Q3

INTERIM REPORT 2004

THIRD QUARTER 2004 REPORT

KEY FACTS:

- Balance sheet strengthened
- Revenue for the nine months rose 29 percent despite property sales
- Properties with higher operating costs at Islay, Alberta and Cabri, Saskatchewan sold for $17.8 million; netback improvement underway
- Interest in oilsands escalates; property values surge at Crown land sales
- Announced new equity financing to raise up to $20.3 million to eliminate debt, discharge payables, fund new drilling and restore growth profile

	Three Months Ended September 30			Nine Months Ended September 30		
	2004	**2003**	**% Change**	**2004**	**2003**	**% Change**
FINANCIAL						
($000 except per share amounts)						
Total revenue	**2,383**	2,491	(4)	**9,229**	7,129	29
Cash flow from operations [1]	**478**	745	(36)	**1,938**	2,345	(17)
Per basic and diluted share	**0.01**	0.02	(50)	**0.04**	0.08	(50)
Net earnings (loss) [2]	**(869)**	2,815		**(2,826)**	3,024	
Per basic and diluted share	**(0.02)**	0.08		**(0.06)**	0.10	
Capital expenditures	**681**	5,715	(88)	**13,764**	20,755	(34)
Proceeds of disposition	**17,564**	-		**17,653**	-	
Bank debt				**7,563**	13,800	(45)
Working capital deficiency				**6,644**	2,695	147
Net debt				**14,207**	16,495	(14)
Shareholders' equity [2]				**20,217**	13,315	52
Total assets [2]				**39,501**	37,014	7
Common shares outstanding (000)						
Weighted average						
Basic	**47,400**	35,820	32	**46,838**	30,127	55
Diluted	**47,504**	38,817	22	**49,234**	31,937	54
End of period						
Issued				**47,668**	36,512	31
Fully diluted				**54,340**	44,511	22
OPERATING						
Daily production						
Crude oil (bbl/d)	**636**	839	(24)	**832**	725	15
Natural gas (mcf/d)	**1,068**	1,012	6	**1,730**	1,086	59
Barrels of oil equivalent (boe/d) [3]	**814**	1,008	(19)	**1,121**	906	24
Prices						
Oil ($/bbl)						
Canada	**36.03**	29.01	24	**30.91**	30.97	-
Argentina	**43.03**	36.16	19	**42.90**	38.23	12
Total	**36.58**	29.40	24	**31.61**	31.43	1
Natural gas ($/mcf)						
Canada	**5.27**	4.57	15	**6.00**	5.68	6
Argentina	**0.78**	0.23	239	**0.63**	0.26	142
Total	**2.21**	2.35	(6)	**4.21**	2.92	44
Barrels of oil equivalent ($/boe)	**31.48**	26.84	17	**29.97**	28.65	5
Operating netback ($/boe)	**17.05**	13.90	23	**14.08**	15.85	(11)

[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. The company uses cash flow and cash flow per share as a standard of performance. It is calculated as total revenue less all cash charges for royalties, operating costs, G&A, interest and taxes, if any. Cash flow per share is calculated as cash flow from operations divided by weighted average (and weighted average diluted) common shares outstanding.

[2] Comparative figures have been restated to reflect changes in accounting policies.

[3] Barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe, derived by converting gas to oil in the ratio of of six thousand cubic feet of gas to one barrel of oil (6 mcf : 1 bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

During the third quarter, Connacher's focus continued to be on debt reduction. Production maintenance at low cost on retained assets was also emphasized. The company's net debt had risen to unacceptably high levels during the first half of 2004 primarily related to capital spending and then remedial efforts at Cabri, Saskatchewan. Despite positive test results which had resulted in the decision to develop Cabri North, we were unable to overcome the impact of startup problems and poor reservoir quality. 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 Islay 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 775 and 825 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. This will position Connacher to reactivate its growth expenditure programs on its well situated and highly prospective conventional acreage at Battrum and Tompkins in southeast Saskatchewan and to further its evaluation work at its Great Divide oil sands property.

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 approximately 70 bbl/d with minimal water since being placed onstream earlier this year. Follow up drilling has been restricted by environmental considerations but we plan to initiate new drilling and seismic before year end. 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 also be tied in quickly as infrastructure is nearby. Finally, 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 interpreted. New locations have been identified. 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 will continue. Planning is proceeding with respect to environmental and engineering studies preparatory to the submission of a 2005 application for regulatory approval to proceed with commercial production. This could lead to exploitation of the first of several channels indicated on our extensive acreage holdings in the area using SAGD technology. 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. Up to eleven additional delineation core holes on our first channel are scheduled for later this year once our recently-announced equity financing is completed.

Connacher is attempting to secure a long-term financial partner for its Great Divide project under appropriate terms. When completed, capital markets will better appreciate the potential of both the company's conventional and its 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, although realizations have been constrained by recent policy changes. Connacher continues to examine its holdings and has initiated a restructuring process which would result in the recovery of cash and retention of an indirect equity stake in the assets, which would be owned by a new public company. This will enable Connacher to participate in the upside potential of the Puesto Morales/ Rinconada concession. In conjunction with this initiative, Connacher recently exercised an option to acquire the remaining 50 percent interest in the concession at an attractive price. This will be vended to the new public company to give it the critical mass, substance and operatorship (on approval) to proceed with a more aggressive self-financed program of exploration and exploitation of this large 95,000 acre concession in the Neuquen Basin, Argentina.

In light of limited new drilling activity in the second quarter, Connacher elected not to incur the expense of an updated reserve report for the three months ended June 30, 2004. However, with rising oil prices, property sales and the need to raise new capital, an update effective October 1, 2004 was commissioned.

After adjusting for year-to-date 2004 production, the aforementioned property sales and current year discoveries, the Company's conventional proved and probable reserve base was estimated by DeGolyer and MacNaughton Canada Limited ("D&M"), as at October 1, 2004, to be 3.6 million boe with a 10 percent present worth of $32.2 million. Connacher also owns 54 million barrels of possible recoverable reserves, including conventional reserves and those associated with its Great Divide oilsands project. D&M assigned a 10 percent present worth to the Great Divide reserves of $248 million after provision for the $225 million of capital required to develop the first stage of this project. The estimated 10 percent present worth of the future net revenue of the company's total proved, probable and possible reserves is $291 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 national instrument. The report was prepared using D&M's latest price deck, effective October 1, 2004.

Subsequent to the reporting period Connacher announced a best-efforts agency equity financing to raise up to $20.25 million in gross proceeds from the sale of 30 million common shares and 10 million flow-through common shares from treasury at a price of $0.475 per share and $0.60 per share, respectively. The financing is scheduled to close on or about November 15, 2004 and if fully-subscribed would allow Connacher to eliminate all debt and reinstate growth expenditures at its various properties.

Shareholders should also be aware that in October, with oil prices surpassing US$50 for WTI, a bonus of $15 million was paid for a 20-section oil sands lease just east of Connacher's Great Divide project, where a 100 percent interest in over 80 sections are owned by the company. This enhances the fair market value of our lands. A significant land sale is also expected on December 15, 2004 as over 250,000 acres of similar Crown oilsands leases, adjacent to and contiguous with Connacher's land, have been posted for sale.

Respectfully submitted on behalf of the Board of Directors,

Signed,

"R.A. Gusella"

Richard A. Gusella
President and Chief Executive Officer
November 8, 2004

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

The following is dated as of November 8, 2004 and should be read in conjunction with the Consolidated Financial Statements of Connacher Oil and Gas Limited for the nine month period ended September 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. Barrel of oil equivalents can be misleading if used in isolation. 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.

FINANCIAL AND OPERATING REVIEW – Nine Month Results (Unaudited)

REVENUE, PRODUCTION AND PRICING

Despite asset sales which reduced production in the third quarter, total revenue for the nine month period ended September 30, 2004 increased 29 percent to $9.2 million compared to $7.1 million in 2003. This reflects a 24 percent increase in sales volumes and a five percent increase in average product pricing. Total revenue for the three months ended September 30, 2004 of $2.4 million decreased four percent from the comparative 2003 period. Property sales in July 2004 resulted in a 19 percent reduction in third quarter sales volumes which was offset by a 17 percent increase in average product prices.

For the nine months Canadian revenues were $8.5 million, up 29 percent from $6.6 million in 2003, on a 27 percent increase in sales volumes and a two percent increase in pricing. Argentinean revenues were up 31 percent to $678,000 from $518,000 last year, reflecting increased product pricing on comparable year-to-date sales volumes. For the three months ended September 30, 2004, Canadian revenues were $2.1 million, down from $2.3 million last year reflecting property sales. In Argentina, revenues for the third quarter 2004 were up 50 percent to $247,000 due to higher prices and increased natural gas sales.

Production and Pricing

	Three Months Ended September 30			Nine Months Ended September 30		
	2004	2003	% change	**2004**	2003	% change
Daily production/sales volumes						
Oil - bbl/d						
Canada	**587**	794	(26)	**783**	679	15
Argentina	**49**	45	9	**49**	46	7
Total	**636**	839	(24)	**832**	725	15
Natural Gas - mcf/d						
Canada	**342**	496	(31)	**1,152**	533	116
Argentina	**726**	516	41	**577**	553	4
Total	**1,068**	1,012	6	**1,730**	1,086	59
boe/d						
Canada	**644**	876	(26)	**975**	768	27
Argentina	**170**	132	29	**146**	138	5
Total	**814**	1,008	(19)	**1,121**	906	24
Product pricing ($) (weighted average)						
Oil - per bbl						
Canada	**36.03**	29.01	24	**30.91**	30.97	-
Argentina	**43.03**	36.16	19	**42.90**	38.23	12
Average	**36.58**	29.40	24	**31.61**	31.43	1
Natural gas - per mcf						
Canada	**5.27**	4.57	15	**6.00**	5.68	6
Argentina	**0.78**	0.23	239	**0.63**	0.26	142
Average	**2.21**	2.35	(6)	**4.21**	2.92	44
Per boe						
Canada	**35.64**	28.86	23	**31.90**	31.33	2
Argentina	**15.78**	13.39	18	**17.02**	13.73	24
Average	**31.48**	26.84	17	**29.97**	28.65	5

During the third quarter of 2004, West Texas Intermediate oil prices rose 14.5 percent or US $5.56 per barrel above second quarter levels to average US $43.88 per barrel. This world price benchmark was up US $13.67, or 45 percent, compared to the third quarter of 2003.

During the third quarter of 2004, the company's realized crude oil price of $36.58 per barrel was 24 percent higher than in the second quarter and 24 percent higher than in the comparative period of 2003. However, year-to-date 2004 prices were relatively unchanged from 2003, due to the weaker first half 2004 contribution and the adverse impact of hedging.

The company's reported revenues include gains and/or losses realized on hedging activities, which are not separately reported in the consolidated financial statements. For the year-to-date, crude oil revenues were lower by approximately $700,000 than would have been reported had the company not entered into the hedges. This is the result of a dramatic increase in world oil prices since entering into the hedges. Notwithstanding, year-to-date prices for Canadian oil production were unchanged from 2003 as unhedged volumes attracted higher prices, which offset the impact of hedges. A strong Canadian dollar also adversely impacted prices during 2004.

Year-to-date, Canadian natural gas prices at $6.00 per mcf were above levels realized in 2003 when they averaged $5.68 per mcf, and were 15 percent higher quarter over quarter. Argentinean natural gas prices have strengthened based on a new gas sales contract but still remain below fair market value. Further improvement is anticipated in the next year.

ROYALTIES

Royalties represent charges against production or revenue by governments and landowners. Royalties in 2004 were $1.8 million ($5.77 per boe), 19 percent of oil and gas revenue, compared to $1.3 million ($5.32 per boe), also 19 percent of oil and gas revenue in 2003. The table below provides further detail by country for each year.

	Royalties For the Nine Months Ended September 30			
	2004		2003	
	Total	**Per boe**	Total	Per boe
Canada	**1,674,251**	**6.26**	1,270,826	6.06
percentage of total oil and gas revenue	**19.6**		19.3	
Argentina	**97,029**	**2.44**	46,541	1.23
percentage of total oil and gas revenue	**14.3**		9.0	
Total	**1,771,280**	**5.77**	1,317,367	5.32
percentage of total oil and gas revenue	**19.2**		18.6	

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

OPERATING EXPENSES AND OPERATING NETBACKS

Company Operating Netbacks - combined Canada and Argentina (1)

For the Nine Months Ended September 30

	2004		**2003**		**% Change 2004 - 2003**	
	Total	**Per boe**	**Total**	**Per boe**	**Total**	**Per boe**
Average daily production (boe)	**1,121**		906		24	
Oil and natural gas revenue	**9,204,034**	**29.97**	7,088,504	28.65	30	5
Other income	**24,523**	**0.08**	40,610	0.16	(40)	(50)
Total revenue	**9,228,557**	**30.05**	7,129,114	28.81	29	4
Royalties	**(1,771,280)**	**(5.77)**	(1,317,367)	(5.32)	34	8
Net revenue	**7,457,277**	**24.28**	5,811,747	23.49	28	3
Operating costs	**(3,011,916)**	**(9.80)**	(1,822,656)	(7.37)	65	33
Transportation costs	**(121,685)**	**(0.40)**	(66,499)	(0.27)	83	48
Operating Netback	**4,323,676**	**14.08**	3,922,592	15.85	10	(11)

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

Total operating costs were higher in 2004 primarily due to a 24 percent increase in volumes. Third quarter 2004 operating and transportation costs were 11 percent below 2003 levels and 52 percent below second quarter 2004 levels as production was lower by 19 percent and 38 percent, respectively, and the company completed the disposition of properties with higher operating costs in the third quarter of 2004.

On a unit basis, operating and transportation costs were $9.80 per boe in 2004, which reflects high first half costs largely associated with properties since sold. More importantly, unit costs per boe were down 23 percent from the second quarter 2004 with a resultant improvement in operating netbacks, which at $17.05 per boe, reached the highest level experienced by the Company since the first quarter 2003.

In accordance with recommendations of the CICA Handbook Section 1100, transportation costs are no longer netted against oil and natural gas revenue, but are disclosed as a separate expense item. Connacher's transportation costs primarily relate to trucking and pipeline charges associated with crude oil sales. For the quarter and year-to-date, transportation costs are higher due to the additional trucking costs incurred for new crude oil production at Tompkins. On a boe basis, these costs averaged $0.50 in the third quarter of 2004 (2003 - $0.27) and $0.40 for the year to date (2003 - $0.27).

Operating Netbacks by Country and Product
For the Nine Months Ended September 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	560 bbl/d		223 bbl/d		1152 mcf/d		49 bbl/d		577 mcf/d	
Oil and natural gas revenue	5,158,082	33.62	1,475,087	24.13	1,893,132	6.00	577,371	43.00	100,362	0.63
Royalties	(1,091,478)	(7.11)	(287,500)	(4.70)	(295,273)	(0.94)	(80,830)	(6.02)	(16,199)	(0.10)
Operating and transportation costs	(958,732)	(6.26)	(795,680)	(13.02)	(1,183,386)	(3.75)	(175,354)	(13.06)	(20,450)	(0.13)
Operating netback	3,107,872	20.25	391,907	6.41	414,473	1.31	321,187	23.92	63,713	0.40

As a result of higher operating costs, the company's year-to-date consolidated operating netback of $14.08 per boe was down 11 percent from 2003. However, due to improved product pricing and reduced operating costs, 2004 third quarter consolidated operating netback improved to $17.05 per boe, up 36 percent from $12.53 in the second quarter of 2004 and up 23 percent from $13.90 in the third quarter of 2003.

In Canada the operating netback in the first nine months of 2004 was $14.65 per boe (2003 - $17.12) while in Argentina it was $9.69 per boe (2003 - $7.73). The 25 percent increase in Argentina reflected continued cost control, the relatively weaker peso compared to the Canadian dollar and stronger natural gas prices realized in 2004. Canadian netbacks weakened as costs rose in 2004. Higher cost, lower netback heavy oil and natural gas properties were sold in July 2004. This is expected to result in a higher corporate netback in future reporting periods. Connacher's light oil netbacks in Canada and Argentina were at acceptable levels of $20.25 and $23.92, respectively.

GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative (G&A) expenses increased by 61 percent to $1.7 million in 2004 compared to $1.1 million in 2003 as significantly higher public company costs (audit fees, legal fees, independent engineering expenses and annual meeting fees) were incurred. Also, fees which historically were expensed over the year are now deducted as incurred. Accordingly, quarterly cost profiles are now more erratic. G&A expenses include non-cash stock option expenses of $102,000 in 2004 and $87,000 in 2003. G&A expenses per boe rose 30 percent to $5.61 from $4.33 in 2003. These should decline as conventional production growth is restored with new capital spending and when major new projects result in significant production gains.

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 $740,000 in 2004, compared to $536,000 reported in the same period last year. Unit costs increased to $2.41 per boe in 2004 compared to $2.17 per boe in 2003.

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.

On a unit basis, operating and transportation costs were $9.80 per boe in 2004, which reflects high first half costs largely associated with properties since sold. More importantly, unit costs per boe were down 23 percent from the second quarter 2004 with a resultant improvement in operating netbacks, which at $17.05 per boe, reached the highest level experienced by the Company since the first quarter 2003.

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DEPLETION, DEPRECIATION AND ACCRETION (DD&A)

The non-cash DD&A expense of $5.7 million in 2004 was significantly higher than the $2.2 million reported in the first nine months of 2003 because of the significant increase in oil and gas capital expenditures during the period from the third quarter of 2003 until the end of the first half of 2004, combined with increased production and sales volumes. On a unit of production basis, DD&A per boe was higher at $18.50 in 2004 compared to $8.89 in 2003. This increase is also due to the relatively conservative method of determining and reporting proved reserve estimates pursuant to NI 51-101 which are used in the depletion calculation and a diminished reserve base without, however, any related ceiling test impairment.

INCOME TAXES

In 2004, the company booked a Canadian capital tax provision of $25,000. The charge of $57,000 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 $42 million of deductible tax pools and operating loss carry forwards, which are supplemented by ongoing capital programs.

Recoverable future taxes of $1,030,000 were recognized in the first nine months of 2004, representing the calculated tax benefit of the reported loss.

NET EARNINGS AND SHARES OUTSTANDING

Net Earnings (Loss)
For the Nine Months Ended September 30

	2004		2003		% Change	
	Total	**Per boe**	Total	Per boe	Total	Per boe
Operating netback	**4,323,676**	**14.08**	3,922,592	15.85	10	(11)
General & administrative	**(1,722,103)**	**(5.61)**	(1,072,210)	(4.33)	61	30
Interest	**(740,211)**	**(2.41)**	(535,642)	(2.17)	38	11
Foreign exchange gain (loss)	**(8,242)**	**(0.03)**	(34,651)	(0.14)	(76)	(79)
Depletion, depreciation, accretion	**(5,683,759)**	**(18.50)**	(2,198,458)	(8.89)	159	108
Tax recovery	**1,004,912**	**3.27**	2,942,823	11.90	(76)	(81)
Net earnings (loss)	**(2,825,727)**	**(9.20)**	3,024,454	12.22	-	(17)

During the first nine months of 2004, the company incurred a loss of $2.8 million or $0.06 per basic and diluted share compared to restated earnings in 2003 of $3.0 million or $0.10 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 audited annual consolidated financial statements.

For nine months ended September 30, 2004 the weighted average shares outstanding was 46,837,685 (2003 – 30,126,881) and weighted average diluted shares outstanding, as calculated by the treasury stock method, were 49,234,480 (2003 – 31,936,892).

As at November 8, 2004, the company had the following securities issued and outstanding:
- 47,667,680 common shares;
- 3,363,460 share purchase warrants; and
- 3,274,600 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 taxes, if any. Cash flow per share is calculated as cash flow from operations divided by weighted average (and weighted average diluted) common shares outstanding. Cash flow per share is calculated in a manner consistent with earnings per share.

Cash flow from operations for the nine months ended September 30, 2004 was $1.9 million ($0.04 per basic and diluted share) compared to $2.3 million ($0.08 per basic and diluted share) in 2003. This reduction primarily reflects higher operating costs, G&A and interest expenses partially offset by higher revenues from increased production and sales volumes. Cash flow in the third quarter of 2004 was $478,000 ($0.01 per share) compared to $745,000 ($0.02 per share) in the same prior year period.

Year-to-date, cash flow per boe was $6.31, compared to $9.48 in 2003, a 33 percent decline. This represented 21 percent of selling price in 2004 compared to 33 percent in 2003. Higher costs as detailed above and the impact of property sales were factors.

In Canada capital expenditures in 2004 totaled $13.7 million as follows:
- $7.5 million for drilling, equipping, completing 13 net wells in Southwest Saskatchewan;
- $3.2 million for land and drilling 11 core holes in the Great Divide oil sands project;
- $1.3 million for production facilities in southwest Saskatchewan; and
- $1.7 million to acquire additional undeveloped acreage at Crown sales, conduct seismic programs and minor amounts for administrative assets.

Additionally $116,000 was incurred in Argentina on exploitation and new business opportunities.

Third quarter 2004 expenditures of only $681,000 were limited to production maintenance with a measure of success as production, net of sales, actually increased. 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.

In the third quarter, significant progress occurred in the company's plan to strengthen its financial position. In July the company sold its conventional heavy oil properties at Islay and Lloydminster in eastern Alberta and its Cabri North natural gas properties and related gas rights in southwest Saskatchewan for gross proceeds of $17.8 million. This was completed in two separate transactions to two large independent oil and gas companies. Given their high and increasing operating costs, the sale of the heavy oil properties was considered prudent and strategic and will contribute to improved netbacks for the company's production. The Cabri gas properties presented unusual challenges to the company due to start-up issues, poor reservoir quality, higher levels of water and mud than anticipated and lower productivity than indicated by testing before startup of commercial production.

Net proceeds of oil and gas property dispositions were $3.9 million more than the $13.8 million of capital expenditures incurred in the year to date. The company applied this surplus together with operating cash flow to reduce bank indebtedness and trade payables. In the third quarter Connacher's net debt was reduced from $32 million to $14.2 million.

As at November 8, 2004, the company had available an $8 million banking credit facility, including a $6.6 million reducing line of credit ("LOC") and a $1.4 million term loan, which is due on December 31, 2004. Reductions of the LOC are not scheduled until 2005. The overall credit facility is scheduled for a further year-end 2004 review. The company does not have capital lease obligations, any capital or purchase commitments or any off-balance sheet debt. Other than minor liens and a small creditor claim, the company is not subject to any outstanding legal, environmental or safety suits. At September 30, 2004, Connacher had a working capital deficit and its banker waived compliance with the related debt covenant until December 31, 2004.

The heavy oil and Cabri property dispositions marked the completion of the first step of a series of initiatives to be undertaken to strengthen the balance sheet. Currently, the company's agents are marketing a best efforts private placement equity financing to raise up to $20.3 million through the issuance of up to 30 million common shares and 10 million flow-through common shares from treasury. The company has had discussions with a variety of prospective joint venture partners who expressed an interest in participating in the development of the company's conventional Saskatchewan and Great Divide SAGD oil sands project. These discussions will continue as part of the company's risk mitigation. Connacher is also continuing with a restructuring of its Argentinean holdings. The success of financing, drilling and possible joint venture activities will impact Connacher's ability to add shareholder value.

QUARTERLY RESULTS

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

Selected Quarterly Information (unaudited):

	2002	2003				2004		
Three Months Ended	**Dec 31**	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**	**Mar 31**	**Jun 30**	**Sept 30**
Financial Highlights								
($000 except per share amounts)								
Total revenue	1,655	2,164	2,474	2,491	2,853	3,290	3,556	**2,358**
Cash flow from operations (1)	496	779	821	745	1,008	944	516	**478**
Basic, per share (1)	0.02	0.03	0.02	0.02	0.03	0.02	0.01	**0.01**
Diluted, per share (1)	0.02	0.03	0.02	0.02	0.02	0.02	0.01	**0.01**
Net earnings (loss)(2)	486	166	44	2,815	653	(689)	(1,268)	**(869)**
Basic, per share (2)	0.03	0.01	-	0.08	0.03	(0.01)	(0.03)	**(0.02)**
Diluted, per share (2)	0.03	0.01	-	0.07	0.03	(0.01)	(0.03)	**(0.02)**
Capital expenditures	1,768	10,768	4,271	5,715	15,015	10,391	2,603	**681**
Proceeds of disposition	-	-	-	-	-	-	89	**17,564**
Bank debt	2,100	10,650	12,500	13,800	12,100	20,600	23,655	**7,563**
Working capital deficiency	846	864	179	2,695	8,994	9,850	8,357	**6,644**
Note payable	458	-	-	-	-	-	-	**-**
Net debt	3,404	11,514	12,679	16,495	21,094	30,450	32,012	**14,207**
Shareholders' equity(2)	5,110	7,113	9,469	13,315	24,182	21,655	20,933	**20,217**
Operating Highlights								
Production								
Natural gas (mcf/d)	1,462	1,216	1,033	1,012	1,496	2,268	1,860	**1,068**
Crude oil (bbl/d)	469	582	752	839	978	859	1,004	**636**
Equivalent (boe/d)	713	785	924	1,008	1,228	1,237	1,324	**814**
Pricing								
Crude oil ($/bbl)	27.36	32.22	33.10	29.40	26.96	30.41	29.46	**36.58**
Natural gas ($/mcf)	3.29	4.03	2.18	2.35	3.02	4.42	5.11	**2.21**
Selected Highlights ($/boe)								
Weighted average sales price	25.24	30.15	29.37	26.84	25.17	29.22	29.74	**31.48**
Other income	0.49	0.50	0.040	0.03	0.10	-	-	**0.33**
Royalties, net of ARTC	3.62	5.78	5.20	5.08	4.23	5.37	5.95	**6.06**
Operating and transportation expenses	9.31	7.51	7.46	7.89	10.29	10.09	11.26	**8.70**
Operating netback	12.80	17.36	16.75	13.90	10.75	13.76	12.53	**17.05**
Common Share Information								
Shares outstanding at end of period (000)	24,175	28,717	34,082	36,512	45,903	46,153	47,368	**47,668**
Weighted average shares outstanding for the period								
Basic (000)	22,408	25,021	29,421	35,820	39,022	46,067	47,042	**47,400**
Diluted (000)	23,626	25,528	31,945	38,817	42,138	50,119	48,496	**47,504**
Volume traded during quarter (000)	418	6,031	8,342	10,027	15,045	20,706	30,108	**8,880**
Common share price ($)								
High	0.58	0.45	0.76	0.87	1.60	1.75	1.08	**0.44**
Low	0.32	0.31	0.40	0.65	0.74	0.73	0.30	**0.28**
Close (end of period)	0.43	0.42	0.71	0.75	1.60	0.78	0.40	**0.32**

(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. The company uses cash flow and cash flow per share as a standard of performance. It is calculated as total revenue less all cash charges for royalties, operating costs, G&A, interest and taxes, if any. Cash flow per share is calculated as cash flow from operations divided by weighted average (and weighted average diluted) common shares outstanding.

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

(3) Barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe, derived by converting gas to oil in the ratio of of six thousand cubic feet of gas to one barrel of oil (6 mcf : 1 bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

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 depletion and 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, 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 this MD&A and in the September 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 had 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.

The corporation is raising additional capital to further reduce indebtedness, to restore its growth expenditures and to capitalize on the potential of its properties. This program may include monetization of its oil sands holding. Monetizing and restructuring its Argentinean interests is progressing. 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 to discharge indebtedness. If the company raises the additional equity it is targeting, it could repay outstanding debt and trade payables and rely on cash balances, available credit, cash flow and possibly joint venture funding for its growth expenditures.

Connacher is nearing the completion of restructuring its financial condition and will refocus its activities primarily at Battrum and Tompkins in southwest Saskatchewan and at its Great Divide oil sands project in northeast Alberta.

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.

CONNACHER OIL AND GAS LIMITED

Consolidated Balance Sheets

(unaudited)

(unaudited)

	September 30, 2004	December 31, 2003
	$	$
ASSETS		(Restated Notes 1 & 4)
CURRENT		
Cash	**-**	627,302
Accounts receivable	**1,574,209**	2,657,150
Loan receivable	**116,813**	135,848
Prepaid expenses	**212,007**	297,009
	1,903,029	3,717,309
Deposits	**275,305**	279,700
Future income tax asset	**3,676,020**	4,602,320
Property and equipment, net (Notes 1 & 4)	**33,646,576**	45,177,648
	39,500,930	53,776,977
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities (Note 7)	**8,547,219**	12,710,892
Bank loans (Notes 2 & 7)	**7,562,784**	12,100,000
	16,110,003	24,810,892
Deferred credit (Note 3)	**339,100**	-
Asset retirement obligations (Notes 1 & 4)	**2,835,066**	4,784,000
SHAREHOLDERS' EQUITY		
Share capital and contributed surplus (Note 5)	**18,854,908**	19,994,505
Retained earnings	**1,361,853**	4,187,580
	20,216,761	24,182,085
	39,500,930	53,776,977

Contingencies (Notes 2 & 7)

CONNACHER OIL AND GAS LIMITED

Consolidated Statements of Operations and Retained Earnings

(unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	**2004**	2003
	$	$	**$**	$
		(Restated Notes 1 & 4)		(Restated Notes 1 & 4)
REVENUE				
Petroleum and natural gas sales	**2,357,994**	2,488,828	**9,204,034**	7,088,504
Interest and other income	**24,523**	2,462	**24,523**	40,610
	2,382,517	2,491,290	**9,228,557**	7,129,114
Royalties	**454,154**	471,789	**1,771,280**	1,317,367
	1,928,363	2,019,501	**7,457,277**	5,811,747
EXPENSES				
Operating	**614,229**	706,523	**3,011,916**	1,822,656
Transportation	**37,093**	24,815	**121,685**	66,499
General and administrative	**584,420**	414,567	**1,722,103**	1,072,210
Interest	**250,192**	191,524	**740,211**	535,642
Foreign exchange loss	**9,799**	21,399	**8,242**	34,651
Depletion, depreciation and accretion	**1,576,168**	828,689	**5,683,759**	2,198,458
	3,071,901	2,187,517	**11,287,916**	5,730,116
EARNINGS (LOSS) BEFORE INCOME TAXES	**(1,143,538)**	(168,016)	**(3,830,639)**	81,631
CURRENT INCOME TAXES	**25,088**	16,549	**25,088**	57,177
FUTURE INCOME TAXES (RECOVERY)	**(300,000)**	(3,000,000)	**(1,030,000)**	(3,000,000)
NET EARNINGS (LOSS)	**(868,626)**	2,815,435	**(2,825,727)**	3,024,454
RETAINED EARNINGS, BEGINNING OF PERIOD	**2,230,479**	241,154	**4,691,036**	500,720
Change in Accounting Policy (Note 1)			**(200,000)**	(200,000)
Change in Accounting Policy (Note 4)			**(303,456)**	(268,585)
RETAINED EARNINGS, END OF PERIOD	**1,361,853**	3,056,589	**1,361,853**	3,056,589
EARNINGS (LOSS) PER SHARE, Basic and Diluted	**(0.02)**	0.08	**(0.06)**	0.10
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	**47,400,289**	35,819,677	**46,837,685**	30,126,881
Diluted	**47,503,940**	38,817,006	**49,234,480**	31,936,892

CONNACHER OIL AND GAS LIMITED

Consolidated Statements of Cash Flows

(unaudited)

	Three Months Ended September 30		Nine Months Ended September30	
	2004	2003	**2004**	2003
	$	$	**$**	$
		(Restated Notes 1 & 4)		(Restated Notes 1 & 4)
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net earnings (loss)	**(868,626)**	2,815,435	**(2,825,727)**	3,024,454
Items not affecting cash:				
Depletion, depreciation and accretion	**1,576,168**	828,689	**5,683,759**	2,198,458
Stock-based compensation	**61,000**	79,200	**102,000**	87,000
Foreign exchange loss	**9,799**	21,399	**8,242**	34,651
Future income tax recovery	**(300,000)**	(3,000,000)	**(1,030,000)**	(3,000,000)
Cash flow from operations	**478,341**	744,723	**1,938,274**	2,344,563
Changes in non-cash working capital	**(841,024)**	(941,438)	**(4,132,157)**	(2,831,635)
	(362,683)	(196,715)	**(2,193,883)**	(487,072)
FINANCING				
Increase in share capital	**77,263**	1,175,638	**714,703**	5,352,420
Increase in (repayment of) bank loans	**(16,091,751)**	1,300,000	**(4,537,216)**	11,700,000
Repayment of note payable	**-**	-	**-**	(457,806)
	(16,014,488)	2,475,638	**(3,822,513)**	16,594,614
INVESTING				
Capital expenditures	**(681,229)**	(5,715,476)	**(13,763,906)**	(20,755,198)
Proceeds on disposal of oil and gas properties	**17,564,000**	-	**17,653,000**	-
Changes in non-cash working capital	**(505,600)**	3,149,210	**1,500,000**	4,550,000
	16,377,171	(2,566,266)	**5,389,094**	(16,205,198)
DECREASE IN CASH	**-**	(287,343)	**(627,302)**	(97,656)
CASH, BEGINNING OF PERIOD	**-**	438,636	**627,302**	248,949
CASH, END OF PERIOD	**-**	151,293	**-**	151,293
SUPPLEMENTARY INFORMATION - CASH PAYMENTS				
Interest	**250,192**	191,524	**740,211**	535,642
Income taxes	**800**	3,430	**4,311**	9,980

1. ACCOUNTING POLICIES

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

Certain information and disclosures normally included in the company's audited annual consolidated financial statements have been condensed or omitted. Accordingly, these interim financial statements should be read in conjunction with the most recent audited annual consolidated financial statements and notes included in the company's Annual Report for the year ended December 31, 2003. Additional information relating to financing and transactions contemplated or completed subsequent to September 30, 2004 is included in Note 7.

Asset retirement obligations:

Effective January 1, 2004, the Canadian Institute of Chartered Accountants' ("CICAs") new standard on Asset Retirement Obligations was retroactively adopted by the company, with restatement of prior periods. 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 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. 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. 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.

As a result of adopting the new standard, the cumulative earnings impact of $303,456 at January 1, 2004 ($268,585 at January 1, 2003), has been charged to opening Retained Earnings. The impact of adopting this new accounting policy was to increase the net loss by $300,000 (for the first nine months of 2003 it reduced net earnings by $385,000).

Stock-based compensation:

Effective January 1, 2004, the CICA's new standard on stock-based compensation was retroactively adopted by the company, without restatement of prior periods. This new section requires that as at the date of grant the fair value of stock options granted 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 only expensed the fair value of stock options granted to 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 current year net loss by $15,000 (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.

On July 21, 2004 the company completed the sale of certain of its petroleum and natural gas properties for gross proceeds of $17.8 million. As there was no significant change in the rate of depletion, no gain or loss was recognized. These financial statements reflect operating results from these properties until the date the sale closed. The asset retirement obligation was also reduced to reflect this disposition.

The ceiling test at September 30, 2004 excludes $2.9 million of unproved properties and $6.0 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 September 30, 2004.

Connacher's oil and natural gas reserves were evaluated by independent reservoir engineers as at October 1, 2004 in a report dated September 30, 2004. The evaluation was conducted in accordance with National Instrument 51-101 ("NI 51-101"), using the following base price assumptions adjusted for the company's hedge, its product quality and transportation differentials:

	WTI @ Cushing ($US/bbl)	Alberta Spot ($/mcf)
2004	43.00	6.50
2005	40.80	7.07
2006	36.41	6.67
2007	31.48	6.36
2008	32.47	5.89
	+ approximately 2% thereafter	+ approximately 2% thereafter

Transportation costs:

In accordance with the recommendations of CICA Handbook Section 1100, transportation costs are no longer netted against oil and natural gas revenue, but are disclosed as a separate expense in the Consolidated Statement of Operations and Retained Earnings. Comparative amounts have been reclassified accordingly.

2. BANK LOANS

As a result of the property sales completed in the third quarter, the company's $15.5 million Revolving Reducing Demand Loan and $8.5 million Term Demand Loan have been reduced to $6.6 million and $1.4 million, respectively. See Subsequent Events – Note 7. At September 30, 2004, $7.6 million was drawn on these facilities. As at September 30, 2004, the company had a working capital deficit and its banker waived compliance with the covenant related thereto until December 31, 2004.

The company has initiated certain steps to reduce its working capital deficit. These include curtailing of discretionary capital expenditures so available cash flow is used to reduce payables; raising of additional funds from the sale of common shares; the reorganization of its Argentinean holdings and may include monetization of a portion of its oil sands interests, third party joint ventures to mitigate risk and drill new wells for additional production, cash flow and loan value and, if required, further property sales. The extent to which the working capital deficit will be reduced will depend upon the success and completion of these initiatives. This in turn will also determine the magnitude of the company's capital program during the balance of the year.

3. DEFERRED CREDIT

An office lease inducement of $357,625 is being amortized against office rent expense over the term of the lease of 72 months.

4. ASSET RETIREMENT OBLIGATIONS

The company 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

	Three months ended September 30, 2003			Nine months ended September 30, 2003		
	As Reported $	Change $	As Restated $	As Reported $	Change $	As Restated $
Depletion, depreciation and accretion	678,689	150,000	828,689	1,813,348	385,110	2,198,458
Net earnings	2,965,435	(150,000)	2,815,435	3,409,564	(385,110)	3,024,454

At September 30, 2004, the estimated total undiscounted amount required to settle the asset retirement obligations was $5.9 million. These obligations will be settled based on the useful lives of the underlying assets, which currently extend up to 30 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:

	Three months ended September 30, 2004	Nine months ended September 30, 2004
	$	$
Asset retirement obligations, beginning of period	5,177,866	4,784,000
Liabilities incurred during period	-	284,152
Liabilities disposed during period	(2,374,481)	(2,383,737)
Accretion (included in depletion expense)	31,681	150,651
Asset retirement obligations, September 30, 2004	2,835,066	2,835,066

5. 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	575,000	178,236
Issued upon exercise of warrants	1,189,755	598,078
Tax effect of expenditures renounced in 2003		(1,970,000)
Share issue costs, net of tax effect		(20,975)
Warrants exercised		(3,200)
Balance, Share Capital, September 30, 2004	47,667,680	18,398,311
Contributed Surplus:		
Balance, Contributed Surplus, December 31, 2003, restated (Note 1)		378,333
Stock-based compensation		102,000
Share options exercised		(23,736)
Balance, Contributed Surplus, September 30, 2004		456,597
Total Share Capital and Contributed Surplus:		
December 31, 2003, restated (Note 1)		19,994,505
September 30, 2004		18,854,908

(a) Stock Options

A summary of the company's outstanding stock option grants, as at September 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	(575,000)	(0.27)
Expired	(370,000)	(0.62)
Outstanding, end of period	3,309,000	0.50

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	530,000	2.1
$0.31 - $0.50	1,939,000	4.0
$0.51 - $1.00	600,000	3.8
>$1.00	240,000	4.2
	3,309,000	

During 2004 a compensatory non-cash expense of $102,000 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)	3
Expected volatility	53%

(b) Share purchase warrants

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

	Three months ended September 30, 2004	Nine months ended September 30, 2004
Outstanding, beginning of period	3,363,460	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	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 completed all of its $5 million resource expenditure commitment which had been renounced to holders of flow-through common shares in 2003 and recognized the tax effect of these expenditures.

(d) Per share amounts

The calculation of weighted average diluted shares outstanding excludes the impact of 1,070,000 stock options and 310,303 warrants which are anti-dilutive.

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 September 30, 2004			
Total revenue	2,135,034	247,483	2,382,517
Net earnings (loss)	(913,956)	45,330	(868,626)
Property and equipment, net	33,048,274	598,302	33,646,576
Capital expenditures	656,229	23,000	681,229
Proceeds of disposition	17,564,000	-	17,564,000
Total assets	38,680,542	820,388	39,500,930
Nine months ended September 30, 2004			
Total revenue	8,550,824	677,733	9,228,557
Net earnings (loss)	(2,955,302)	129,575	(2,825,727)
Property and equipment, net	33,048,274	598,302	33,646,576
Capital expenditures	13,647,906	116,000	13,763,906
Proceeds of disposition	17,653,000	-	17,653,000
Total assets	38,680,542	820,388	39,500,930
Three months ended September 30, 2003 (1)			
Total revenue	2,341,190	150,100	2,491,290
Net earnings (loss)	2,795,522	19,913	2,815,435
Property and equipment, net	27,384,038	104,149	27,488,187
Capital expenditures	5,703,444	12,032	5,715,476
Total assets	32,620,677	559,008	33,179,685
Nine months ended September 30, 2003 (1)			
Total revenue	6,611,069	518,045	7,129,114
Net earnings (loss)	2,968,763	55,691	3,024,454
Property and equipment, net	27,384,038	104,149	27,488,187
Capital expenditures	20,632,989	122,209	20,755,198
Total assets	32,620,677	559,008	33,179,685

(1) Restated – Notes 1 & 4

7. SUBSEQUENT EVENTS

On October 26, 2004 the company announced its intention to complete a $20.25 million private placement equity financing by way of issuing up to 30 million common shares at $0.475 per common share and up to 10 million common shares on a flow-through basis at $0.60 per flow-through common share. The financing is being completed on a "best efforts" basis by a group of agents, and is scheduled to close on or about November 15, 2004.

On October 27, 2004, a new credit facility was formalized with the company's banker. Currently, the company has a $6.6 million Revolving Reducing Demand Loan ("LOC"), at bank prime + 2½ percent and a $1.4 million Term Demand Loan ("Term Loan") at bank prime +2½ percent. The Term Loan is repayable by December 31, 2004. These facilities are secured by a $50 million fixed and floating charge debenture and a general assignment of book debts. There are no scheduled reductions of the LOC prior to 2005.

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 ongoing 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, including an equity financing which is underway, will become available to the company on a timely basis, although numerous other alternatives are available, or are under consideration, including the issuance of 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.

The company secured and then on October 31, 2004 exercised an option to acquire the remaining 50 percent working interest not presently owned by the company from the operator of the Puesto Morales/Rinconada concession for US$1.5 million (subject to certain closing adjustments). The company intends to sell the 100 percent working interest in the concession and related assets, including reserves, production and facilities to a subsidiary for eight million of its common shares and a $4 million secured note, and the company has entered into an agreement with a Canadian merchant bank which provides for the merchant bank to assist the subsidiary in raising $1.5 million by way of the private placement of five million units, comprised of one of the subsidiary's common shares and one share purchase warrant entitling the holder to acquire one additional common share of the subsidiary for up to four years under certain circumstances at a price of $0.40 per common share. At the concurrent closing of the purchase of the interest in the concession and the financing of the subsidiary, the note payable by the subsidiary to the company will be reduced to $2.75 million upon the payment of $1.25 million to the company with the balance to be repayable under certain circumstances related to the subsidiary completing a going-public transaction by way of a business combination and further equity financing.

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
Toronto Stock Exchange
Trading Symbol: CLL

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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