

## CONNACHER STRENGTHENS BALANCE SHEET IN THIRD QUARTER 2004

Calgary, Alberta - Connacher Oil and Gas Limited (CLL-TSX) today reported its operating and financial results for the three months and nine months ended September 30, 2004 with comparative results for 2003.

**Highlights:**

- Revenue for the first nine months of 2004 increased 29 percent over last year despite a \$17.8 million disposition of producing properties in the third quarter.
- Operating netbacks in the third quarter improved to \$17.05 per boe, 36 percent higher than second quarter operating netbacks of \$12.53 per boe.
- Properties with higher operating costs at Cabri, Saskatchewan and Islay/Lloydminster, Alberta were sold at attractive prices, strengthening the company's financial condition. Connacher lowered its net debt to \$14 million during the quarter, 56 percent lower than the \$32 million reported at the end of the second quarter.
- Investor interest in Connacher's Great Divide oil sands project escalated with rising crude oil prices, high prices paid for offsetting acreage and significant new postings for the December 15, 2004 Crown land sale.

On October 25, 2004, subsequent to the end of the third quarter, Connacher announced an equity financing expected to close in mid-November, raising gross proceeds of up to \$20.25 million. Proceeds will be applied to new capital spending and the repayment of bank debt and trade payables. Connacher will then be able to use its cash balances, cash flow and available credit to focus on growth expenditures, with an emphasis on its Great Divide oil sands project and on drilling programs at Tompkins and Battrum, Saskatchewan.

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

- 1) Cash flow from operations and cash flow per share are not measures that have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures presented by others. It is used by the company as a standard of performance. Cash flow from operations is expressed before changes in non-cash working capital. Cash flow from operations per share is calculated in a manner consistent with the calculation of earnings per share.
- (2) Comparative figures have been restated to reflect changes in accounting policies.
- (3) Barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe, derived by converting gas to oil in the ratio of six thousand cubic feet of gas to one barrel of oil (6 mcf:1 bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

To reduce debt and position the company for growth, during the third quarter Connacher took advantage of historically high oil prices to sell its producing properties and certain associated petroleum and natural gas rights at Islay/Lloydminster and Cabri. Both properties were experiencing high or rising operating costs despite cost control efforts. The Islay/Lloydminster properties produced heavy oil and had a relatively high appraised worth to loan value, while Cabri had experienced various startup and operational challenges. The sales were accomplished on a timely basis to two large independent companies for gross proceeds of \$17.8 million and closed on July 21, 2004. Proceeds were used to reduce bank debt to less than \$8 million and to reduce trade payables.

These dispositions reduced Connacher's financial risk and represented the first of a series of initiatives to strengthen the company's overall financial condition. The company continues to seek additional funding so it can further reduce its net debt and improve working capital. On October 25, 2004, Connacher announced it planned to raise up to \$20.25 million from the sale of up to 30 million common shares at \$0.475 per share and 10 million flow-through common shares at \$0.60 per share. Closing is scheduled for November 15, 2004. Once completed, Connacher can refocus on developing the considerable potential of its remaining asset base at Tompkins, Battrum and Steelman in Saskatchewan and at its Great Divide Steam Assisted Gravity Drainage (SAGD) oil sands project in northeast Alberta. Connacher is also progressing on reorganizing its Argentinean holdings with a view to securing cash proceeds and an equity stake in a new public company. This shareholding could be monetized at some point in the future for the benefit of all shareholders, after the potential of the Argentinean acreage is further evaluated through seismic and drilling.

Connacher's production has increased and now ranges between 775 and 825 boe/d (including 180 boe/d in Argentina). This has been accomplished with limited capital investment since the end of the first quarter of 2004. The company's overall land base is approximately 115,000 net acres in Canada and 47,500 net acres in Argentina. The company plans to grow its Canadian production, reserves and cash flow through drilling later this year once its refinancing activities are completed.

At September 30, 2004, Connacher had a working capital deficiency and its banker had waived compliance with the related debt covenant, pending its next review at year-end 2004. Connacher's credit facility has been established at \$8 million, reflecting the reduced reserve and production base in Canada. Connacher anticipates continued lender and creditor cooperation until it completes its financing program.

Connacher's 100 percent-owned Upper Shaunavon oil discovery at Tompkins 5-19-14-20 W3M has performed well, averaging close to 70 bbl/d of medium gravity crude oil with minimal water since going onstream in the first quarter. Connacher acquired offsetting land at a spring Crown sale, consolidating its land position. Further drilling is likely in the fourth quarter of 2004 along with evaluation of Upper Shaunavon and Second White Specks natural gas indicated by earlier drilling on these large contiguous acreage blocks in southwest Saskatchewan.

Further drilling in the Battrum area, as well as commencement of the alkaline surfactant polymer (ASP) pilot flood, continue to await completion of financing activity. High oil prices and positive laboratory test results provide a stimulus for the ASP enhanced recovery program. Possible additional drilling for light oil at Steelman may be undertaken, directly or with a joint venturer.

Efforts are underway to find a long-term financial partner for Connacher's Great Divide SAGD oil sands project. Connacher owns 100 percent in 53,120 acres in the Hangingstone area 50 miles southwest of Fort McMurray. Several McMurray channels are indicated, including one with considerable recognized recoverable reserve potential, classified in the possible reserves category under National Instrument 51-101 (NI 51-101). With strong oil prices and concerns being expressed about the security of world supplies, Alberta's oil sands are increasingly the focus of investor attention. Connacher believes its Great Divide project has commercial potential which, if developed, would materially impact the company's affairs. Upon completion of its equity financing in mid-November 2004, Connacher expects to drill at least eight and up to 11 additional core holes on pod 1, identified on its acreage, to more fully delineate it prior to applying to the EUB for approval to proceed to commerciality. Additional studies and drilling on other pods will also proceed in the first half of 2005 prior to submission of the application.

The impact of rising crude oil prices on oil sands land values became apparent on October 13, 2004 when an oil sands lease covering 12,800 acres, one quarter the size of Connacher's holdings and located 10 miles east of Connacher's Great Divide acreage sold at a Crown sale for \$15 million. Of considerable additional interest is that more than 250,000 acres of rights adjacent to Connacher's lands have been posted for sale on December 15, 2004. Refer to Connacher's website for a map of the area.

On a preliminary basis, Connacher has identified up to 25 gross (19.8 net) wells which could be drilled on its Saskatchewan properties during late 2004 and early 2005 at a net cost of \$7.5 million, including new seismic and facilities. This program would be financed from available funds, including cash balances, cash flow from operations and possible joint ventures with minimal borrowing. On a risk adjusted basis, this drilling could permit Connacher to roughly double its Canadian production and replace more than 300 percent of this expanded production base at low cost, thereby restoring a growth profile.

Following the sale of the Islay/Lloydminster and Cabri properties and accounting for year-to-date production, Connacher's proved and probable reserve base, as estimated by DeGolyer and MacNaughton Canada Ltd ("D&M") in an updated report effective October 1, 2004 is 3.6 million boe, with a 10 percent present worth of \$32.2 million. Additionally, Connacher has 54 million barrels of possible reserves, as estimated by D&M, with a 10 percent present worth of \$259 million. Most of these reserves are located in the company's Great Divide oil sands project. Proved, probable and possible reserves have the meaning ascribed to them in NI 51-101. The year-end 2003 reserve report was also prepared by D&M in accordance with NI 51-101.

Connacher is a Calgary-based oil and gas exploration and production company. Its principal producing assets are located at Battrum and Tompkins in southwest Saskatchewan. Producing assets are also held in Argentina. The company also owns 100 percent in 53,120 acres of oil sands leases southwest of Fort McMurray at its Great Divide project in northeast Alberta.

Connacher's interim report and financial statements will be posted on the company's website at [www.connacheroil.com](http://www.connacheroil.com) and on Sedar at [www.sedar.com](http://www.sedar.com).

*This press release contains forward-looking statements, including expectations of future production and cash flow. These statements are based on current expectations that involve a number of risks and uncertainties, which could cause actual results to differ 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 estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), and the risk of commodity price and foreign exchange rate fluctuations as well as country risk associated with international activity.*

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