

2005

CONNACHER OIL AND GAS LIMITED

STRONG PROJECTS | STRONG FUTURE

Q3

Third Quarter Report 2005 Highlights

- **Great Divide oil sands reserves and resources recognized in GLJ Report**
- **Capital markets acknowledge value, resulting in share price appreciation**
- **Application to develop Pod One at Great Divide submitted to EUB**
- **Bought-deal financing raises \$75 million of new equity**
- **Petrolifera board reconstituted in preparation for IPO, completed November 8**
- **Conventional production up 43 percent in Q3 over Q2 2005**

Financial & Operating Highlights

	Three months ended September 30			Nine months ended September 30		
	2005	2004	% Change	2005	2004	% Change
FINANCIAL (\$000s except per share amounts)						
Total revenue ⁽¹⁾	4,183	2,383	76	8,836	9,229	(4)
Cash flow from operations before working capital changes ⁽²⁾	1,978	478	314	3,120	1,938	61
Per basic and diluted share ⁽²⁾	0.02	0.01	100	0.03	0.04	(25)
Net earnings (loss)	(1,034)	(869)	19	410	(2,826)	-
Per share, basic and diluted	(0.01)	(0.02)	(50)	-	(0.06)	-
Capital expenditures	2,870	681	321	14,567	13,764	6
Proceeds of disposition	-	17,564	-	-	17,653	(100)
Working capital (deficiency)				67,440	(6,644)	-
Cash on hand (net debt)				67,708	(14,207)	-
Shareholders' equity				113,208	20,217	460
Total assets				118,788	39,501	201
Common shares outstanding (000's)						
Weighted average						
Basic	103,851	47,400	119	96,018	46,838	105
Diluted	106,397	47,504	124	101,073	49,234	105
End of Period						
Issued				134,236	47,668	182
Fully diluted				142,873	54,340	163
OPERATING						
Daily production / sales volumes						
Crude oil - bbl/d	808	636	27	713	832	(14)
Natural gas - mcf/d	497	1,068	(53)	1,077	1,730	(38)
Barrels of oil equivalent - boe/d ⁽³⁾	891	814	9	893	1,121	(20)
Selling prices						
Oil - \$/bbl	53.40	36.58	46	42.62	31.61	35
Natural gas - \$/mcf	1.88	2.21	(15)	1.21	4.21	(71)
Barrels of oil equivalent - \$/boe ⁽³⁾	49.48	31.48	57	35.50	29.97	18
Operating netback - \$/boe ⁽³⁾	31.63	17.05	86	20.58	14.08	46

- (1) In the third quarter of 2005 the company discontinued consolidating the financial and operating results of Petrolifera Petroleum Limited. Comparative figures have not been restated.
- (2) Cash flow from operations before working capital changes, cash flow per share and netbacks do not have standardized meanings prescribed by Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures used by other companies. Cash flow from operations before working capital changes includes all cash flow from operating activities and is calculated before changes in non-cash working capital. The most comparable measure calculated in accordance with GAAP would be net earnings. Cash flow from operations before working capital changes is reconciled with net earnings on the Consolidated Statement of Cash Flows and in the accompanying Management Discussion & Analysis. Management uses these non-GAAP measurements for its own performance measures and to provide its shareholders and investors with a measurement of the company's efficiency and its ability to fund a portion of its future growth expenditures.
- (3) 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

Connacher made great progress during the third quarter of 2005. The Gilbert Laustsen Jung Associates Ltd. ("GLJ") Report on the company's reserves and resources at its Great Divide oil sands project, which was made public on August 1, 2005 and discussed in detail in our last Quarterly Report, affirmed the significance of this asset for investors. As a consequence trading activity in Connacher's shares accelerated; thus far in 2005, daily trading volumes have averaged 1.3 million shares per day and prices have appreciated significantly, resulting in improved market liquidity and increased institutional participation in the ownership of the company. Connacher has been one of the top trading and best performing issues on the Toronto Stock Exchange during 2005.

The surge in investor interest in the oil sands was fuelled by high oil prices and shortage concerns against the backdrop of rising worldwide demand for crude oil. During the third quarter 2005 West Texas Intermediate ("WTI") averaged US\$63.19 per barrel, 19 percent above second quarter levels and 27 percent above the first quarter average of US\$49.84 per barrel. This increase in investor interest enabled Connacher to complete a \$75 million bought deal equity financing at a price of \$1.85 per common share. Proceeds were added to working capital and will largely be used to fund capital expenditures at Great Divide during 2005 and 2006. Connacher is debt free and has a strong balance sheet as it prepares for a major capital program in 2006.

On August 17, 2005 Connacher submitted an application to the Alberta Energy and Utilities Board ("EUB") and Alberta Environment to develop Pod One at Great Divide. The accumulation to be developed will produce up to 10,000 bbl/d of bitumen over a design life of 25 years using steam-assisted gravity drainage technology ("SAGD"). Subject to receipt of regulatory approvals, start-up is planned for the fourth quarter of 2006. Produced bitumen will be diluted and delivered to a third-party pipeline for shipment to refinery markets in Canada and the United States.

This first area to be developed (Pod One) comprises only about two percent of Connacher's total land holding in the region. Pod One is also the area to which GLJ assigned probable and possible reserves in their aforementioned report. During the latter part of 2005 and in early 2006, Connacher anticipates drilling 50 additional core holes on its extensive landholdings with a view to possibly expanding Pod One and also identifying several additional accumulations, with sufficient reserves and reservoir quality similar to Pod One. This will enable additional projects to be brought forward for future development. This program could be expanded to as many as 75 additional core holes if rig availability improves. The company is enthusiastic about its prospects, based on well control, geological mapping and available geophysical data. Identification of additional pods would enable sequential development programs for future significant growth. This in turn would translate into further appreciation of the underlying valuation of the company.

During the balance of 2005 Connacher will also advance its engineering, design and procurement activities related to Pod One. The company forecasts outlays for Great Divide will approximate \$8.3 million during the fourth quarter, including the cost of core holes which could be drilled prior to year end. A further \$4.7 million has been budgeted for conventional drilling and related activity and will bring full-year capital outlays to approximately \$26 million.

Connacher's conventional capital program was modest during the third quarter 2005, but building on the success of its drilling program at Battrum, Saskatchewan during the second quarter, conventional production rose 43 percent over the second quarter of 2005 to reach 891 boe/d. Importantly, while average prices rose 57 percent to \$49.48 per boe during this same period, operating netbacks at \$31.63 per boe were 86 percent higher, reflecting much increased production efficiency. Connacher's conventional production base generates free cash flow while also covering the general and administrative expenses of the company as it prepares for development of Great Divide.

Petrolifera Petroleum Limited ("PDP" – TSX)

During the third quarter Petrolifera's shareholders elected a newly-constituted board of directors, including three new independent directors. This in part was undertaken to prepare the company for its initial public offering ("IPO") and to reflect the changes in ownership of the company arising from earlier financings. On November 8, 2005, after the reporting period, Petrolifera closed its IPO, raising \$21.3 million from the sale from treasury of 12.2 million units at a price of \$1.75 per unit. Each unit was comprised of one common share and one half share purchase warrant. A full warrant and \$3.00 are required to purchase one additional Petrolifera common share from treasury until May 8, 2007. Connacher is Petrolifera's largest shareholder and acquired \$6 million of the new issue on the same terms as the public, thereby increasing its holdings to 11.4 million shares. This represents a 35 percent basic stake in Petrolifera. Fully diluted, Connacher would own 13.3 million common shares or 26 percent.

Coincident with the closing of its IPO, Petrolifera's common shares and the \$3.00 share purchase warrants were listed for trading on the Toronto Stock Exchange under the symbols "PDP" and "PDP.WT".

Subsequent to the reporting period, Petrolifera announced that it has drilled two multi-zone crude oil and natural gas discoveries on its 100-percent Puesto Morales Block in the Neuquen Basin, Argentina. These wells have been cased and are awaiting the arrival of a service rig for testing and completion activities. A minimum of three additional wells are scheduled for drilling during the balance of the year on the Puesto Morales and Rinconada Blocks. Contracting of a second drilling rig is under consideration but will await the outcome of completion programs.

Petrolifera is now an independently-financed, debt-free public oil and natural gas company with a strong balance sheet, current production of 330 boe/d, new discoveries and excellent development opportunities in Argentina and 100 percent ownership of over five million acres of high potential lands in the Ucayali and Maranon Basins onshore Peru.

As a consequence of its reduced ownership and the reconstitution of the Petrolifera board, Connacher has discontinued consolidation of Petrolifera's accounts and now records its investment on an equity basis.

Summary and Outlook

The past year has made a big difference for Connacher's shareholders. As promised, your company is now a strong entity with a major project at Great Divide in Alberta's oil sands. Further upside is a reasonable expectation, as only two percent of the company's landholdings in this region have been assigned reserves at this time. This suggests a positive future with sustainable production and the prospect of new reserve accumulations which would translate into higher valuations. In the interim, until these additional accumulations are confirmed, we anticipate achieving various milestones over the next year as the Great Divide story unfolds, which should further enhance shareholder value.

Our conventional properties at Battrum, Tompkins and Steelman in Saskatchewan are performing well, with improved efficiency.

Our international holdings have been successfully reorganized into a well-financed public oil and natural gas company (Petrolifera) in which Connacher retains a large and meaningful stake with considerable upside potential, as early drilling in Argentina appears to have been successful and the prospects held in Peru are significant.

Connacher has never been stronger and our outlook is dynamic and positive, as we await EUB approvals so we can proceed with our 2006 development program at Great Divide. Our anticipated firm and contingent 2006 capital program for Great Divide, conventional drilling and new initiatives could exceed \$300 million. This will be financed by a combination of current working capital, new equity and new project debt financing. While discussions with possible industry partners continue, Connacher is planning to proceed on its own at this time, which would deliver maximum benefit to its shareholders, albeit with associated risks which are considered to be manageable. The company is also examining integration strategies to mitigate the heavy oil differential pricing issue.

This 2006 program will test the mettle of our management and staff, which will also be expanded during the balance of this year and into 2006. Our current staff members are to be commended for their achievements thus far in 2005. It has been a year of success and progress. We also thank our compact and committed board for their engagement and support. Finally, we thank our shareholders, old and new, for their obvious commitment to Connacher and its future.

Respectfully submitted on behalf of the Board of Directors

Signed,

"R.A Gusella"

Richard A. Gusella

President and Chief Executive Officer

November 10, 2005

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

The following is dated as of November 10, 2005 and should be read in conjunction with the unaudited consolidated financial statements of Connacher Oil and Gas Limited ("Connacher" or the "company") for the three and nine months ended September 30, 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. In the third quarter of 2005 the company discontinued consolidating the financial and operating results of Petrolifera Petroleum Limited as the company was no longer considered to control Petrolifera due to the election of independent directors and other factors. The investment in Petrolifera has since been accounted for following the equity basis of accounting. Comparative figures have not been restated.

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 crude oil (6:1). 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. Boes may be misleading, particularly if used in isolation.

Additional information relating to the company, including the company's 2004 Annual Report and Annual Information Form ("AIF"), is on SEDAR at www.sedar.com.

FINANCIAL AND OPERATING REVIEW PRODUCTION, PRICING AND REVENUE

	Three Months Ended September 30			Nine Months Ended September 30		
	2005	2004	% change	2005	2004	% change
Daily production / sales volumes						
Crude oil – bbl/d	808	636	27	713	832	(14)
Natural gas – mcf/d	497	1,068	(53)	1,077	1,730	(38)
Combined – boe/d ⁽¹⁾	891	814	9	893	1,121	(20)
Product pricing (\$)						
Crude oil – per bbl	53.40	36.58	46	42.62	31.61	35
Natural gas – per mcf	1.88	2.21	(15)	1.21	4.21	(71)
Boe – per boe ⁽¹⁾	49.48	31.48	57	35.50	29.97	18
Revenue (\$000s)						
Petroleum and natural gas	4,055	2,358	72	8,655	9,204	(6)
Interest and other	128	25	412	181	25	624
Total	4,183	2,383	76	8,836	9,229	(4)

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

In the third quarter of 2005, total revenue increased 76 percent to \$4.2 million. Petroleum and natural gas revenues in the third quarter were up 72 percent to \$4.1 million from \$2.4 million for the third quarter of 2004. This is primarily attributable to a 27 percent increase in crude oil sales volumes and a 46 percent increase in the selling price of the company's crude oil. Crude oil sales volumes averaged 808 bbl/d in the third quarter of 2005, up from the 636 bbl/d of the same period last year. This increase is principally due to increased production at Battum, Saskatchewan, where the company successfully drilled new wells and worked over existing wells. This more than offset the impact of deconsolidation of Petrolifera's accounts. As a consequence of increased world oil prices this year, the company's average crude oil selling price increased to \$53.40 per barrel in the third quarter this year compared to \$36.58 per barrel in the same quarter in 2004. Crude oil sales represented 94 percent of the company's total third quarter revenue. Natural gas sales contributed \$86,000 and interest income, primarily earned from short-term cash deposits since closing a \$75 million equity financing in early September 2005, provided \$174,000.

For the first nine months of 2005, total revenue was \$8.8 million compared to \$9.2 million for the same 2004 period. Crude oil sales represented 93 percent of the total revenue while natural gas sales contributed four percent. Year to date crude oil sales volumes of 713 bbl/d were down 14 percent from the prior year, and year to date natural gas sales volumes of 1,077 mcf/d were down 38 percent from the prior year, as a result of the petroleum and natural gas property dispositions completed in July 2004 and deconsolidation of Petrolifera in the third quarter of 2005. This drop in sales volumes was mostly offset by a 35 percent increase in crude oil selling prices.

ROYALTIES

	2005		2004	
	Total	Per boe	Total	Per boe
For the three months ended September 30	\$961,066	\$11.73	\$454,154	\$6.06
percentage of petroleum and natural gas revenue	24%		19%	
For the nine months ended September 30	\$2,018,660	\$8.28	\$1,771,280	\$5.77
percentage of petroleum and natural gas revenue	23%		19%	

Royalties represent charges against production or revenue by governments and landowners. Royalties in the third quarter of 2005 were \$961,000 (\$11.73 per boe, or 24 percent of petroleum and natural gas revenue) compared to \$454,000 in the third quarter of 2004 (\$6.06 per boe, or 19 percent of petroleum and natural gas revenue).

For the year-to-date, royalties were \$2.0 million (23 percent of revenue or \$8.28 per boe) compared to \$1.8 million (19 percent of revenue or \$5.77 per boe) for the first nine months of 2004.

From period to period, royalties can change based on changes to the weighting in the product mix which is subject to different royalty rates, and rates usually escalate with increased product prices. The changes from 2004 to 2005 reflect this.

OPERATING EXPENSES AND NETBACKS

Company Netbacks ⁽¹⁾

For the Three Months Ended September 30

	2005		2004		% Change	
	Total	Per boe	Total	Per boe	Total	Per boe
Average daily production (boe/d)	891		814		9	
Petroleum and natural gas revenue	\$4,054,895	\$49.48	\$2,357,994	\$31.48	72	57
Other income	127,885	1.57	24,523	0.33	422	376
Total revenue	4,182,780	51.05	2,382,517	31.81	76	60
Royalties	(961,066)	(11.73)	(454,154)	(6.06)	112	93
Net revenue	3,221,714	39.32	1,928,363	25.75	67	53
Operating costs	(618,788)	(7.55)	(614,229)	(8.20)	1	(8)
Transportation costs	(11,202)	(0.14)	(37,093)	(0.50)	(70)	(72)
Operating netback	\$2,591,724	\$31.63	\$1,277,041	\$17.05	103	86

Company Netbacks ⁽¹⁾

For the Nine Months Ended September 30

	2005		2004		% Change	
	Total	Per boe	Total	Per boe	Total	Per boe
Average daily production (boe/d)	893		1,121		(20)	
Petroleum and natural gas revenue	\$8,655,381	\$35.50	\$9,204,034	\$29.97	(6)	18
Other income	180,877	0.74	24,523	0.08	638	825
Total revenue	8,836,258	36.24	9,228,557	30.05	(4)	21
Royalties	(2,018,660)	(8.28)	(1,771,280)	(5.77)	14	44
Net revenue	6,817,598	27.96	7,457,277	24.28	(9)	15
Operating costs	(1,778,151)	(7.29)	(3,011,916)	(9.80)	(41)	(26)
Transportation costs	(20,728)	(0.09)	(121,685)	(0.40)	(83)	(78)
Operating netback	\$5,018,719	\$20.58	\$4,323,676	\$14.08	16	46

(1) Calculated by dividing related revenue and costs by total boe produced, resulting in an overall combined company netback. Netbacks do not have a standardized meaning prescribed by GAAP and, therefore, may not be comparable to similar measures used by other companies.

For the third quarter of 2005, operating costs of \$619,000 changed very little from the \$614,000 reported in the same 2004 quarter. However, on a per unit of production basis, operating costs were reduced by eight percent to \$7.55 per boe.

For the year to date operating costs of \$1,778,000 were 41 percent lower than the prior year, and on a per unit basis, were reduced by 26 percent to \$7.29 per boe.

The reduction in operating costs, both absolutely and on a per unit basis, reflects the company's ability to more efficiently operate its remaining petroleum and natural gas properties, having disposed of certain higher-cost producing properties in July 2004.

Total and per unit transportation costs were also lower.

As a result of higher product prices and lower operating costs, operating netbacks per boe for the third quarter of 2005 increased 86 percent to \$31.63 per boe compared to \$17.05 in the third quarter of 2004.

For the year-to-date, operating netbacks were \$20.58 per boe, a 46 percent increase from \$14.08 reported in the first nine months of 2004.

GENERAL AND ADMINISTRATIVE EXPENSES

In the third quarter of 2005, general and administrative ("G&A") expenses were \$553,000 compared to \$523,000 in 2004. For the year to date, G&A expenses increased 11 percent to \$1.8 million compared to the first nine months of 2004, reflecting inflationary effects and increased costs associated with being a public company.

G&A of \$13,000 was capitalized in the third quarter; for the 2005 year to date the total is \$62,000.

Non-cash stock-based compensation costs of \$610,000 were recorded in the third quarter and totalled \$941,000 for the first nine months of 2005. Comparative 2004 costs were \$61,000 and \$102,000 respectively. These charges reflect the fair value of all stock options granted and vested in the periods.

INTEREST AND FOREIGN EXCHANGE

Interest expense in 2005 was reduced significantly from 2004 as a result of equity financings completed in late 2004 and in September 2005. Interest expense in the third quarter was \$36,000, compared to \$250,000 for the third quarter of 2004. For the year to date, interest expense was \$112,000, an 85 percent reduction from the \$740,000 reported in the first nine months of 2004.

When translating and consolidating Petrolifera's foreign denominated financial results to July 27, 2005, the impact of fluctuations on the Argentinean peso relative to the Canadian dollar resulted in a foreign exchange loss of \$11,000 in the third quarter and \$31,000 gain in the 2005 year-to-date. 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 ("DD&A")

DD&A expense is calculated using the unit-of-production method based on total estimated proved reserves. DD&A in the third quarter of 2005 was \$1.6 million, a two percent increase from last year. For the year-to-date, DD&A was \$4.0 million, a 30 percent decrease from the first nine months of 2004. This equates to \$16.39 per boe of production compared to \$18.51 per boe last year, an 11 percent reduction, reflecting an improved reserve : production ratio.

Capital costs of \$10.0 million (2004 - \$6.0 million) related to a major development project in a pre-production state for the Great Divide oil sands project have been excluded from depletable costs. No proved reserves have yet been assigned to this project. Additionally, undeveloped land acquisition costs of \$2.3 million (2004 - \$2.9 million) were excluded from the depletion calculation, while future development costs of \$2.0 million (2004 - \$2.5 million) for proved undeveloped reserves were included in the depletion calculation.

Included in DD&A is a charge of \$109,000 (2004 - \$151,000) in respect of the company's estimated asset retirement obligation. These charges will continue to be necessary in the future to accrete the currently booked discounted liability of \$2.7 million to the estimated total undiscounted liability of \$5.0 million over the remaining economic life of the company's oil and gas properties.

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 write-down was required for any reporting period in 2005 or 2004.

DILUTION GAIN

In March 2005 Petrolifera completed a \$7 million private placement financing consisting of common shares, common share purchase warrants and rights. As Connacher did not participate in the financing, its equity interest in Petrolifera was reduced to 40 percent from 61 percent. The 21 percent reduction in Connacher's interest in Petrolifera resulted in a gain to the company of \$3 million in the first quarter of 2005.

LOSS APPLICABLE TO EQUITY INTEREST IN INVESTMENTS

The loss applicable to equity interests of \$54,000 reported in the third quarter and for the year-to-date represents Connacher's equity interest share of Petrolifera's loss since commencing to account for Petrolifera on an equity basis.

TAXES

The current income tax provision of \$24,000 in the third quarter is in respect of Large Corporations Tax in Canada. The year-to-date income tax provision of \$749,000 includes a future income tax provision of \$767,000.

At September 30, 2005 the company had approximately \$44 million of deductible tax pools and approximately \$6 million of operating loss carry-forwards available for use in Canada to shelter future taxable income. These tax pools will be supplemented with ongoing capital expenditures.

NET EARNINGS

For the Three Months Ended September 30

	2005		2004		% change	
	Total	Per boe	Total	Per boe	Total	Per boe
Operating netback	\$2,591,724	\$31.63	\$1,277,041	\$17.05	103	86
General & administrative	(553,143)	(6.75)	(523,420)	(6.99)	6	(3)
Stock-based compensation	(610,248)	(7.44)	(61,000)	(0.81)	900	819
Interest	(36,320)	(0.44)	(250,192)	(3.34)	(85)	(87)
Foreign exchange gain (loss)	(11,338)	(0.14)	(9,799)	(0.13)	16	8
Depletion, depreciation and accretion	(1,613,004)	(19.69)	(1,576,168)	(21.03)	2	(6)
Loss applicable to equity interest	(53,997)	(0.66)	-	-	-	-
Non-controlling interest	(123,220)	(1.51)	-	-	-	-
Income tax recovery (provision)	(624,080)	(7.61)	274,912	3.65	-	-
Net earnings (loss)	\$(1,033,626)	\$(12.61)	\$(868,626)	\$(11.60)	(60)	(64)

For the Nine Months Ended September 30

	2005		2004		% change	
	Total	Per boe	Total	Per boe	Total	Per boe
Operating netback	\$5,018,719	\$20.58	\$4,323,676	\$14.08	16	46
General & administrative	(1,804,600)	(7.40)	(1,620,103)	(5.27)	11	40
Stock-based compensation	(941,260)	(3.86)	(102,000)	(0.32)	823	1,106
Interest	(112,326)	(0.48)	(740,211)	(2.41)	(85)	(81)
Foreign exchange gain (loss)	30,521	0.12	(8,242)	(0.03)	-	-
Depletion, depreciation and accretion	(3,999,053)	(16.39)	(5,683,759)	(18.51)	(30)	(11)
Dilution gain	3,020,329	12.39	-	-	-	-
Loss applicable to equity interest	(53,997)	(0.22)	-	-	-	-
Income tax recovery (provision)	(748,654)	(3.06)	1,004,912	3.26	-	-
Net earnings (loss)	\$409,679	\$1.68	\$(2,825,727)	\$(9.20)	-	-

In the third quarter of 2005 the company reported a net loss of \$1 million (\$0.01 loss per basic and diluted share outstanding). This compares to a net loss of \$869,000 or \$0.02 loss per basic and diluted share outstanding for the same 2004 period.

For the year-to-date the company reported net earnings of \$410,000 (\$nil per basic and diluted share outstanding) compared to a loss of \$2.8 million (\$0.06 loss per basic and diluted share outstanding) for the first nine months of 2004.

SHARES OUTSTANDING

In the 2005 year-to-date, the weighted average number of shares outstanding was 96,018,112 (2004 – 46,837,685) and the weighted average number of diluted shares outstanding, as calculated by the treasury stock method, was 101,072,543 (2004 – 49,234,480). The substantial increase in shares outstanding period over period reflects the November and December 2004 issuance from treasury of 41,706,663 common shares for gross cash proceeds of \$21.3 million and the September 2005 issue of 40,541,000 common shares at \$1.85 for gross cash proceeds of \$75 million.

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

- 134,612,448 common shares;
- 1,693,820 share purchase warrants; and
- 7,766,600 share purchase options.

Details of the exercise provisions 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 before working capital changes ("cash flow"), 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 before working capital changes includes all cash flow from operating activities and is calculated before changes in non-cash working capital. The most comparable measure calculated in accordance with GAAP would be net earnings. Cash flow from operations before working capital changes is reconciled with net earnings on the Consolidated Statement of Cash Flows and below. Cash flow per share is calculated by dividing cash flow by the weighted average shares outstanding; cash flow per boe is calculated by dividing cash flow by the quantum of crude oil and natural gas (expressed in boes) sold in the period. Management uses these non-GAAP measurements for its own performance measures and to provide its shareholders and investors with a measurement of the company's efficiency and its ability to fund a portion of its future growth expenditures.

Reconciliation of net earnings to cash flow from operations before working capital changes:

	Three months ended September 30, 2005	Nine months ended September 30, 2005
Net earnings (loss)	\$(1,033,626)	\$409,679
Add (deduct):		
Stock-based compensation	610,248	941,260
Depletion, depreciation and accretion	1,613,004	3,999,053
Future income tax provision (recovery)	600,000	766,828
Foreign exchange (gain) loss	11,338	(30,521)
Loss applicable to equity interest	53,997	53,997
Non-controlling interest	123,220	-
Dilution gain	-	(3,020,329)
Cash flow from operations before working capital changes	\$1,978,181	\$3,119,967

Cash flow in the third quarter of 2005 was \$1,978,000 (\$0.02 per basic and diluted share) compared to \$478,000 (\$0.01 per basic and diluted share) in the same 2004 period.

For the year-to-date cash flow was \$3.1 million (\$0.03 per basic and diluted share) compared to \$1.9 million (\$0.04 per basic and diluted share) in the first nine months of 2004.

Cash flow per boe was \$24.13 in the third quarter of 2005 compared to \$6.39 in the third quarter of 2004. This represents 49 percent of the average company selling price per boe compared to 20 percent in 2004.

Cash flow per boe for the first nine months of 2005 was \$12.80 per boe compared to \$6.31 per boe for the same period in 2004.

CAPITAL EXPENDITURES

In the third quarter of 2005 the company drilled a total of 2.6 net wells at Battrum and Tompkins, Saskatchewan. Total capital expenditures in the third quarter were \$2.9 million.

For the first nine months of 2005, capital expenditures totaled \$14.6 million. A breakdown of these expenditures for the nine month period is as follows:

- \$8.1 million, primarily in Canada for drilling 19 oil sands delineation core holes, 7.35 net conventional oil wells and for workovers of conventional wells at Battrum, Saskatchewan;
- \$4.1 million for seismic and research studies;
- \$1.6 million for property acquisitions; and
- \$800,000 for other expenditures.

Great Divide Oil Sands Project, Northern Alberta

The company holds a 100 percent working interest in 68,480 acres of oil sands leases in northern Alberta. To date, the focus has been on a 2,000 acre tract ("Pod One") on which approximately \$10 million has been invested to acquire the oil sands leases, to delineate the oil bearing reservoir in Pod One, and to prepare and file an application for regulatory approval to develop a project capable of producing up to 10,000 bbl/d in 2006 using steam assisted gravity drainage ("SAGD") in Pod One. Capital development costs for Pod One are expected to approximate \$200 million. Over 85 percent of these forecast expenditures are anticipated to be for surface facilities with the balance of the costs to drill the initial horizontal well pairs. In September 2005, gross proceeds of \$75 million were raised by the issuance of 40.5 million common shares, as partial funding for the capital requirements to develop Pod One. Full development of Pod One will commence upon receiving regulatory approval. Management and the board of directors continue to assess the best means to finance the balance of this project while minimizing dilution to shareholders. Some of these alternatives include raising more equity, using debt and exchanging a portion of the company's interests in a joint venture arrangement for third party funding. The company plans to drill 50 additional delineation wells in the 2005 – 2006 winter drilling season to define further oil bearing reservoirs on some of the remaining 65,000 acres at Great Divide. Funding for this might involve "flow-through" share financing, if equity markets are suitable.

FINANCING ACTIVITIES

In September 2005, the company issued 40,541,000 common shares at \$1.85 per share for gross proceeds of \$75 million to fund a portion of its Great Divide Oil Sands Project. Proceeds of the financing were utilized as follows:

	As stated at the time of the financing	As actually applied
Gross proceeds	\$75,000,850	\$75,000,850
Underwriters commission and issue costs	4,900,000	4,877,844
Applied to reduce indebtedness	2,300,000	2,300,000
Available for Great Divide Oil Sands Project and general corporate purposes	\$67,800,850	\$67,823,006

Other than additional financing of approximately \$125 million required for the capital costs of the Great Divide Oil Sands Pod One Project and the delineation drilling program planned on some of the remaining oil sands acreage, 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 and debt markets. Except for a commitment to incur \$400,000 of capital expenditures on behalf of joint venturers in the Tompkins area, 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 November 10, 2005, the company had fulfilled approximately \$6.5 million of this obligation. The remaining \$500,000 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 anticipates substantial growth. To accomplish this growth the company expects a measured but active capital program in Canada. Emphasis is expected to be placed on delineating and developing the Great Divide Oil Sands Project in Alberta while continuing to develop the conventional production base which funds the company's overhead requirements and contributes to the capital program.

All estimates and statements which may have been issued 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 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 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.

Development of the Great Divide Oil Sands Project is subject to receipt of regulatory approvals and there can be no assurance that these approvals will be granted on terms acceptable to the company or at all. The timing for start-up of production is dependent on, among other things, regulatory approvals, availability of the component equipment, access to skilled personnel and availability of drilling rigs. Additional financing will be required for the Great Divide Oil Sands Project.

QUARTERLY RESULTS

Three Months Ended	2003	2004				2005		
	Dec 31	Mar 31	Jun 30	Sept 30	Dec 31	Mar 31	Jun 30	Sept 30 ⁽⁴⁾
Financial Highlights (\$000 except per share amounts) - Unaudited								
Total revenue	2,853	3,290	3,556	2,358	1,975	1,857	2,796	4,183
Cash flow from operations before working capital changes ⁽¹⁾	1,008	944	516	478	471	265	877	1,978
Basic, per share ⁽¹⁾	0.03	0.02	0.01	0.01	0.01	-	0.01	0.02
Diluted, per share ⁽¹⁾	0.02	0.02	0.01	0.01	0.01	-	0.01	0.02
Net earnings (loss)	1,030	(689)	(1,268)	(869)	(150)	1,673	(230)	(1,034)
Basic, per share	0.04	(0.01)	(0.03)	(0.02)	-	0.02	-	(0.01)
Diluted, per share	0.04	(0.01)	(0.03)	(0.02)	-	0.02	-	(0.01)
Capital expenditures	15,015	10,391	2,603	681	3,954	6,047	5,649	2,870
Proceeds on disposal of PNG properties	-	-	89	17,564	(49)	-	-	-
Bank debt	12,100	20,600	23,655	7,563	-	-	250	-
Working capital surplus (deficiency)	(8,994)	(9,850)	(8,357)	(6,644)	3,549	5,588	854	67,440
Cash on hand (net debt)	(21,094)	(30,450)	(32,012)	(14,207)	3,914	8,286	2,629	67,708
Shareholders' equity	24,182	21,655	20,933	20,217	40,502	41,206	41,217	113,208
Operating Highlights								
Production / sales volumes								
Natural gas - mcf/d	1,496	2,268	1,860	1,068	1,290	1,328	1,416	497
Crude oil - bbl/d	978	859	1,004	636	646	629	702	808
Equivalent - boe/d ⁽²⁾	1,228	1,237	1,314	814	861	850	938	891
Pricing								
Crude oil - \$/bbl	26.96	30.41	29.46	36.58	30.68	30.02	41.23	53.40
Natural gas - \$/mcf	3.02	4.42	5.11	2.21	1.29	1.18	0.99	1.88
Selected Highlights - \$/boe⁽²⁾								
Weighted average sales price	25.17	29.22	29.74	31.48	24.93	24.04	32.35	49.48
Other income	0.10	-	-	0.33	0.15	0.24	0.41	1.57
Royalties	4.23	5.37	5.95	6.06	4.64	4.82	8.06	11.73
Operating and transportation costs	10.29	10.09	11.26	8.70	7.98	7.01	7.42	7.69
Operating netback ⁽³⁾	10.75	13.76	12.53	17.05	12.47	12.45	17.28	31.63
Common Share Information								
Shares outstanding at end of period (000's)	45,903	46,153	47,368	47,668	89,627	92,753	93,013	134,236
Weighted average shares outstanding for the period								
Basic (000's)	39,022	46,067	47,042	47,400	50,908	91,189	92,875	103,851
Diluted (000's)	42,138	50,119	48,496	47,504	53,329	94,197	95,555	106,397
Volume traded during quarter (000's)	15,045	20,706	30,108	8,880	25,256	40,486	16,821	180,848
Common share price (\$)								
High	1.60	1.75	1.08	0.44	0.80	1.22	1.05	2.69
Low	0.74	0.73	0.30	0.28	0.29	0.49	0.68	0.76
Close (end of period)	1.60	0.78	0.40	0.32	0.55	0.93	0.82	2.54

- (1) Cash flow from operations before working capital changes and cash flow per share do not have standardized meanings prescribed by Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures used by other companies. Cash flow from operations before working capital changes includes all cash flow from operating activities and is calculated before changes in non-cash working capital. The most comparable measure calculated in accordance with GAAP would be net earnings. Cash flow from operations before working capital changes is reconciled with net earnings on the Consolidated Statement of Cash Flows and in the accompanying Management Discussion & Analysis. Management uses these non-GAAP measurements for its own performance measures and to provide its shareholders and investors with a measurement of the company's efficiency and its ability to fund a portion of its future growth expenditures.
- (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.
- (3) For detailed netbacks by product type, see "Operating Expenses and Operating Netbacks"; in this MD&A.
- (4) In the third quarter of 2005, the company discontinued consolidating the financial and operational results of Petrolifera Petroleum Limited. Comparative figures have not been restated.

Consolidated Balance Sheets

CONNACHER OIL AND GAS LIMITED

(unaudited)

	September 30 2005	December 31 2004
	\$	\$
ASSETS		
CURRENT		
Cash and cash equivalents	67,708,007	3,914,181
Accounts receivable	1,905,865	1,773,005
Prepaid expenses	381,722	309,062
	69,995,594	5,996,248
Future income tax asset	1,513,000	3,678,270
Investment in Petrolifera (Note 1)	4,071,656	-
Property and equipment	43,207,723	36,542,595
	118,787,973	46,217,113
LIABILITIES		
CURRENT		
Accounts payable	2,555,391	2,446,947
Asset retirement obligations (Note 3)	2,728,851	2,905,477
Deferred credits	295,767	353,771
Non-controlling interests (Note 1)	-	8,930
	5,580,009	5,715,125
SHAREHOLDERS' EQUITY		
Share capital and contributed surplus (Note 5)	111,587,116	39,290,819
Retained earnings	1,620,848	1,211,169
	113,207,964	40,501,988
	118,787,973	46,217,113

Consolidated Statements of Operations and Retained Earnings

CONNACHER OIL AND GAS LIMITED

(unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
REVENUE				
Petroleum and natural gas sales	4,054,895	2,357,994	8,655,381	9,204,034
Other income	127,885	24,523	180,877	24,523
	4,182,780	2,382,517	8,836,258	9,228,557
Royalties	961,066	454,154	2,018,660	1,771,280
	3,221,714	1,928,363	6,817,598	7,457,277
EXPENSES				
Operating	618,788	614,229	1,778,151	3,011,916
Transportation	11,202	37,093	20,728	121,685
General and administrative	553,143	523,420	1,804,600	1,620,103
Stock-based compensation	610,248	61,000	941,260	102,000
Interest	36,320	250,192	112,326	740,211
Foreign exchange loss (gain)	11,338	9,799	(30,521)	8,242
Depletion, depreciation and accretion	1,613,004	1,576,168	3,999,053	5,683,759
Dilution gain (Note 2)	-	-	(3,020,329)	-
Loss from equity investment (Note 1)	53,997	-	53,997	-
	3,508,040	3,071,901	5,659,265	11,287,916
Earnings (loss) before taxes and non-controlling interest	(286,326)	(1,143,538)	1,158,333	(3,830,639)
Current income tax provision (recovery)	24,080	25,088	(18,174)	25,088
Future income tax provision (recovery)	600,000	(300,000)	766,828	(1,030,000)
	624,080	(274,912)	748,654	(1,004,912)
Earnings (loss) before non-controlling interest	(910,406)	(868,626)	409,679	(2,825,727)
Non-controlling interest (Note 1)	(123,220)	-	-	-
NET EARNINGS (LOSS)	(1,033,626)	(868,626)	409,679	(2,825,727)
RETAINED EARNINGS, BEGINNING OF PERIOD	2,654,474	2,230,479	1,211,169	4,691,036
Change in accounting policies	-	-	-	(503,456)
RETAINED EARNINGS, END OF PERIOD	1,620,848	1,361,853	1,620,848	1,361,853
EARNINGS (LOSS) PER SHARE				
Basic and diluted	(0.01)	(0.02)	-	(0.06)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	103,850,908	47,400,289	96,018,112	46,837,685
Diluted	106,396,524	47,503,940	101,072,543	49,234,480

Consolidated Statements of Cash Flows

CONNACHER OIL AND GAS LIMITED

(unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Cash provided by (used in) the following activities:	\$	\$	\$	\$
OPERATING				
Net earnings (loss)	(1,033,626)	(868,626)	409,679	(2,825,727)
Items not involving cash:				
Depletion, depreciation and accretion	1,613,004	1,576,168	3,999,053	5,683,759
Stock-based compensation	610,248	61,000	941,260	102,000
Future income tax provision (recovery)	600,000	(300,000)	766,828	(1,030,000)
Foreign exchange loss (gain)	11,338	9,799	(30,521)	8,242
Dilution gain	-	-	(3,020,329)	-
Loss from equity investment	53,997	-	53,997	-
Non-controlling interest	123,220	-	-	-
Cash flow from operations before working capital changes	1,978,181	478,341	3,119,967	1,938,274
Changes in non-cash working capital	3,182,314	(841,024)	3,074,620	(4,132,157)
	5,160,495	(362,683)	6,194,587	(2,193,883)
FINANCING				
Issue of common shares, net of share issue costs	70,506,144	77,263	72,137,999	714,703
Issue of shares by Petrolifera, net of share issue costs	-	-	6,227,717	-
Decrease in bank loans	(250,000)	(16,091,751)	-	(4,537,216)
	70,256,144	(16,014,488)	78,365,716	(3,822,513)
INVESTING				
Capital expenditures	(2,870,062)	(681,229)	(14,566,685)	(13,763,906)
Proceeds on disposal of oil and gas properties	-	17,564,000	-	17,653,000
Changes in non-cash working capital	(1,489,710)	(505,600)	27,925	1,500,000
	(4,359,772)	16,377,171	(14,538,760)	5,389,094
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	71,056,867	-	70,021,543	(627,302)
Impact on cash resulting from de-consolidation of Petrolifera (Note 1)	(6,227,717)	-	(6,227,717)	-
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,878,857	-	3,914,181	627,302
CASH AND CASH EQUIVALENTS, END OF PERIOD	67,708,007	-	67,708,007	-
SUPPLEMENTARY INFORMATION – CASH PAYMENTS				
Interest	16,984	250,192	49,594	740,211
Income taxes	250	800	20,980	4,311

Notes to the Consolidated Financial Statements

CONNACHER OIL AND GAS LIMITED

Period ended September 30, 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 and its subsidiaries (collectively, "Connacher" or the "company"), and are presented in accordance with Canadian generally accepted accounting principles. The company is in the business of exploring, producing and marketing crude oil and natural gas in Canada. In the third quarter of 2005 the company discontinued consolidating the financial results of Petrolifera Petroleum Limited ("Petrolifera"), as the company was no longer considered to control Petrolifera due to the election of independent directors and other factors. The investment in Petrolifera has since been accounted for following the equity basis of accounting. Comparative figures have not been restated.

The impact of no longer consolidating Petrolifera had the following effect on Connacher's September 30, 2005 balance sheet:

	Increase (Decrease)
Current assets	\$(3,418,732)
Future income tax asset	(985,000)
Property and equipment	(4,110,144)
Current liabilities	381,694
Asset retirement obligations	442,172
Non-controlling interests	3,564,357
Initial investment in Petrolifera	4,125,653
Equity interest in Petrolifera's loss from July 27 to September 30, 2005	53,997
Investment in Petrolifera at September 30, 2005	\$4,071,656

The company records its investment in Petrolifera on an equity basis. Any permanent decline in value would be charged to earnings.

Except for the changes noted herein, 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. DILUTION GAIN

In March 2005 Petrolifera completed a \$7 million private placement financing consisting of seven million common shares, 3.5 million common share purchase warrants and seven million rights. As Connacher did not participate in the financing, its equity interest in Petrolifera was reduced to 40 percent from 61 percent. The 21 percent reduction in Connacher's equity interest in Petrolifera resulted in a dilution gain of \$3,020,329 in the first quarter of 2005.

3. 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:

	Nine Months Ended September 30, 2005	Year Ended December 31, 2004
Asset retirement obligation, beginning of period	\$2,905,477	\$ 4,784,000
Liabilities incurred	109,811	663,406
Liabilities settled	-	(206,773)
Liabilities disposed	(422,172)	(2,466,660)
Change in estimated future cash flows	42,910	(46,496)
Accretion expense	92,825	178,000
Asset retirement obligation, end of period	\$2,728,851	\$ 2,905,477

At September 30, 2005 the estimated total undiscounted amount required to settle the asset retirement obligation was \$5 million. This obligation is expected to be settled over the useful lives of the underlying assets. This amount has been discounted using a credit-adjusted risk-free interest rate of six percent. The amount shown as liabilities disposed of \$422,172 for the nine months ended September 30, 2005 relates to the asset retirement obligations of Petrolifera which was transferred to the investment account. (See Note 1.)

4. BANK LOAN

As at September 30, 2005, the Company had available a \$8.35 million Revolving Reducing Demand Loan ("LOC") with monthly reductions of \$325,000. The LOC bears interest at the bank's prime lending rate plus 3/4 percent on borrowed amounts. At September 30, 2005, the Company had not drawn any amounts on this facility.

Additionally, the Company had a \$3 million Non-Revolution Acquisition/Development Demand Loan Facility ("AD Facility"). At September 30, 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.

Subsequent to September 30, 2005 the monthly reductions on the LOC were eliminated; no other terms changed.

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

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, December 31, 2004	89,626,743	38,755,561
Issued to the public	40,541,000	75,000,850
Issued upon exercise of options	564,500	323,396
Issued upon exercise of warrants	3,504,005	1,816,645
Share issue costs		(4,923,518)
Tax effect of share issue costs		1,926,000
Tax effect of flow-through expenditures renounced		(2,697,500)
Balance, Share Capital, September 30, 2005	134,236,248	110,201,434
Contributed Surplus:		
Balance, December 31, 2004		535,258
Fair value of share options granted		927,607
Assigned value of options exercised		(77,183)
Balance, Contributed Surplus, September 30, 2005		1,385,682
Total Share Capital and Contributed Surplus:		
December 31, 2004		39,290,819
September 30, 2005		111,587,116

(a) Stock Options

A summary of the Company's outstanding stock option grants, as at September 30, 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	3,501,000	1.31	1,424,000	0.53
Expired	(70,000)	0.55	(370,000)	(0.74)
Exercised	(564,500)	0.57	(575,000)	(0.25)
Outstanding, end of period	6,855,100	0.93	3,309,000	0.49

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	350,000	1.0
\$0.31 - \$0.70	2,377,600	2.2
\$0.71 - \$1.00	1,886,500	3.1
\$1.01 - \$1.61	2,241,000	3.6
	6,855,100	

In 2005 a compensatory non-cash expense of \$941,260 (2004 - \$102,000) 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 nine months of 2005 was \$0.47 per option (2004 - \$0.21).

(b) Share purchase warrants

A summary of the Company's outstanding share purchase warrants, as at September 30, 2005 and changes during the period is presented below:

	2005
Outstanding, beginning of period	5,300,525
Exercised	(3,504,005)
Expired	(15,000)
Outstanding, end of period	1,781,520

As at September 30, 2005 the 1,781,250 warrants outstanding were exercisable to purchase common shares from treasury as follows:

- (i) 1,769,120 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 the first quarter of 2005. The Company has until December 31, 2005 to incur those expenditures. As at September 30, 2005, \$6.5 million of those expenditures have been incurred.

(d) Per share calculations

For purposes of the diluted per share calculations, all outstanding share options and warrants have been included.

6. SEGMENTED INFORMATION

The company has operations in Canada and in Argentina, through its ownership interest in Petrolifera⁽¹⁾. All operating activities are related to exploration, development and production of petroleum and natural gas as follows, including non-controlling interests:

	Canada	Argentina ⁽¹⁾	Total
	\$	\$	\$
Three months ended September 30, 2005			
Total revenue	4,017,155	165,625	4,182,780
Net earnings (loss)	(1,017,774)	(15,855)	(1,033,626)
Property and equipment, net	43,207,723	-	43,207,723
Capital expenditures	2,643,378	226,684	2,870,062
Total assets	118,787,973	-	118,787,973
Nine months ended September 30, 2005			
Total revenue	7,826,025	1,010,233	8,836,258
Net earnings (loss)	513,096	(103,416)	409,679
Property and equipment	43,207,723	-	43,207,723
Capital expenditures	12,799,560	1,767,125	14,566,685
Total assets	118,787,973	-	118,787,973
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	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)	693,062	129,575	822,637
Property and equipment	43,207,723	598,302	43,806,025
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

(1) Consolidation of Petrolifera accounts discontinued during the third quarter of 2005.

7. SUBSEQUENT EVENTS

In November 2005, Petrolifera completed a public equity financing. Connacher participated in the offering, investing \$6 million. Connacher remains Petrolifera's largest shareholder with a 35 percent interest (26 percent fully-diluted). In November 2005, Petrolifera also repaid the remaining principal balance of \$750,000 together with interest owing on the Promissory Note to Connacher.

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

Auditors

Deloitte & Touche LLP, Calgary

Bankers

National Bank of Canada, Calgary

Solicitors

Macleod Dixon LLP, Calgary

Reservoir engineers

DeGolyer and MacNaughton Canada Limited, Calgary
GLJ Petroleum Consultants, Calgary

Registrar and transfer agent

Valiant Trust Company, Calgary
BNY Trust Company of Canada, Toronto

Subsidiaries and related companies

COGL Resources Ltd. - (100%)
Great Divide Oil Company - (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

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www.connacheroil.com
inquiries@connacheroil.com

Board of directors

Richard A. Gusella
President and Chief Executive Officer

Charles W. Berard (1, 2, 3)
Chairman, Governance Committee

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

Stewart D. McGregor (1, 2, 3)
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
PNG	petroleum & natural gas
PV	present value
WI	working interest
WTI	West Texas Intermediate