,040**	4,637,824
Royalties	**711,878**	437,102	**1,317,125**	845,579
	2,844,224	2,036,465	**5,528,915**	3,792,245
EXPENSES				
Operating	**1,346,284**	627,611	**2,482,279**	1,157,816
General and administrative	**688,415**	357,037	**1,137,683**	657,643
Interest	**293,332**	211,522	**490,020**	344,118
Foreign exchange loss (gain)	**(1,586)**	3,773	**(1,557)**	13,252
Depletion, depreciation and accretion	**2,085,582**	773,184	**4,107,591**	1,369,029
	4,412,027	1,973,127	**8,216,016**	3,541,858
EARNINGS (LOSS) BEFORE INCOME TAXES	**(1,567,803)**	63,338	**(2,687,101)**	250,387
CURRENT INCOME TAXES	**-**	19,491	**-**	40,628
FUTURE INCOME TAXES (RECOVERY)	**(300,000)**	-	**(730,000)**	-
NET EARNINGS (LOSS)	**(1,267,803)**	43,847	**(1,957,101)**	209,759
RETAINED EARNINGS, BEGINNING OF PERIOD	**3,498,282**	198,047	**4,691,036**	500,720
Changes in Accounting Policies (Note 1)	**-**	-	**(503,456)**	(468,585)
RETAINED EARNINGS, END OF PERIOD	**2,230,479**	241,894	**2,230,479**	241,894
EARNINGS (LOSS) PER SHARE, Basic and Diluted	**(0.03)**	-	**(0.04)**	0.01
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	**47,041,735**	29,420,675	**46,553,292**	27,233,195
Diluted	**48,496,047**	31,944,788	**49,149,819**	28,435,544

CONNACHER OIL AND GAS LIMITED

Consolidated Statements of Cash Flows

(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	**2004**	2003
	$	$	**$**	$
		(Restated-Notes 1&3)		(Restated-Notes 1&3)
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net earnings (loss)	**(1,267,803)**	43,847	**(1,957,101)**	209,759
Items not affecting cash:				
Depletion, depreciation and accretion	**2,085,582**	773,184	**4,107,591**	1,369,029
Stock-based compensation	**-**		**41,000**	7,800
Foreign exchange loss (gain)	**(1,586)**	3,773	**(1,557)**	13,252
Future income tax recovery	**(300,000)**	-	**(730,000)**	-
Cash flow from operations	**516,193**	820,804	**1,459,933**	1,599,840
Changes in non-cash working capital	**(3,520,039)**	(1,745,892)	**(3,291,133)**	(1,890,197)
	(3,003,846)	(925,088)	**(1,831,200)**	(290,357)
FINANCING				
Increase in share capital	**546,180**	2,288,393	**637,440**	4,176,782
Increase in bank loans	**3,054,535**	1,850,000	**11,554,535**	10,400,000
Decrease in note payable	**-**	-	**-**	(457,806)
	3,600,715	4,138,393	**12,191,975**	14,118,976
INVESTING				
Acquisition and development of oil and gas properties	**(2,602,469)**	(4,271,419)	**(12,993,677)**	(15,039,722)
Change in non-cash working capital	**2,005,600**	1,400,790	**2,005,600**	1,400,790
	(596,869)	(2,870,629)	**(10,988,077)**	(13,638,932)
INCREASE (DECREASE) IN CASH	**-**	342,676	**(627,302)**	189,687
CASH, BEGINNING OF PERIOD	**-**	95,960	**627,302**	248,949
CASH, END OF PERIOD	**-**	438,636	**-**	438,636
SUPPLEMENTARY INFORMATION - CASH PAYMENTS				
Interest	**293,332**	211,522	**490,020**	344,118
Income taxes	**1,775**	2,240	**3,511**	6,550

1. ACCOUNTING POLICIES

These interim financial statements follow the same accounting policies and methods as the most recent annual financial statements except as noted below.

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. Additional information related to transactions completed subsequent to June 30, 2004 is included in Note 6.

Asset retirement obligations:

Effective January 1, 2004, the company has adopted retroactively, with restatement of prior periods, the Canadian Institute of Chartered Accountants' ("CICAs") 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 six months of 2003 it reduced net earnings by $234,000).

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 section 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 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 replaced 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 from proved and probable reserves, 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.

The ceiling test at June 30, 2004 excludes $3.6 million of unproved properties and $5.9 million of major development projects which have been separately evaluated by management for impairment. Based on the ceiling test and other assessments, no impairment has been recorded at June 30, 2004.

Connacher's oil and natural gas reserves were evaluated by DeGolyer and MacNaughton Canada Limited as at March 31, 2004 in accordance with National Instrument 51-101 ("NI 51-101") using price assumptions, adjusted for quality and transportation differentials, as follows:

	WTI @ Cushing ($US/bbl)	Alberta Spot ($/mcf)
2004	33.20	6.26
2005	28.93	5.51
2006	26.27	4.93
2007	25.62	4.76
2008	25.74	4.80
	+ approximately 1.5% thereafter	+ approximately 1.5% thereafter

2. BANK LOANS

At June 30, 2004 the company had the following loan facilities: a $15.5 million Revolving Reducing Demand Loan (LOC), at bank prime + 1 ½ percent; and an $8.5 million Term Demand Loan ("Term Loan"), at bank prime +2 ½ percent. These facilities are secured by a $50 million fixed and floating charge debenture and a general assignment of book debts. At June 30, 2004, the following amounts were drawn on these facilities: $15,155,000 on the LOC and $8.5 million on the Term Loan.
As at June 30, 2004, the company had a working capital deficit and its banker waived compliance with the covenant related thereto until its next review, which is scheduled for August 15, 2004.

On July 21, 2004 the company completed the sale of certain oil and gas properties for gross proceeds of $17.8 million. Proceeds were used to repay the Term Loan, to reduce the LOC to approximately $8 million and to reduce accounts payable by approximately $2 million. Based on recent informal discussions with its banker, the company believes the available LOC will likely be reduced to a level in proximity to current borrowing in line with the reduction in the company's reserve base and production levels following the property sales. The company expects its banker will continue to waive its working capital covenant until financing initiatives are completed as minimal, if any, new capital programs are anticipated until new funds become available.

The company is continuing to evaluate alternatives to reduce its working capital deficit. These alternatives include additional sales of oil and gas properties, the reorganization of its 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, timing and extent of these initiatives will in part determine the extent to which the working capital deficit is reduced and 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 obligations	-	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 - Six months ended June 30, 2003

	As Reported	Change	As Restated
Depletion, depreciation and accretion	1,134,659	234,370	1,369,029
Net earnings	444,129	(234,370)	209,759

At June 30, 2004, the estimated total undiscounted amount required to settle the asset retirement obligations was $9.5 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 7%.

Changes to asset retirement obligations were as follows:

	Six months ended June 30, 2004
	$
Asset retirement obligations, December 31, 2003	4,784,000
Liabilities incurred during period	332,872
Liabilities settled during period	(57,976)
Accretion (included in depletion expense)	118,970
Asset retirement obligations, June 30, 2004	5,177,866

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	275,000	87,950
Issued upon exercise of warrants	1,189,755	598,078
Tax effect of expenditures renounced in 2003		(1,970,000)
Share issue costs		(30,938)
Warrants exercised		(3,200)
Balance, Share Capital, June 30, 2004	47,367,680	18,298,062
Contributed Surplus:		
Balance, Contributed Surplus, December 31, 2003, restated (Note 1)		378,333
Stock-based compensation		41,000
Share options exercised		(14,450)
Balance Contributed Surplus, June 30, 2004		404,883
Total Share Capital and Contributed Surplus:		
December 31, 2003, restated (Note 1)		19,994,505
June 30, 2004		18,702,945

(a) *Stock Options*

A summary of the company's outstanding stock option grants, as at June 30, 2004 is presented below:

	Number of Shares	Weighted Average Exercise Price $
Outstanding, beginning of period	2,830,000	0.45
Granted	1,424,000	0.53
Exercised	(275,000)	(0.25)
Expired	(120,000)	(0.74)
Outstanding, end of period	3,859,000	0.49

All stock options have been granted for a period of five years. Stock options granted prior to 2004 are fully vested; 335,000 options granted in 2004 vest one-third upon grant, one-third one year after grant and one-third two years after grant; 1,089,000 options granted in 2004 vest one-third one year after grant, one-third two years after grant, and one-third three 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	830,000	3.1
\$0.31 - \$0.50	2,074,000	3.9
\$0.51 - \$1.00	715,000	4.3
>\$1.00	240,000	4.7
	3,859,000	

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 which were granted and vested during the period.

The fair value of each option granted is estimated 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%

(b) *Share purchase warrants*

A summary of the company's outstanding share purchase warrants, as at June 30, 2004 and changes during the period is presented below:

Outstanding, beginning of period	4,984,145
Issued in the period	-
Exercised in the period	(1,189,755)
Expired in the period	(430,930)
Outstanding, end of period	3,363,460

The 3,363,460 warrants outstanding are exercisable to purchase common shares from treasury as follows:
(i) 310,303 common shares at $1.18 per share until their expiry on December 9, 2004; and
(ii) 3,053,157 common shares at $0.50 per share until their expiry on February 28, 2005.

(c) In the first quarter of 2004, the company incurred all of its $5 million resource expenditure commitment and recognized the tax effect of these expenditures.

(d) *Per share amounts*

The calculation of weighted average diluted shares outstanding excludes the impact of 1,620,000 stock options and 310,303 warrants which are anti-dilutive.

5. 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
3 months ended June 30, 2004			
Revenue, gross	3,323,442	232,660	3,556,102
Net earnings (loss)	(1,314,426)	46,623	(1,267,803)
Property and equipment, net	53,860,982	624,644	54,485,626
Capital expenditures	2,571,469	31,000	2,602,469
Total Assets	59,733,046	797,854	60,530,900
6 months ended June 30, 2004			
Revenue, gross	6,415,790	430,250	6,846,040
Net earnings (loss)	(2,041,346)	84,245	(1,957,101)
Property and equipment, net	53,860,982	624,644	54,485,626
Capital expenditures	12,927,677	66,000	12,993,677
Total Assets	59,733,046	797,854	60,530,900
3 months ended June 30, 2003			
Revenue, gross	2,324,885	148,682	2,473,567
Net earnings (loss) (1)	51,006	(7,159)	43,847
Property and equipment, net (1)	26,346,200	111,352	26,457,552
Capital expenditures	4,183,021	88,398	4,271,419
Total Assets (1)	28,413,903	584,357	28,998,260
6 months ended June 30, 2003			
Revenue, gross	4,281,979	355,845	4,637,824
Net earnings (loss) (1)	173,981	35,778	209,759
Property and equipment, net (1)	26,346,200	111,352	26,457,552
Capital expenditures	14,929,545	110,177	15,039,722
Total Assets (1)	28,413,903	584,357	28,998,260

(1) Restated – Notes 1 & 3

6. SUBSEQUENT EVENTS

As indicated in Note 2, on July 21, 2004 the company completed the sale of certain of its petroleum and natural gas properties at Islay and Lloydminster, Alberta and Cabri, Saskatchewan. Gross proceeds were $17.8 million and were used to repay the $8.5 million Term Demand Loan and to reduce the LOC to approximately $8.0 million. The balance of the proceeds were used to discharge trade payables, further reducing the company's working capital deficit.

The following proforma condensed balance sheet is based on the June 30, 2004 consolidated balance sheet, adjusted for the impact of the sale and the repayment of debt as if it had occurred on June 30, 2004. The proceeds of sale have been credited to the full cost pool. As the sale does not result in a significant change to the company's depletion rate, no gain or loss has been calculated.

Proforma June 30, 2004 Condensed Balance Sheet after the July 21, 2004 sale of oil & gas properties (unaudited)

	Condensed June 30, 2004 Balance Sheet as Reported	Adjustments	Notes	Proforma Condensed June 30, 2004 Balance Sheet
Current assets	2,407,649	-		2,407,649
Deposits	275,305	-		275,305
Future taxes	3,362,320	-		3,362,320
Property & equipment	54,485,626	(20,500,000)	A,B	33,985,626
	60,530,900			40,030,900
Accounts payable	10,765,075	(1,960,000)	A	8,805,075
Bank debt	23,654,535	(15,900,000)	A	7,754,535
Asset retirement obligation	5,177,866	(2,640,000)	B	2,537,866
Shareholders equity	20,933,424	-		20,933,424
	60,530,900			40,030,900

Notes:
A Proceeds received on sale reduced Property & equipment, Accounts payable and Bank debt.
B The amount of Asset retirement obligation related to the properties sold has been eliminated and has reduced the carrying value of Property & equipment.

The Company has acquired an option from the operator of the Puesto Morales/Rinconada concession in the Neuquen Basin, Argentina to acquire the remaining 50 percent interest not presently owned. The option is exercisable until October 1, 2004. In the event the option is not exercised, the company will cancel the loan receivable from the operator in the amount of $122,444, less any payments made in the intervening period. However, if the option is exercised, the loan will be repaid in full. This transaction was entered into as part of the company's initiative to reorganize its Argentinean interests into a separate corporate entity.

The company continues to operate with a working capital deficit and, in order to discharge its short-term obligations and eliminate its working capital deficit on a timely basis, will require continuing creditor and lender cooperation and external sources of capital beyond that available to it from its lender or from cash flow from operations, which will be reduced due to lower production levels following the asset sales. Regular equitable payments have been and are being made to creditors from operating or other funds as they become available. There can be no assurance the external sources of capital which are being evaluated will become available to the company on a timely basis, although numerous alternatives are available, or are under consideration, including the sale of equity or flow-through equity, subordinated term debt, monetization of certain assets through recovery of sunk costs, further outright asset sales and exploratory or development drilling joint ventures which may result in increased reserves and credit capacity.

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 M. 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
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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