

2005

CONNACHER OIL AND GAS LIMITED

STRONG PROJECTS | STRONG FUTURE

Q1

First Quarter Report 2005 Highlights

- Great Divide oil sands project evaluation program dominated domestic activity
 - 19 core holes drilled, 12 on Pod One and seven on Pod Three
 - 3D seismic program shot over Pod One
 - Results are consistently encouraging, pointing to an EUB application around mid-year
- In South America, Petrolifera Petroleum Limited ("Petrolifera") negotiated two significant licenses in Peru covering over five million acres
- Petrolifera raised \$7 million of equity to fund new activity and completed a 140 square kilometre 3D seismic program over most of its Argentinean acreage
- Seven new locations identified in Argentina, with an anticipated five well drilling program

Financial & Operating Highlights

	Three months ended March 31		
(\$000's except per share amounts)	2005	2004	% Change
FINANCIAL			
Total revenue	1,839	3,290	(44)
Cash flow from operations ⁽¹⁾	265	944	(72)
Per share, basic and diluted ⁽¹⁾	-	0.02	-
Net earnings (loss)	1,673	(689)	-
Per share, basic and diluted	0.02	(0.01)	-
Cash (net debt)	8,286	(30,450)	-
Capital expenditures	6,047	10,391	(42)
Shareholders' equity	41,206	21,655	90
Total assets	52,772	60,038	(12)
OPERATING			
Daily production			
Crude oil (bbl/d)	629	859	(27)
Natural gas (mcf/d)	1,328	2,268	(41)
Barrels of oil equivalent (boe/d) ⁽²⁾	850	1,237	(31)
Prices			
Oil (\$/bbl)			
Canada	28.47	29.71	(4)
Argentina	39.88	42.24	(6)
Total	30.02	30.41	(1)
Natural gas (\$/mcf)			
Canada	5.82	5.68	2
Argentina	0.72	0.24	200
Total	1.18	4.42	(73)
Barrels of oil equivalent (\$/boe) ⁽²⁾	24.04	29.22	(18)
Netback (\$/boe) ⁽²⁾	12.45	13.76	(10)
Common shares outstanding (000s)			
Weighted average			
Basic	91,189	46,067	98
Diluted	94,197	50,119	88
End of period			
Issued	92,753	46,153	100
Fully diluted	100,381	53,957	86

(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 reports cash flow from operations before changes in working capital. Refer to Consolidated Statements of Cash Flows.

(2) All references to barrels of oil equivalent (boe) are calculated on the basis of 6 mcf : 1 bbl. Boes may be misleading, particularly if used in isolation. This conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

INTERIM REPORT 2005

Letter to Shareholders

Evaluation work at the company's 100 percent-owned Great Divide oil sands project dominated Connacher's domestic activity in the first quarter of 2005. A total of 19 core holes were completed, including 12 on Pod One and seven on Pod Three, with encouraging results. Additionally, a 3D seismic program was shot on a dense grid over Pod One.

Connacher now has 23 core holes plus additional conventional well data over Pod One. This is being integrated with the data from the 3D seismic program and other technical information with a view to submitting an application to regulators to proceed with development of Pod One at a rate of up to 10,000 bbl/d of crude oil. Results from the evaluations conducted thus far have been consistently encouraging. Reservoir quality is excellent and sufficiently thick to support SAGD technology. The areal extent appears sufficient to contain a significant crude oil accumulation which would support the indicated level of production for many years. Connacher has commissioned a new independent resource evaluation which will be utilized to support its application and for project financing purposes. Preliminary contact with regulatory authorities has already been initiated and the company and its advisors are well underway in the preparation of the submissions required to proceed with the regulatory review process with the EUB and Alberta Environment.

As the company's focus is on preparation of its application for Pod One, limited follow-up work has been undertaken to date to evaluate the results from the seven core holes drilled on Pod Three, situated southwest of Pod One. Preliminary results are considered encouraging and additional core holes will be required to define and delineate this accumulation. Connacher remains optimistic about the prospect of identifying additional McMurray channels on its extensive Great Divide acreage position.

Going forward, our short-term focus will be on completing the various studies that are underway to finalize our regulatory application. In addition to the new resource report, engineering design and procurement and environmental studies are proceeding or nearing completion. These will assist the company in determining the ultimate capital cost of the project, the lead time required for equipment and the structure of the financial plan to implement the project, if and when it is approved. We also anticipate consultation with various stakeholders, including aboriginal people in the region. The application is a meaningful and significant undertaking and its final submission will be an important milestone in the evolution of the Great Divide project. To assist the company, we have secured the services of a number of experienced and qualified individuals with experience in the various aspects of an oil sands application.

Due to limited rig availability, our focus on Great Divide and an early spring breakup, no new conventional wells were drilled in Canada in the first quarter. However, numerous locations were identified and a 2005 drilling program has subsequently been initiated in Western Canada, initially at Battrum, Saskatchewan. An active conventional drilling program is anticipated during the second quarter 2005. Production from our southwest Saskatchewan oil properties averaged 544 bbl/d in the first quarter.

Much of our first quarter activity also centered around Petrolifera Petroleum Limited, a newly-created company with South American assets in which Connacher maintains control. Petrolifera was formed in late 2004 to hold what was previously Connacher's and the operator's interest in the productive 95,000 acre Puesto Morales/Rinconada concession in the Neuquen Basin, Argentina. Production from this concession averaged 85 bbl/d of light crude oil and 1,209 mcf/d of natural gas in the first quarter of 2005. In early 2005, Petrolifera, with Connacher's support, recognized a significant opportunity in Peru, and was successful in negotiating two new licenses covering significant exploratory blocks in that country. These licenses are scheduled to be formally awarded by the government of Peru late in the second quarter of 2005. Requisite approvals leading to the issuance of the Supreme Decrees which constitute the awards have now been received.

License 106 in the Maranon Basin of Peru comprises approximately two million acres. It surrounds the largest oilfield in the basin and in turn is surrounded by numerous smaller oilfields, as well as being bisected by an underutilized oil pipeline. A US \$25 million work program over an initial seven-year exploratory period was negotiated, with no mandatory drilling commitment until year four. If a commercial discovery is made, a thirty year exploitation license will be awarded. Royalties and the fiscal regime in Peru are favorable by international standards. Corporate performance guarantees are also considered reasonable and manageable.

License 107 in the Ucayali Basin in southern Peru comprises approximately three million acres and is on trend with and geologically similar to the giant Camisea natural gas and condensate complex to the south, to which Perupetro, the state agency, has assigned reserves in excess of 16 trillion cubic feet of natural gas and over 800 million barrels of condensate. Camisea is now onstream with natural gas being delivered to Lima, which is in the process of building infrastructure to allow the commodity to be used by

its residents and businesses. Longer-term plans for the region include a liquid natural gas terminal facilitating exports to other markets. Petrolifera's acreage is in the frontal foothills of the Andes Mountains and is reminiscent of similarly-situated acreage in Alberta's foothills. This block carries a negotiated work commitment of US \$16 million over the seven-year exploratory period with no mandatory drilling until year seven. As with Maranon, a 30 year exploitation license for oil and a 40 year license for natural gas would evolve upon the discovery of commercial production and reserves.

In anticipation of the pending award of the Peruvian licenses and to finance a 3D seismic program and planned drilling in Argentina, Petrolifera raised an additional \$7 million through the issue of equity during the reporting period. Of the gross proceeds, \$2 million were used to reduce an outstanding promissory note payable to Connacher arising from the purchase of the Argentinean properties, with the balance added to Petrolifera's working capital. The issue was sold by way of private placement to financial institutions in London, Paris, New York and Toronto as well as to some individuals, including Connacher's management and directors. Connacher did not participate in this financing, and as a result now owns 40 percent of Petrolifera while continuing to manage its affairs pursuant to a management contract. Mr. Gary D. Wine, a professional geologist with extensive South American experience, has been appointed President and Connacher's President, R. A. Gusella, is Petrolifera's Executive Chairman. An expanded Board of Directors will be proposed in the near term. Petrolifera plans to go public later in the year.

In consideration for its financial support and assistance to Petrolifera's Peruvian initiative, Connacher will receive a 10 percent carried working interest in each license through the drilling and completion or abandonment of the first well on each block, in addition to other rights and options. Connacher continues to consolidate Petrolifera's operating and financial results.

Petrolifera also completed a 140 square kilometer 3D seismic program over much of the Puesto Morales/Rinconada concession during the reporting period. Results are very encouraging and seven new drilling locations have thus far been identified. Petrolifera anticipates drilling up to five new wells on its Argentinean acreage during the balance of 2005, subject to completion of routine but required environmental impact studies, and procurement of a drilling rig for a multi-well program. The lands are prospective for both light oil and natural gas in a number of formations.

Connacher's operating and financial results for the quarter reflect the mid-year 2004 disposition of approximately 500 boe/d of Canadian production as part of its 2004 debt reduction program. First quarter results were also adversely impacted by widening price differentials for medium-gravity crude oil and an outstanding forward sale contract on 250 bbl/d of oil production which reduced average realized prices. Another contributing factor was the larger relative impact of lower natural gas prices in Argentina from increased Argentinean natural gas sales arising from Petrolifera's 100 percent ownership of that asset.

Effective March 31, 2005, the forward oil sales contract expired and was not renewed. Accordingly, all of Connacher's domestic oil production will now be sold at market prices.

Connacher is well-financed with no debt, has significant working capital and the prospect of rising conventional production while preparing for the development of Pod One at Great Divide. Management and the Board of Directors will be focusing their attention on the timely application and then the timetable and alternatives for financing Great Divide, always mindful of maximizing shareholder value at minimal dilution. Various alternatives including joint venture partnering and other options which can be identified will be considered carefully during the next several months as requirements and timing are crystallized.

Respectfully submitted on behalf of the Board of Directors

Signed,

"R.A Gusella"

Richard A. Gusella

President and Chief Executive Officer

May 10, 2005

Management's Discussion and Analysis ("MD&A")

The following is dated as of May 10, 2005 and should be read in conjunction with the consolidated financial statements of Connacher Oil and Gas Limited ("Connacher" or the "Company") for the three months ended March 31, 2005 and 2004 as contained in this interim report and the Annual MD&A and audited consolidated financial statements for the years ended December 31, 2004 and December 31, 2003. The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are presented in Canadian dollars. Additional information relating to the company, including the company's 2004 Annual Report and AIF, is on SEDAR at www.sedar.com. This MD&A 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. Throughout the MD&A, 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). Boes may be misleading particularly if used in isolation. The conversion is based on an energy equivalency conversion method primarily applicable to the burner tip and does not represent a value equivalency at the wellhead.

FINANCIAL AND OPERATING REVIEW – THREE MONTHS RESULTS

REVENUE, PRODUCTION AND PRICING

Results for the first quarter of 2005 were significantly affected by the disposition of producing oil and gas properties in July 2004. Production from these properties represented approximately 500 boe/d or 40 percent of the company's then daily production. As a consequence of the resultant 31 percent decrease in sales volume and a decrease in overall product pricing of 18 percent from the prior year, total revenue in the first quarter of 2005 decreased by 44 percent to \$1.8 million compared to \$3.3 million reported in the first quarter of 2004. Canadian revenues were \$1.5 million, down 53 percent from \$3.1 million in 2004, while Argentinean revenues were up 94 percent to \$385,000 from \$198,000 in 2004. The increase in Argentinean production relates primarily to increased volumes, in part as a result of purchasing the operator's 50 percent working interest near year end 2004.

Production and Pricing

	Three months ended March 31		
	2005	2004	% change
Daily production / sales volumes			
Oil – bbl/d			
Canada	544	811	(33)
Argentina	85	48	77
Total	629	859	(27)
Natural Gas – mcf/d			
Canada	119	1,740	(93)
Argentina	1,209	528	129
Total	1,328	2,268	(41)
Combined – boe/d ⁽¹⁾			
Canada	563	1,101	(49)
Argentina	287	136	111
Total	850	1,237	(31)
Product pricing			
Oil – per bbl			
Canada	\$28.47	\$29.71	(4)
Argentina	\$39.88	\$42.24	(6)
Weighted average	\$30.02	\$30.41	(1)
Natural gas – per mcf			
Canada	\$5.82	\$5.68	2
Argentina	\$0.72	\$0.24	200
Weighted average	\$1.18	\$4.42	(73)
Boe – per boe (1)			
Canada	\$28.69	\$30.87	(7)
Argentina	\$14.91	\$15.92	(6)
Weighted average	\$24.04	\$29.22	(18)

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

Argentinean crude oil selling prices averaged \$39.88 per barrel, down six percent from the prior year period, in line with world oil prices for that quality crude oil and reflecting Argentinean pricing policies and export taxes. Canadian crude oil sales averaged \$28.47, down four percent from the same period last year reflecting a lower oil price than the current world market. Approximately one-half of the company's crude oil sales volume was subject to a forward sales contract at a price established in early 2004 when crude oil prices were considerably lower. This crude oil sales contract expired on March 31, 2005 and was not renewed as this form of hedge was no longer appropriate for the company. The company now receives quality adjusted market prices for its crude oil.

Although Argentinean natural gas prices increased by 200 percent, the realized price of \$0.72 per mcf is still substantially below North American standards. The combination of increased production in Argentina and lower Canadian sales due to property dispositions resulted in an overall reduction of 73 percent in corporate natural gas pricing in the first quarter of 2005, compared with the first quarter of 2004.

ROYALTIES

Royalties represent charges against production or revenue by governments and landowners. Royalties in the first quarter of 2005 were \$369,000 (\$4.82 per boe, or 20.1 percent of oil and gas revenue) compared to \$605,000 in the first quarter of 2004 (\$5.38 per boe, or 18 percent of oil and gas revenue). From period to period royalties can change slightly based on changes to the weighting in the product mix which are subject to different royalty rates. The change from 2004 to 2005 reflects this.

	For the Three Months Ended March 31			
	2005		2004	
	Total	Per boe	Total	Per boe
Canada	\$327,709	\$6.47	\$586,269	\$5.85
percentage of total oil and gas revenue	22.5%		19.0%	
Argentina	\$41,105	\$1.59	\$18,978	\$1.53
percentage of total oil and gas revenue	10.7%		9.6%	
Total	\$368,814	\$4.82	\$605,247	\$5.37
percentage of total oil and gas revenue	20.1%		18.4%	

OPERATING EXPENSES AND OPERATING NETBACKS

Company Operating Netbacks - combined Canada and Argentina ⁽¹⁾

	2005		2004		% Change	
	Total	Per boe	Total	Per boe	Total	Per boe
Average daily production (boe)	850		1,237		(31)	
Oil and natural gas revenue	\$1,839,162	\$24.04	\$3,289,501	\$29.22	(44)	(18)
Other income	18,127	0.24	436	-	4,057	-
Total revenue	1,857,289	24.28	3,289,937	29.22	(44)	(17)
Royalties	(368,814)	(4.82)	(605,247)	(5.37)	(39)	(10)
Net revenue	1,488,475	19.46	2,684,690	23.85	(45)	(18)
Operating costs	(529,923)	(6.93)	(1,107,174)	(9.84)	(52)	(30)
Transportation costs	(6,075)	(0.08)	(28,820)	(0.25)	(79)	(69)
Operating netback	\$952,477	\$12.45	\$1,548,696	\$13.76	(38)	(10)

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

Operating expenses decreased by 52 percent in the first quarter of 2005 to \$530,000 compared to \$1.1 million in the comparative 2004 quarter. This reflects reduced sales volumes, together with better operating efficiencies with current production. Unit costs of \$6.93 per boe have improved by 30 percent when compared to \$9.84 per boe in 2004. Following the sale of the Cabri, Saskatchewan property and the higher-cost heavy oil production at Islay and Lloydminster, Alberta, Canadian unit operating costs have declined to \$8.45 per boe (\$10.71 per boe in the first quarter of 2004). Argentinean operating costs are down slightly from last year, averaging \$4.17 per boe in 2005 compared to \$5.10 per boe in the first quarter of 2004.

Transportation costs were lower as a result of having sold the higher-cost heavy oil properties in 2004 where production was trucked to market.

Canadian netbacks in 2005 were \$14.13 per boe, compared to \$14.31 per boe in 2004, while Argentinean netbacks averaged \$9.15 per boe in 2005, compared to \$9.29 per boe in 2004, which primarily reflect low natural gas prices compared to North America. Overall, netbacks declined ten percent. Netbacks do not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures used by other companies. Nevertheless, Connacher's management uses netback as a performance measurement.

2005 Operating Netbacks by Country and Product

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

	Canada				Argentina			
	Light oil		Natural gas		Light oil		Natural gas	
	Total	Per bbl	Total	Per mcf	Total	Per bbl	Total	Per mcf
Average daily production	544 bbl/d		119 mcf/d		85 bbl/d		1,209 mcf/d	
Total revenue	1,409,973	28.84	62,375	5.82	306,510	39.88	78,431	0.72
Royalties	(322,045)	(6.59)	(5,664)	(0.53)	(32,730)	(4.26)	(8,375)	(0.08)
Operating and transportation costs	(401,928)	(8.22)	(26,386)	(2.46)	(85,744)	(11.16)	(21,940)	(0.20)
Netback	686,000	14.03	30,325	2.83	188,036	24.46	48,116	0.44

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative (G&A) expenses increased to \$670,000 in the first quarter of 2005, due to increased public company, staffing and rent costs. A non-cash stock-based compensation expense of \$217,000 (2004 - \$41,000) was also incurred reflecting the fair value of all stock options granted and vested in the period. In 2005, G&A of \$11,000 was capitalized (2004 - \$ nil).

G&A per boe is higher than in 2004 due to reduced production and sales volumes, primarily attributable to the asset sales completed in 2004, new administrative expenses associated with the company's oil sands initiative and expanded Petrolifera actualities. A reduction in unit costs is expected as volumes increase, especially when Great Divide production commences.

INTEREST AND FOREIGN EXCHANGE

In late 2004 the company paid off all of its bank debt and had no indebtedness in 2005. In future Connacher will utilize banking facilities to leverage shareholders' capital while growing the company. No debt was used in the Argentinean operations.

When translating foreign denominated financial statements and operating results, the impact of fluctuations on the Argentinean peso relative to the Canadian dollar resulted in a foreign exchange gain of \$20,000 in the first quarter of 2005 (2004 - \$ nil). The company's main exposure to foreign currency risk relates to the pricing of crude oil sales, which are denominated in US dollars.

DEPLETION, DEPRECIATION AND ACCRETION

Depletion, depreciation and accretion (DD&A) expense is calculated using the unit-of-production method based on total estimated proved reserves. DD&A in the first quarter of 2005 was \$1.2 million, a 41 percent decrease from last year. This decrease is primarily the result of substantially lower production and sales volumes.

Capital costs of \$9.5 million (2004 - \$3 million) related to major development projects in a pre-production state in Argentina, at Tompkins, Saskatchewan and at the Great Divide oil sands project have been excluded from depletable costs. No proved reserves have been assigned to these projects. Additionally, undeveloped land acquisition costs of \$3.4 million (2004 - \$3.4 million) were excluded from the depletion calculation.

Included in DD&A is a charge of \$36,000 (2004 - \$60,000) to accrete the company's estimated asset retirement obligation. These charges will continue to be necessary in future to accrete the currently booked discounted liability of \$2.8 million to the estimated total undiscounted liability of \$5.6 million over the estimated remaining economic life of the company's oil and gas properties.

DILUTION GAIN

In March 2005 Petrolifera Petroleum Limited ("Petrolifera") completed a \$7 million private placement financing consisting of common shares and common share purchase warrants. As Connacher did not participate in the financing, its interest in Petrolifera was reduced to 40 percent from 61 percent. Petrolifera repaid \$2 million of its indebtedness to Connacher from proceeds of the financing, reducing the amount owing to Connacher pursuant to an outstanding promissory note to \$750,000. The 21 percent reduction in Connacher's interest in Petrolifera resulted in a gain to the company of \$3,020,000. If market conditions permit, a public financing is contemplated by Petrolifera in 2005.

INCOME APPLICABLE TO NON-CONTROLLING INTERESTS

The non-controlling interests credit of \$35,000 reported in the first quarter of 2005 (2004 - nil) represents the non-controlling shareholders' equity share of the loss of the consolidated entity, Petrolifera.

TAXES

The current income tax provision of \$256,000 primarily relates to income taxes payable in Argentina. There are no Canadian cash taxes payable, as the company has substantial Canadian tax pools to shelter its income.

A future tax provision of \$256,000 was recorded in the first quarter of 2005. In the comparative 2004 period the company reported recoverable future taxes of \$430,000.

At March 31, 2005 the company had approximately \$40 million of deductible tax pools and approximately \$4 million of operating loss carry-forwards in Canada to shelter future taxable income. These tax pools will be supplemented with ongoing capital expenditures.

CEILING TEST

Oil and gas companies are required to compare the recoverable value of their oil and gas assets to their recorded carrying value at the end of each reporting period. Excess carrying values over ceiling value are to be written off against earnings. No writedown was required for any reporting period in 2005 or 2004.

NET EARNINGS AND SHARES OUTSTANDING

In the first quarter of 2005 the company reported net earnings of \$1.7 million, which equates to \$0.02 per basic and diluted share outstanding. This compares to a net loss of \$689,000 or \$0.01 loss per basic share diluted share outstanding for 2004.

In the 2005 year to date, the weighted average number of shares outstanding were 91,189,094 (2004 – 46,066,941) and the weighed average diluted shares outstanding, as calculated by the treasury stock method, were 94,196,699 (2004 – 50,118,664). The substantial increase in shares outstanding period over period reflects the 2004 issuance from measuring 41,706,663 common shares for gross cash proceeds of \$21.3 million.

As at May 10, 2005, the company had the following securities issued and outstanding:

- 92,752,500 common shares;
- 2,399,768 share purchase warrants; and
- 5,228,600 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.

Net Earnings

	2005		2004		% change	
	Total	Per boe	Total	Per boe	Total	Per boe
Operating netback	\$952,477	\$12.45	\$1,548,696	\$13.76	(38)	(10)
General & administrative	(669,563)	(8.75)	(408,268)	(3.63)	64	141
Stock-based compensation	(217,050)	(2.84)	(41,000)	(0.36)	429	689
Interest	(5,519)	(0.07)	(196,688)	(1.75)	(97)	(96)
Foreign exchange gain (loss)	19,642	0.26	(29)	-	-	-
Depletion, depreciation and accretion	(1,193,335)	(15.60)	(2,022,009)	(17.96)	(41)	(13)
Dilution gain	3,020,329	39.48	-	-	-	-
Non-controlling interests	35,111	0.46	-	-	-	-
Income tax recovery (provision)	(269,045)	(3.52)	430,000	3.82	-	-
Net earnings (loss)	\$1,673,047	\$21.87	\$(689,298)	\$(6.12)	-	-

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations, cash flow per share and cash flow per boe do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures used by other companies. Cash flow from operations is calculated before changes in non-cash working capital. It is reconciled with net earnings on the Consolidated Statements of Cash Flows. Management uses these non-GAAP measurements for its own performance measures and to provide its shareholders and investors with a measurement of its ability to fund a portion of its future growth expenditures.

Cash flow from operations in the first quarter of 2005 was \$265,000 (\$ nil per basic and diluted share) compared to \$944,000 (\$0.02 per basic and diluted share) in 2004.

Cash flow per boe was \$3.46 in 2005 compared to \$8.38 in 2004. This represents 14 percent of the average company selling price in 2005 compared to 29 percent in 2004. The reduction from the prior year period relates to a slight decrease in product pricing and increased G&A costs which were not offset fully by reductions in operating costs and interest costs.

Capital expenditures in the first quarter of 2005 totaled \$6.0 million. A breakdown of the expenditures follows:

- \$4.6 million primarily in Canada for drilling oil sands delineation core holes and for workovers of conventional wells at Battum, Saskatchewan; and
- \$1.4 million for seismic and other expenditures, primarily in Argentina.

The company drilled a total of 19 core holes on its oil sands property at Great Divide, Alberta. Core holes are drilled to gather information about the underlying reservoir, and are not designed for completion or production.

Great Divide Oil Sands Project, Northern Alberta

The company holds a 100 percent working interest in 64,640 acres of oil sands leases in northern Alberta. To date, the focus has been on a four section tract ("Pod One") on which approximately \$7 million has been invested to delineate the oil bearing reservoir of this portion of the leases. Most of these costs were incurred in late 2004 and early 2005. Upon completion of ongoing engineering studies, submissions will be filed with regulatory authorities seeking approval to allow the company to develop a 10,000 bbl/d steam assisted gravity drainage ("SAGD") project in 2006. Capital development costs for Pod One are being determined and are expected to reach up to \$200 million. Approximately two-thirds of these forecast expenditures (subject to further refinement) are anticipated to be for surface facilities with the balance of the costs to drill the initial horizontal well pairs. Management and the Board of Directors are assessing the best means to finance this project, including maintaining a 100 percent working interest and raising new equity and debt or exchanging a portion of the company's interests in a joint venture arrangement for third party funding.

Tompkins Natural Gas Project, Southwest Saskatchewan

In late 2003 and in early 2004, the company drilled and cased nine natural gas wells and one oil well. Costs incurred to date have been on budget. The oil well has been producing throughout 2004 and 2005 and has paid out. The natural gas wells require further evaluation and additional wells will likely be required to establish a sufficient reserve base for commercial exploitation. The company was financially constrained for most of 2004 and deferred this activity, but now has increased financial capacity to complete the project, pending availability of services, surface access to the leases due to environmental sensitivity and prioritization of investment alternatives.

Argentina

In 2005 expenditures of \$1.2 million were incurred for new 3D seismic to validate a new drilling program on the Puesto Morales/ Rinconada concession in the Neuquen Basin, Argentina. A development drilling program is expected to commence in the second quarter of 2005, at which time these projects costs will begin to be depleted pursuant to the company's policy. This activity will be financed from the proceeds of the private placement financing completed by Petrolifera in March 2005.

FINANCING ACTIVITIES

Other than the financing required for the capital costs of the Great Divide Oil Sands Project, management believes that available cash and banking lines of credit together with operating cash flow will provide sufficient funding for working capital purposes and for the company's planned capital program on conventional properties in the short term. In the longer term, it may be necessary to access additional capital in the equity markets. Except for a commitment to incur \$650,000 of capital expenditures on behalf of joint venturers in the Tompkins and Batrum areas, the company's capital program is entirely discretionary and may be expanded or curtailed based on drilling results. This is reinforced by the fact that Connacher operates most of its wells and holds an average 92 percent working interest.

The equity financing completed in late 2004 included the issuance of flow-through shares for proceeds of \$7,024,000. Resource expenditures of \$7,024,000 were renounced to investors effective December 2004. The company has until the end of 2005 to incur the costs. At May 10, 2005, the company had fulfilled approximately \$4.5 million of this obligation. The remaining \$2.5 million obligation is expected to be satisfied upon the completion of management's planned capital program and is expected to be funded from currently available cash balances and operating cash flow.

OUTLOOK

The company's business plan for 2005 will facilitate substantial growth. To accomplish this growth the company expects a measured but active capital program of oil and gas property acquisition and development drilling in Canada and in Argentina. Emphasis is expected to be placed on delineating the Great Divide oil sands property in Alberta while the conventional production base provides funds to cover the company's overhead requirements and fund a portion of capital expenditures.

Forecast operating cash flow, available cash, possible new bank borrowings and additional equity as required will finance Connacher's expected 2005 capital spending program. Joint ventures may also be utilized.

In the past, Connacher issued guidance for its anticipated operating and financial results. The company discontinued the issuance of detailed guidance some time ago.

All estimates and statements which may have been issued with respect to 2005 expectations are forward-looking statements. This involves inherent risks and uncertainties where actual results will differ and such differences could be material. There can be no assurance Connacher will achieve the drilling results and levels of production it might assume in developing its internal 2005 capital budget and financial plan. In addition, oil and gas prices are subject to fluctuation and there can be no assurance that the prices assumed for the company's internal 2005 plan, or any variation thereof, will be attained. Reference is made to the company's AIF for a description of the risks and uncertainties affecting the company and its business.

QUARTERLY RESULTS

Three Months Ended	2003			2004			2005	
	Jun 30	Sept 30	Dec 31	Mar 31	Jun 30	Sept 30	Dec 31	Mar 31
Financial Highlights (\$000 except per share amounts) - Unaudited								
Total revenue	2,474	2,491	2,853	3,290	3,556	2,358	1,975	1,857
Cash flow from operations ⁽¹⁾	821	745	1,008	944	516	478	471	265
Basic, per share ⁽¹⁾	0.02	0.02	0.03	0.02	0.01	0.01	0.01	-
Diluted, per share ⁽¹⁾	0.03	0.02	0.02	0.02	0.01	0.01	0.01	-
Net earnings (loss)	44	2,815	1,030	(689)	(1,268)	(869)	(150)	1,673
Basic, per share	-	0.08	0.04	(0.01)	(0.03)	(0.02)	-	0.02
Diluted, per share	-	0.07	0.04	(0.01)	(0.03)	(0.02)	-	0.02
Capital expenditures	4,272	5,715	15,015	10,391	2,603	681	3,954	6,047
Proceeds on disposal of PNG properties	-	-	-	-	89	17,564	(49)	-
Bank debt	12,500	13,800	12,100	20,600	23,655	7,563	-	-
Working capital surplus (deficiency)	(179)	(2,695)	(8,994)	(9,850)	(8,357)	(6,644)	3,549	5,588
Cash on hand (net debt)	(12,679)	(16,495)	(21,094)	(30,450)	(32,012)	(14,207)	3,914	8,286
Shareholders' equity	9,718	13,613	24,182	21,655	20,933	20,217	40,502	41,206
Operating Highlights								
Production								
Natural gas (mcf/d)	1,033	1,012	1,496	2,268	1,860	1,068	1,290	1,328
Crude oil (bbl/d)	752	839	978	859	1,004	636	646	629
Equivalent (boe/d) ⁽²⁾	924	1,008	1,228	1,237	1,314	814	861	850
Pricing								
Crude oil (\$/bbl)	33.10	29.40	26.96	30.41	29.46	36.58	30.68	30.02
Natural gas (\$/mcf)	2.18	2.35	3.02	4.42	5.11	2.21	1.29	1.18
Selected Highlights (\$/boe) ⁽²⁾								
Weighted average sales price	29.37	26.84	25.17	29.22	29.74	31.48	24.93	24.04
Other income	0.04	0.03	0.10	-	-	0.33	0.15	0.24
Royalties	5.20	5.08	4.23	5.37	5.95	6.06	4.64	4.82
Operating and transportation costs	7.46	7.89	10.29	10.09	11.26	8.70	7.98	7.01
Netback ⁽³⁾	16.75	13.90	10.75	13.76	12.53	17.05	12.47	12.45
Common Share Information								
Shares outstanding at end of period (000)	34,082	36,512	45,903	46,153	47,368	47,668	89,627	92,753
Weighted average shares outstanding for the period								
Basic (000)	29,421	35,820	39,022	46,067	47,042	47,400	50,908	91,189
Diluted (000)	31,945	38,817	42,138	50,119	48,496	47,504	53,329	94,197
Volume traded during quarter (000)	8,342	10,027	15,045	20,706	30,108	8,880	25,256	40,486
Common share price (\$)								
High	0.76	0.87	1.60	1.75	1.08	0.44	0.80	1.22
Low	0.40	0.65	0.74	0.73	0.30	0.28	0.29	0.49
Close (end of period)	0.71	0.75	1.60	0.78	0.40	0.32	0.55	0.93

(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 reports cash flow from operations before changes in working capital. Refer to Consolidated Statements of Cash Flows.

(2) All references to barrels of oil equivalence is calculated on the basis of six mcf to one barrel.

(3) For detailed netbacks by product type and by country, see "Operating Expenses and Operating Netbacks," in this MD&A.

Consolidated Balance Sheets

CONNACHER OIL AND GAS LIMITED

	March 31 2005	December 31 2004
	(unaudited)	
	\$	\$
ASSETS		
CURRENT		
Cash	8,286,115	3,914,181
Accounts receivable	1,853,826	1,773,005
Prepaid expenses	270,351	309,062
	10,410,292	5,996,248
Property and equipment	41,319,048	36,542,595
Future income tax asset	1,042,522	3,678,270
	52,771,862	46,217,113
LIABILITIES		
CURRENT		
Accounts payable	4,822,397	2,446,947
	4,822,397	2,446,947
Asset retirement obligations (Note 4)	2,830,648	2,905,477
Deferred credits	325,569	353,771
Non-controlling interests	3,587,158	8,930
	11,565,772	5,715,125
SHAREHOLDERS' EQUITY		
Share capital and contributed surplus (Note 6)	38,321,874	39,290,819
Retained earnings	2,884,216	1,211,169
	41,206,090	40,501,988
	52,771,862	46,217,113

Consolidated Statements of Operations and Retained Earnings

CONNACHER OIL AND GAS LIMITED

Three Months Ended March 31 (Unaudited)

	2005	2004
	\$	\$
REVENUE		
Petroleum and natural gas sales	1,839,162	3,289,501
Other income	18,127	436
	1,857,289	3,289,937
Royalties	(368,814)	(605,247)
	1,488,475	2,684,690
EXPENSES		
Operating	529,923	1,107,174
Transportation costs	6,075	28,820
General and administrative	669,563	408,268
Stock-based compensation	217,050	41,000
Interest	5,519	196,688
Foreign exchange loss (gain)	(19,642)	29
Depletion, depreciation and accretion	1,193,335	2,022,009
Dilution gain (Note 3)	(3,020,329)	-
	(418,506)	3,803,988
Earnings (loss) before taxes and non-controlling interests	1,906,981	(1,119,298)
Current income tax provision	12,797	-
Future income tax provision (recovery)	256,248	(430,000)
	269,045	(430,000)
Earnings (loss) before non-controlling interests	1,637,936	(689,298)
Loss applicable to non-controlling interests	(35,111)	-
NET EARNINGS (LOSS)	1,673,047	(689,298)
RETAINED EARNINGS, BEGINNING OF PERIOD	1,211,169	4,187,580
RETAINED EARNINGS, END OF PERIOD	2,884,216	3,498,282
EARNINGS (LOSS) PER SHARE		
Basic and diluted	0.02	(0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
Basic	91,189,094	46,066,941
Diluted	94,196,699	50,118,664

Consolidated Statements of Cash Flows

CONNACHER OIL AND GAS LIMITED

Three Months Ended March 31

	2005	2004
	\$	\$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings (loss)	1,673,047	(689,298)
Items not affecting cash:		
Depletion, depreciation and accretion	1,193,335	2,022,009
Stock-based compensation	217,050	41,000
Future income tax provision (recovery)	256,248	(430,000)
Foreign exchange	(19,642)	29
Dilution gain	(3,020,329)	-
Loss applicable to non-controlling interests	(35,111)	-
Cash flow from operations	264,598	943,740
Changes in non-cash working capital	2,333,341	228,906
	2,597,939	1,172,646
FINANCING		
Issue of common shares, net of share issue costs	1,493,505	91,260
Issue of shares by Petrolifera, net of share issue costs (Note 3)	6,327,710	-
Increase in bank loans	-	8,500,000
	7,821,215	8,591,260
INVESTING		
Acquisition and development of oil and gas properties	(6,047,220)	(10,391,208)
	(6,047,220)	(10,391,208)
NET INCREASE (DECREASE) IN CASH	4,371,934	(627,302)
CASH, BEGINNING OF PERIOD	3,914,181	627,302
CASH, END OF PERIOD	8,286,115	-
SUPPLEMENTARY INFORMATION – CASH PAYMENTS		
Interest	5,519	196,688
Income taxes	9,470	-

Notes to the Consolidated Financial Statements

CONNACHER OIL AND GAS LIMITED

Period ended March 31, 2005 and 2004 (unaudited)

1. FINANCIAL STATEMENT PRESENTATION AND ACCOUNTING POLICIES

The interim Consolidated Financial Statements include the accounts of Connacher Oil and Gas Limited, its subsidiaries and Petrolifera Petroleum Limited (collectively, "Connacher" or the "Company"), and are presented in accordance with Canadian generally accepted accounting principles. The Company is in the business of exploration for, and production and marketing of crude oil and natural gas.

The interim Consolidated Financial Statements have been prepared following the same accounting policies and methods of computation as the annual audited Consolidated Financial Statements for the year ended December 31, 2004. The disclosures provided below are incremental to those included with the annual audited Consolidated Financial Statements. The interim Consolidated Financial Statements should be read in conjunction with the annual audited Consolidated Financial Statements and the notes thereto for the year ended December 31, 2004.

2. CONSOLIDATION

Consistent with the audited financial statements for the year ended December 31, 2004, these unaudited March 31, 2005 financial statements consolidate the accounts of Petrolifera Petroleum Limited ("Petrolifera"). Notwithstanding Connacher's equity interest in Petrolifera was diluted from 61 percent to 40 percent in the first quarter of 2005 (see note 3), Connacher continued to control Petrolifera and therefore continued to consolidate Petrolifera at March 31, 2005 because Connacher controls the Petrolifera board of directors and manages Petrolifera under the terms of a management agreement.

3. DILUTION GAIN

In March 2005 Petrolifera completed a \$7 million private placement financing consisting of 7 million common shares and 3.5 million common share purchase warrants. As Connacher did not participate in the financing, its interest in Petrolifera was reduced to 40 percent from 61 percent. Petrolifera repaid \$2 million of its indebtedness to Connacher from proceeds of the financing, reducing the amount owing to Connacher, pursuant to an outstanding promissory note, to \$750,000. The 21 percent reduction in Connacher's interest in Petrolifera resulted in a gain to the Company of \$3,020,000.

4. ASSET RETIREMENT OBLIGATIONS

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties:

	Three Months Ended March 31, 2005	Year Ended December 31, 2004
Asset retirement obligation, beginning of period	\$ 2,905,477	\$ 4,784,000
Liabilities incurred	-	663,406
Liabilities settled	-	(206,773)
Liabilities disposed	-	(2,446,660)
Change in estimated future cash flows	(111,048)	(46,496)
Accretion expense	36,219	178,000
Asset retirement obligation, end of period	\$ 2,830,648	\$ 2,905,477

5. BANK LOANS

As at March 31, 2005, the Company had available a \$6.6 million Revolving Reducing Demand Loan ("LOC") with no scheduled monthly reductions. The LOC bears interest at the bank's prime lending rate plus 3/4 percent on borrowed amounts. At March 31, 2005, the Company had not drawn any amount on this facility.

Additionally, the Company had a \$2,000,000 Non-Revolver Acquisition/ Development Demand Loan Facility ("AD Facility"). At March 31, 2005, the Company had not drawn any amount on this facility. Interest is charged at prime plus one percent on borrowed amounts on the AD Facility.

In April, 2005, the LOC borrowing limit was increased to \$9 million and the AD Facility borrowing limit was increased to \$3 million.

Amounts drawn on these loans are secured by a \$50,000,000 fixed and floating charge debenture and a general assignment of book debts.

6. 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, December 31, 2004	89,626,743	38,755,561
Issued upon exercise of options	240,000	87,900
Issued upon exercise of warrants	2,885,757	1,544,223
Assigned value of warrants exercised		(92,344)
Share issue costs		(46,274)
Tax effect of share issue costs		18,000
Tax effect of flow-through expenditures renounced		(2,697,500)
Balance, Share Capital, March 31, 2005	92,752,500	37,569,566
Contributed Surplus:		
Balance, December 31, 2004		535,258
Fair value of share options granted		217,050
Balance, Contributed Surplus, March 31, 2005		752,308
Total Share Capital and Contributed Surplus:		
December 31, 2004		39,290,819
March 31, 2005		38,321,874

(a) Stock Options

A summary of the Company's outstanding stock option grants, as at March 31, 2005 and 2004 and changes during those periods is presented below:

	2005		2004	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
		\$		\$
Outstanding, beginning of period	3,988,600	0.53	2,830,000	0.45
Granted	1,500,000	0.89	240,000	1.33
Expired	(20,000)	(0.75)	-	-
Exercised	(240,000)	(0.37)	(135,000)	(0.28)
Outstanding, end of period	5,228,600	0.64	2,935,000	0.53

All stock options have been granted for a period of five years. The stock options granted in 2005 vest one-third upon grant, one-third one year after grant and one-third two years after grant.

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)
\$0.20 - \$0.30	395,000	1.4
\$0.31 - \$0.70	2,633,600	2.6
\$0.71 - \$1.00	1,960,000	3.5
\$1.01 - \$1.52	240,000	4.0
	5,228,600	

In 2005 a compensatory non-cash expense of \$217,050 (2004 - \$41,000) was recorded in general and administrative expenses, reflecting the fair value of stock options granted and vested during the period.

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

	2005	2004
Risk free interest rate	3.0%	3.0%
Expected option life (years)	3	3
Expected volatility	53%	53%

The weighted average fair value at the date of grant of all options granted in the first three months of 2005 was \$0.28 per option (2004 - \$0.51).

(b) Share purchase warrants

A summary of the Company's outstanding share purchase warrants, as at March 31, 2005 and 2004 and changes during the periods is presented below:

	2005	2004
Outstanding, beginning of period	5,300,525	4,984,145
Exercised	(2,885,757)	(115,000)
Expired	(15,000)	-
Outstanding, end of period	2,399,768	4,869,145

As at March 31, 2005 the 2,399,768 warrants outstanding were exercisable to purchase common shares from treasury as follows:

- (i) 2,387,368 common shares at \$0.59 per share until their expiry on June 7, 2006;
- (ii) 2,400 common shares at \$0.61 per share until their expiry on June 7, 2006; and
- (iii) 10,000 common shares at \$0.52 per share until their expiry on December 1, 2006;

(c) Flow-through shares

In 2005 the Company renounced \$7,023,998 of resource expenditures to flow-through share investors effective December 31, 2004. The tax effect of those expenditures have been recorded in 2005. The Company has until December 31, 2005 to incur those expenditures. As at March 31, 2005, \$4 million of those expenditures have been incurred.

7. SEGMENTED INFORMATION

The Company has operations in Canada and, through its ownership of Petrolifera, Argentina and Peru; all operating activities are related to exploration, development and production of petroleum and natural gas as follows, including non-controlling interests:

Three Months Ended March 31

	Canada	Argentina and Peru	Total
	\$	\$	\$
2005			
Revenue, gross	1,454,221	384,941	1,839,162
Net earnings (loss)	1,627,944	(45,103)	1,673,047
Property and equipment	37,407,974	3,911,074	41,319,048
Capital expenditures	4,756,842	1,290,378	6,047,220
Total assets	48,361,203	4,410,659	52,771,862
2004			
Revenue, gross	3,092,348	197,589	3,289,937
Net earnings (loss)	(726,919)	37,621	(689,298)
Property and equipment	53,278,807	600,711	53,879,518
Capital expenditures	10,334,217	56,991	10,391,208
Total assets	59,032,102	1,005,601	60,037,703

Corporate Information

Officers

Richard A. Gusella
President and Chief Executive Officer

Peter D. Sametz
Executive Vice President and Chief Operating Officer

Richard R. Kines
Vice President, Finance and Chief Financial Officer

Timothy J. O'Rourke
Vice President, Oil Sands Operations

Jennifer K. Kennedy
Corporate Secretary
Partner, Macleod Dixon LLP

Gary D. Wine
President, Petrolifera Petroleum Limited

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 and related companies

COGL Resources Ltd. - (100%)
Great Divide Oil Corporation - (100%)
Petrolifera Petroleum Limited - (40%)

Stock exchange listing

Toronto Stock Exchange
Trading symbol - CLL

Head office

Suite 2600
530 - 8th Avenue SW
Calgary, Alberta
Canada T2P 3S8

tel 403.538.6201 / fax 403.538.6225

www.connacheroil.com
inquiries@connacheroil.com

Board of directors

Richard A. Gusella
President and Chief Executive Officer

Charles W. Berard (2, 3)
Chairman, Governance Committee

Colin M. Evans (1, 2, 3)
Chairman, Audit Committee

Gary W. Freeman (1, 3)
Chairman, Human Resources Committee
Chairman, Reserves Subcommittee

Stewart D. McGregor (1, 2)
Lead Director

(1) Audit Committee
(2) Governance Committee
(3) Human Resources Committee

Abbreviations

ARTC	Alberta Royalty Tax Credit
bbls	barrels
bbl/d	barrels per day
bcf	billion cubic feet
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
DCF	discounted cash flow
EUB	Energy Utilities Board
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