

HIGHLIGHTS

- Great Divide Pod One achieves commerciality March 1, 2008
- Significant cash generating capacity starting to be realized
- Production has exceeded 11,000 boe/d, including 7,500 bbl/d of bitumen, with more growth anticipated as Pod One reaches design capacity of 10,000 bbl/d
- Refining margins show improvement in March 2008 after difficult Q4 2007 and January-February 2008
- Successful winter 2008 capital program -121 core holes and 3D seismic at Great Divide and encouraging conventional drilling results

SUMMARY RESULTS

Three months ended March 31	2008	2007	% Change
FINANCIAL (\$000 except per share amounts)			
Revenues, net of royalties	\$100,656	\$65,923	53
Cash flow ⁽¹⁾	7,825	10,980	(29)
Per share, basic ⁽¹⁾	0.04	0.06	(33)
Per share, diluted ⁽¹⁾	0.03	0.05	(40)
Net earnings (loss)	(1,833)	4,984	(137)
Per share, basic and diluted	(0.01)	0.03	-
Property and equipment additions	115,984	109,881	6
Cash on hand	323,423	66,209	388
Working capital	287,105	24,027	1,094
Term debt	671,014	207,828	223
Shareholders' equity	471,559	384,593	23
Total assets	1,348,098	757,205	78
OPERATING			
Daily production / sales volumes			
Crude oil - bbl/d	996	905	10
Bitumen - bbl/d ⁽²⁾	1,773	-	-
Natural gas - mcf/d	10,493	9,665	9
Barrels of oil equivalent - boe/d ⁽³⁾	4,518	2,515	80
Product pricing			
Crude oil - \$/bbl	79.50	49.09	62
Bitumen - \$/bbl ⁽²⁾	53.01	-	-
Natural gas - \$/mcf	6.94	7.76	(11)
Barrels of oil equivalent - \$/boe ⁽³⁾	54.46	47.48	15
COMMON SHARES OUTSTANDING (000)			
Weighted average			
Basic	210,234	198,119	6
Diluted	231,510	200,008	16
End of period			
Issued	210,277	198,218	6
Fully diluted	250,166	216,606	15

- (1) Cash flow 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 is calculated before changes in non-cash working capital, pension funding and asset retirement expenditures. The most comparable measure calculated in accordance with GAAP would be net earnings. Cash flow, commonly used in the oil and gas industry, is reconciled with net earnings on the Consolidated Statements of Cash Flows and in the accompanying Management's 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 internally fund future growth expenditures.
- (2) The recognition of bitumen sales from Great Divide Pod One commenced March 1, 2008, when it was declared "commercial". Prior thereto, all operating costs, net of revenues, were capitalized. Daily production/sales volumes for the month of March averaged 5,205 bbl which equates to 1,773 bbl/d for the first quarter of 2008.
- (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.

LETTER TO SHAREHOLDERS

OVERVIEW

Connacher achieved improved operational results during the first quarter of 2008. The highlight was the ramp-up of bitumen production from our steam assisted gravity drainage or SAGD operation at Pod One of our Great Divide oil sands project. During the quarter, 12 out of 15 well pairs were converted over at different times to full SAGD injection and production. This followed a pre-heat and semi-SAGD phase during the latter part of 2007 and into the immediate pre-production phase. Commerciality was achieved effective March 1, 2008. As a result, revenues and associated costs for Pod One are now being recorded in the company's financial accounts.

Our cash flow in March 2008 exceeded \$10 million, or \$125 million if annualized, indicating the tremendous cash generating capacity which the company now possesses, even though Pod One was only operating at around 50 percent of capacity. In March 2008, daily bitumen production averaged 5,205 bbl/d as volumes were being ramped up towards the plant's rated capacity of 10,000 bbl/d. Production ramp-up throughout the quarter exceeded internal estimates. If current prices are maintained it is evident that further growth in revenue, cash flow and profitability is anticipated and should be more readily apparent in the remaining quarters of 2008.

We also note the company was also able to achieve significant growth of its conventional production with new gas production and sales at Randall. This followed a well organized and efficient facilities construction program in the region during January and February 2008. Conventional production in March 2008 averaged 3,303 boe/d, including approximately 14 mmcf/d of natural gas with new Randall volumes coming onstream. Total sales were 8,508 boe/d in March 2008 and averaged 4,518 boe/d for the quarter.

On April 4, 2008, Connacher announced its production had surpassed 10,600 boe/d as bitumen sales exceeded 7,000 bbl/d and conventional volumes reached 3,600 boe/d, both record levels of production. Subsequently, bitumen sales have surpassed this level and further increases will accompany the conversion of the remaining three SAGD well pairs. Further identifiable gains at Great Divide Pod One are anticipated to result in sales approaching 14,000 boe/d by year end 2008.

These operational advances were masked to some extent in the quarter by a difficult start to the year for our refining and marketing activity in Montana. High oil prices during a low margin season coupled with narrowing heavy crude oil differentials to WTI impaired results during January and February 2008 in this division, although a marked turnaround was in evidence by March 2008.

We had an active capital program during the first quarter of 2008, with outlays exceeding \$114 million. Emphasis was placed on core hole drilling and 3D seismic at Great Divide and core hole drilling and 2D seismic at Halfway Creek on our oil sands leases. We also experienced considerable drilling success in our conventional program. We are excited about the indicated results, which will be more fully evaluated in our mid-year reserve report update.

Overall we anticipate 2008 will be a record year for Connacher as its reported financial and operating results benefit from higher volumes and high prices, as well as improved returns in our refining division throughout the summer. We also anticipate mid-year approval of our second 10,000 bbl/d Algar Project at Great Divide so we can proceed with our already-financed construction program.

GREAT DIVIDE

We had a very productive first quarter 2008 at Great Divide Pod One. We commenced the conversion of our 15 SAGD well pairs to full injection and production early in the year, overcoming extremely cold weather during the early stages of this conversion process, which was conducted in a systematic manner to yield efficient results. Our ramp up proceeded at unprecedented rates, ahead of anticipated levels. We were able to report improved production on a regular basis. Most recently production has ranged between 7,000 bbl/d and 8,500 bbl/d of bitumen. Well productivity and steam oil ratios have been improving on a consistent basis, with individual wells exceeding 1,000 bbl/d on occasion and steam oil ratios ("SORs") below 3:1 early in well lives. We are optimistic we can achieve targeted design volumes or higher on a near term basis with project SORs approaching 2.6 or better.

We have encountered some start up issues as is customary for a project of this type, but it is a credit to our operating staff that issues have been identified and resolved fairly quickly. Our economics were respectable in this startup phase when operating costs are spread over smaller volumes and diluent costs were high. In March 2008, we received an average dilbit sales price of \$77.24/bbl, which after deduction of the cost of diluent, operating costs and transportation charges, translates into a calculated wellhead netback for bitumen of approximately \$53.01 per barrel. We anticipate this can further improve as economies of full scale operation at design capacity are achieved, with fixed costs spread over a broader production base. Even with these costs, volumes of 10,000 bbl/d, if and when achieved, would translate into annualized net operating income exceeding \$100 million for Pod One alone. This would be supplemented by our anticipated conventional and refining operating income.

We are confident our high quality reservoir and our operating strategy in the oil sands will afford us the opportunity to plan continued expansion in the oil sands with growing confidence. We were most encouraged by the indicated results of our 2008 winter core hole program and believe they will expand and upgrade our reserve and resource base when we receive our reserve report update.

later in the year. We also await regulatory approval of our Algar project, which, based on previous experience, is anticipated prior to mid-year. Financing for this project is in place and we have preordered and acquired considerable equipment in anticipation of commencement of construction this summer.

Our longer term objective or vision is to systematically develop our productive capacity in the oil sands to 50,000 bbl/d by 2015. Employing our integrated strategy, we also anticipate increasing our upstream natural gas productive capacity to 50 mmcf/d within this timeframe, to continue to hedge our significant operating cost component and thus keep our integrated netbacks at higher levels than if we were solely a bitumen producer. Also, we are actively examining the merits of expanding our refining capacity, initially to approximately 35,000 bbl/d and ultimately in lockstep with our upstream bitumen production growth to 50,000 bbl/d. In management's opinion, our 50-50-50 goal by 2015 is achievable at minimal dilution and we are pursuing this vision with all available energy and commitment.

CONVENTIONAL AND REFINING

We continued to grow our conventional natural gas production and are now producing about 150 percent of our Pod One requirements, so we have a solid head start on Algar requirements. This added production is derived from exploratory and development drilling success achieved during 2007 and in 2008. We also completed facilities at Randall under budget and ahead of schedule, thus bringing these volumes onstream with attendant earlier revenue and cash flow. Facilities at Three Hills were also completed and our core area in this region was expanded with successful new drilling.

As indicated, our Montana Refining division encountered economic challenges during January and February 2008 before conditions improved in March. This reflected the rapid and considerable increase in crude purchase costs due to rising crude oil prices and a narrowing of the heavy crude oil differential to WTI in a weak season for refined products, particularly asphalt. This division was a major cash flow contributor in 2007 and we anticipate market conditions will improve as the year progresses. Our capital program at our Great Falls refinery is currently focused on production of ultra low sulphur diesel ("ULSD") to meet regulatory requirements. Serious evaluation of the merits of a 25,000 bbl/d expansion is also under review, including an examination of financing alternatives. A decision to proceed on this expansion project will be made at a later date.

OTHER

Our property and equipment additions in the first quarter 2008 totaled \$116 million, including \$83 million on our overall oil sands operations - core holes, facilities, seismic, preordering items for Algar and capitalized costs. Approximately \$30 million was invested in our conventional crude oil and natural gas properties and the balance was invested in our refinery. While in excess of cash flow, our cash balances to fund Algar remain strong and we also have a significant unutilized credit facility available for our operations. While we have considerable capital expenditures ahead of us, especially with possible refinery expansion and pipeline construction to consider, we will pursue these objectives, if finalized, in a manner that maximizes shareholder returns.

We are gratified by the recent stock market recognition of our improving fundamentals and financial results and cash generating capacity, as manifested in an improved price for our common shares. We have a solid institutional and retail shareholder base and management and directors remain significant stakeholders of the company, with a solid commitment to its growth and well-financed expansion. We have put together a solid, experienced and qualified management group in recent years and we believe our technical expertise, especially in respect of SAGD operations, is unparalleled for a company of our size.

We operate with a small compact group of professionals who should be proud of their collective accomplishments. We look forward to reporting our progress to you, our shareholders, as the ensuing quarters of 2008 unfold.

Respectfully submitted on behalf of the Board of Directors

Richard A. Gusella
 President and Chief Executive Officer

May 13, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is dated as of May 13, 2008 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 months ended March 31, 2008 and 2007 as contained in this interim report and the MD&A, and audited consolidated financial statements for the years ended December 31, 2007 and 2006 as contained in the company's 2007 annual report. All of these consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. This MD&A provides management's view of the financial condition of the company and the results of its operations for the reporting periods.

Additional information relating to Connacher, including Connacher's Annual Information Form is on SEDAR at www.sedar.com.

FORWARD-LOOKING INFORMATION

This quarterly report, including the Letter to Shareholders, contains forward-looking information including but not limited to anticipated increases in reserves and resources as a result of the 2008 winter core hole drilling program, expectations of future production, revenues, cash flow, profitability and capital expenditures, anticipated reductions in operating costs as a result of optimization of certain operations, development of additional oil sands resources (including receipt of regulatory approvals in respect of Algar and timeline for construction of Algar), expansion of current conventional oil and gas and refining operations, evaluation of future transportation alternatives and implementation thereof and anticipated sources of funding for capital expenditures. Forward looking information is based on management's expectations regarding future growth, results of operation, production, future capital and other expenditures (including the amount, nature and sources of funding thereof), plans for and results of drilling activity, environmental matters, business prospects and opportunities. Forward-looking information involves significant known and unknown risks and uncertainties, which could cause actual results to differ materially from those anticipated. These risks include, but are not limited to: the risks associated with the oil and gas industry (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve and resource estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), the risk of commodity price and foreign exchange rate fluctuations, risks and uncertainties associated with securing and maintaining the necessary regulatory approvals and financing to proceed with the continued expansion of the Great Divide Project and of the company's refinery in Great Falls, Montana. These risks and uncertainties are described in detail in Connacher's Annual Information Form for the year ended December 31, 2007, which is available at www.sedar.com. Annualized cash flow and net operating income based on March financial results is provided for illustrative purposes to show the effect of the company's integrated model following the achievement of commerciality at Great Divide Pod One. Actual annual cash flow and net operating revenue will vary from the annualized estimate provided and such variations may be material. Although Connacher believes that the expectations in such forward-looking information are reasonable, there can be no assurance that such expectations shall prove to be correct. The forward-looking information included in this quarterly report are expressly qualified in their entirety by this cautionary statement. The forward-looking information included in this quarterly report is made as of May 13, 2008 and Connacher assumes no obligation to update or revise any forward-looking information to reflect new events or circumstances, except as required by law.

FINANCIAL AND OPERATING REVIEW
UPSTREAM NETBACKS (\$000)

For the three months ended March 31

2008	Oil Sands ⁽¹⁾	Crude Oil	Natural Gas	Total
Gross revenues ⁽²⁾	\$17,150	\$7,206	\$6,633	\$30,989
Diluent purchased ⁽³⁾	(8,103)			(8,103)
Transportation costs	(494)	-	-	(494)
Production revenue	8,553	7,206	6,633	22,392
Royalties	(86)	(1,815)	(1,162)	(3,063)
Operating costs	(3,403)	(1,060)	(1,426)	(5,889)
Total netback ⁽⁴⁾	\$5,064	\$4,331	\$4,045	\$13,440

2007				
Gross revenues		\$ 3,997	\$ 6,750	\$10,747
Diluent purchased		-	-	-
Production revenue		3,997	6,750	10,747
Royalties		(939)	(1,601)	(2,540)
Operating costs		(876)	(1,056)	(1,932)
Total netback		\$ 2,182	\$ 4,093	\$6,275

- (1) In the first quarter of 2008, Connacher completed the conversion of a majority of its fifteen horizontal well pairs to production status at Great Divide Pod One and processed increasing levels of bitumen through its facility. This provided the company with the necessary confidence that this first oil sands project could economically produce, process and sell bitumen on a continuous basis. Therefore, effective March 1, 2008 Connacher declared it to be "commercial". As a result, the company discontinued the capitalization of all pre-operating costs, moved accumulated capital costs into the full cost pool, commenced the depletion of these costs, and began reporting Pod One production and operating results as part of the oil and gas reporting segment.
- (2) Bitumen produced at Great Divide Pod One is mixed with purchased diluent and sold as "dilbit". Diluent is a light hydrocarbon that improves the marketing and transportation quality of bitumen. In the financial statements Upstream Revenues represent sales of dilbit, crude oil and natural gas, net of royalties; and Upstream Operating Costs include the cost of purchased diluent.
- (3) Diluent volumes purchased and sold have been deducted in calculating production revenue and production volumes sold.
- (4) Total netbacks, by product, are calculated by deducting the related diluent, transportation, field operating costs and royalties from revenues. Netbacks on a per-unit basis are calculated by dividing related production revenue, costs and royalties by production volumes. Netbacks do not have a standardized meaning prescribed by GAAP and, therefore, may not be comparable to similar measures used by other companies. This non-GAAP measurement is a useful and widely used supplemental measure of the company's efficiency and its ability to fund future growth through capital expenditures. Netbacks are reconciled to net earnings below.

UPSTREAM SALES AND PRODUCTION VOLUMES

For the three months ended March 31

	2008	2007	% Change
Dilbit sales ⁽¹⁾	2,440 bbl/d	-	-
Diluent purchased ⁽¹⁾	(667) bbl/d	-	-
Bitumen produced and sold ⁽¹⁾	1,773 bbl/d	-	-
Crude oil produced and sold	996 bbl/d	905 bbl/d	10
Natural gas produced and sold	10,493 mcf/d	9,665 mcf/d	9
Total	4,518 boe/d	2,515 boe/d	80

- (1) Since declaring Great Divide Pod One "commercial" effective March 1, 2008, dilbit sales averaged 7,164 bbl/d in March, or 2,440 bbl/d in the first quarter of 2008; diluent purchases averaged 1,959 bbl/d in March, or 667 bbl/d for the quarter; and bitumen production and sales volumes averaged 5,205 bbl/d in March, or 1,773 bbl/d for the first quarter of 2008.

UPSTREAM NETBACKS PER UNIT OF PRODUCTION

For the three months ended March 31

2008	Bitumen (\$ per bbl)	Crude Oil (\$ per bbl)	Natural Gas (\$ per mcf)	Total (\$ per boe)
Production revenue	\$53.01	\$79.50	\$6.94	\$54.46
Royalties	(0.53)	(20.03)	(1.22)	(7.45)
Operating costs	(21.09)	(11.69)	(1.49)	(14.32)
Upstream netback	\$31.39	\$47.78	\$4.23	\$32.69

2007	Bitumen (\$ per bbl)	Crude Oil (\$ per bbl)	Natural Gas (\$ per mcf)	Total (\$ per boe)
Production revenue	-	\$49.09	\$7.76	\$47.48
Royalties	-	(11.53)	(1.84)	(11.22)
Operating costs	-	(10.76)	(1.21)	(8.54)
Upstream netback	-	\$26.80	\$4.71	\$27.72

In the first quarter of 2008, bitumen, crude oil, and natural gas revenues were up 188 percent to \$31 million from \$10.7 million in the first quarter of 2007. This was primarily due to increased production and sales volumes in 2008. Dilbit sales of \$17.2 million for the month of March, since declaring Pod One "commercial", contributed most of the \$20 million increase. A 10 percent increase in crude oil production and a 62 percent increase in crude oil pricing contributed the balance of the increase in revenues. Although natural gas production and sales volumes increased nine percent over the prior year period, natural gas selling prices were lower this year (\$6.94/mcf) than last year (\$7.76/mcf), primarily due to the \$816,000 unrealized mark-to-market loss on the gas collar sustained in 2008.

In the first quarter of 2008, the company entered into a "costless collar" contract with a third party to receive a minimum of US \$7.50 per mmbtu and a maximum of US \$10.05 per mmbtu on a notional quantity of 5,000 mmbtu per day of natural gas sold between April 1, 2008 and October 31, 2008. This transaction was not meant to speculate on future natural gas prices, but rather to protect the downside risk to the company's cash flow and the lending value of its assets, which is considered very important during a period of rapid growth with significant capital expenditures.

Royalties represent charges against production or revenue by governments and landowners. Royalties in the first quarter of 2008 were \$3.1 million compared to \$2.5 million in the first quarter of 2007. From year to year, royalties can change based on changes in the product mix, the components of which are subject to different royalty rates. Additionally, royalty rates typically escalate with increased product prices. The most notable change in royalties this period came as a result of new bitumen production and sales volumes reported from March 1, 2008. In 2008, royalties on bitumen production are payable at the rate of one percent of the bitumen selling price. As a result of this new bitumen production and increased crude oil revenue, royalties increased by \$523,000. However, the low bitumen royalty rate reduced the company's average royalty rate from 24 percent to 14 percent of production revenues, or from \$11.22 per boe to \$7.45 per boe.

In the first quarter of 2008 upstream diluent purchases and operating costs of \$14 million were \$12.1 million (624 percent) higher than in the same prior year period, primarily due to diluent purchases of \$8.1 million in 2008 related to the commencement of oil sands bitumen production and dilbit sales, effective from March 1, 2008. Bitumen produced at Great Divide Pod One is mixed with purchased diluent and sold as "dilbit." Diluent is a light hydrocarbon that improves the marketing and transportation quality of bitumen. For the reported volumes, diluent purchased represented approximately 27 percent of the dilbit barrel sold; bitumen the remaining 73 percent. It is anticipated that less diluent will be necessary when oil sands production and handling operations are optimized and higher volumes are processed. The price of diluent is influenced by supply and demand and in the current period, they were at historic high levels.

Excluding diluent purchases, upstream field operating costs averaged \$14.32 per boe produced and sold in the first quarter of 2008, compared to \$8.54 per boe produced and sold in the same prior year period. The increase primarily reflects costs associated with new bitumen production. Bitumen field operating costs of \$3.4 million for March 2008 comprise natural gas (\$1.9 million for 7.2 mmcf/d, averaging \$8.65/mcf), personnel, power, chemicals and other costs, averaging \$21.09 per bbl of bitumen produced and sold. As a significant portion of these costs are fixed, it is anticipated that this per unit operating cost will decline as the company increases bitumen production to its design capacity of 10,000 bbl/d in 2008.

Transportation costs of \$494,000 represent the cost of trucking a small portion of the company's oil sands sales to market, as a majority of its sales were priced "net of transportation."

Netbacks are a widely used industry measure of a company's efficiency and its ability to internally fund its growth. The company's overall upstream netback of \$32.69 per produced boe (an 18 percent increase over the same 2007 period) is significantly affected by its oil sands production, which had a netback of \$31.39 per bitumen barrel produced. Given its early stage of development and anticipating more operating efficiencies will be realized, particularly with expected higher production volumes, the company is satisfied with its oil sands results at this time.

Reconciliation of Netback to Net Earnings

For the three months ended March 31 (\$000, except per unit amounts)	2008		2007	
	Total	Per boe	Total	Per boe
Upstream netback as above	\$13,440	\$32.69	\$6,275	\$27.72
Interest income	831	2.02	120	0.53
Refining margin - net	506	1.23	11,198	49.47
General and administrative	(3,066)	(7.46)	(3,584)	(15.83)
Stock-based compensation	(1,516)	(3.69)	(2,946)	(13.02)
Finance charges	(4,431)	(10.78)	(446)	(1.97)
Foreign exchange (loss) gain	(1,892)	(4.60)	1,702	7.52
Depletion, depreciation and accretion	(7,464)	(18.15)	(7,357)	(32.50)
Income taxes	1,346	3.27	(3,878)	(17.13)
Equity interest in Petrolifera earnings and dilution gain	413	1.00	3,900	17.23
Net earnings (loss)	\$(1,833)	\$(4.47)	\$4,984	\$22.02

DOWNSTREAM REVENUES AND MARGINS

The Montana refinery is subject to a number of seasonal factors which typically cause product sales revenues to vary throughout the year. The refinery's primary asphalt market is for paving roads which is predominantly a summer demand. Consequently, prices and sales volumes for our asphalt tend to be higher in the summer and lower in the colder seasons. During the winter, most of the refinery's asphalt production is stored in tankage for sale in the subsequent summer months. Seasonal factors also affect sales revenues for gasoline (higher demand in summer months) as well as distillate and diesel fuels (higher winter demand). As a result, inventory levels, sales volumes and prices can be expected to fluctuate on a seasonal basis.

In the first quarter of 2008, refining industry margins narrowed further than was experienced in the fourth quarter of 2007. This has been mainly attributed to crude oil costs rising faster than the selling prices of refined products and by a narrowing of the heavy : light oil pricing differential which also influences heavy refining profit margins.

In the first quarter of 2008, the company's refining revenues (\$71.9 million) were lower than in the fourth quarter of 2007 (\$75.7 million) due to restricted asphalt sales, but were higher than the first quarter of 2007 (\$57.6 million) due to generally higher refined product prices. Refining costs of sales in the first quarter of 2008 (\$71.4 million) were higher than in the fourth quarter of 2007 (\$70.9 million) and in the first quarter of 2007 (\$46.4 million) due to higher crude oil costs.

Refinery throughput - three months ended	Mar 31, 2007	June 30, 2007	Sept 30, 2007	Dec 31, 2007	Mar 31, 2008
Crude charged (bbl/d) ⁽¹⁾	9,621	9,248	9,400	9,610	9,830
Refinery production (bbl/d) ⁽²⁾	10,634	10,085	10,478	10,578	11,081
Sales of produced refined products (bbl/d)	7,777	9,753	12,906	10,629	7,408
Sales of refined products (bbl/d) ⁽³⁾	8,254	10,735	13,447	11,014	7,902
Refinery utilization ⁽⁴⁾	101%	97%	100%	101%	104%

(1) Crude charged represents the barrels per day of crude oil processed at the refinery.

(2) Refinery production represents the barrels per day of refined products yielded from processing crude and other refinery feedstocks.

(3) Includes refined products purchased for resale.

(4) Represents crude charged divided by total crude capacity of the refinery.

Feedstocks - three months ended	Mar 31, 2007	June 30, 2007	Sept 30, 2007	Dec 31, 2007	Mar 31, 2008
Sour crude oil	92%	93%	91%	93%	92%
Other feedstocks and blends	8%	7%	9%	7%	8%
Total	100%	100%	100%	100%	100%
Revenues and Margins (\$000)					
Refining sales revenue	\$57,596	\$84,628	\$95,093	\$75,733	\$71,899
Refining - crude oil and operating costs	46,398	66,480	81,107	70,863	71,393
Refining margin	\$11,198	\$18,148	\$13,986	\$4,870	\$506
Refining margin	19.4%	21.4%	14.7%	6.4%	0.7%
Sales of Produced Refined Products (Volume %)					
Gasolines	52%	40%	31%	35.3%	47.2%
Diesel fuels	27%	18%	12%	15.8%	26.6%
Jet fuels	6%	5%	6%	6.2%	8.1%
Asphalt	11%	33%	48%	38.9%	12.7%
LPG and other	4%	4%	3%	3.8%	5.4%
Total	100%	100%	100%	100%	100%
Per Barrel of Produced Refined Product Sold					
Refining sales revenue	\$77.53	\$86.63	\$76.87	\$74.74	\$99.99
Less: refining - crude oil purchases and operating costs	62.46	68.05	65.56	69.93	99.28
Refining margin	\$15.07	\$18.58	\$11.31	\$4.81	\$0.71

INTEREST AND OTHER INCOME

In the first quarter of 2008, the company earned interest of \$831,000 (March 31, 2007 - \$120,000) on excess funds invested in secure short-term investments. The company has not invested in asset-based commercial paper investments.

GENERAL AND ADMINISTRATIVE EXPENSES

In the first quarter of 2008, general and administrative ("G&A") expenses were \$3.1 million compared to \$3.6 million in the first quarter of 2007, a decrease of 14 percent, as the company capitalized more costs in the current period (\$1.9 million) than in the first quarter of 2007 (\$290,000) due to more of these expenses for personnel engaged in this expanded capital program.

STOCK BASED COMPENSATION

The company recorded non-cash stock-based compensation charges in the respective periods as follows:

(\$000)	Three months ended March 31	
	2008	2007
Charged to G&A expense	\$1,516	\$2,946
Capitalized to property and equipment	798	546
	\$2,314	\$3,492

The reduction from the prior is due to fewer options being granted and a lower share price.

FINANCE CHARGES

Finance charges include interest expensed relating to the Convertible Debentures and amounts drawn on revolving lines of credit, standby fees associated with the company's undrawn lines of credit, fees on letters of credit issued, and a portion of the Senior Notes

interest expense attributable to Great Divide Pod One since it was declared commercial, effective March 1, 2008. Finance charges also include non-cash accretion charges with respect to the Convertible Debentures and a portion to the Senior Notes.

Expensed finance charges of \$4.4 million in the first quarter of 2008 compared to \$446,000 reported in the first of quarter of 2007. These charges increased primarily due to the issuance of the Convertible Debentures and Senior Notes in 2007.

FOREIGN EXCHANGE GAINS AND LOSSES

In the first quarter of 2008, the company recorded a foreign exchange loss of \$1.9 million with respect to the translation of its US dollar denominated indebtedness and its currency swap. An unrealized foreign exchange gain of \$1.7 million was recorded in the first quarter of 2007 upon translating its US dollar denominated indebtedness.

DEPLETION, DEPRECIATION AND ACCRETION ("DD&A")

Depletion expense is calculated using the unit-of-production method based on total estimated proved reserves. Refining properties and other assets are depreciated over their estimated useful lives. Effective March 1, 2008 Pod One's accumulated capital costs were added to the depletion pool and are being depleted from that date. DD&A in the first quarter of 2008 was \$7.5 million, a one percent increase from last year due to higher production volumes and increased capital costs, offset somewhat by the benefit of a longer oil sands reserve life related to Pod One. Depletion equates to \$13.31 per boe of production compared to \$25.12 per boe last year, reflecting the benefit of adding substantial Pod One proved reserves to the depletion calculation.

Capital costs of \$125.3 million (March 31, 2007 - \$239 million) related to oil sands projects currently in the pre-production stage, and undeveloped land acquisition costs of \$14.9 million (2007 - \$16.3 million) were excluded from the depletion calculation. Future development costs of \$253.1 million (2007 - \$3.2 million) for proved undeveloped reserves were included in the depletion calculation.

Included in DD&A is an accretion charge of \$422,000 (March 31, 2007 - \$191,000) in respect of the company's estimated asset retirement obligations. These charges will continue in future years in order to accrete the currently booked discounted liability of \$24 million to the estimated total undiscounted liability of \$44.3 million over the remaining economic life of the company's oil sands, crude oil and natural gas properties.

At March 31, 2008, the recoverable value of the company's productive crude oil, oil sands and natural gas assets exceeded its carrying value and, therefore, no ceiling test writedown was required.

INCOME TAXES

The income tax recovery of \$1.3 million in the first three months of 2008 includes a current income tax provision of \$817,000, principally related to Canadian capital and other taxes and a future income tax recovery of \$2.1 million reflecting the benefit of increased tax pools during the period.

At March 31, 2008 the company had approximately \$79 million of non-capital losses which do not expire before 2028, \$191 million of capital losses which do not have an expiry date, \$480 million of deductible resource pools and \$34 million of deductible financing costs.

EQUITY INTEREST IN PETROLIFERA PETROLEUM LIMITED ("PETROLIFERA")

Connacher accounts for its 26 percent equity investment in Petrolifera on the equity method basis of accounting. Connacher's equity interest share of Petrolifera's earnings in the first three months of 2008 was \$413,000 (March 31, 2007 - \$3.9 million).

NET EARNINGS

In the first three months of 2008 the company reported a loss of \$1,833,000 (\$0.01 loss per basic and diluted share outstanding) compared to earnings of \$5.0 million or \$0.03 per basic and diluted share for the first three months of 2007.

SHARES OUTSTANDING

For the first three months of 2008, the weighted average number of common shares outstanding was 210,234,346 (2007 - 198,119,130) and the weighted average number of diluted shares outstanding, as calculated by the treasury stock method, was 210,234,346 (2007 - 200,007,743).

As at May 12, 2008, the company had the following equity securities issued and outstanding:

- 210,525,166 common shares;
- 19,471,893 share purchase options; and
- 392,705 share units ("SUs") under the non-employee director share awards plan.

Additionally, 20,010,000 common shares are issuable upon conversion of the Convertible Debentures. Details of the exercise provisions and terms of the outstanding options are noted in the consolidated financial statements, included in this interim report.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2008, the company had working capital of \$287.1 million, including \$323.4 million of cash on hand. Of this amount \$66 million was restricted in an interest reserve account related to the Senior Notes.

At March 31, 2008 the company also had approximately \$181 million available to be drawn on its five-year term Revolving Credit Facilities, as approximately \$19 million was used to secure letters of credit primarily for its crude oil purchase activity associated with the refining business. Available cash, cash flow and funds available under its Revolving Credit Facilities are anticipated to be sufficient to fully fund the company's capital program in 2008 and to complete Algar in 2009. A significant part of the company's capital program is discretionary and may be expanded or curtailed based on drilling results and the availability of capital. This is reinforced by the fact that Connacher operates most of its wells and holds a very high working interest in all its properties, providing the company with operational and timing controls.

Cash flow and cash flow per share do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures used by other companies. Cash flow includes all cash flow from operating activities and is calculated before changes in non-cash working capital, pension funding and asset retirement expenditures. The most comparable measure calculated in accordance with GAAP is net earnings. Cash flow 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 calculated weighted average number of shares outstanding. Management uses this non-GAAP measurement (which is a common industry parameter) for its own performance measure and to provide its shareholders and investors with a measurement of the company's efficiency and its ability to fund future growth expenditures.

The company's only financial instruments are cash, restricted cash, accounts receivable and payable, amounts due from Petrolifera, the Revolving Credit Facilities, the Convertible Debentures, the Senior Notes and the cross-currency swap. The company maintains no off-balance sheet financial instruments.

As the Senior Notes are denominated in US dollars, there is a foreign exchange risk associated with their repayment using Canadian currency. This risk is partially mitigated by the cross currency swap.

The natural gas costless collar is intended to mitigate some downside natural gas pricing risk and, therefore, protect the risk of reduced cash flow and the risk of reductions to the lending value of its banking facilities, which is considered particularly important in a time of rapid growth with significant capital expenditure.

Connacher's capital structure is composed of:

	As at March 31, 2008	As at December 31, 2007
(\$000)		
Long term debt ⁽¹⁾	\$671,014	\$ 664,462
Shareholders' equity		
Share capital, contributed surplus and equity component	433,530	444,086
Accumulated other comprehensive loss	(10,127)	(13,636)
Retained earnings	48,156	49,989
Total	\$1,142,573	\$ 1,144,901
Debt to book capitalization ⁽²⁾	59%	58%
Debt to market capitalization ⁽³⁾	49%	44%

(1) Long-term debt is stated at its carrying value, which is net of fair value adjustments, original issue discounts, transaction costs and the Convertible Debentures' equity component value.

(2) Calculated as long-term debt divided by the book value of shareholders' equity plus long-term debt.

(3) Calculated as long-term debt divided by the period end market value of shareholders' equity plus long-term debt.

Connacher had a high calculated ratio of debt to capitalization at March 31, 2008. This is due to pre-funding the full cost of Algar in 2007, through the issuance of US \$600 million of Senior Notes. As at March 31, 2008, the company's calculated ratio of net debt (long-term debt, net of cash on hand) to book capitalization was 30 percent and the percentage of net debt to market capitalization was 25 percent.

In the first quarter of 2008, Pod One, the company's first oil sands facility, had commenced commercial operations. It is anticipated that Pod One will attain its design capacity of 10,000 bbl/d of bitumen production during 2008. This is expected to result in substantially higher levels of revenue and cash flow for the company. This cash flow, together with cash deposited in a debt service account, are anticipated to be more than sufficient to fund the company's interest costs in 2008.

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

Three months ended March 31

	2008	2007
(\$000s)		
Net earnings (loss)	\$(1,833)	\$4,984
Items not involving cash:		
Depletion, depreciation and accretion	7,464	7,357
Stock-based compensation	1,516	2,946
Finance charges –non-cash portion	1,249	-
Future employee benefits	113	130
Future income tax provision (recovery)	(2,163)	1,165
Foreign exchange (gain) loss	1,892	(1,702)
Equity interest in Petrolifera earnings	(413)	(3,900)
Cash flow from operations before working capital and other changes	\$7,825	\$10,980

In the first quarter of 2008, cash flow was \$7.8 million (\$0.04 per basic and \$0.03 per diluted share), 29 percent lower than the \$11 million reported (\$0.06 per basic and \$0.05 per diluted share) for the first three months of 2007, primarily due to lower refining margins compared to the first quarter last year.

Senior Notes

In December 2007 the company issued US \$600 million second lien eight-year notes ("Senior Notes") at an issue price of 98.657 for net proceeds of US \$575 million after fees and expenses. A portion of the proceeds was used to repay the US \$180 million Oil Sands Term Loan, to fully repay drawn amounts and then cancel the company's conventional oil and gas line of credit and to fund a one-year interest reserve account in the amount of US \$63.6 million. The remainder of the proceeds are targeted to partially fund the construction of Algar.

To March 31, 2008, the proceeds of the Senior Note financing have been utilized as follows:

	As stated at the time of financing ⁽¹⁾	As actually applied ⁽¹⁾
(\$000s)		
Gross proceeds	\$576,380	\$591,942
Underwriters commissions and issue costs	(13,380)	(16,493)
Repayment of Oil Sands Term Loan	(186,000)	(180,000)
Funding interest reserve account	(66,000)	(63,600)
Repay the conventional line of credit	-	(2,500)
Net proceeds for the construction of Algar ⁽²⁾	\$311,000	\$329,349

(1) The Canadian dollar equivalent changed between the dates of announcing and closing the financing due to significant changes in the CDN/US exchange rates in late 2007.

(2) Net proceeds are available for funding capital expenditures relating to Algar. As at March 31, 2008, approximately \$14 million had been spent in respect of these expenditures.

PROPERTY AND EQUIPMENT ADDITIONS

Property and equipment additions totaled \$116 million in the first quarter of 2008 (first quarter 2007 - \$110 million). A breakdown of these additions follows:

Three months ended March 31

(\$000)	2008	2007
Crude oil, natural gas and oil sands	\$112,957	\$106,794
Refinery expenditures	3,027	3,117
	\$115,984	\$109,881

Oil sands expenditures of \$83 million were incurred in the first quarter of 2008 for exploratory core hole drilling, seismic shooting and processing, some preliminary facility expenditures for Algar and Pod One pre-operating costs in excess of bitumen revenues which were capitalized. In the first three months of 2008, 128 exploratory core holes were drilled. In the first quarter of 2007, \$86 million was spent to drill 75 exploratory core holes and to shoot and process seismic data.

Conventional oil and gas expenditures of \$30 million in the first quarter of 2008 include costs of drilling, completing, equipping and working over conventional oil and gas wells, undeveloped land acquisition, seismic expenditures and facility expenditures. In the first quarter of 2008, the company drilled 20 (16.5 net) crude oil and natural gas wells, resulting in 13 (10.5 net) gas wells; one (one net) suspended gas well, three (two net) oil wells; and three (three net) abandoned wells. In the first quarter of 2007, \$20 million was incurred to drill 19 (18 net) oil and gas wells.

OUTLOOK

The company’s business plan anticipates continued growth, with stronger production revenue and cash flow as Pod One achieved commerciality effective March 1, 2008. Emphasis will continue to be placed on delineating and developing more production projects at Great Divide, while developing the company’s recently-expanded conventional production base and profitably operating the Montana refinery. Additional financing may be required for future projects at Great Divide, development of conventional petroleum and natural gas assets and for the Montana refinery, especially if a decision is made to expand simultaneously and not sequentially.

The company’s first 10,000 bbl/d oil sands project, Pod One, was completed on schedule in 2007. Fourteen of the fifteen horizontal well pairs are presently producing in excess of 7,000 bbl/d. It is anticipated that the targeted bitumen production volume of 10,000 bbl/d will be achieved in 2008.

The company’s second project, Algar, is expected to commence a 10-month period of construction in the second half of 2008, following receipt of the necessary governmental regulatory approvals. Algar’s design is similar to that of Pod One and its construction timetable is expected to be comparable. Production from Algar is anticipated to commence in late 2009 or early 2010 and, following ramp up, to add an additional 10,000 bbl/d to Connacher’s growing production base. The cost of Algar is budgeted at \$326 million, as it incorporates scope changes and increased infrastructure costs relative to Pod One. The cost of the Algar project was fully funded in December 2007.

Additional 10,000 bbl/d oil sands projects (Pods) are anticipated, subject to confirmation of definitive additional reserves and resources. The timing of additional Pods is dependent on a number of factors which are outside of the control of the company, including the regulatory process.

Connacher has increased its 2008 firm and contingent capital expenditure budget to \$391 million from \$373 million to provide for increased capital outlays on conventional assets, following a successful winter 2008 drilling program, and for oil terminal and related facilities at Great Divide, with these increases offset by the deferral of some anticipated expenditures at the Montana refinery.

Information relating to Connacher, including Connacher’s Annual Information Form is on SEDAR at www.sedar.com. See also the company’s website at www.connacheroil.com.

SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by the company are described below. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in these estimates and assumptions may have a material impact on the company’s financial results and condition. The following discusses such accounting policies and is included herein to aid the reader in assessing the critical accounting policies and practices of the company and the likelihood of materially different results being reported. Management reviews its estimates and assumptions regularly. The emergence of new information and changed circumstances may result in changes to estimates and assumptions which could be material and the company might realize different results from the application of new accounting standards promulgated, from time to time, by various regulatory rule-making bodies.

The following assessment of significant accounting policies and critical accounting estimates is not meant to be exhaustive.

Reserve Estimates

Under Canadian Securities Administrators' "National Instrument 51-101-Standards of Disclosure for Oil and Gas Activities" ("NI 51-101") proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. In accordance with this definition, the level of certainty should result in at least a 90 percent probability that the quantities actually recovered will exceed the estimated reserves. In the case of probable reserves, which are less certain to be recovered than proved reserves, NI 51-101 states that it must be equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. Possible reserves are those reserves less certain to be recovered than probable reserves. There is at least a 10 percent probability that the quantities actually recovered will exceed the sum of proved plus probable plus possible reserves.

The company's oil and gas reserve estimates are made by independent reservoir engineers using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the company's plans. The reserve estimates can also be used in determining the company's borrowing base for its credit facilities and may impact the same upon revision or changes to the reserve estimates. The effect of changes in reserve estimates on the financial results and financial position of the company is described below.

Full Cost Accounting for Oil and Gas Activities

The company uses the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development are capitalized whether successful or not. The aggregate of net capitalized costs and estimated future development costs is depleted using the unit-of-production method based on estimated proved reserves. A change in estimated total proved reserves could significantly affect the company's calculation of depletion.

Major Development Projects and Unproved Properties

Certain costs related to acquiring and evaluating unproved properties are excluded from net capitalized costs subject to depletion until proved reserves have been determined or their value is impaired. Costs associated with major development projects are not depleted until commencement of commercial operations. All capitalized costs are reviewed quarterly and any impairment is transferred to the costs being depleted or, if the properties are located in a cost centre where there is no reserve base, the impairment is charged directly to income.

All costs related to the Great Divide oil sands project are being capitalized to specific projects, or "Pods", pending commencement of commercial operations from each Pod. Upon commencement of commercial operations of a Pod, the related capital costs and estimates of future capital requirements for such Pod will be added to the company's depletable costs and depleted under the unit-of-production method based on the company's total proved reserves. Effective March 1, 2008, the company's first oil sands project, Pod One, was declared commercially operative and its related costs were added to the company's depletable cost pool.

Ceiling Test

The company is required to review the carrying value of all property, plant, and equipment, including the carrying value of its conventional and its commercially operative oil sands properties, for potential impairment. Impairment is indicated if the carrying value of the long-lived asset or oil and gas cost centre is not recoverable by the future undiscounted cash flows. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings.

The ceiling test is based on estimates of reserves prepared by qualified independent evaluators, production rate, crude oil, bitumen and natural gas prices, future costs and other relevant assumptions. By their nature, reserve estimates are subject to measurement uncertainty and the impact of ceiling test calculations on the consolidated financial statements of changes to reserve estimates could be material.

Asset Retirement Obligations

The company is required to provide for future removal and site restoration costs by estimating these costs in accordance with existing laws, contracts or other policies. These estimated costs are charged to earnings and the appropriate liability account over the expected service life of the asset. When the future removal and site restoration costs cannot be reasonably determined, a contingent liability may exist. Contingent liabilities are charged to earnings only when management is able to determine the amount and the likelihood of the future obligation. The company estimates future retirement costs based on current costs as estimated by the company's engineers, adjusted for inflation and credit risk. These estimates are subject to measurement uncertainty.

Legal, Environmental Remediation and Other Contingent Matters

In respect of these matters, the company is required to determine whether a loss is probable, based on judgment and interpretation of laws and regulations and also to determine if such a loss can be estimated. When any such loss is determined, it is charged to

earnings. Management continually monitors known and potential contingent matters and makes appropriate provisions by charges to earnings when warranted by circumstance.

Income Taxes

The company follows the liability method of accounting for income taxes. Under this method, tax assets are recognized when it is more than likely that realization will occur. Tax liabilities are recognized for temporary differences between recorded book values and underlying tax values. Rates used to determine income tax asset and liability amounts are enacted tax rates expected to be used in future periods, when the timing differences reverse. The period in which timing differences reverse is impacted by future income and capital expenditures. Rates are also affected by legislative changes. These components can impact the charge for future income taxes.

Stock-Based Compensation

The company uses the fair value method to account for stock options. The determination of the amounts for stock-based compensation are based on estimates of stock volatility, interest rates and the term of the option. By their nature, these estimates are subject to measurement uncertainty.

NEW SIGNIFICANT ACCOUNTING POLICIES

As of January 1, 2008, the company adopted new CICA Handbook, Section 3862, "Financial Instruments - Disclosures" and Section 3863, "Financial Instruments - Presentation" which replaced former Section 3861. The new standards require disclosure of the significance of financial instruments to an entity's financial statements, the risks associated with the financial instruments and how those risks are managed.

As of January 1, 2008, the company also adopted new CICA Handbook Section 1535, "Capital Disclosures" which requires entities to disclose their objectives, policies and processes for managing capital and, in addition, whether the entity has complied with any externally imposed capital requirements.

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs." The new Sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the company will adopt the new standards for its fiscal year beginning January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062, and therefore are not anticipated to have a significant impact on the company's financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2006, the Canadian Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, Canadian GAAP for public companies will converge with International Financial Reporting Standards ("IFRS") over the next few years. The company is currently assessing the impact of the convergence of Canadian GAAP with IFRS on its financial statements and expects to begin work on the conversion process later in 2008.

RISK FACTORS AND RISK MANAGEMENT

Connacher is exposed to risks and uncertainties inherent in the oil and gas exploration, development, production and refining industry. A detailed summary of the company's risks and uncertainties is included in the company's 2007 Annual Information Form and in MD&A included in the company's 2007 annual report, which are available on SEDAR at www.sedar.com and on the company's website at www.connacheroil.com.

Some of the more significant risks affecting Connacher's operating results and financial in the first quarter of 2008 related to changing commodity prices, which were influenced by a weaker US dollar. The average WTI selling price increased by approximately 68 percent to \$97.90/bbl in the first quarter of 2008. Additionally, the heavy oil : light oil pricing differential narrowed. These two factors were the main reasons that refining margins shrank from 19 percent in the first quarter of 2007 to one percent in the first quarter of 2008. However, these two factors had a positive impact on pricing the company's first quarter bitumen and crude oil revenues, reflecting the benefit of the company's integrated business model.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the company is accumulated, recorded, processed, summarized and reported to the company's management as appropriate to allow timely decisions regarding required disclosure. The company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this MD&A, that the company's disclosure controls and procedures as of the end of such period are effective to provide reasonable assurance that material information related to the company, including its consolidated subsidiaries, is communicated to them as appropriate to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the company is responsible for designing adequate internal controls over the company's financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There have been no changes in the company's systems of internal control over financial reporting that would materially affect, or is reasonably likely to materially affect, the company's internal controls over financial reporting.

It should be noted that while the company's Chief Executive Officer and Chief Financial Officer believe that the company's disclosure controls and procedures provide a reasonable level of assurance that they are effective and that the internal controls over financial reporting are adequately designed, they do not expect that the financial disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

QUARTERLY RESULTS

Fluctuations in results over the previous eight quarters are due principally to variations in oil and gas prices and production/sales volumes.

Three Months Ended	2006				2007			2008
	Jun 30	Sept 30	Dec 31	Mar 31	June 30	Sept 30	Dec 31	Mar 31
Financial Highlights (\$000 except per share amounts) – Unaudited								
Revenues	61,239	103,110	76,700	65,923	93,266	101,991	83,340	100,656
Cash flow ⁽¹⁾	9,499	14,957	14,015	10,980	16,876	10,025	7,084	7,825
Basic, per share ⁽¹⁾	0.05	0.08	0.08	0.06	0.09	0.05	0.03	0.04
Diluted, per share ⁽¹⁾	0.05	0.08	0.07	0.05	0.08	0.05	0.03	0.03
Net earnings (loss)	(2,419)	6,771	3,267	4,984	22,228	14,589	(840)	(1,833)
Basic and diluted per share	(0.01)	0.03	0.02	0.03	0.11	0.07	0.00	(0.01)
Property and equipment additions	34,280	41,449	74,960	109,881	93,223	64,006	55,852	115,984
Cash on hand	7,505	14,450	142,391	66,209	25,375	754	392,271	323,423
Working capital surplus (deficiency)	(42,483)	(39,942)	118,626	24,027	36,320	(19,853)	389,789	287,105
Debt	70,365	62,380	229,254	207,828	272,559	260,606	664,462	671,014
Shareholders' equity	340,639	378,730	385,398	384,593	417,793	428,764	480,439	471,559
Operating Highlights								
Daily production / sales volumes								
Natural gas - mcf/d	15,172	12,711	11,291	9,665	9,017	9,413	8,889	10,493
Bitumen - bbl/d ⁽²⁾	-	-	-	-	-	-	-	1,773
Crude oil - bbl/d	1,026	1,059	1,139	905	731	781	752	996
Equivalent - boe/d ⁽³⁾	3,554	3,177	3,021	2,515	2,234	2,350	2,233	4,518
Product pricing								
Crude oil - \$/bbl	61.45	62.53	46.65	49.09	49.79	55.98	56.79	79.50
Bitumen - \$/bbl ⁽²⁾	-	-	-	-	-	-	-	53.01
Natural gas - \$/mcf	5.66	5.33	6.57	7.76	7.02	4.70	5.82	6.94
Selected Highlights - \$/boe ⁽³⁾								
Weighted average sales price	41.88	42.16	42.15	47.48	44.63	37.43	42.29	54.46
Royalties	10.43	10.72	9.00	11.22	3.23	6.32	6.34	7.45
Operating costs	7.63	7.99	9.27	8.54	13.08	9.00	13.77	14.32
Netback ⁽⁴⁾	23.82	23.45	23.88	27.72	28.32	22.11	22.18	32.69
Refining throughput								
Crude charged (bbl/d)	6,864	9,613	9,642	9,621	9,248	9,400	9,610	9,830
Refining utilization (%)	83	101	102	101	97	100	101	104
Margins (%)	8	16	15	19	21	15	6	1
Common Share Information								
Shares outstanding at end of period (000)	191,924	197,878	197,894	198,218	198,834	199,447	209,971	210,277
Weighted average shares outstanding for the period								
Basic (000)	191,672	193,587	193,884	198,119	198,360	198,539	204,701	210,234
Diluted (000)	198,931	200,572	204,028	200,008	209,088	210,580	220,362	231,510
Volume traded during quarter (000)	80,347	48,849	46,444	55,292	61,162	70,939	52,198	63,718
Common share price (\$)								
High	5.05	4.55	4.43	4.13	4.43	4.40	4.08	3.94
Low	3.10	3.09	3.17	3.07	3.07	3.20	3.31	2.59
Close (end of period)	4.30	3.60	3.49	3.86	3.69	4.01	3.79	3.13

(1) Cash flow 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 is calculated before changes in non-cash working capital, pension funding and asset retirement expenditures. The most comparable measure calculated in accordance with GAAP would be net earnings. Cash flow 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 internally fund future growth expenditures.

(2) The recognition of bitumen sales from Great Divide Pod One commenced March 1, 2008, when it was declared 'commercial'. Prior thereto, all operating costs, net of revenues, were capitalized.

(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.

(4) Netback is a non-GAAP measure used by management as a measure of operating efficiency and profitability. It is calculated as crude oil, bitumen and natural gas revenue less royalties and operating costs. Netbacks are reconciled to net earnings in the accompanying MD&A.

Connacher Oil and Gas Limited
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(\$000)	March 31, 2008	December 31, 2007
ASSETS		
CURRENT		
Cash	\$257,489	\$329,110
Restricted cash (Note 9(c))	65,934	63,161
Accounts receivable	52,581	25,084
Inventories (Note 5)	38,033	18,379
Income taxes recoverable	4,867	4,279
Prepaid expenses	1,528	2,520
Due from Petrolifera	7	-
	420,439	442,533
Property and equipment	782,725	671,422
Goodwill	103,676	103,676
Investment in Petrolifera	36,023	35,610
Deferred costs	5,235	5,587
	\$1,348,098	\$1,258,828
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$133,334	\$52,744
	133,334	52,744
Long term debt (Note 4(e))	671,014	664,462
Future income taxes	48,081	36,818
Asset retirement obligations (Note 6)	23,995	24,365
Employee future benefits	115	-
	876,539	778,389
SHAREHOLDERS' EQUITY		
Share capital, contributed surplus and equity component (Note 7)	433,530	444,086
Retained earnings	48,156	49,989
Accumulated other comprehensive loss	(10,127)	(13,636)
	471,559	480,439
	\$1,348,098	\$1,258,828

Connacher Oil and Gas Limited
CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
Three Months Ended March 31
(Unaudited)

(\$000, except per share amounts)	2008	2007
REVENUES		
Upstream, net of royalties	\$27,926	\$8,207
Downstream	71,899	57,596
Interest and other income	831	120
	100,656	65,923
EXPENSES		
Upstream - diluent purchases and operating costs	13,992	1,932
Upstream transportation costs	494	-
Downstream - crude oil purchases and operating costs (Note 5)	71,393	46,398
General and administrative	3,066	3,584
Stock-based compensation (Note 7(a))	1,516	2,946
Finance charges	4,431	446
Foreign exchange loss (gain)	1,892	(1,702)
Depletion, depreciation and accretion	7,464	7,357
	104,248	60,961
Earnings (loss) before income taxes and other items	(3,592)	4,962
Current income tax provision	817	2,713
Future income tax provision (recovery)	(2,163)	1,165
	(1,346)	3,878
Earnings (loss) before other items	(2,246)	1,084
Equity interest in Petrolifera earnings	413	3,900
NET EARNINGS (LOSS)	(1,833)	4,984
RETAINED EARNINGS, BEGINNING OF PERIOD	49,989	9,028
RETAINED EARNINGS, END OF PERIOD	\$48,156	\$14,012
EARNINGS PER SHARE (Note 9 (a))		
Basic	\$(0.01)	\$0.03
Diluted	\$(0.01)	\$0.03

Connacher Oil and Gas Limited

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three Months Ended March 31

(Unaudited)

(\$000)	2008	2007
Net earnings (loss)	\$(1,833)	\$4,984
Foreign currency translation adjustment	3,509	(561)
Comprehensive income	\$1,676	\$4,423

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

Three Months Ended March 31

(Unaudited)

(\$000)	2008	2007
Balance, beginning of period	\$(13,636)	\$(130)
Foreign currency translation adjustment	3,509	(561)
Balance, end of period	\$(10,127)	\$(691)

Connacher Oil and Gas Limited
CONSOLIDATED STATEMENTS OF CASH FLOW
Three Months Ended March 31
(Unaudited)

(\$000)	2008	2007
Cash provided by (used in) the following activities:		
OPERATING		
Net earnings (loss)	\$(1,833)	\$4,984
Items not involving cash:		
Depletion, depreciation and accretion	7,464	7,357
Stock-based compensation	1,516	2,946
Finance charges - non cash portion	1,249	-
Employee future benefits	113	130
Future income tax provision (recovery)	(2,163)	1,165
Foreign exchange loss (gain)	1,892	(1,702)
Equity interest in Petrolifera earnings	(413)	(3,900)
Cash flow from operations before working capital and other changes	7,825	10,980
Asset retirement expenditures	(123)	-
Changes in non-cash working capital (Note 9(b))	21,770	6,922
	29,472	17,902
FINANCING		
Issue of common shares, net of share issue costs (Note 7)	17	280
Increase in bank debt	-	27,600
Repayment of bank debt	-	(9,000)
Deferred financing costs	(82)	-
	(65)	18,880
INVESTING		
Acquisition and development of oil and gas properties	(114,055)	(105,294)
(Increase) decrease in restricted cash	(2,773)	56,579
Change in non-cash working capital (Note 9(b))	12,400	(7,105)
	(104,428)	(55,820)
NET DECREASE IN CASH	(75,021)	(19,038)
Impact of foreign exchange on foreign currency denominated cash balances	3,400	(565)
CASH, BEGINNING OF PERIOD	329,110	19,603
CASH, END OF PERIOD	\$257,489	\$-

Supplementary information - Note 9

Connacher Oil and Gas Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Period ended March 31, 2008

(Unaudited)

1. FINANCIAL STATEMENT PRESENTATION

The 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. Operating in Canada, and in the U.S. through its subsidiary, Montana Refining Company, Inc. (“MRCI”), the company is in the business of exploring, developing, producing, refining and marketing crude oil, bitumen and natural gas.

2. SIGNIFICANT ACCOUNTING POLICIES

The interim Consolidated Financial Statements have been prepared following the same accounting policies and methods of computation as indicated in the annual audited Consolidated Financial Statements for the year ended December 31, 2007, except as described in Note 3. The disclosures provided below do not conform in all respects 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, 2007.

3. NEW ACCOUNTING STANDARDS

Effective January 1, 2008, the company adopted new CICA Handbook, Section 3862, “Financial Instruments - Disclosures” and Section 3863, “Financial Instruments - Presentation” which replaced former Section 3861. The new standards require disclosure of the significance of financial instruments to an entity’s financial statements, the risks associated with the financial instruments and how those risks are managed.

As of January 1, 2008, the company also adopted new CICA Handbook Section 1535, “Capital Disclosures” which requires entities to disclose their objectives, policies and processes for managing capital and, in addition, whether the entity has complied with any externally imposed capital requirements.

In February 2008, the CICA issued Section 3064, “Goodwill and Intangible Assets,” replacing Section 3062, “Goodwill and Other Intangible Assets” and Section 3450, “Research and Development Costs,” applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. The company will adopt the new standards for its fiscal year beginning January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062 and therefore are not anticipated to have a significant impact on the company’s financial statements.

4. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

The company is exposed to financial risks on a range of financial instruments including its cash, accounts receivable and payable, amounts due from/to Petrolifera, its Revolving Credit Facilities, the Convertible Debentures, the Senior Notes, the cross currency swap and the natural gas costless collar. The company is also exposed to risks in the way it finances its capital requirements. The company manages these financial and capital structure risks by operating in a manner that minimizes its exposures to volatility of the company’s financial performance. These risks affecting the company are discussed below. No significant changes have occurred in either the company’s risk exposure or its risk management strategy in the current period.

(a) Credit risk

Credit risk is the risk that a contracting entity will not fulfill its obligations under a financial instrument and cause a financial loss to the company. To help manage this risk, the company has a policy for establishing credit limits, requiring collateral before extending credit to customers where appropriate and monitoring outstanding accounts receivable. The majority of the company’s financial assets arise from the sale of crude oil, bitumen, natural gas and refined products to a number of large integrated oil companies and product retailers and are subject to normal industry credit risks. The fair value of accounts receivable and accounts payable are represented by their carrying values due to the relatively short periods to maturity of these instruments. The maximum exposure to credit risk is represented by the carrying amount on the consolidated balance sheet. The company regularly assesses its financial assets for impairment losses. There are no material financial assets that the company considers past due or any allowances for uncollectible accounts.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The company is exposed to market risk as a result of potential changes in the market prices of its crude oil, bitumen, natural gas and refined product sales volumes.

A portion of this risk is mitigated by Connacher's integrated business model. The cost of purchasing natural gas for use in its oil sands and refinery operations is offset by the company's monthly conventional natural gas sales; and the majority of the company's monthly bitumen sales is offset by its monthly purchases of heavy crude oil required for processing at its refinery. Petroleum commodity futures contracts, price swaps and collars may be utilized to reduce exposure to price fluctuations associated with the sales of additional natural gas and crude oil sales volumes and for the sale of refined products.

As part of the company's risk management strategy, a natural gas costless collar contract has been put in place effective for the period April 1 to October 31, 2008. The collar has a floor price of US \$7.50/mmbtu and a ceiling price of US \$10.05/mmbtu on a notional volume of 5,000 mmbtu per day of natural gas sales. The intent of this natural gas pricing collar was not to speculate on future natural gas prices, but rather to protect the downside risk to the company's cash flow and the lending value of its assets, which is considered very important during a period of rapid growth with significant capital expenditures. The risk in implementing the collar is that future natural gas prices could escalate beyond the ceiling price, limiting the company's natural gas revenue. As at March 31, 2008 the carrying value of this contract was adjusted to its calculated fair value and resulted in a reduction of Upstream Revenues and an accrued liability of \$816,000. A \$0.50 per mcf decrease in natural gas prices would have resulted in an increase in earnings of \$200,000 and a \$0.50 per mcf increase in natural gas prices would have resulted in a decrease in earnings of \$227,000 due to the sensitivity of the natural gas collar at March 31, 2008 as determined by an option pricing model.

(c) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fair values of the company's cross-currency and interest rate swaps are influenced by changes in interest rates. A 25 basis point change in interest rates would result in approximately a \$1.9 million change in the fair value of the company's cross-currency and interest rate swaps.

(d) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As Connacher incurs the majority of its expenditures in Canadian dollars, it is exposed to the impact of fluctuations in the US/ Canadian dollar exchange rate on pricing of its sales of crude oil and bitumen (which are generally priced by reference to US dollars but settled in Canadian dollars) and for the translation of its US refining operating results and its US dollar denominated Senior Notes to Canadian dollars for financial statement reporting purposes.

In order to mitigate half of the foreign exchange exposure on the Senior Notes, the company entered into a cross currency swap to fix one half of the Senior Notes' principal and interest payments in Canadian dollars. The swaps provide for a fixed payment of C\$304.8 million in exchange for receipt of US \$300 million on December 15, 2015. The swaps also provide for semi-annual interest payments commencing June 15, 2009 until December 15, 2015 at a fixed rate of 10.795 percent based on a notional C\$304.8 million of debt in exchange for receipt of semi-annual interest payments until December 15, 2015 at a fixed rate of 10.25 percent based on a notional US \$300 million of debt.

Relative to the company's crude oil revenue receivables, Senior Notes and currency swap, a \$0.01 strengthening in the Canadian dollar exchange rate would have resulted in a \$4.2 million increase in net earnings for the first quarter of 2008, and a \$0.01 weakening of the Canadian dollar would have resulted in a \$2.3 million decrease in net earnings in the first quarter of 2008.

(e) Liquidity risk

Liquidity risk is the risk that the company will not have sufficient funds to repay its debts and fulfill its financial obligations.

To manage this risk, the company follows a conservative financing philosophy, pre-funds major development projects, continuously monitors expenditures against pre-approved budgets to control costs, regularly monitors its operating cash flow, working capital and bank balances against its business plan, maintains accessible revolving banking lines of credit, and maintains prudent insurance programs to minimize exposure to insurable losses.

Additionally, the long term nature of the company's debt repayment obligations is aligned to the long term nature of its assets. The Convertible Debentures do not mature until June 30, 2012, unless converted to common shares earlier, and principal repayments are not required on the Senior Notes until their maturity date of December 15, 2015. This affords Connacher the opportunity to deploy its conventional, oil sands, and refinery cash flow to fund the development of further expansion projects over the next few years without having to make principal payments or raise new capital unless expenditures exceed cash flow and credit capacity.

The Revolving Credit Facilities (C \$150 million and US \$50 million) provide liquidity as the company has the ability to draw on them when, and if, necessary anytime over their five year term. As at March 31, 2008 they secure approximately \$19 million of issued letters of credit.

Substantially, all of the company's assets (except its investment in Petrolifera) secure the Revolving Credit Facilities and Senior Notes.

The company is subject to financial covenants with respect to its Revolving Credit Facilities and Senior Notes. The financial covenants applicable to the first quarter of 2008 are:

- Consolidated Total Debt to Total Capitalization Ratio shall not exceed 65 percent at the end of the fiscal quarter. Consolidated Total Debt includes all debt of the company except for the Convertible Debentures. Total Capitalization is the sum of Consolidated Total Debt, the principal amount of the Convertible Debentures and the book value of Shareholders' Equity.
- Consolidated Senior Debt to EBITDA Ratio shall not exceed 3.5 to 1 at the end of any fiscal quarter, as determined on a rolling four fiscal quarter basis. Consolidated Senior Debt includes all borrowings under the Revolving Credit Facilities. EBITDA is equal to Net Earnings plus finance charges, taxes, depletion, depreciation, accretion, stock based compensation expense and earnings of Petrolifera accounted for on an equity basis, with further adjustment made for extraordinary gains or losses and other non cash items added or deducted in determining Net Earnings.

The company is in compliance with all of its financial covenants.

The change in carrying value of long-term debt at March 31, 2008 (\$671 million) from December 31, 2007 (\$664 million) is primarily due to the change in the Canadian : US exchange rate in converting the US dollar-denominated Senior Notes to Canadian dollars and accretion of the debt discount of approximately \$1.2 million.

At March 31, 2008 the fair values of the Convertible Debentures and Senior Notes were \$93 million and \$602 million, respectively, based on their quoted market prices. The fair value of the cross-currency and interest rate swaps was an asset of \$2.2 million, based on the present value of future cash flows.

The company's term debt is repayable as follows:

- Convertible Debentures - June 30, 2012 in the amount of \$100,050,000, unless converted into common shares prior thereto; and
- Senior Notes - December 15, 2015 in the amount of US\$600 million.

Connacher's investment in Petrolifera also provides liquidity. Trading on the TSX, Connacher's 13.1 million shares held in Petrolifera are readily marketable as they have not been collateralized. Although it is not Connacher's intention to sell these shares in the foreseeable future, the shareholding provides Connacher an additional margin of safety.

(f) Capital risks

Connacher's objectives in managing its cash, debt and equity ("capital"), its capital structure and its future capital requirements are to safeguard its ability to meet its financial obligations, to maintain a flexible capital structure that allows multiple financing options when a financing need arises and to optimize its use of short-term and long-term debt and equity at an appropriate level of risk.

The company manages its capital structure and follows a financial strategy that considers economic/industry conditions, the risk characteristics of its underlying assets and its growth opportunities. It strives to continuously improve its credit rating and reduce its cost of capital. Connacher monitors its capital using a number of financial ratios and industry metrics to ensure its objectives are being met and to ensure continued compliance with its debt covenants.

Connacher's current capital structure and certain financial ratios are noted below.

(\$000)	As at March 31, 2008	As at December 31, 2007
Long term debt ⁽¹⁾	\$671,014	\$664,462
Shareholders' equity		
Share capital, contributed surplus and equity component	433,530	444,086
Accumulated other comprehensive loss	(10,127)	(13,636)
Retained earnings	48,156	49,989
Total	\$1,142,573	\$1,144,901
Debt to book capitalization ⁽²⁾	59%	58%
Debt to market capitalization ⁽³⁾	49%	44%

(1) Long-term debt is stated at its carrying value, which is net of fair value adjustments, original issue discounts, transaction costs and the Convertible Debentures' equity component value.

(2) Calculated as long-term debt divided by the book value of shareholders' equity plus long-term debt.

(3) Calculated as long-term debt divided by the period end market value of shareholders' equity plus long-term debt.

Connacher currently has a high ratio of debt to capitalization, and its debt service costs are high relative to cash flow. This is due to pre-funding the full cost of Algar, the company's second oil sands project, in December 2007, by issuing US\$600 million of Senior Notes. As at March 31, 2008, the company's net debt (long-term debt, net cash on hand) was \$347,591. Net debt to book capitalization was 30 percent and net debt to market capitalization was 25 percent.

5. INVENTORIES

Inventories consist of the following:

(\$000)	March 31, 2008	December 31, 2007
Crude oil	\$3,218	\$2,258
Other raw materials and unfinished products ⁽¹⁾	1,385	1,501
Refined products ⁽²⁾	29,785	11,183
Process chemicals ⁽³⁾	789	1,036
Repairs and maintenance supplies and other ⁽⁴⁾	2,856	2,401
	\$38,033	\$18,379

(1) Other raw materials and unfinished products include feedstocks and blendstocks, other than crude oil. The inventory carrying value includes the costs of the raw materials and transportation.

(2) Refined products include gasoline, jet fuels, diesels, asphalts, liquid petroleum gases and residual fuels. The inventory carrying value includes the cost of raw materials, transportation and direct production costs.

(3) Process chemicals include catalysts, additives and other chemicals. The inventory carrying value includes the cost of the purchased chemicals and related freight.

(4) Repair and maintenance supplies in crude refining and oil sands supplies.

In accordance with the company's accounting policies, inventories are valued at the lower of cost and net realizable value. At each of December 31, 2007 and March 31, 2008 net realizable value was used to value asphalt inventories as at each date net realizable value was lower than cost. At March 31, 2008 the net realizable value of asphalt was higher than it was at December 31, 2007, due to seasonal influences on asphalt selling prices. As a result, asphalt inventory values at March 31, 2008 increased due to increases in market prices from December 31, 2007 by approximately \$8 million.

Included in downstream crude oil purchases and operating costs for the three months ended March 31, 2008 was approximately \$64 million of inventory costs.

6. ASSET RETIREMENT OBLIGATIONS

The following table reconciles the beginning and ending aggregate carrying amount of the obligation associated with the company's retirement of its oil sands and conventional petroleum and natural gas properties and facilities.

(\$000)	Three months ended March 31, 2008	Year ended December 31, 2007
Asset retirement obligations, beginning of period	\$24,365	\$7,322
Liabilities incurred	547	8,277
Liabilities settled	(123)	(311)
Change in estimated future cash flows	(1,216)	7,503
Accretion expense	422	1,574
Asset retirement obligations, end of period	\$23,995	\$24,365

Liabilities incurred in 2008 have been estimated using a discount rate of 10 percent reflecting the company's credit-adjusted risk free interest rate given its current capital structure and an inflation rate of two percent. The company has not recorded an asset retirement obligation for the Montana refinery as it is currently the company's intent to maintain and upgrade the refinery so that it will be operational for the foreseeable future. Consequently, it is not possible at the present time to estimate a date or range of dates for settlement of any asset retirement obligation related to the refinery.

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Authorized

The authorized share capital comprises 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 (\$000)
Balance, Share Capital, December 31, 2007	209,971,257	\$406,881
Issued upon exercise of options in 2008 (a)	197,000	95
Issued to directors under share award plan (b)	108,975	381
Assigned value of options exercised in 2008	-	35
Share issue costs, net of income taxes		(51)
Tax effect of expenditures renounced pursuant to the issuance of flow through common shares in 2007 (c)		(13,250)
Balance, Share Capital, March 31, 2008	210,277,232	\$394,091
Balance, Contributed Surplus, December 31, 2007		\$20,382
Stock based compensation for share options expensed in 2008		2,269
Assigned value of options exercised in 2008		(35)
Balance, Contributed Surplus, March 31, 2008		\$22,616
Equity component of Convertible Debentures, December 31, 2007 and March 31, 2008		\$16,823
Total Share Capital, Contributed Surplus and Equity Component		
December 31, 2007		\$444,086
March 31, 2008		\$433,530

(a) Stock Options

A summary of the company's outstanding stock options, as at March 31, 2008 and 2007 and changes during those periods is presented below:

For the three months ended March 31	2008		2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	17,432,717	\$3.60	16,212,490	\$3.31
Granted	2,548,023	\$3.15	2,744,833	3.88
Exercised	(197,000)	\$0.53	(324,433)	0.89
Expired	(14,000)	\$3.51	(213,000)	3.75
Outstanding, end of period	19,769,740	\$3.57	18,419,890	\$3.44
Exercisable, end of period	13,693,864	\$3.54	9,617,198	\$3.02

All stock options have been granted for a period of five years. Options granted under the plan are generally fully exercisable after either two or three years. The table below summarizes unexercised stock options.

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life at March 31, 2008
\$0.20 - \$0.99	1,800,968	1.6
\$1.00 - \$1.99	1,632,000	2.2
\$2.00 - \$3.99	9,013,239	3.9
\$4.00 - \$5.56	7,323,533	3.1
	19,769,740	3.3

During the first quarter of 2008 a non-cash charge of \$1.5 million (2007 - \$2.9 million) was expensed, reflecting the fair value of stock options amortized over the vesting period. A further \$798,000 (2007 - \$546,000) was capitalized to property and equipment.

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:

For the three months ended March 31	2008	2007
Risk free interest rate	3.2%	4.5%
Expected option life (years)	3	3
Expected volatility	48%	68%

The weighted average fair value at the date of grant of all options granted in the first quarter of 2008 was \$1.12 per option (2007 - \$1.86).

(b) Share award plan for non-employee directors

On January 16, 2008, 108,975 shares were issued to non-employee directors under the share award plan, settling the accrued liability of \$381,000 relating to this award.

On March 25, 2008 an additional 283,730 shares were awarded to non-employee directors over a future vesting period. A total of 392,705 share awards were outstanding at March 31, 2008 and vest on the following dates:

December 31, 2008	5,210
January 1, 2009	108,975
December 31, 2009	5,210
January 1, 2010	136,655
January 1, 2011	136,655
	392,705

In the first quarter of 2008, a non-cash charge of \$45,000 (2007 – nil) was accrued as a liability and expensed in respect of shares yet to be issued under the share award plan.

(c) Flow through shares

Effective December 31, 2007, the company renounced \$52.25 million of resource expenditures to flow-through share investors. The related tax effect of \$13.25 million of these expenditures was recorded in 2008. The company has incurred all of the required expenditures related to these flow-through shares in 2007 and 2008.

8. SEGMENTED INFORMATION

The company has changed its segmentation in 2008 to better reflect the organization of its business by combining the former Canadian administrative segment with the Canadian oil and gas segment. In Canada, the company is in the business of exploring for and producing crude oil, natural gas and bitumen. In the U.S., the company is in the business of refining and marketing petroleum products. The significant aspects of these operating segments are presented below. Comparative figures have been reclassified.

Three months ended March 31 (\$000)	Canada Oil and Gas	USA Refining	Total
2008			
Revenues, net of royalties	\$27,926	\$71,899	\$99,825
Equity interest in Petrolifera earnings	413	-	413
Interest and other income	706	125	831
Crude oil purchases and operating costs	14,486	71,393	85,879
General and administrative	3,066	-	3,066
Stock-based compensation	1,516	-	1,516
Finance charges	4,372	59	4,431
Foreign exchange (gain)	1,960	(68)	1,892
Depletion, depreciation and accretion	6,216	1,248	7,464
Tax provision (recovery)	(702)	(644)	(1,346)
Net earnings (loss)	(1,869)	36	(1,833)
Property and equipment, net	724,575	58,150	782,725
Capital expenditures	112,957	3,027	115,984
Total assets	\$1,214,329	\$133,769	\$1,348,098
2007			
Revenues, net of royalties	\$8,207	\$57,596	\$65,803
Equity interest in Petrolifera earnings	3,900	-	3,900
Interest and other income	13	107	120
Crude oil purchases and operating costs	1,932	46,398	48,330
General and administrative	3,584	-	3,584
Stock-based compensation	2,946	-	2,946
Finance charges	371	75	446
Foreign exchange (gain)	(1,702)	-	(1,702)
Depletion, depreciation and accretion	6,100	1,257	7,357
Tax provision	224	3,654	3,878
Net earnings (loss)	(343)	5,327	4,984
Property and equipment, net	435,526	51,495	487,021
Capital expenditures	106,764	3,117	109,881
Total assets	\$646,870	\$110,335	\$757,205

9. SUPPLEMENTARY INFORMATION
(a) Per share amounts

The following table summarizes the common shares used in earnings per share calculations.

For the three months ended March 31 (000)	2008	2007
Weighted average common shares outstanding	210,234	198,119
Dilutive effect of stock options	-	1,889
Weighted average common shares outstanding - diluted	210,234	200,008

(b) Net change in non-cash working capital

For the three months ended March 31 (\$000)	2008	2007
Accounts receivable	\$(27,497)	\$(182)
Inventories	(19,654)	(14,558)
Due from Petrolifera	(7)	109
Prepaid expenses	992	366
Accounts payable and accrued liabilities	80,924	14,589
Income taxes payable/recoverable	(588)	(507)
Total	\$34,170	\$(183)

Summary of working capital changes:

(\$000)	2008	2007
Operations	\$21,770	\$6,922
Investing	12,400	(7,105)
	\$34,170	\$(183)

(c) Supplementary cash flow information

For the three months ended March 31 (\$000)	2008	2007
Interest paid	\$383	\$5,759
Income taxes paid	1,127	3,039
Stock-based compensation capitalized	\$798	\$546

At March 31, 2008 cash of \$65.9 million (December 31, 2007 - \$63.2 million) was restricted to fund the first year of interest payments on the Senior Notes.

(d) Defined benefit pension plan

In the first quarter of 2008, \$113,000 (2007 - \$130,000) has been charged to expense in relation to MRCI's defined benefit pension plan.

CORPORATE INFORMATION

Board of Directors

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

Charles W. Berard ^(2,4)
Chairman, Governance Committee
Chairman, Health, Safety and Environment
Committee
Partner, Macleod Dixon LLP, Calgary

D. Hugh Bessell ^(1,2,3,5)
Chairman, Audit Committee
Retired Deputy Chairman of KPMG, LLP,
Toronto

Colin M. Evans ^(1,3,4,5)
Chairman, Human Resources Committee
Vice-President, Finance, Milestone
Exploration Inc., Calgary

Stewart D. McGregor ^(2,3)
Lead Director
President, Camun Consulting Ltd., Calgary

W.C. (Mike) Seth ^(1,4,5)
Chairman, Reserves Committee
President, Seth Consultants Ltd., Calgary

- (1) Audit Committee
- (2) Governance Committee
- (3) Human Resources Committee
- (4) Health, Safety, and Environment Committee
- (5) Reserves Committee

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

Jennifer K. Kennedy
Corporate Secretary
Partner, Macleod Dixon LLP

Steve De Maio
Vice President, Project Development

Russell W. Longley
Vice President, Operations

Stephen A. Marston
Vice President, Exploration

Cameron M. Todd
Vice President, Refining and Marketing

Grant D. Ukrainetz
Vice President, Corporate Development

I. Scott Carrothers
Treasurer

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Stock Exchange Listing

Toronto Stock Exchange
Trading symbol - CLL

CUSIP number

20588Y103

ISIN

CA20588Y1034

Subsidiaries

Great Divide Holding Corporation
Great Divide Oil Corporation
Great Divide Pipeline Corporation
Great Divide Pipeline Limited
Montana Refining Company, Inc.
6419101 Canada Ltd.

Related Company

Petrolifera Petroleum Limited (26%)

Auditors

Deloitte & Touche LLP, Calgary

Lead Bankers

Royal Bank of Canada, Calgary

Solicitors

Macleod Dixon, LLP, Calgary

Reservoir Engineers

GLJ Petroleum Consultants, Calgary

Registrar and Transfer Agent

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

Abbreviations

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

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

mmbboe
million barrels of oil equivalent

mmbtu
million British thermal units

mmcf
million cubic feet

mmcf/d
million cubic feet per day

NGLs
natural gas liquids

PV
present value

SAGD
steam assisted gravity drainage

WI
working interest

WTI
West Texas Intermediate