

Connacher is pleased to report record quarterly and half-yearly results to its shareholders for the period ended June 30, 2008. Production, revenue and cash flow all rose to new heights, due to increased conventional oil and gas volumes, new oil sands production and sales volumes and increased product pricing, all of which offset weak results from the refining division. Our refinery profitability is challenged in periods when crude oil prices rise faster than refined product prices and heavy oil differentials narrow. However, in such circumstances we receive higher wellhead prices and netbacks for bitumen than would otherwise occur. This underscores the importance of a balanced, integrated approach and offers further explanation of why we were able to access the long term US debt market as we did last year, raising the funds that were necessary to build the Algar project, without equity dilution. We are still awaiting regulatory approval to proceed with Algar, which we anticipate will be received shortly.

Highlights of the second quarter and first half of 2008 were as follows:

- Bitumen reserves and total corporate reserves doubled
- 10 percent pre-tax present value of future net revenue stream for proved, probable and possible reserves ("3P") approached \$3 billion (including \$1 billion for 72 mmboe of possible reserves) or \$14.20 per common share outstanding, per GLJ Petroleum Consultants ("GLJ") report, effective June 30, 2008
- In mid July cumulative bitumen production from Pod One exceeded one million barrels
- Daily production at Pod One recently averaging over 8,000 bbl/d; steam injection accelerating, anticipate soon achieving design capacity of 10,000 bbl/d
- Record production, revenue and cash flow for second quarter and first half 2008

SUMMARY RESULTS

	Three months ended June 30			Six months ended June 30		
	2008	2007	% Change	2008	2007	% Change
FINANCIAL (\$000 except per share amounts)						
Revenues, net of royalties	202,016	93,266	117	302,672	159,189	90
Cash flow ⁽¹⁾	20,550	16,876	22	28,375	27,857	2
Per share, basic ⁽¹⁾	0.10	0.09	11	0.14	0.14	-
Per share, diluted ⁽¹⁾	0.10	0.08	25	0.13	0.14	(7)
Net earnings	6,683	22,228	(70)	4,850	27,212	(82)
Per share, basic and diluted	0.03	0.11	(73)	0.02	0.14	(86)
Property and equipment additions	80,403	93,223	(14)	196,388	203,104	(3)
Cash on hand				232,704	25,375	817
Working capital				234,110	36,320	545
Term debt				684,705	272,559	151
Shareholders' equity				479,477	417,793	15
Total assets				1,338,705	821,927	63
UPSTREAM						
Daily production / sales volumes						
Crude oil - bbl/d	981	731	34	988	817	21
Bitumen - bbl/d ⁽²⁾	6,123	-	-	3,948	-	-
Natural gas - mcf/d	14,220	9,017	58	12,356	9,340	32
Barrels of oil equivalent - boe/d ⁽³⁾	9,474	2,234	324	6,996	2,374	195
Product pricing						
Crude oil - \$/bbl	105.28	49.79	111	92.29	49.42	87
Bitumen - \$/bbl ⁽²⁾	60.80	-	-	59.05	-	-
Natural gas - \$/mcf	8.77	7.02	25	8.00	7.40	8
Barrels of oil equivalent - \$/boe ⁽³⁾	63.37	44.63	42	60.49	46.13	31
DOWNSTREAM						
Crude charged - bbl/d	9,329	9,248	1	9,580	9,432	2
Refinery utilization (%)	98.2	97.3	1	100.8	99.3	2
Margins (%)	(0.1)	21.4	(100)	-	20.6	(100)
COMMON SHARES OUTSTANDING (000)						
Weighted average						
Basic	210,658	198,360	6	210,446	198,240	6
Diluted	214,530	209,088	3	213,324	204,762	4
End of period						
Issued				211,027	198,834	6
Fully diluted				250,522	236,811	6

- (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.
- (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. Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10 percent probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves. References herein to estimated values of future net revenue do not represent fair market value.

LETTER TO SHAREHOLDERS

Connacher experienced a productive and rewarding second quarter and first half of 2008. Developments of consequence primarily revolved around our activity in the oil sands at Great Divide. We declared commerciality at Pod One effective March 1, 2008. All revenues, costs and related cash and non-cash expenses are now included in our financial and operating results. To our knowledge, this was the quickest commerciality declaration of any oil sands plant and operation. It continued our legacy of doing things on time and at a fast pace, consistent with our approach of emphasizing the efficiency of small scale operations using an oil-field approach in the oil sands.

Our production ramp up at Pod One has proceeded favorably, although like other operators in the oil sands space, was not without normal operational challenges. As we have ramped up production, we have encountered what we would categorize as minor challenges during our first six months of production and plant operation. These have included the need for a minor turnaround to clean material from our various vessels and the need to manage associated vapors by debottlenecking related facilities. That being said, overall we have exceeded the expectations of GLJ, our independent reservoir evaluator and we are moving ahead towards our goal of 10,000 bbl/d of bitumen on a sustainable basis with solid anticipation for later in 2008. Reservoir performance to date has been very encouraging, with steam-to-oil ratios now in the sub three to one range in most of our Steam Assisted Gravity Drainage ("SAGD") well pairs. Achieving design capacity will allow us to reduce operating costs and enjoy a more predictable and sustainable revenue flow, impacted as we are by crude oil prices in North American markets. A three or four day scheduled turnaround for September 2008 will impact on calculated daily bitumen production rates for the third quarter and full year 2008.

The high current oil price regime with narrowing differentials for heavy oil, as generally experienced in the first half of 2008, provided us with attractive bitumen wellhead prices and strong netbacks. Our refining business enables us to recoup a portion of widened differentials, should they re-emerge, so we have a less volatile and more predictable revenue and cash flow stream as a result of our integrated strategy. This, of course, is what enabled us to successfully access the long-term debt market in the USA last year; without this model, only short-term, higher risk funding would have been available to us to finance our Algar project. This would not have been a very satisfactory solution and it also precluded Connacher from exposure to weak equity markets and dilution through either selling new equity or disposing of working interests in our oil sands properties, with neither of these alternatives viewed by management as satisfactory to our shareholders.

In July, subsequent to the reporting period, we were able to report a significant and consequential increase in the company's reserve base as at June 30, 2008. This was as a result of the 128 core hole drilling program and our expanded 3D coverage on our oil sands properties at Great Divide and at Halfway Creek, Alberta ("Halfway"), which we conducted in the first quarter of 2008. Proved ("1P"), proved and probable ("2P") and proved, probable and possible ("3P") reserves, contingent resources and prospective resources were assigned to Connacher's properties at Great Divide and Halfway. Only minor prospective resources were assigned to Halfway, which is in the earliest stages of evaluation. The reserves and resource evaluation was prepared by GLJ and was contained in a report ("GLJ Report") with an effective date of June 30, 2008 prepared using the GLJ price deck effective July 1, 2008. The company's total reserve volumes increased by over 100 percent in the case of 1P and 2P reserves and by about 80 percent for 3P reserves. When high estimate contingent and prospective resources were included with 3P reserves, the 10 pre-tax percent present value of future net revenue (after deducting future capital, operating costs and royalties but before indirect charges such as interest or general and administrative expenditures) was forecast to exceed \$4 billion, which augers well for our future if these estimates are realized.

A full description of the results of the GLJ Report was contained in a press release dated July 23, 2008, which is posted on our website at www.connacheroil.com. Our reserve report estimates and the positive results quantified and described therein were also the subject of a Material Change Report posted on SEDAR at www.sedar.com. Connacher's consistent application of its evaluation strategy, using 3D seismic and subsequent core hole drilling has served to expand the in-place bitumen estimates and reserves and resources estimated to be derived therefrom. These provide the basis for the company's longer term plans to expand its productive capacity to over 50,000 bbl/d by the middle of the next decade as the evaluation process is applied consistently.

At this writing, we continue to await final and formal regulatory approval of our application to construct a second 10,000 bbl/d SAGD bitumen recovery project at Algar or Pod Two. Our application has been with the regulators for over one year now and we are hopeful that a decision will be rendered shortly. We are fully financed to proceed and are ready to commence construction. Most of the long lead items for the Algar facility have been ordered and this will help us in controlling costs in an inflationary environment. Total costs for Algar, including site preparation, facility construction and drilling of the SAGD well pairs continue to be finalized. Available cash, anticipated cash flow and funds available under its revolving credit facilities are judged to be sufficient to fully fund the company's capital program in 2008 and to complete Algar in 2009.

We remain hopeful we can secure approvals in time to be able to achieve ramped up production by the middle to latter part of 2010. In relation thereto, we continue to evaluate longer term pipeline alternatives for both Algar and Pod One, although we are being well-served by our trucking operation at Pod One. As volume is the determining factor in pipeline economics, once there is distinct visibility for the completion of Algar, we will likely move to cause a pipeline solution to be introduced for Great Divide production and planned longer-term expansion of productivity from the area. We also intend to proceed with the construction of a cogeneration plant to provide reliable energy sources for our operations in an environmentally-friendly manner.

Our conventional properties have performed well for Connacher during the first half of 2008, with healthy volume increases and attractive selling prices for our expanded production base. We are pleased with results at Randall, Three Hills and Gilby in Alberta and continue to thoroughly evaluate our properties for economic expansion of their reserve and production base. Mindful of effective capital deployment, our goal is to be self-sufficient in our conventional program while upgrading our asset quality over time. These properties not only provide a physical hedge for natural gas consumed at Great Divide, but they have financed our overhead for some time as we developed our oil sands assets. Also, we secured access to credit capacity while we were reducing the risks associated with bitumen production in a volatile pricing environment.

Our Great Falls refinery has operated at high levels of utilization throughout the first half of 2008 although in an environment of rapidly rising crude oil prices (costs to the refinery) with narrowing heavy oil differentials and a weak economic framework, it has been difficult to make money in this portion of our business this year. Gasoline prices have not reflected the crude oil cost increases and have been weaker than expected for general economic reasons and due to regional and structural pressures in our niche market. We have been successful in broadening our market for asphalt at record prices, but with asphalt continuing to sell for less than the input cost of crude oil, coupled with the weakness shown in the lighter ends, downstream profitability has disappeared. When these circumstances occur, however, we generally can expect to receive higher prices and netbacks in the upstream part of our business, thus smoothing out some of the volatility that would occur, however, if the integrated business model was not being applied. We are completing our investment in refining facilities to be in a position to manufacture and market ultra low sulfur diesel in our markets. We are in the early stages in our front-end engineering and design ("FEED") analysis to determine the merits of an expansion to increase our throughput capacity by 25,000 bbl/d, from 10,000 bbl/d to 35,000 bbl/d, at our site in Great Falls, Montana. Based on both market studies by refining and marketing experts and preliminary design work by our engineering advisors, this appears to be the optimum scale for an expansion. Furthermore, the timing and scale could correspond with our anticipated expansion schedule at Great Divide, subject to timely receipt of relevant regulatory approvals. This would keep our integrated strategy intact and it appears, based on our internal analysis and planning, that this expansion may be financeable from cash flow and available funds without undue need for external financing. Our Board will visit this issue for a decision to proceed or not later in 2008 after these more detailed studies are completed.

Our affiliated company, Petrolifera Petroleum Limited ("Petrolifera"), had a successful capital raise in the second quarter of 2008 through the sale of common equity from treasury. This combined with expansion of that company's credit capacity and structure of its indebtedness has strengthened its balance sheet and liquidity. As a result of the financing, Connacher's equity interest in Petrolifera has been reduced to approximately 24 percent. We remain the largest shareholder of Petrolifera and look forward with anticipation to their drilling programs in Colombia and Peru, which upon success could materially influence the value of the company. Connacher owns 13.1 million Petrolifera common shares, has an option to acquire a further 200 thousand shares at a very low price and participates under agreement in the administration of Petrolifera.

Our Annual Meeting was held in Calgary on May 13, 2008 and was well attended. We reviewed the company's business and affairs and answered questions from the floor, while providing internet access via a webcast to those shareholders unable to attend the meeting. We will also hold a telephone conference call to discuss our second quarter and first half 2008 results on August 13, 2008 at 2:30 PM Calgary time (MT).

We remain confident of our future despite the bearish stock market conditions and weak credit markets which have emerged in recent times. Fortunately, through solid preplanning, we have the funds available to finance our growth without consequential dilution and with our growing cash flow we anticipate achieving our mid-term target of 50,000 bbl/d of bitumen production by 2015. Our goal is also to increase our upstream conventional production and downstream refining capacity to support our primary objective and principal business activity, which is the development and production of our oil sands properties.

We thank our shareholders for their continued support and extend a welcome to our new shareholders, both institutional and retail, who have shown a concurrence with our approach and also recognition of our results.

Our specific financial and operating results are dealt with in greater detail in our accompanying Management Discussion and Analysis and Financial Statements, which form a part of this Interim Report.

Respectfully submitted on behalf of our Board of Directors,

"Signed"

Richard A. Gusella
President and Chief Executive Officer

August 12, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is dated as of August 12, 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 six months ended June 30, 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 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 and other 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. 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 August 12, 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. Statements relating to reserves and resources are deemed to be forward-looking information, as they involve the implied assessment, based on certain estimates and assumptions, that the described reserves and resources, as the case may be, exist in the quantities predicted or estimated, and can be profitably produced in the future. The assumptions relating to the reserves and resources of the Corporation reported in the GLJ Report are discussed in a press release dated July 23, 2008 and a Material Change Report dated August 1, 2008, both of which have been posted on SEDAR at www.sedar.com.

FINANCIAL AND OPERATING REVIEW

UPSTREAM NETBACKS (\$000)

For the three months ended June 30

2008	Oil Sands ⁽¹⁾	Crude Oil	Natural Gas	Total
Gross revenues ⁽²⁾	\$68,087	\$9,397	\$11,349	\$88,833
Diluent purchased ⁽³⁾	(31,272)	-	-	(31,272)
Transportation and marketing costs	(2,934)	-	-	(2,934)
Production revenue	33,881	9,397	11,349	54,627
Royalties	(374)	(2,730)	(2,246)	(5,350)
Operating costs	(16,281)	(810)	(2,546)	(19,637)
Total netback ⁽⁴⁾	\$17,226	\$5,857	\$6,557	\$29,640
2007				
Gross revenues	-	\$ 3,311	\$ 5,759	\$9,070
Royalties	-	(828)	171	(657)
Operating costs	-	(808)	(1,852)	(2,660)
Total netback	-	\$ 1,675	\$ 4,078	\$5,753

For the six months ended June 30

2008	Oil Sands ⁽¹⁾	Crude Oil	Natural Gas	Total
Gross revenues ⁽²⁾	\$85,237	\$16,603	\$17,982	\$119,822
Diluent purchased ⁽³⁾	(39,375)	-	-	(39,375)
Transportation and marketing costs	(3,428)	-	-	(3,428)
Production revenue	42,434	16,603	17,982	77,019
Royalties	(460)	(4,545)	(3,408)	(8,413)
Operating costs	(19,684)	(1,870)	(3,972)	(25,526)
Total netback ⁽⁴⁾	\$22,290	\$10,188	\$10,602	\$43,080
Total netback as a percentage of production revenue (%)	53	61	59	56

2007				
Gross revenues		\$ 7,308	\$ 12,509	\$19,817
Royalties		(1,767)	(1,430)	(3,197)
Operating costs		(1,684)	(2,908)	(4,592)
Total netback		\$ 3,857	\$ 8,171	\$12,028
Total netback as a percentage of production revenue (%)		53	65	61

- (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. The above tables, therefore, do not include operating results prior to March 1, 2008.
- (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 above tables, gross Revenues represent sales of dilbit, crude oil and natural gas.
- (3) Diluent volumes purchased and blended into dilbit sales have been deducted in calculating netbacks.
- (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 June 30

	2008	2007	% Change
Dilbit sales ⁽¹⁾	8,403 bbl/d	-	-
Diluent purchased ⁽¹⁾	(2,280) bbl/d	-	-
Bitumen produced and sold ⁽¹⁾	6,123 bbl/d	-	-
Crude oil produced and sold	981 bbl/d	731 bbl/d	34
Natural gas produced and sold	14,220 mcf/d	9,017 mcf/d	58
Total	9,474 boe/d	2,234 boe/d	324

For the six months ended June 30

Dilbit sales ⁽¹⁾	5,424 bbl/d	-	-
Diluent purchased ⁽¹⁾	(1,476) bbl/d	-	-
Bitumen produced and sold ⁽¹⁾	3,948 bbl/d	-	-
Crude oil produced and sold	988 bbl/d	817 bbl/d	21
Natural gas produced and sold	12,356 mcf/d	9,340 mcf/d	32
Total	6,996 boe/d	2,374 boe/d	195

- (1) Since declaring Great Divide Pod One "commercial" effective March 1, 2008. Daily averages are based on total calendar days in the period.

UPSTREAM NETBACKS PER UNIT OF PRODUCTION

For the three months ended June 30

2008	Bitumen (\$ per bbl)	Crude Oil (\$ per bbl)	Natural Gas (\$ per mcf)	Total (\$ per boe)
Production revenue	\$60.80	\$105.28	\$8.77	\$63.37
Royalties	(0.67)	(30.58)	(1.74)	(6.21)
Operating costs	(29.22)	(9.07)	(1.97)	(22.78)
Upstream netback	\$30.91	\$65.63	\$5.06	\$34.38

2007				
Production revenue	-	\$49.79	\$7.02	\$44.63
Royalties	-	(12.45)	0.21	(3.23)
Operating costs	-	(12.15)	(2.26)	(13.08)
Upstream netback	-	\$25.19	\$4.97	\$28.32

For the six months ended June 30

2008				
Production revenue	\$59.05	\$92.29	\$8.00	\$60.49
Royalties	(0.64)	(25.28)	(1.52)	(6.61)
Operating costs	(27.39)	(10.40)	(1.77)	(20.05)
Upstream netback	\$31.02	\$56.61	\$4.71	\$33.83

2007				
Production revenue	-	\$49.42	\$7.40	\$46.13
Royalties	-	(11.95)	(0.85)	(7.44)
Operating costs	-	(11.39)	(1.72)	(10.69)
Upstream netback	-	\$26.08	\$4.83	\$28.00

In the second quarter of 2008, bitumen, crude oil, and natural gas revenues were up 876 percent to \$88.8 million from \$9.1 million in the second quarter of 2007. This was primarily due to increased production and sales volumes in 2008. Dilbit sales of \$68.1 million in the second quarter of 2008 contributed most of the \$79.7 million increase. Substantial increases in crude oil and natural gas production and pricing also contributed to the increase in revenues.

Second quarter 2008 upstream revenues were also significantly higher than first quarter 2008 upstream revenues (\$88 million vs. \$31 million) due to increased natural gas sales volumes (14 mmcf/d vs. 10 mmcf/d), increased bitumen production and sales volumes (6,123 bbl/d vs. 1,773 bbl/d) and increased product pricing (\$63.37 per boe vs. \$54.46 per boe). The second quarter benefited mostly from increased bitumen production. The company is on its way to achieving design capacity of 10,000 bbl/d before year end. Consequently, further increases in upstream revenues and cash flow are anticipated in the last half of 2008, assuming product prices do not materially retreat from current levels.

Year to date upstream revenues were \$100 million higher than in the first six months of 2007 (\$119.8 million vs. \$19.8 million). Contributing to this significant revenue gain were new oil sands revenues (for the four months since declaring commerciality effective March 1, 2008) of \$85 million, crude oil revenues (\$9 million higher) and natural gas revenues (\$6 million higher), due to increased production and selling prices.

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. The impact of mark-to-market adjustments to the company's natural gas revenues in the increasing pricing environment had the effect of reducing reported revenues by \$1.6 million (or \$1.25 per mcf) in the second quarter of 2008 (\$2.4 million or \$1.08 per mcf for the first six months of 2008).

Royalties represent charges against production or revenue by governments and landowners. Royalties in the second quarter of 2008 were \$5.4 million compared to \$657,000 in the second quarter of 2007. Royalties for the first six months of 2008 were \$8.4 million compared to \$3.2 million in the first half 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 year came as a result of additional conventional crude oil and natural gas production volumes and increased product pricing. New bitumen production royalties payable at the rate of one percent of the bitumen selling price also contributed to increased royalties in 2008.

In the second quarter of 2008, upstream diluent purchases of \$31.3 million (year to date \$39.4 million) related to the oil sands bitumen production and dilbit sales. 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, with 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 historically high prices prevailed as a result of these factors.

Field operating costs of \$19.6 million in the second quarter (\$25.5 million for the year to date) were substantially higher than in the second quarter of 2007 (\$2.7 million) and in the first six months of 2007 (\$4.6 million). Most of the increase (\$16.3 million for the second quarter and \$19.7 million for the year to date) relates to new oil sands production since March 1, 2008. Incremental crude oil and natural gas production volumes also caused field operating costs to increase by \$696,000 in the second quarter and by \$1.25 million in the year to date over prior year, but on a per unit basis, these conventional operating costs were lower than in the prior year.

Oil sands field operating costs of \$16.3 million in the second quarter (\$19.7 million since March 1, 2008) averaged \$29.22 (\$27.39 year to date) per barrel of bitumen produced. Approximately 50 percent of this cost was for natural gas required in the SAGD steaming process. Connacher's production and sale of natural gas ultimately offsets this cost, but the cost is required to be reported as part of the cost of producing bitumen. Oil sands field operating costs in the second quarter were also impacted by a minor turnaround to clean out vessels at Pod One, by a debottlenecking to manage vapours produced by the treating process and downtime to activate a new trucking terminal. As a significant portion of other field operating cost components (such as personnel and electricity) are fixed in nature, a reduction in per unit field operating costs are anticipated to be achievable with anticipated increases in bitumen production volumes.

Transportation and marketing costs of \$2.9 million (\$3.4 million for the year to date) represent the cost of trucking a portion of the company's oil sands sales to market. The majority of 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 second quarter upstream netback of \$33.83 per produced boe (a 21 percent increase over the same 2007 period) was significantly influenced by its oil sands production, which had a netback of \$30.91 per bitumen barrel produced. At this early stage of development and anticipating more operating efficiencies will be realized, particularly with expected higher production volumes, the company anticipates it will improve its oil sands results by year end 2008, assuming prices remain at similar levels.

Reconciliation of Netback to Net Earnings

For the six months ended June 30 (\$000, except per unit amounts)	2008		2007	
	Total	Per boe	Total	Per boe
Upstream netback as above	\$43,080	\$33.83	\$12,028	\$28.00
Interest income	1,544	1.21	345	0.80
Refining margin - net	400	0.31	29,346	68.29
General and administrative	(5,977)	(4.69)	(5,248)	(12.21)
Stock-based compensation	(2,697)	(2.12)	(3,279)	(7.63)
Finance charges	(14,729)	(11.57)	(1,710)	(3.98)
Foreign exchange (loss) gain	(5,209)	(4.09)	16,188	37.67
Depletion, depreciation and accretion	(21,289)	(16.72)	(14,721)	(34.25)
Income taxes	313	0.25	(12,747)	(29.67)
Equity interest in Petrolifera earnings and dilution gain	9,414	7.39	7,010	16.31
Net earnings	\$4,850	\$3.80	\$27,212	\$63.33

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 second quarter of 2008, the company's refining revenues (\$117.8 million) were higher than in the first quarter of 2008 (\$71.9 million) and were higher than the second quarter of 2007 (\$84.6 million) due to generally higher refined product prices and higher levels of asphalt sales. Refining costs of sales in the second quarter of 2008 (\$118 million) were higher than in the first quarter of 2008 (\$71.4 million) and in the second quarter of 2007 (\$66.5 million) due to higher crude oil costs. For the first half of 2008, refining revenues (\$190 million) were higher than in the first half of 2007 (\$142 million) also because of higher refined product prices and costs of sales for the 2008 year to date (\$189 million) increased from 2007 (\$113 million) also due to higher crude costs.

The company's refining margins have fallen markedly in 2008, as the selling prices of refined products did not keep pace with rising crude and other feedstock costs. Our Montana heavy oil refining margins also typically capture the difference between heavy and light crude oil costs. As this differential narrowed in 2008, there was less differential to recover. However, narrowing differentials resulted in higher oil sands bitumen revenues and netbacks, affirming the company's integrated business model.

Refinery throughput - three months ended	Dec 31, 2007	Mar 31, 2008	June 30, 2008
Crude charged (bbl/d) ⁽¹⁾	9,610	9,830	9,329
Refinery production (bbl/d) ⁽²⁾	10,578	11,081	10,052
Sales of produced refined products (bbl/d)	10,629	7,408	12,274
Sales of refined products (bbl/d) ⁽³⁾	11,014	7,902	12,878
Refinery utilization ⁽⁴⁾	101%	104%	98%

(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	June 30, 2007	Sept 30, 2007	Dec 31, 2007	Mar 31, 2008	June 30, 2008
Sour crude oil	93%	91%	93%	92%	93%
Other feedstocks and blends	7%	9%	7%	8%	7%
Total	100%	100%	100%	100%	100%

Revenues and Margins (\$000)

Refining sales revenue	\$84,628	\$95,093	\$75,733	\$71,899	\$117,820
Refining - crude oil and operating costs	66,480	81,107	70,863	71,393	117,926
Refining margin	\$18,148	\$13,986	\$4,870	\$506	\$(106)
Refining margin	21.4%	14.7%	6.4%	0.7%	(0.1%)

Sales of Produced Refined Products (Volume %)

Gasolines	40%	31%	35%	47%	32%
Diesel fuels	18%	12%	16%	27%	11%
Jet fuels	5%	6%	6%	8%	5%
Asphalt	33%	48%	39%	13%	48%
LPG and other	4%	3%	4%	5%	4%
Total	100%	100%	100%	100%	100%

Per Barrel of Refined Product Sold

Refining sales revenue	\$86.63	\$76.87	\$74.74	\$99.99	\$100.54
Less: refining - crude oil purchases and operating costs	68.05	65.56	69.93	99.28	100.63
Refining margin	\$18.58	\$11.31	\$4.81	\$0.71	\$(0.09)

INTEREST AND OTHER INCOME

In the second quarter of 2008, the company earned interest of \$713,000 (second quarter June 30, 2007 - \$225,000; 2008 year to date - \$1.5 million; 2007 year to date - \$345,000) on excess funds invested in secure short-term investments.

GENERAL AND ADMINISTRATIVE EXPENSES

In the second quarter of 2008, general and administrative (“G&A”) expenses were \$2.9 million compared to \$1.7 million in the second quarter of 2007, an increase of 80 percent, as the company increased its staffing levels as a result of increased activity; also, G&A of \$1.1 million (2007-\$810,000) was capitalized in the second quarter of 2008.

For the first six months of 2008, G&A expensed was \$6 million compared to \$5.2 million expensed in the first six months of 2007, after capitalizing \$3 million in the first half of 2008 and \$1.1 million in the first half of 2007.

STOCK BASED COMPENSATION

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

(\$000)	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Charged to G&A expense	\$1,181	\$333	\$2,697	\$3,279
Capitalized to property and equipment	224	542	1,022	1,088
	\$1,405	\$875	\$3,719	\$4,367

The reduction from the prior period is due to fewer options being granted.

FINANCE CHARGES

Finance charges include interest expensed relating to the Convertible Debentures, 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 \$10.3 million in the second quarter of 2008 (year to date: \$14.7 million) compared to \$1.3 million reported in the second quarter of 2007 (2007 year to date: \$1.7 million). These charges increased primarily due to the issuance of the Convertible Debentures in May 2007 and Senior Notes in December 2007. A portion of the interest on the Senior Notes has been expensed from March 1, 2008, the date of commencement of commercial operations at Pod One.

FOREIGN EXCHANGE GAINS AND LOSSES

In the second quarter of 2008, the company recorded an unrealized foreign exchange loss of \$3.3 million (year to date: \$5.2 million loss) with respect to the translation of its US dollar denominated indebtedness and its currency swap. An unrealized foreign exchange gain of \$14.5 million was recorded in the second quarter of 2007 (2007 year to date: \$16.2 million gain) on translation of US dollar denominated indebtedness. A weaker Canadian dollar since placing the US dollar-denominated Senior Notes caused these unrealized foreign exchange losses in 2008.

DEPLETION, DEPRECIATION AND ACCRETION (“DD&A”)

Depletion expense is calculated using the unit-of-production method based on total estimated proved reserves. Effective March 1, 2008, Pod One’s accumulated capital costs were added to the depletion pool and are being depleted from that date. The depletion calculation for the second quarter of 2008 considered the significant increases in proved reserves as reported by the company’s independent reserve evaluators as at June 30, 2008, included future development costs of \$999 million (June 30, 2007 - \$15 million) for proved undeveloped reserves, but excluded capital costs of \$193 million (June 30, 2007 - \$339 million) related to oil sands projects currently in the pre-production stage and undeveloped land costs. The benefit of adding substantial Pod One proved reserves has reduced per unit depletion costs to \$13.31 per boe in the second quarter of 2008 compared to \$27.17 per boe in the second quarter of 2007.

Costs excluded from the depletion pool have been separately tested for impairment. At June 30, 2008 the value of these assets exceeded their accumulated costs.

Refining properties and other capital assets are depreciated over their useful lives.

Included in DD&A for the six months ended June 30, 2008 is an accretion charge of \$845,000 (six months ended June 30, 2007 - \$433,000) 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 \$24.4 million to the estimated total undiscounted liability of \$44 million over the remaining economic life of the company's oil sands, crude oil and natural gas properties.

Total DD&A for the three months ended June 30, 2008 was \$13.8 million (three months ended June 30, 2007 - \$7.4 million) and for the six months ended June 30, 2008 was \$21.3 million (six months ended June 30, 2007 - \$14.7 million). Although depletion per boe has been significantly reduced, production volumes have substantially increased year over year. It is primarily for this reason that overall DD&A charges have increased.

INCOME TAXES

The income tax recovery of \$313,000 in the first six months of 2008 includes a current income tax provision of \$1.5 million, principally related to Canadian capital and other taxes and a future income tax recovery of \$1.8 million reflecting the benefit of increased tax pools during the period.

At June 30, 2008 the company had approximately \$108 million of non-capital losses which expire between 2010 and 2028, \$174 million of capital losses which do not have an expiry date, \$506 million of deductible resource pools and \$32 million of deductible financing costs.

EQUITY INTEREST IN PETROLIFERA PETROLEUM LIMITED ("PETROLIFERA")

In May 2007, Connacher exercised warrants to purchase 1.7 million additional common shares in Petrolifera for total consideration of \$5.1 million. As a result, the company maintained its 26 percent equity interest, as other Petrolifera shareholders similarly exercised their warrants on identical terms. As a consequence, Connacher booked a dilution gain of \$1.9 million.

In June 2008, Petrolifera issued an additional 4.4 million common shares to raise \$40 million. Connacher did not subscribe for any of these shares. Consequently, Connacher's equity interest in Petrolifera was reduced from 26 percent to 24 percent. However, the financing resulted in a dilution gain of \$8 million which was recognized by Connacher in the second quarter of 2008.

Connacher accounts for its 24 percent equity investment in Petrolifera on the equity method basis of accounting. Connacher's equity interest share of Petrolifera's earnings in the first six months of 2008 was \$1.4 million (six months ended June 30, 2007 - \$5.1 million). In the second quarter of 2008, Connacher's share of Petrolifera's earnings were \$935,000 (second quarter 2007 - \$1.2 million).

Additional information relating to Petrolifera including its assets, liabilities and results of operations can be found in Petrolifera's second quarter 2008 interim report which has been posted on SEDAR at www.sedar.com and which is not incorporated by reference in this management's discussion and analysis. Readers are cautioned that as a result of the exercise of any outstanding options of Petrolifera and the issuance by Petrolifera of additional securities, Connacher's interest in Petrolifera will decrease, unless Connacher participates in such issuances of securities.

NET EARNINGS

In the second quarter of 2008 the company reported earnings of \$6.7 million (\$0.03 per basic and diluted share outstanding) compared to earnings of \$22.2 million (\$0.11 per basic and diluted share outstanding) in the second quarter of 2007.

In the first six months of 2008 the company reported earnings of \$4.9 million (\$0.02 per basic and diluted share outstanding) compared to earnings of \$27.2 million or \$0.14 per basic and diluted share for the first six months of 2007.

Explanations for the period to period fluctuations are included in the narrative above, by earnings component.

SHARES OUTSTANDING

For the first six months of 2008, the weighted average number of common shares outstanding was 210,446,291 (2007 - 198,240,426) and the weighted average number of diluted shares outstanding, as calculated by the treasury stock method, was 213,324,122 (2007 - 204,762,395).

As at August 11, 2008, the company had the following equity securities issued and outstanding:

- 211,051,815 common shares;
- 19,157,864 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 June 30, 2008, the company had working capital of \$234 million (December 31, 2007 - \$390 million; June 30, 2007 - \$36 million), including \$233 million of cash on hand (December 31, 2007 - \$392 million; June 30, 2007 - \$25 million). Of this amount \$32 million was restricted in an interest reserve account related to the Senior Notes.

At June 30, 2008 the company also had approximately \$173 million available to be drawn on its five-year term Revolving Credit Facilities, as approximately \$27 million had been used to secure letters of credit primarily for its crude oil purchase activity associated with the refining business. Available cash, anticipated cash flow and funds available under its revolving credit facilities are judged 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 to 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:

(\$000)	As at June 30, 2008	As at December 31, 2007
Long term debt ⁽¹⁾	\$684,705	\$664,462
Shareholders' equity		
Share capital, contributed surplus and equity component	435,194	444,086
Accumulated other comprehensive loss	(10,556)	(13,636)
Retained earnings	54,839	49,989
Total	\$1,164,182	\$1,144,901
Debt to book capitalization ⁽²⁾	59%	58%
Debt to market capitalization ⁽³⁾	42%	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 June 30, 2008. This is due to pre-funding the full cost of Algar in 2007 through the issuance of US \$600 million of Senior Notes, a portion of which proceeds was used to repay previously incurred

indebtedness incurred for Pod One. As at June 30, 2008, the company's calculated ratio of net debt (long-term debt, net of cash on hand) to book capitalization was 39 percent and the percentage of net debt to market capitalization was 28 percent.

In the first quarter of 2008, Pod One, the company's first oil sands facility, 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, assuming product prices and netbacks do not significantly change from current levels. This cash flow, and 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 June 30		Six months ended June 30	
	2008	2007	2008	2007
(\$000s)				
Net earnings	\$6,683	\$22,228	\$4,850	\$27,212
Items not involving cash:				
Depletion, depreciation and accretion	13,825	7,363	21,289	14,721
Stock-based compensation	1,181	333	2,697	3,279
Finance charges—non-cash portion	4,058	324	5,307	324
Future employee benefits	114	122	227	252
Future income tax provision (recovery)	373	4,102	(1,790)	5,267
Foreign exchange (gain) loss	3,317	(14,486)	5,209	(16,188)
Equity interest in Petrolifera earnings	(935)	(1,214)	(1,390)	(5,114)
Dilution gain	(8,066)	(1,896)	(8,024)	(1,896)
Cash flow from operations before working capital and other changes	\$20,550	\$16,876	\$28,375	\$27,857

In the second quarter of 2008 cash flow was \$20.6 million (\$0.10 per basic and diluted share), 22 percent higher than the \$17 million reported (\$0.09 per basic and \$0.08 per diluted share) for the second quarter of 2007, and in the first half of 2008 cash flow was \$28.4 million (\$0.14 per basic and \$0.13 per diluted share) compared to cash flow of \$27.9 million (\$0.14 per basic and diluted share) reported in the first half of 2007, with the increases due to higher upstream product prices and new bitumen sales offset by reduced refining margins in 2008 compared to the 2007 periods.

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 June 30, 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 June 30, 2008, approximately \$25 million of cash had been used to fund the expenditures incurred.

PROPERTY AND EQUIPMENT ADDITIONS

Property and equipment additions totaled \$80.4 million in the second quarter of 2008 and \$196.4 million year to date (second quarter 2007 - \$93.2 million and \$203.1 million first half of 2007). A breakdown of these additions follows:

(\$000)	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Crude oil, natural gas and oil sands	\$75,475	\$90,466	\$188,432	\$197,260
Refinery expenditures	4,928	2,757	7,956	5,844
	\$80,403	\$93,223	\$196,388	\$203,104

Crude oil, natural gas and oil sands capital costs of \$75.5 million in the second quarter of 2008 were comprised of preliminary facility expenditures and costs incurred for certain long-lead equipment items for the Algar project, truck loading facilities at Pod One, core hole and conventional drilling costs and capitalized G&A and interest costs.

For the 2008 year to date, conventional and oil sands exploration expenditures totaled \$70 million, Algar facility and equipment expenditures totaled \$49 million; conventional natural gas facilities totaled \$12 million; Pod One trucking facility and capitalized pre-operating costs totaled \$20 million and capitalized interest, G&A and other expenditures totaled \$37 million. The capital program added significant additional natural gas production and significant additions to proved, probable and possible reserves and contingent and prospective resources, as recently reported in the company's mid-year reserve update.

At our refinery, \$5 million has been incurred on the ultra low sulphur diesel conversion project. Total company year to date capital expenditures were tracking close to our 2008 capital budget.

In 2007, capital costs were primarily focused on the Great Divide Pod One facility and the upstream drilling program.

Second half 2008 capital expenditures will be focused on Algar.

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, for development of conventional petroleum and natural gas assets and for the Montana refinery, if a decision is made to expand refining capacity.

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 8,000 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 10,000 bbl/d SAGD oil sands 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 add an additional 10,000 bbl/d to Connacher's growing production base. The cost of Algar was originally budgeted at \$326 million, as it incorporated scope changes and increased infrastructure costs relative to Pod One. The originally budgeted cost of the Algar project was fully funded in December 2007. We are finalizing our hazardous operations analysis of Algar which may result in changes to overall cost estimates. Available cash, anticipated cash flow and funds available under its revolving credit facilities are judged to be sufficient to fully fund the company's capital program in 2008 and to complete Algar in 2009.

Additional 10,000 bbl/d SAGD 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 \$413 million including \$8 million of non-cash items from \$391 million to provide for increased capital outlays on conventional assets, following a successful winter 2008 drilling program, for oil terminal and related trucking facilities at Pod One and a cogeneration plant at Algar, 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.

RELATED PARTY TRANSACTIONS

A portion of the company's conventional crude oil and natural gas exploration and drilling activities completed in the first half of 2008, and which activities will continue in the future, was conducted with a joint venture partner - a company - an officer of which is also a director of Connacher. Transactions with the related party occurred within the normal course of business and have been measured at their exchange amount on normal business terms. The exchange amount is the amount of consideration established and agreed to by the related party. These capital expenditures incurred to date are not considered material to the company's overall capital expenditure program.

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 and financial results in the first half of 2008 related to changing commodity prices, which were influenced by a weaker US dollar. The average WTI selling price increased by approximately 80 percent to \$110.94/bbl in the first half of 2008. Additionally, the heavy oil : light oil pricing differential narrowed. These two factors were the main reasons that refining margins shrank from 20 percent in the first half of 2007 to one percent in the first half of 2008. However, these two factors had a positive impact on pricing the company’s 2008 first half 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		
	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30
Financial Highlights (\$000 except per share amounts) – Unaudited								
Revenues	103,110	76,700	65,923	93,266	101,991	83,340	100,656	202,016
Cash flow ⁽¹⁾	14,957	14,015	10,980	16,876	10,025	7,084	7,825	20,550
Basic, per share ⁽¹⁾	0.08	0.08	0.06	0.09	0.05	0.03	0.04	0.10
Diluted, per share ⁽¹⁾	0.08	0.07	0.05	0.08	0.05	0.03	0.03	0.10
Net earnings (loss)	6,771	3,267	4,984	22,228	14,589	(840)	(1,833)	6,683
Basic and diluted per share	0.03	0.02	0.03	0.11	0.07	(0.00)	(0.01)	0.03
Property and equipment additions	41,449	74,960	109,881	93,223	64,006	55,852	115,984	80,403
Cash on hand	14,450	142,391	66,209	25,375	754	392,271	323,423	232,704
Working capital surplus (deficiency)	(39,942)	118,626	24,027	36,320	(19,853)	389,789	287,105	234,110
Debt	62,380	229,254	207,828	272,559	260,606	664,462	671,014	684,705
Shareholders' equity	378,730	385,398	384,593	417,793	428,764	480,439	471,559	479,477
Operating Highlights								
Daily production / sales volumes								
Natural gas - mcf/d	12,711	11,291	9,665	9,017	9,413	8,889	10,493	14,220
Bitumen - bbl/d ⁽²⁾	-	-	-	-	-	-	1,773	6,123
Crude oil - bbl/d	1,059	1,139	905	731	781	752	996	981
Equivalent - boe/d ⁽³⁾	3,177	3,021	2,515	2,234	2,350	2,233	4,518	9,474
Product pricing								
Crude oil - \$/bbl	62.53	46.65	49.09	49.79	55.98	56.79	79.50	105.28
Bitumen - \$/bbl ⁽²⁾	-	-	-	-	-	-	53.01	60.80
Natural gas - \$/mcf	5.33	6.57	7.76	7.02	4.70	5.82	6.94	8.77
Selected Highlights - \$/boe ⁽³⁾								
Weighted average sales price	42.16	42.15	47.48	44.63	37.43	42.29	54.46	63.37
Royalties	10.72	9.00	11.22	3.23	6.32	6.34	7.45	6.21
Operating costs	7.99	9.27	8.54	13.08	9.00	13.77	14.32	22.78
Netback ⁽⁴⁾	23.45	23.88	27.72	28.32	22.11	22.18	32.69	34.38
Refining throughput								
Crude charged (bbl/d)	9,613	9,642	9,621	9,248	9,400	9,610	9,830	9,329
Refining utilization (%)	101	102	101	97	100	101	104	98
Margins (%)	16	15	19	21	15	6	1	(0.1)
Common Share Information								
Shares outstanding at end of period	197,878	197,894	198,218	198,834	199,447	209,971	210,277	211,027
Weighted average shares outstanding for the period								
Basic (000)	193,587	193,884	198,119	198,360	198,539	204,701	210,234	210,658
Diluted (000)	200,572	204,028	200,008	209,088	210,580	220,362	231,510	214,530
Volume traded during quarter (000)	48,849	46,444	55,292	61,162	70,939	52,198	63,718	107,001
Common share price (\$)								
High	4.55	4.43	4.13	4.43	4.40	4.08	3.94	5.26
Low	3.09	3.17	3.07	3.07	3.20	3.31	2.59	3.10
Close (end of period)	3.60	3.49	3.86	3.69	4.01	3.79	3.13	4.30

- (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)	June 30, 2008	December 31, 2007
ASSETS		
CURRENT		
Cash	\$200,316	\$329,110
Restricted cash (Note 9(c))	32,388	63,161
Accounts receivable	59,428	25,084
Inventories (Note 5)	37,541	18,379
Income taxes recoverable	4,600	4,279
Prepaid expenses	1,336	2,520
	335,609	442,533
Property and equipment	849,771	671,422
Goodwill	103,676	103,676
Investment in Petrolifera	45,024	35,610
Deferred costs	4,625	5,587
	\$1,338,705	\$1,258,828
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$101,462	\$52,744
Due to Petrolifera	37	-
	101,499	52,744
Long term debt (Note 4(e))	684,705	664,462
Future income taxes	48,438	36,818
Asset retirement obligations (Note 6)	24,357	24,365
Employee future benefits	229	-
	859,228	778,389
SHAREHOLDERS' EQUITY		
Share capital, contributed surplus and equity component (Note 7)	435,194	444,086
Retained earnings	54,839	49,989
Accumulated other comprehensive loss	(10,556)	(13,636)
	479,477	480,439
	\$1,338,705	\$1,258,828

Connacher Oil and Gas Limited
CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
(Unaudited)

	Three months ended June 30		Six months ended June 30	
(\$000, except per share amounts)	2008	2007	2008	2007
REVENUES				
Upstream, net of royalties	\$83,483	\$8,413	\$111,409	\$16,620
Downstream	117,820	84,628	189,719	142,224
Interest and other income	713	225	1,544	345
	202,016	93,266	302,672	159,189
EXPENSES				
Upstream - diluent purchases and operating costs	50,909	2,660	64,901	4,592
Upstream transportation and marketing costs	2,934	-	3,428	-
Downstream - crude oil purchases and operating costs (Note 5)	117,926	66,480	189,319	112,878
General and administrative	2,911	1,663	5,977	5,248
Stock-based compensation (Note 7(a))	1,181	333	2,697	3,279
Finance charges	10,298	1,264	14,729	1,710
Foreign exchange loss (gain)	3,317	(14,486)	5,209	(16,188)
Depletion, depreciation and accretion	13,825	7,363	21,289	14,721
	203,301	65,277	307,549	126,240
Earnings (loss) before income taxes and other items	(1,285)	27,989	(4,877)	32,949
Current income tax provision	660	4,769	1,477	7,480
Future income tax provision (recovery)	373	4,102	(1,790)	5,267
	1,033	8,871	(313)	12,747
Earnings (loss) before other items	(2,318)	19,118	(4,564)	20,202
Equity interest in Petrolifera earnings	935	1,214	1,390	5,114
Dilution gain (Note 9(e))	8,066	1,896	8,024	1,896
NET EARNINGS	6,683	22,228	4,850	27,212
RETAINED EARNINGS, BEGINNING OF PERIOD	48,156	14,012	49,989	9,028
RETAINED EARNINGS, END OF PERIOD	\$54,839	\$36,240	\$54,839	\$36,240
EARNINGS PER SHARE (Note 9 (a))				
Basic	\$0.03	\$0.11	\$0.02	\$0.14
Diluted	\$0.03	\$0.11	\$0.02	\$0.14

Connacher Oil and Gas Limited

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(\$000)	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Net earnings	\$ 6,683	\$ 22,228	\$ 4,850	\$ 27,212
Foreign currency translation adjustment	(429)	(6,986)	3,080	(7,547)
Comprehensive income	\$ 6,254	\$ 15,242	\$ 7,930	\$ 19,665

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

(Unaudited)

(\$000)	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Balance, beginning of period	\$ (10,127)	\$ (691)	\$ (13,636)	\$ (130)
Foreign currency translation adjustment	(429)	(6,986)	3,080	(7,547)
Balance, end of period	\$ (10,556)	\$ (7,677)	\$ (10,556)	\$ (7,677)

Connacher Oil and Gas Limited
CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

(\$000)	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Cash provided by (used in) the following activities:				
OPERATING				
Net earnings	\$6,683	\$22,228	\$4,850	\$27,212
Items not involving cash:				
Depletion, depreciation and accretion	13,825	7,363	21,289	14,721
Stock-based compensation	1,181	333	2,697	3,279
Finance charges - non cash portion	4,058	324	5,307	324
Employee future benefits	114	122	227	252
Future income tax provision (recovery)	373	4,102	(1,790)	5,267
Foreign exchange loss (gain)	3,317	(14,486)	5,209	(16,188)
Equity interest in Petrolifera earnings	(935)	(1,214)	(1,390)	(5,114)
Dilution gain (Note 9(e))	(8,066)	(1,896)	(8,024)	(1,896)
Cash flow from operations before working capital and other changes	20,550	16,876	28,375	27,857
Asset retirement expenditures	(83)	-	(206)	-
Changes in non-cash working capital (Note 9(b))	(12,863)	(43,062)	8,907	(36,141)
	7,604	(26,186)	37,076	(8,284)
FINANCING				
Issue of common shares, net of share issue costs (Note 7)	675	238	692	518
Increase in bank debt	-	41,601	-	69,201
Repayment of bank debt	-	(72,996)	-	(81,996)
Issuance of convertible debenture, net of issue costs	-	96,066	-	96,066
Deferred financing costs	5	-	(77)	-
	680	64,909	615	83,789
INVESTING				
Acquisition and development of oil and gas properties	(73,139)	(91,404)	(187,194)	(196,698)
Decrease in restricted cash	33,546	61,724	30,773	118,303
Exercise of Petrolifera warrants	-	(5,143)	-	(5,143)
Change in non-cash working capital (Note 9(b))	(25,249)	21,649	(12,849)	14,544
	(64,842)	(13,174)	(169,270)	(68,994)
NET INCREASE (DECREASE) IN CASH	(56,558)	25,549	(131,579)	6,511
Impact of foreign exchange on foreign currency denominated cash balances	(615)	(4,660)	2,785	(5,225)
CASH, BEGINNING OF PERIOD	257,489	-	329,110	19,603
CASH, END OF PERIOD	\$200,316	\$20,889	\$200,316	\$20,889

Supplementary information - Note 9

Connacher Oil and Gas Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Period ended June 30, 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.

Over the next three years the CICA will adopt its new strategic plan for the direction of accounting standards in Canada, which was ratified in January 2006. As part of the plan, Canadian GAAP for public companies will converge with International Financial Reporting Standards (“IFRS”), with an effective date of January 1, 2011. The company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

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 selling price of the company's dilbit sales largely equates to the purchase price 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 on a portion of natural gas sales volumes notionally in excess of those required for consumption at Pod One. 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 June 30, 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 \$2.4 million. A \$0.50 per mcf change in natural gas prices would have resulted in an earnings impact of \$8,000 for the three months ended June 30, 2008 and \$235,000 for the six months ended June 30 2008.

(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 \$4.1 million change in the fair value of the company's cross-currency and interest rate swaps for the three months ended June 30, 2008 and \$6 million for the six months ended June 30, 2008.

(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 and bitumen revenue receivables, Senior Notes and currency swap, a \$0.01 change in the Canadian dollar exchange rate would have resulted in a \$1.4 million change in net earnings for the first six months of 2008 (three months ended June 30, 2008 - \$900,000).

(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, 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 expiring in December 2012. As at June 30, 2008 they secure approximately \$27 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. The financial covenants applicable to the second quarter of 2008 are:

- Consolidated Total Debt to Total Capitalization Ratio shall not exceed 65% 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 3.5:1 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 at June 30, 2008.

The change in carrying value of long-term debt at June 30, 2008 (\$685 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 \$2.6 million.

At June 30, 2008 the fair values of the Convertible Debentures and Senior Notes were \$109.1 million and \$643 million, respectively, based on their quoted market prices. The fair value of the cross-currency and interest rate swaps was a liability of \$14.0 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 financial 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 June 30, 2008	As at December 31, 2007
Long term debt ⁽¹⁾	\$ 684,705	\$664,462
Shareholders' equity		
Share capital, contributed surplus and equity component	435,194	444,086
Accumulated other comprehensive loss	(10,556)	(13,636)
Retained earnings	54,839	49,989
Total	\$ 1,164,182	\$1,144,901
Debt to book capitalization ⁽²⁾	59%	58%
Debt to market capitalization ⁽³⁾	42%	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 June 30, 2008, the company's net debt (long-term debt, net of cash on hand) was \$452 million and its net debt to book capitalization was 39 percent and its net debt to market capitalization was 28 percent.

5. INVENTORIES

Inventories consist of the following:

(\$000)	June 30, 2008	December 31, 2007
Crude oil	\$7,803	\$2,258
Other raw materials and unfinished products ⁽¹⁾	2,988	1,501
Refined products ⁽²⁾	22,660	11,183
Process chemicals ⁽³⁾	1,004	1,036
Repairs and maintenance supplies and other ⁽⁴⁾	3,086	2,401
	\$37,541	\$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, March 31, 2008 and June 30, 2008 net realizable value was used to value asphalt inventories. At June 30, 2008, net realizable value was lower than cost by \$1.1 million; December 31, 2007 - \$2.5 million. At June 30, 2008 the net realizable value of asphalt was higher than it was at December 31, 2007, due to seasonal influences on asphalt selling prices.

Included in downstream crude oil purchases and operating costs for the six months ended June 30, 2008 was approximately \$174 million of inventory costs (six months ended June 30, 2007 - \$99 million; three months ended June 30, 2008 - \$110 million; three months ended June 30, 2007 - \$60 million).

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)	Six months ended June 30, 2008	Year ended December 31, 2007
Asset retirement obligations, beginning of period	\$24,365	\$7,322
Liabilities incurred	561	8,277
Liabilities settled	(206)	(311)
Change in estimated future cash flows	(1,208)	7,503
Accretion expense	845	1,574
Asset retirement obligations, end of period	\$24,357	\$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)	946,934	770
Issued to directors under share award plan (b)	108,975	381
Assigned value of options exercised in 2008		205
Share issue costs, net of income taxes		(78)
Tax effect of expenditures renounced pursuant to the issuance of flow through common shares in 2007 (c)		(13,250)
Balance, Share Capital, June 30, 2008	211,027,166	\$394,909
Balance, Contributed Surplus, December 31, 2007		\$20,382
Stock based compensation for share options expensed in 2008		3,285
Assigned value of options exercised in 2008		(205)
Balance, Contributed Surplus, June 30, 2008		\$23,462
Equity component of Convertible Debentures, December 31, 2007 and June 30, 2008		\$16,823
Total Share Capital, Contributed Surplus and Equity Component		
December 31, 2007		\$444,086
June 30, 2008		\$435,194

(a) Stock Options

A summary of the company's outstanding stock options, as at June 30, 2008 and 2007 and changes during those periods is presented below:

For the six months ended June 30	2008		2007	
	Number of Options	Weighted Average	Number of Options	Weighted Average
Outstanding, beginning of period	17,432,717	\$3.60	16,212,490	\$3.31
Granted	2,743,792	\$3.22	3,349,597	3.86
Exercised	(946,934)	\$0.81	(830,933)	(0.70)
Expired	(155,782)	\$3.85	(982,000)	(3.60)
Outstanding, end of period	19,073,793	\$3.68	17,749,154	\$3.52
Exercisable, end of period	13,254,013	\$3.70	9,693,064	\$3.10

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 June 30, 2008
\$0.20 - \$0.99	1,137,034	1.5
\$1.00 - \$1.99	1,575,000	1.9
\$2.00 - \$3.99	8,960,071	3.7
\$4.00 - \$5.56	7,401,688	2.9
	19,073,793	3.1

In the second quarter of 2008 a non-cash charge of \$1.2 million (2007 - \$333,000) was expensed, reflecting the fair value of stock options amortized over the vesting period and the fair value of shares granted to directors. A further \$224,000 (2007 - \$542,000) was capitalized to property and equipment.

During the first half of 2008 a non-cash charge of \$2.7 million (2007 - \$3.3 million) was expensed, reflecting the fair value of stock options amortized over the vesting period. A further \$1 million (2007 - \$1.1 million) 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 six months ended June 30	2008	2007
Risk free interest rate	3.1%	4.5%
Expected option life (years)	3	3
Expected volatility	48%	52%

The weighted average fair value at the date of grant of all options granted in the first six months of 2008 was \$1.14 per option (2007 - \$1.52) and for the three months ended June 30, 2008 was \$1.40 per option (2007 - \$1.45).

(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 June 30, 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 six months of 2008, a non-cash charge of \$433,000 (2007 - \$393,000), three months ended June 30, 2008 - \$388,000 (2007 - \$393,000) 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 June 30 (\$000)	Canada Oil and Gas	USA Refining	Total
2008			
Revenues, net of royalties	\$83,483	\$117,820	\$201,303
Equity interest in Petrolifera earnings	935	-	935
Dilution gain	8,066	-	8,066
Interest and other income	605	108	713
Finance charges	10,199	99	10,298
Depletion, depreciation and accretion	12,429	1,396	13,825
Tax provision (recovery)	2,532	(1,499)	1,033
Net earnings (loss)	9,230	(2,547)	6,683
Property and equipment, net	788,042	61,729	849,771
Goodwill	103,676	-	103,676
Capital expenditures	75,475	4,928	80,403
Total assets	\$1,183,469	\$155,236	\$1,338,705
2007			
Revenues, net of royalties	\$8,413	\$84,628	\$93,041
Equity interest in Petrolifera earnings	1,214	-	1,214
Dilution gain	1,896	-	1,896
Interest and other income	111	114	225
Finance charges	1,264	-	1,264
Depletion, depreciation and accretion	5,891	1,472	7,363
Tax provision	3,197	5,674	8,871
Net earnings	11,112	11,116	22,228
Property and equipment, net	520,372	49,160	569,532
Capital expenditures	90,496	2,727	93,223
Total assets	\$705,228	\$116,699	\$821,927

Six months ended June 30 (\$000)	Canada Oil and Gas	USA Refining	Total
2008			
Revenues, net of royalties	\$111,409	\$189,719	\$301,128
Equity interest in Petrolifera earnings	1,390	-	1,390
Dilution gain	8,024	-	8,024
Interest and other income	1,311	233	1,544
Finance charges	14,571	158	14,729
Depletion, depreciation and accretion	18,645	2,644	21,289
Tax provision (recovery)	1,830	(2,143)	(313)
Net earnings (loss)	7,361	(2,511)	4,850
Property and equipment, net	788,042	61,729	849,771
Goodwill	103,676	-	103,676
Capital expenditures	188,432	7,956	196,388
Total assets	\$1,183,469	\$155,236	\$1,338,705
2007			
Revenues, net of royalties	\$16,620	\$142,224	\$158,844
Equity interest in Petrolifera earnings	5,114	-	5,114
Dilution gain	1,896	-	1,896
Interest and other income	124	221	345
Finance charges	1,710	-	1,710
Depletion, depreciation and accretion	11,992	2,729	14,721
Tax provision	3,419	9,328	12,747
Net earnings	9,702	17,510	27,212
Property and equipment, net	520,372	49,160	569,532
Capital expenditures	197,260	5,844	203,104
Total assets	\$705,228	\$116,699	\$821,927

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 June 30 (000)	2008	2007
Weighted average common shares outstanding	210,658	198,360
Dilutive effect of stock options and share units outstanding	3,872	10,728
Weighted average common shares outstanding – diluted	214,530	209,088
For the six months ended June 30 (000)		2007
Weighted average common shares outstanding	210,446	198,240
Dilutive effect of stock options and share units outstanding	2,878	6,522
Weighted average common shares outstanding – diluted	213,324	204,762

(b) Net change in non-cash working capital

For the three months ended June 30

(\$000)	2008	2007
Accounts receivable	\$(6,847)	\$(12,350)
Inventories	492	1,819
Due from Petrolifera	44	(38)
Prepaid expenses	192	(1,012)
Accounts payable and accrued liabilities	(32,260)	(2,753)
Income taxes payable/recoverable	267	(7,079)
Total	\$(38,112)	\$(21,413)

Summary of working capital changes:

(\$000)	2008	2007
Operations	\$(12,863)	\$(43,062)
Investing	(25,249)	21,649
	\$(38,112)	\$(21,413)

For the six months ended June 30

(\$000)	2008	2007
Accounts receivable	\$(34,344)	\$(12,532)
Due from Petrolifera	37	73
Prepaid expenses	1,184	(646)
Refinery inventories	(19,162)	(12,738)
Accounts payable and accrued liabilities	48,664	11,832
Income taxes payable/recoverable	(321)	(7,586)
Total	\$(3,942)	\$(21,597)

For the six months ended June 30

(\$000)	2008	2007
Operations	\$8,907	\$(36,141)
Investing	(12,849)	14,544
	\$(3,942)	\$(21,597)

(c) Supplementary cash flow information

For the three months ended June 30

(\$000)	2008	2007
Interest paid	\$34,953	\$4,152
Income taxes paid	245	6,107
Stock-based compensation capitalized	\$224	\$542

For the six months ended June 30

(\$000)	2008	2007
Interest paid	\$35,336	\$7,599
Income taxes paid	1,372	9,146
Stock-based compensation capitalized	\$1,022	\$1,088

At June 30, 2008 cash of \$32.4 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 six months of 2008, \$227,000 (2007 - \$252,000) three months ended June 30, 2008 - \$114,000 (2007 - \$122,000) has been charged to expense in relation to MRCI's defined benefit pension plan.

(e) Dilution gain

In May 2007, Connacher exercised warrants to purchase 1.7 million additional common shares in Petrolifera for total consideration of \$5.1 million. As a result, the company maintained its 26 percent equity interest, as other Petrolifera shareholders similarly exercised their warrants on identical terms. As a consequence, Connacher booked a dilution gain of \$1.9 million.

In June 2008, Petrolifera issued an additional 4.4 million common shares to raise \$40 million. Connacher did not subscribe for any of these shares. Consequently, Connacher's equity interest in Petrolifera was reduced from 26 percent to 24 percent. However, the financing resulted in a dilution gain of \$8 million which was recognized by Connacher in the second quarter of 2008.

10. RELATED PARTY TRANSACTIONS

A portion of the company's conventional crude oil and natural gas exploration and drilling activities completed in the first half of 2008, and which activities will continue in the future, was conducted with a joint venture partner - a company - an officer of which is also a director of Connacher. Transactions with the related party occurred within the normal course of business and have been measured at their exchange amount on normal business terms. The exchange amount is the amount of consideration established and agreed to by the related party. These capital expenditures incurred to date are not considered material to the company's overall capital expenditure program.

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
Senior Vice-President, Milestone
Exploration Inc., Calgary

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

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

Jennifer K. Kennedy
Corporate Secretary
Partner, Macleod Dixon LLP

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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 Pipeline Corporation
Great Divide Pipeline Limited
Montana Refining Company, Inc.

Related Company

Petrolifera Petroleum Limited (24%)

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 and 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

mmboe
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