



PRESS RELEASE

August 12, 2009

CONNACHER REPORTS STRONG SECOND QUARTER 2009 EARNINGS, BUOYED BY FOREIGN EXCHANGE GAINS; POSITIVE UPSTREAM AND DOWNSTREAM RESULTS; FINANCES STRENGTHENED; ALGAR CONSTRUCTION PROGRESSING FAVORABLY; DRILLING OF ALGAR SAGD WELL PAIRS UNDERWAY

Calgary, Alberta - Connacher Oil and Gas Limited (CLL-TSX) made substantial progress during the second quarter of 2009 ("Q2 2009"). Strong earnings were achieved, buoyed by foreign exchange gains and much improved upstream and downstream operating results, compared to the prior quarter ("Q1 2009"). Including the value of intercompany sales of diluent to our Great Divide Pod One ("Pod One"), our refining division earned a net margin of \$3.5 million, or seven percent in the quarter. Year-to-date ("YTD" or "YTD 2009"), our refining margin totaled approximately \$6 million on sales of approximately \$102 million or approximately six percent. We remain optimistic about third quarter 2009 ("Q3 2009") refining results due to anticipated strong asphalt sales, although we do have a planned refinery turnaround in September 2009. Our upstream division recorded much improved results over the difficult prior quarter. As a consequence we had positive cash flow from operations before changes in non-cash working capital and other ("cash flow") which more than offset negative cash flow in Q1 2009.

Our focus in the reporting period was on strengthening our financial condition to be positioned to reactivate our Algar project, which we have done successfully. We are making good progress in our plant construction and recently initiated drilling of the 17 steam-assisted gravity drainage ("SAGD") well pairs now planned on three drilling pads with two modern rigs. We continue to post pictures of our progress on our website on the cover page at www.connacheroil.com as we count down our progress to completion of the plant and related facilities.

We remain optimistic about our outlook as we continue our rampup of bitumen production at Pod One, which averaged 6,284 bbl/d in the second quarter. Our production rampup has been held back, in part arising from the decision to curtail production earlier in the year, as a result of the installation of four electrical submersible pumps ("ESP") in the second quarter and because of a number of anomalous operating issues. We continue to target bitumen production rampup to near design capacity later in 2009, after completion of a mini-plant turnaround and anticipate installation of additional ESP's. We remain focused on our long term goal of developing and producing 50,000 bbl/d of bitumen by 2015.

These Q2 2009 results will be subject to a Conference Call event at 9:00 a.m. MDT August 13, 2009. To listen to or participate in the live conference call please dial either (416) 644-3426 or (800) 731-5774. A replay of the event will be available from August 13, 2009 at 11:00 p.m. MT until August 20, 2009 at 11:59 p.m. MT. To listen to the replay please dial either (416) 640-1917 or (877) 289-8525 and enter the passcode 21311159 followed by the pound sign.

OVERVIEW

The overall operating environment for the Canadian crude oil and natural gas industry improved during the second quarter of 2009, as crude oil prices were considerably stronger than during the prior reporting period ("Q1 2009"), although they remained much below levels realized one year ago. However, the recent strength in crude oil prices was offset by a decline in natural gas prices, which were considerably weaker than during the prior quarter and last year. While the impact of a stronger Canadian dollar on our revenues in Q2 2009 muted some of the benefit of increased oil prices, it favorably impacted the carrying cost of our U.S. dollar-denominated debt, resulting in substantial unrealized foreign exchange gains for the period.

Both upstream and downstream netbacks were stronger and contributed to improved financial results in Q2 2009. A strong third quarter 2009 (“Q3 2009”) is anticipated in the downstream division from the realization of high priced asphalt sales, which were slower than expected due to poor weather conditions for paving activity.

Positive cash flow was achieved after two quarters of negative cash flow, which had resulted from the collapse of energy prices. Earnings were strong in Q2 2009, due to a significant foreign exchange gain and almost offset the adverse effects of a weakening Canadian dollar in Q1 2009. Despite this improvement, 1H 2009 results remained below those achieved in the same period in 2008, primarily due to the collapse of energy prices on a comparative basis.

Our emphasis during Q2 2009 and YTD 2009 (or “1H 2009”) was on restoring Connacher’s overall financial strength and liquidity, which had been adversely impacted upon since year end 2008 by the weakness in commodity prices and their impact on operating and financial results; the effect of our decision to reduce bitumen production to minimize losses at Pod One in late 2008 and early 2009, when prices were low and heavy oil differentials were very high; normal seasonal weakness in our downstream refining division; and our decision in Q1 2009 to cancel our credit facilities aggregating in excess of \$200 million. These developments, when combined with negative first quarter cash flow, a responsible but controlled outlay of cash for capital projects and a reduction in accounts payable, together with debt servicing requirements, had reduced our cash balances and meant that our ability to be able to restore and complete the Algar project, with confidence, required more corporate liquidity.

Fortunately, Connacher was able to access equity and debt markets in Q2 2009 and raised total net proceeds of \$370 million, which added the requisite liquidity and positioned the company to restore its growth profile. Subsequent to closing both our equity and debt issues, we were able to announce the resumption of construction at Algar, our second 10,000 bbl/d steam-assisted gravity drainage project. Our ability to access capital markets and to attract a high level of sponsorship from significant institutional investors underscored the attractiveness of Connacher’s growth prospects and the ongoing long-term appeal of the oil sands sector.

Our equity issue was a fully-marketed deal, allowing existing shareholders to participate through the investment dealer syndicate if they elected to do so. While the size of the issue resulted in a discount to the prevailing market, its success enabled us to successfully place and realize improved pricing for our new long-term debt offering.

Our new bond issue, which matures in 2014 and does not require principal repayments until that time, was well received and was also largely acquired by recognized long-term investors. This added capital was secured without exposing the company and its operations to a myriad of problematic maintenance covenants. We continue to negotiate the terms of a follow-on revolving bank credit facility to further enhance our total corporate financial flexibility.

Our liquidity runway was extended as a consequence of this financing activity and this gave us the confidence to conclude we could reactivate Algar, supported by the improvement in crude oil markets from the devastating lows experienced in late 2008.

Algar is now proceeding favorably and we anticipate completing the plant and related SAGD horizontal well pairs by approximately April, 2010. Thereafter, we envisage approximately one month to commission the plant, followed by approximately three months of steaming of the well pairs, with a view to first bitumen production at Algar by mid-summer 2010 and ramping up thereafter, to near plant capacity by late 2010 or early 2011. At that time, our bitumen production should be approximately double or more than what it is today. We believe there are few if any other Canadian companies that have this visibility of solid, predictable and near-term production growth ahead of them. We hope to double it again in the ensuing two-three years, once our Environmental Impact Assessment (“EIA”) is approved and we realize more of the established productive potential from our oil sands properties in the Divide region of northeast Alberta (“Great Divide”). We continue to adhere to our target of 50,000 bbl/d of bitumen production by 2015.

Highlights of the second quarter and first half of 2009 were as follows:

- \$370 million of new equity and debt capital raised; liquidity runway extended
- Algar project reinstated in early July 2009
- Improved financial and operating results achieved during Q2 2009
- Pod One rampup continues with lower operating costs and improving netbacks

Summary Results

	Three months ended June 30			Six months ended June 30		
	2009	2008	% Change	2009	2008	% Change
FINANCIAL (\$000 except per share)						
Revenues, net of royalties	100,219	202,016	(50)	161,976	302,672	(46)
Cash flow ⁽¹⁾	9,570	20,550	(53)	4,878	28,375	(83)
Per share, basic ⁽¹⁾	0.04	0.10	(60)	0.02	0.14	(86)
Per share, diluted ⁽¹⁾	0.03	0.10	(70)	0.02	0.13	(85)
Net earnings (loss)	39,966	6,683	489	(6,878)	4,850	(255)
Per share, basic (loss)	0.15	0.03	400	(0.03)	0.02	(250)
Per share, diluted (loss)	0.14	0.03	367	(0.03)	0.02	(250)
Property and equipment additions	40,236	80,403	(50)	104,491	196,388	(47)
Cash on hand				401,160	232,704	72
Working capital				455,001	234,110	94
Long term debt				960,593	684,705	40
Shareholders' equity				622,235	479,477	30
Total assets				1,723,370	1,338,705	29
UPSTREAM OPERATING RESULTS						
Daily production / sales volumes						
Bitumen - bbl/d ⁽²⁾	6,284	6,123	3	6,227	3,948	58
Crude oil - bbl/d	1,114	981	14	1,147	988	16
Natural gas - Mcf/d	12,144	14,220	(15)	12,484	12,356	1
Barrels of oil equivalent - boe/d ⁽³⁾	9,421	9,474	(1)	9,455	6,996	35
Product pricing ⁽⁴⁾						
Bitumen - \$/bbl ⁽²⁾	40.95	60.80	(48)	31.84	59.05	(46)
Crude oil - \$/bbl	54.87	105.28	(48)	47.07	92.29	(49)
Natural gas - \$/Mcf	3.35	10.02	(67)	4.13	9.08	(55)
Barrels of oil equivalent - \$/boe ⁽³⁾	38.11	65.25	(42)	32.13	62.41	(49)
DOWNSTREAM OPERATING						
Refining throughput - crude charged - bbl/d	9,145	9,329	(2)	8,012	9,580	(16)
Refinery utilization (%)	96	98.2	(2)	84	100.8	(17)
Margins (%)	5	(0.1)	5,100	6	0.2	2,900
COMMON SHARES OUTSTANDING						
Weighted average						
Basic	266,425	210,658	26	239,008	210,446	14
Diluted	286,985	214,530	34	239,008	213,324	12

End of period			
Issued	403,546	211,027	91
Diluted	439,890	250,522	76

(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. 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. Boes may be misleading, particularly if used in isolation.

(4)Product pricing excludes realized financial derivative gains/losses and unrealized mark-to-market non-cash accounting gains/losses.

Operating conditions improved for the Canadian oil industry during Q2 2009 as crude oil prices improved considerably. Our conventional oil prices were up 38 percent from Q1 2009 to \$54.87 per barrel. Our bitumen selling prices almost doubled to \$40.95 per barrel compared to Q1 2009. Also, in June 2009 our crude oil prices were at their highest level of the year at \$65.56 per barrel for our quality of conventional crude oil sales and at \$50.29 per barrel of bitumen, net of diluent and transportation charges.

This strength in crude oil pricing was particularly important to Connacher, as we are highly leveraged to crude oil prices and their impact on our valuation and our operating results. However, like all producers, we also felt the adverse effect of weak natural gas prices, which were only about 45 percent of 1H 2008 levels at \$4.13/mcf, when compared to \$9.08/mcf last year. Fortunately, these lower prices contributed to lower bitumen operating costs as Connacher is substantially indifferent to natural gas price levels, in that we consume approximately the same amount of natural gas as the company’s current production levels. This underscores the importance of the integrated strategy we adopted for our oil sands business several years ago.

Improved overall prices enabled Connacher to record positive Q2 2009 improvements in our upstream production netbacks, which were almost triple those recorded in our Q1 2009 reporting period. While these remain below the much stronger levels achieved in 1H 2008, when product pricing per barrel of oil equivalent (“boe”) was almost 50 percent higher than that achieved YTD 2009, the direction and rate of improvement during Q2 2009 was discernible.

As overall capital market and industry operating conditions remained quite volatile, our 1H 2009 results did not fully capture the improved pricing impact as a consequence of crude oil hedging programs put in place on a portion of our production during the dark days of early 2009. These hedges were designed to protect Connacher against continuing operating losses from production, had crude oil prices further deteriorated below or remained at the very low levels realized in December 2008. At that time, WTI had declined to the U.S.\$34/bbl level and heavy oil price differentials were as high as \$22/bbl, resulting in negative wellhead bitumen prices, before operating costs. Obviously, hedging to enhance the probability of positive netbacks from production made sense at the time. We will continue to manage our risk profile utilizing timely and advantageous derivative programs during periods of high capital expenditures, as we have a leveraged balance sheet.

We are pleased to report that both our upstream and downstream divisions recorded positive netbacks during the Q2 2009 and, in particular, the upstream results more than offset negative recorded netbacks in Q1 2009. We also can report that our cash flow from operations before working capital and other changes (“cash flow”) was much stronger in Q2 2009 and more than offset the negative cash flow of Q1 2009.

Earnings were also significantly improved in Q2 2009, primarily arising from unrealized foreign exchange gains on the translation of our U.S. dollar-denominated debt, resulting from a stronger Canadian dollar. These unrealized gains more than offset unrealized foreign exchange losses sustained in Q1 2009. As a result, we had earnings of \$40 million in Q2 2009 and recorded a modest loss for the first half of 2009. Again, these results were below last year due to substantially lower commodity price levels in the current year.

Restoring Liquidity and Growth

Our major activity during Q2 2009 was to restore our corporate liquidity so we could again focus on growth. Since year end 2008, our cash balances were reduced from approximately \$224 million and would have declined to approximately \$31 million at June 30, 2009, had we not secured new sources of funding for the company.

Accordingly, this would not have allowed us to reinstate Algar without new funding, especially as we had cancelled our \$200 million plus credit facility in Q1 2009. We had counted on this funding being available to complete Algar when we earlier advised we had the requisite funds for completions.

Shareholders have asked where the cash was invested or spent so we are happy to elaborate. During Q1 2009, we had capital expenditure outlays of \$64 million, financed operations to the extent of \$5 million and used \$59 million of cash for working capital purposes, including paying down our accounts payable and financing our asphalt and other inventory buildups in our downstream operation. This reduced our March 31, 2009 cash balances to \$96 million. Our capital outlays of \$40 million in Q2 2009, combined with further financing of working capital to the extent of \$41 million was offset by \$6 million in foreign exchange gains on U.S. dollar cash balances and cash flow of \$9.6 million, but our liquidity was strained.

Because we had approximately \$150 million of stranded capital already invested in Algar and because we could not realize on this significant investment and restore growth to the company without new funding, a decision was made to raise cash funds to be able to proceed with Algar, with the certainty we would have sufficient funds to complete while still meeting our financial obligations and carrying the project through commissioning, steaming, startup and rampup until Algar could begin to contribute higher levels of production and resultant operating income and be recorded in our accounts.

We were able to access the equity markets during Q2 2009 and raised \$164 million of net proceeds through an underwritten marketed sale of common equity from treasury. While we attempted to secure the highest possible price for this issue, market conditions dictated a clearing price of \$0.90 per common share to raise the amount of capital we felt we needed to achieve our financing objectives. It resulted in the issuance of 192 million shares, bringing our total shares outstanding to 403 million. As a marketed deal which occurred over several days, all of our shareholders (except management and directors) had the opportunity, if they chose to exercise it, to participate in the financing through their broker/dealers. Regrettably, regulators precluded "insider" participation (specifically management and directors), despite the indicated willingness of certain of these individuals to acquire shares in support of the transaction and the expressed preference by prospective institutional buyers for insider participation and support of the financing. Several insiders did subsequently acquire shares in public markets at higher prices as a result of this regulatory decision, indicating their continuing financial commitment to the growth and potential of the company.

At the time of the equity financing, we had hoped to be able to secure new bank financing in the form of a construction loan and revolving working capital facility to have the desired certainty of funding before proceeding with the reinstatement of Algar. Unfortunately suitable terms for a construction loan were not forthcoming and accordingly we opted to access the high yield bond market with the successful issuance of U.S.\$200 million of first lien senior secured notes. This issue was placed with a strong contingent of long-term institutional buyers and has since traded at a premium to the issue price of 93.678%. The notes have an 11.75% coupon and mature on July 15, 2014. No principal payments are required in the intervening period. Net proceeds received were \$206 million at the time of closing of the debt transaction.

As a result of these two successful financings, Connacher not only secured an expanded body of shareholders and noteholders with indicated long-term investment objectives, but also was able to announce it was reinstating the Algar project, reactivating the construction of its cogeneration project and undertaking the building of a dilbit sales transfer line from Algar to Pod One, while strengthening its working capital position and overall corporate liquidity.

We are now underway with construction at Algar and also should shortly commence the drilling of the SAGD horizontal well pairs in order to be completed within the approximate 275 day completion timetable established by the company. We are regularly posting a slide show on our website at www.connacheroil.com to demonstrate our progress at Algar and we have a countdown clock to indicate our commitment to a timely completion of the project. We will need cooperation from the weather to achieve our objective. Also, where we can, we are attempting to secure improved costing of the balance of the project, recognizing that many long lead items were built throughout 2008 after we had established the original funding for the project.

The deterioration in industry conditions, cancellation of our \$200 million plus credit facilities in Q1 2009, delays necessitated by the extreme economic and capital market uncertainty, weak commodity prices and the burden of ongoing financial obligations, including a significant reduction in accounts payable from approximately \$100 million to approximately \$47 million, while also funding \$104 million of capital expenditures in the first half of 2009, were behind the capital raising decisions. This was the only viable manner by which we could have liberated the significant stranded capital already invested in the Algar project. Our timing was fortuitous, as since we completed our financing activity, commodity prices and capital markets have been volatile, suggesting we would have been hard pressed to enter these markets at a later date than needed. Also, the successful equity issue enabled us to successfully place and secure better pricing and terms for our long-term first lien notes.

We now have an extended liquidity “runway”, with no maintenance covenants. We are operating with the certainty that our money is in the bank and not subject to second-guessing by bank credit committees or the vagaries of the credit markets, which remain extremely tight and expensive. We are nearing conclusion of our negotiations to secure satisfactory terms and conditions for a follow-on revolving bank credit facility, which if completed would give us increased financial flexibility for our normal course business activities, including the issuance of letters of credit and hedging transactions to manage corporate risk.

It is gratifying to be able to again focus on growth and progress. We believe our assets are well-situated and of high quality and we are confident in our plan going forward from here. We are advancing our EIA for further development of our Great Divide reserves to an interim production level of 44,000 bbl/d of bitumen, representing a further 24,000 bbl/d beyond Pod One and Algar. We hope to have the EIA approved by 2011, so that we can proceed to expand to the 44,000 bbl/d level by approximately 2013, followed by a further jump to 50,000 bbl/d of bitumen by 2015.

We anticipate a significant improvement in the contribution to our overall results from our downstream activities during Q3 2009, as the impact of high priced asphalt sales and generally better economic conditions assist this portion of our integrated business activity. Asphalt sales were generally hampered by cold and wet weather in Montana and Alberta during Q2 2009, which delayed road paving activities. As at June 30, 2009 we had over 430,000 barrels of asphalt in inventory, the majority of which had been contracted for sale at prices in excess of U.S.\$100 per barrel. We will be conducting a scheduled turnaround at the Montana refinery during September 2009, but will continue our aggressive asphalt sales from inventory during that period.

Our upstream conventional activity remains quiet but stable as we await indications of better natural gas markets to follow up on capturing already-identified productive capacity. This would enable us to retain our natural gas self-sufficiency quotient within our business model, timed to meeting Algar start-up requirements.

During Q2 2009, bitumen production at Pod One averaged approximately 63 percent of plant capacity. Production was affected by a number of minor planned and unplanned interruptions. Power outages at the Pod One plant, failure of a flare stack and unplanned evaporator maintenance all contributed to a reduction in bitumen production during the quarter. Also we now have installed five electric submersible pumps (“ESP’s”) which are contributing to lower steam-oil ratios (“SOR’s”) and are also helping to lower operating costs at a time when our focus is on optimization. This process has also been assisted by lower natural gas prices and we have recently lowered unit operating costs at Pod One to under \$15 per barrel of bitumen. In July 2009, we converted two new SAGD well pairs from the steam circulation phase to full production, which will positively impact our bitumen production ramp-up. Our Q3 2009 objective is to achieve steady state production at Pod One and gradually move our plant utilization to 90 percent or better later this year. We have a minor turnaround scheduled at Pod One in September 2009, lasting between two days and four days. This will modestly impact on average daily production levels.

Our working capital at June 30, 2009 totaled \$455 million including \$401 million of cash. This underscored our preparedness for Algar and we anticipate being able to manage any issues that might come our way until Algar comes on stream. Our revised full year capital budget for Connacher for 2009 is now \$325 million, which will be financed from these cash balances and from cash flow. The prize is the potential to more than double our bitumen production by late 2010 or early 2011.

The cost to complete Algar, excluding capitalized items and contingencies, is estimated to be \$360 million. Savings arising from remaining activities occurring in a more “normalized” construction and labour environment have been offset

by minor scope changes to the project and the decision to drill and complete two additional SAGD well pairs at Algar, bringing the total SAGD well pairs to 17, to ensure effective exploitation of the reservoir.

In addition, to recognize unplanned events that often occur during a major construction project and to factor unpredictable and often severe weather that can occur in northern Alberta, management has added a \$15 million contingency to the Algar budget, bringing the total cost for Algar, excluding capitalized items, to \$375 million of which \$128 million was incurred pre-2009, \$175 million is estimated to be incurred in 2009 and the \$72 million balance is forecast to be incurred in 2010.

We look forward to delivering these results to you. We welcome our new shareholders and appreciate the strong vote of confidence given to us in moving ahead with our programs, as evidenced by the success of our recent financings. We also appreciate the continuing support of all of our shareholders as we work our way through these difficult but exciting times to achieve our goals. We welcome Ms. Jennifer Kennedy, Mr. Peter Sametz and Mr. Kelly Ogle as newly elected Directors and note the appointment of Ms. Rashi Sengar, a partner of Macleod Dixon, as Connacher's Corporate Secretary.

Forward Looking Information

This news release contains forward-looking information including but not limited to expectations of future production, expectations regarding the future price of asphalt, the development of additional oil sands resources (including development plans with respect to Algar and the timeline and estimated capital costs for construction of Algar), the use of alternative financial derivative strategies to protect the Corporation's cash flow and plans to secure a new banking credit facility, ability to manage issues that may arise in advance of Algar coming on stream, anticipated 2009 capital budget, the timing of production ramp-up and the installation of additional electrical submersible pumps at Pod One and anticipated third quarter results from the Corporation's downstream division. Forward looking information is based on management's expectations regarding future growth, results of operations, production, future commodity prices and foreign exchange rates, 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 and future economic conditions. 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 associated with the impact of general economic conditions, risks and uncertainties associated with securing and maintaining the necessary regulatory approvals and financing to proceed with the continued expansion of the Great Divide Oil Sands Project. In addition, the current financial crisis has resulted in severe economic uncertainty and resulting illiquidity in credit and capital markets which increases the risk that actual results will vary from forward looking expectations in this news release and these variations may be material. There can be no assurance that the Corporation will be able to continue to secure sources of liquidity. These and other risks and uncertainties are described in further detail in Connacher's Annual Information Form for the year ended December 31, 2008, 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 news release are expressly qualified in their entirety by this cautionary statement. The forward-looking information included in this news release is made as of August 12, 2009 and Connacher assumes no obligation to update or revise any forward-looking information to reflect new events or circumstances, except as required by law.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is dated as of August 12, 2009 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, 2009 and 2008 as contained in this interim report and the MD&A and audited consolidated financial statements for the years ended December 31, 2008 and 2007, as contained in the company's 2008 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.

NON-GAAP MEASUREMENTS

The MD&A contains terms commonly used in the oil and gas industry, such as cash flow, cash flow per share, and cash operating netback. These terms are not defined by GAAP and should not be considered an alternative to, or more meaningful than, cash provided by operating activities or net earnings as determined in accordance with GAAP as an indicator of Connacher's performance. Management believes that in addition to net earnings, cash flow is a useful financial measurement which assists in demonstrating the company's ability to fund capital expenditures necessary for future growth or to repay debt. Connacher's determination of cash flow may not be comparable to that reported by other companies. All references to cash flow throughout this report are based on cash flow from operating activities before changes in non-cash working capital, pension funding and asset retirement expenditures. The company calculates cash flow per share by dividing cash flow by the weighted average number of common shares outstanding. Cash flow and cash operating netbacks are reconciled to net earnings within this MD&A.

FORWARD-LOOKING INFORMATION

This report, including the Letter to Shareholders, contains forward-looking information including but not limited to expectations of future production, refinery utilization rates and asphalt demand, future refined product sales volumes and selling prices, netbacks, net operating income, liquidity and cash flow, profitability and capital expenditures, operating margins, anticipated reductions in operating costs as a result of optimization of certain operations, development of additional oil sands resources (including Algar and the timeline and capital costs for construction of Algar), timing and duration of the planned refinery turnaround, development of internally-generated growth prospects, utilization and alternative financial derivative strategies to protect the company's cash flow and plans for improving liquidity which may include securing a new banking credit facility, corporate acquisitions or business combinations, joint venture arrangements and restructuring components of the balance sheet. Forward looking information is based on management's expectations regarding future growth, results of operations, production, future commodity prices and foreign exchange rates, 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 and future economic conditions. 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 associated with the impact of general economic conditions, risks and uncertainties associated with securing and maintaining the necessary regulatory approvals and financing to proceed with the continued expansion of the Great Divide Oil Sands Project. In addition, the current financial crisis has resulted in severe economic uncertainty and resulting illiquidity in credit and capital markets, which increases the risk that actual results will vary from forward looking expectations in this report and these variations may be material. There can be no assurance that the company will be able to continue to secure sources of liquidity. These and other risks and uncertainties are described in further detail in Connacher's Annual Information Form for the year ended December 31, 2008, 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 report are expressly qualified in their entirety by this cautionary statement. The forward-looking information included in this report is made as of August 12, 2009 and Connacher assumes no obligation to update or revise any forward-looking information to reflect new events or circumstances, except as required by law.

Throughout the MD&A, per barrel of oil equivalent (boe) amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil (6:1). The conversion is based on an energy equivalency conversion method primarily applicable to the burner tip and does not represent a value equivalency at the wellhead. Boes may be misleading, particularly if used in isolation.

SUMMARIZED HIGHLIGHTS

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
FINANCIAL				
(\$000)				
Upstream revenues, net of royalties	\$ 33,882	\$ 83,483	\$ 62,028	\$ 111,409
Downstream revenues	69,094	117,820	102,246	189,719
Upstream cash operating netback ⁽¹⁾	12,893	30,857	17,894	45,113
Downstream margin	3,483	(106)	5,915	400
Cash flow	9,570	20,550	4,878	28,375
Net earnings (loss)	39,966	6,683	(6,878)	4,850
Cash on hand			401,160	232,704
Working capital			455,001	234,110
Total assets			1,723,370	1,338,705
OPERATING				
Upstream production/sales volumes				
Oil sands – bitumen – bbl/d	6,284	6,123	6,227	3,948
Crude oil – bbl/d	1,114	981	1,147	988
Natural gas – Mcf/d	12,144	14,220	12,484	12,356
Barrels of oil equivalent – boe/d	9,421	9,474	9,455	6,996
Upstream cash netback/boe ⁽¹⁾	\$ 15.04	\$ 35.79	\$ 10.46	\$ 35.43
Downstream				
Crude charged – bbl/d	9,145	9,329	8,012	9,580
Downstream margin per barrel refined	\$ 4.05	\$ (0.09)	\$ 4.25	\$ 0.21
Downstream margins as a percentage of revenue – %	5	(0.1)	6	-

(1) Excluding unrealized non-cash mark-to-market accounting losses.

MARKETING – UPSTREAM

Diluted bitumen (“dilbit”), crude oil and natural gas are generally sold on month-to-month sales contracts negotiated with major Canadian or U.S. marketers, refiners or other end users at either spot reference prices or at prices subject to commodity contracts based on U.S. WTI for crude oil and AECO for natural gas. As a means of managing the risk of commodity price volatility, Connacher enters into financial derivative commodity price-hedging contracts from time to time.

At August 12, 2009, Connacher had the following WTI crude oil price-hedging contracts in place:

- February 1, 2009 – August 31, 2009 – 2,500 bbl/d – WTI U.S.\$46.00/bbl;
- April 1, 2009 – December 31, 2009 – 2,500 bbl/d – WTI U.S.\$49.50/bbl; and
- September 1, 2009 – December 31, 2009 – 2,500 bbl/d – minimum of WTI U.S.\$60.00/bbl and a maximum of WTI U.S.\$84.00/bbl.

As at June 30, 2009, the WTI crude oil forward price curve exceeded the hedging contract prices resulting in a current liability and an unrealized mark-to-market (“MTM”) non-cash accounting loss of \$16.5 million for these contracts. For the year to date, realized losses on these contracts totalled \$5.7 million. These losses are included in upstream revenues.

Additionally, in order to mitigate foreign exchange exposure to commodity pricing, Connacher entered into a foreign exchange revenue collar which throughout 2009 sets a floor of CAD\$1.1925 per U.S.\$1.00 and a ceiling of CAD\$1.30 per U.S.\$1.00 on a notional amount of U.S.\$10 million of monthly production revenue. For clarity, this contract provides the company a benefit from a strengthening Canadian dollar. As at June 30, 2009, based on the forward foreign exchange rate curve, the foreign exchange revenue collar had a value of \$3.1 million; at December 31, 2008 it had a value of \$1.8 million. The change in these values resulted in an unrealized non-cash foreign exchange gain of \$1.3 million in the first half of 2009. Additionally, in the first half of 2009, Connacher realized a hedging gain (and received cash) in the amount of \$1.1 million on this contract. These gains are included in foreign exchange gains/losses.

During the first half of 2009, Connacher also entered into a six-month term contract for the sale of dilbit to a company operating a bitumen upgrader in northern Alberta.

MARKETING – DOWNSTREAM

Sales of refined products are generally made on monthly sales contracts negotiated with wholesalers, retailers and large end-users for gasoline, jet fuel and diesel and construction contractors and road builders for asphalt. Occasionally, sales contracts are for periods in excess of one month. To date, Connacher has not hedged these revenue streams. As at June 30, 2009, the Montana refinery had contracts in place for the sale of approximately 250,000 barrels of asphalt at an average price exceeding U.S.\$100/bbl for delivery in the third quarter of 2009.

PRICING

Together with many other uncontrolled variables, general economic conditions and international and local supplies influence the price for WTI light gravity crude oil. Weather, domestic supplies and other variables influence the market price for natural gas.

In the first half of 2009, WTI crude oil averaged U.S.\$51.57/bbl (first half 2008 – U.S.\$110.94/bbl) and AECO natural gas averaged \$4.64/Mcf (first half 2008 – \$8.24/Mcf).

Connacher's crude oil and bitumen production slate is generally heavier than the referenced WTI. Consequently, the market price realized by the company is typically lower than WTI.

Before hedging gains and unrealized MTM non-cash accounting losses, Connacher realized the following commodity selling prices:

Six months ended June 30	2009	2008
Bitumen – \$/bbl	\$ 31.84	\$ 59.05
Crude oil – \$/bbl	47.07	92.29
Natural gas – \$/Mcf	4.13	9.08

Refined product selling prices are also influenced by general economic conditions and local and international supply and demand factors. Average prices realized by the company in the first half of 2009 are noted below.

Six months ended June 30, 2009 (U.S.\$/bbl)	MRCI Realized Selling Price
Gasoline	\$ 59.94
Diesel	63.91
Jet fuel	75.27
Asphalt	56.72

FINANCIAL AND OPERATING REVIEW

UPSTREAM NETBACKS (\$000)

For the three months ended June 30, 2009	Oil Sands ⁽¹⁾	Crude Oil	Natural Gas	Total
Gross revenues ⁽²⁾	\$ 40,571	\$ 5,649	\$ 3,697	\$ 49,917
Diluent purchased ⁽³⁾	(14,669)	-	-	(14,669)
Transportation costs	(2,487)	(88)	-	(2,575)
Production revenue	23,415	5,561	3,697	32,673
Realized financial derivative losses ⁽⁴⁾	(6,161)	-	-	(6,161)
Unrealized mark-to-market losses ⁽⁵⁾	(8,243)	-	-	(8,243)
Royalties	(89)	(1,431)	(111)	(1,631)
Operating costs	(8,459)	(949)	(2,580)	(11,988)
Calculated netback	\$ 463	\$ 3,181	\$ 1,006	\$ 4,650
Cash operating netback, excluding unrealized mark-to-market accounting losses ⁽⁶⁾	\$ 8,706	\$ 3,181	\$ 1,006	\$ 12,893

For the three months ended June 30, 2008	Oil Sands ⁽¹⁾	Crude Oil	Natural Gas	Total
Gross revenues ⁽²⁾	\$ 68,087	\$ 9,397	\$ 12,968	\$ 90,452
Diluent purchased ⁽³⁾	(31,272)	-	-	(31,272)
Transportation costs	(2,934)	-	-	(2,934)
Production revenue	33,881	9,397	12,968	56,246
Realized financial derivative losses ⁽⁴⁾	-	-	(402)	(402)
Unrealized mark-to-market losses ⁽⁵⁾	-	-	(1,217)	(1,217)
Royalties	(374)	(2,730)	(2,246)	(5,350)
Operating costs	(16,281)	(810)	(2,546)	(19,637)
Calculated netback	\$ 17,226	\$ 5,857	\$ 6,557	\$ 29,640
Cash operating netback, excluding unrealized mark-to-market accounting losses ⁽⁶⁾	\$ 17,226	\$ 5,857	\$ 7,774	\$ 30,857

For the six months ended June 30, 2009	Oil Sands ⁽¹⁾	Crude Oil	Natural Gas	Total
Gross revenues ⁽²⁾	\$ 69,242	\$ 9,926	\$ 9,337	\$ 88,505
Diluent purchased ⁽³⁾	(28,036)	-	-	(28,036)
Transportation costs	(5,324)	(158)	-	(5,482)
Production revenue	35,882	9,768	9,337	54,987
Realized financial derivative losses ⁽⁴⁾	(5,756)	-	-	(5,756)
Unrealized mark-to-market losses ⁽⁵⁾	(16,510)	-	-	(16,510)
Royalties	(219)	(2,493)	(1,499)	(4,211)
Operating costs	(19,790)	(2,251)	(5,085)	(27,126)
Calculated netback	\$ (6,393)	\$ 5,024	\$ 2,753	\$ 1,384
Cash operating netback, excluding unrealized mark-to-market accounting losses ⁽⁶⁾	\$ 10,117	\$ 5,024	\$ 2,753	\$ 17,894

For the six months ended June 30, 2008	Oil Sands ⁽¹⁾	Crude Oil	Natural Gas	Total
Gross revenues ⁽²⁾	\$ 85,237	\$ 16,603	\$ 20,417	\$ 122,257
Diluent purchased ⁽³⁾	(39,375)	-	-	(39,375)
Transportation costs	(3,428)	-	-	(3,428)
Production revenue	42,434	16,603	20,417	79,454
Realized financial derivative losses ⁽⁴⁾	-	-	(402)	(402)
Unrealized mark-to-market losses ⁽⁵⁾	-	-	(2,033)	(2,033)
Royalties	(460)	(4,545)	(3,408)	(8,413)
Operating costs	(19,684)	(1,870)	(3,972)	(25,526)
Calculated netback	\$ 22,290	\$ 10,188	\$ 10,602	\$ 43,080
Cash operating netback, excluding unrealized mark-to-market accounting losses ⁽⁶⁾	\$ 22,290	\$ 10,188	\$ 12,635	\$ 45,113

(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 financial statements Upstream Revenues represent sales of dilbit, crude oil and natural gas, net of royalties; and Upstream Operating Costs include the cost of purchased diluent.

(3) Diluent volumes purchased and sold have been deducted in calculating production revenue and production volumes sold.

(4) Realized financial derivative gains/losses reflect cash receipts/disbursements in respect of financial derivative commodity price-hedging contracts.

(5) Unrealized mark-to-market accounting gains/losses reflect changes in the market value of unsettled commodity price derivative contracts. From period to period the market value of these contracts change due to the volatility of the commodity's forward pricing curve.

(6) Cash operating netbacks, by product, are calculated by deducting the related diluent, transportation, field operating costs and royalties from revenues before deducting MTM accounting gains/losses. 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 widely used in the oil and gas industry as a 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	2009	2008	% Change
Dilbit sales - bbl/d ⁽¹⁾	8,517	8,403	1
Diluent purchased - bbl/d ⁽¹⁾	(2,233)	(2,280)	(2)
Bitumen produced and sold - bbl/d ⁽¹⁾	6,284	6,123	3
Crude oil produced and sold - bbl/d	1,114	981	14
Natural gas produced and sold - Mcf/d	12,144	14,220	(15)
Total - boe/d	9,421	9,474	(1)

For the six months ended June 30	2009	2008	% Change
Dilbit sales - bbl/d ⁽¹⁾	8,524	5,424	57
Diluent purchased - bbl/d ⁽¹⁾	(2,297)	(1,476)	56
Bitumen produced and sold - bbl/d ⁽¹⁾	6,227	3,948	58
Crude oil produced and sold - bbl/d	1,147	988	16
Natural gas produced and sold - Mcf/d	12,484	12,356	1
Total - boe/d	9,455	6,996	35

(1) Since declaring Great Divide Pod One "commercial" effective March 1, 2008.

UPSTREAM NETBACKS PER UNIT OF PRODUCTION

For the three months ended June 30, 2009	Bitumen (\$ per bbl)	Crude Oil (\$ per bbl)	Natural Gas (\$ per Mcf)	Total (\$ per boe)
Production revenue	\$ 40.95	\$ 54.87	\$ 3.35	\$ 38.11
Realized financial derivative losses	(10.78)	-	-	(7.19)
Unrealized mark-to-market losses	(14.41)	-	-	(9.61)
Royalties	(0.16)	(14.12)	(0.10)	(1.90)
Operating costs	(14.79)	(9.37)	(2.33)	(13.98)
Calculated netback	\$ 0.81	\$ 31.38	\$ 0.92	\$ 5.43
Cash operating netback, excluding unrealized mark-to-market accounting losses	\$ 15.22	\$ 31.38	\$ 0.92	\$ 15.04

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	\$ 10.02	\$ 65.25
Realized financial derivative losses	-	-	(0.31)	(0.47)
Unrealized mark-to-market losses	-	-	(0.94)	(1.41)
Royalties	(0.67)	(30.58)	(1.74)	(6.21)
Operating costs	(29.22)	(9.07)	(1.97)	(22.78)
Calculated netback	\$ 30.91	\$ 65.63	\$ 5.06	\$ 34.38
Cash operating netback, excluding unrealized mark-to-market accounting losses	\$ 30.91	\$ 65.63	\$ 6.00	\$ 35.79

For the six months ended June 30, 2009	Bitumen (\$ per bbl)	Crude Oil (\$ per bbl)	Natural Gas (\$ per Mcf)	Total (\$ per boe)
Production revenue	\$ 31.84	\$ 47.07	\$ 4.13	\$ 32.13
Realized financial derivative losses	(5.11)	-	-	(3.36)
Unrealized mark-to-market losses	(14.65)	-	-	(9.65)
Royalties	(0.19)	(12.01)	(0.66)	(2.46)
Operating costs	(17.56)	(10.84)	(2.25)	(15.85)
Calculated netback	\$ (5.67)	\$ 24.22	\$ 1.22	\$ 0.81
Cash operating netback, excluding unrealized mark-to-market accounting losses	\$ 8.98	\$ 24.22	\$ 1.22	\$ 10.46

For the six months ended June 30, 2008

Production revenue	\$ 59.05	\$ 92.29	\$ 9.08	\$ 62.41
Realized financial derivative losses	-	-	(0.18)	(0.32)
Unrealized mark-to-market losses	-	-	(0.90)	(1.60)
Royalties	(0.64)	(25.28)	(1.52)	(6.61)
Operating costs	(27.39)	(10.40)	(1.77)	(20.05)
Calculated netback	\$ 31.02	\$ 56.61	\$ 4.71	\$ 33.83
Cash operating netback, excluding unrealized mark-to-market accounting losses	\$ 31.02	\$ 56.61	\$ 5.61	\$ 35.43

In response to a collapse in crude oil prices and widening of heavy oil differentials, the company announced in December 2008 that it was curtailing production at Pod One from levels that had exceeded 9,000 bbl/d earlier in that month, through the reduction of steam to be injected into the bitumen reservoir. On January 21, 2009, the company announced the resumption of full production ramp-up at Pod One in anticipation of the reinstatement of profitability at Pod One, as a result of improved product prices; in response to narrower heavy oil pricing differentials; reduced transportation costs; anticipated reduced diluent blending ratios due to increased dilbit sales to upgraders operating near our SAGD oil sands facility; and due to WTI crude oil hedges entered into that provided some protection against further weakness in selling prices. Bitumen production is gradually ramping up to design capacity from curtailed bitumen production levels of approximately 4,200 bbl/d in January 2009.

In the second quarter of 2009, bitumen, crude oil, and natural gas revenues were down 45 percent to \$49.9 million from \$90.5 million in the second quarter of 2008. This was due to bitumen and crude oil prices being 48 percent lower and natural gas prices being 67 percent lower than the comparative period.

For the same reasons, year to date upstream revenues were \$33.7 million lower than in the first six months of 2008 (\$88.5 million compared to \$122.2 million).

Second quarter 2009 upstream revenues were, however, 29 percent higher than first quarter 2009 upstream revenues (\$49.9 million compared to \$38.6 million) as commodity prices moderately improved.

Royalties represent charges against production or revenue by governments and landowners. Royalties in the second quarter of 2009 were \$1.6 million compared to \$5.4 million in the second quarter of 2008 and royalties for the first six months of 2009 were \$4.2 million compared to \$8.4 million in the first half of 2008. 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 are applied on a sliding scale to commodity prices. The most notable change in royalties this year came as a result of reduced product pricing.

In the second quarter of 2009, upstream diluent purchases of \$14.7 million (year to date \$28.0 million) were required for our oil sands operations. Diluent purchases for the second quarter of 2009 include \$3 million (\$3.5 million year to date) of diluent purchased from our subsidiary, Montana Refining Company, Inc. in the netback calculations, above. These intercompany purchases have been eliminated on consolidation and for financial statement presentation purposes. There were no intercompany purchases in the prior year periods. Bitumen produced at Great Divide 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 26 percent of the dilbit barrel sold, with bitumen the remaining 74 percent. It is anticipated that less diluent will be necessary when oil sands production and handling operations are optimized and higher volumes are processed.

Field operating costs of \$12.0 million in the second quarter were substantially lower than \$19.6 million reported in the second quarter of 2008 as a result of our concerted efforts to reduce costs and optimize our production processes.

Oil sands field operating costs of \$8.5 million in the second quarter averaged \$14.79 per barrel of bitumen produced, and was approximately one half the per barrel cost last year. Although lower natural gas costs contributed, reductions in other cost components were also realized from our optimization strategy.

Transportation costs of \$2.6 million in the second quarter of 2009 were slightly lower than the \$2.9 million recorded in the prior year comparative period due to successful marketing arrangements in selling similar volumes to closer markets.

Realized financial derivative losses and unrealized MTM non-cash accounting losses were sustained in the current year as a result of commodity prices being higher than our commodity price contracts. These losses are included in our reported revenues on our Statements of Operations.

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 2009 upstream netback of \$15.04 per produced boe (a 58 percent decrease over the same 2008 period due to lower commodity prices) was significantly influenced by its oil sands production, which had a netback of \$15.22 per bitumen barrel produced.

RECONCILIATION OF UPSTREAM OPERATING NETBACK TO NET EARNINGS

For three months ended June 30 (\$000, except per unit amounts)	2009		2008	
	Total	Per boe	Total	Per boe
Upstream netback, as above	\$ 4,650	\$ 5.43	\$ 29,640	\$ 34.38
Refining margin – net	3,483	4.06	(106)	(0.12)
Interest income	246	0.29	713	0.83
General and administrative	(3,224)	(3.77)	(2,911)	(3.38)
Stock-based compensation	(551)	(0.64)	(1,181)	(1.37)
Finance charges	(8,877)	(10.35)	(10,298)	(11.94)
Foreign exchange (loss) gain	65,411	76.30	(3,317)	(3.85)
Depletion, depreciation and accretion	(16,538)	(19.29)	(13,825)	(16.04)
Income taxes	(5,490)	(6.40)	(1,033)	(1.20)
Equity interest in Petrolifera earnings and dilution gain	856	1.00	9,001	10.44
Net earnings	\$ 39,966	\$ 46.63	\$ 6,683	\$ 7.75

For the six months ended June 30 (\$000, except per unit amounts)	2009		2008	
	Total	Per boe	Total	Per boe
Upstream netback as above	\$ 1,384	\$ 0.81	\$ 43,080	\$ 33.83
Refining margin – net	5,915	3.46	400	0.31
Interest income	1,174	0.69	1,544	1.21
General and administrative	(7,698)	(4.50)	(5,977)	(4.69)
Stock-based compensation	(1,821)	(1.06)	(2,697)	(2.12)
Finance charges	(18,037)	(10.54)	(14,729)	(11.57)
Foreign exchange (loss) gain	37,545	21.94	(5,209)	(4.09)
Depletion, depreciation and accretion	(32,987)	(19.28)	(21,289)	(16.72)
Income taxes	6,508	3.80	313	0.25
Equity interest in Petrolifera earnings and dilution gain	1,139	0.67	9,414	7.39
Net earnings (loss)	\$ (6,878)	\$ (4.01)	\$ 4,850	\$ 3.80

DOWNSTREAM REVENUES AND MARGINS

Operations at the Montana refinery are 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.

Refinery throughput - three months ended	June 30, 2008	Sept 30, 2008	Dec 31, 2008	March 31, 2009	June 30, 2009
Crude charged (bbl/d) ⁽¹⁾	9,329	9,239	8,333	6,867	9,145
Refinery production (bbl/d) ⁽²⁾	10,052	10,284	9,075	7,946	10,438
Sales of produced refined products (bbl/d)	12,274	11,897	6,404	5,290	9,222
Sales of refined products (bbl/d) ⁽³⁾	12,878	12,385	7,564	5,890	9,451
Refinery utilization ⁽⁴⁾	98%	97%	88%	72%	96%

(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.

During the first quarter of 2009, the U.S.\$20 million ultra low sulphur diesel project was completed at the Montana refinery. Due to down time required to tie-in the new hydrogen plant to complete this project and as a result of certain operational upsets due to significant cold weather, throughput volumes were lower in the fourth quarter of 2008 and the first half of 2009 than in prior quarters. The Montana refinery is now producing and selling ultra low sulphur diesel and gasoline.

Second quarter 2009 refining revenues (\$69.1 million) more than doubled first quarter 2009 revenues (\$33.2 million) but were still well below the level realized in the second quarter of 2008 (\$117.8 million), when refined selling prices and sales volumes were much higher. Due to lower refined product selling prices, downstream revenues for the six months ended June 30, 2009 of \$102.2 million were significantly less than the \$189.7 million reported in the first six months of 2008. Downstream revenues and refining margins noted in the tables, below, include intersegment diluent sales of \$3 million in the second quarter of 2009 and \$3.5 million for the year to date 2009, which have been eliminated on consolidation for financial statement presentation purposes. There were no intersegment sales in the prior year periods.

Increased processing throughput and sales volumes and higher selling prices occurred in the second quarter of 2009, compared to the first quarter 2009 when processing downtime and the seasonality of our downstream business unit occurred. Higher volumes and prices led to improved refining revenues and operating margins. General economic conditions also affect refined product demand and pricing and we anticipate will continue to influence our financial results in the future.

Notwithstanding lower current year sales volumes and pricing, year to date downstream margins were higher in the first half of 2009 (\$5.9 million, or 6 percent) compared to the first six months of 2008 (\$400,000 or 0.2 percent), as crude oil input costs have come down faster than selling prices have been reduced.

We anticipate a significant improvement in the contribution to our overall results from our downstream activities during Q3 2009, as the impact of high priced asphalt sales and generally better economic conditions assist this portion of our integrated business activity. Asphalt sales were generally hampered by cold and wet weather in Montana and Alberta during Q2 2009, which delayed road paving activities. As at June 30, 2009 we had over 430,000 barrels of asphalt in inventory, the majority of which had been contracted for sale at prices in excess of U.S.\$100 per barrel. We will be conducting a scheduled turnaround at the Montana refinery during September 2009, but will continue our aggressive asphalt sales from inventory during that period.

Feedstocks - three months ended	June 30, 2008	Sept 30, 2008	Dec 31, 2008	Mar 31, 2009	June 30, 2009
Sour crude oil	93%	93%	94%	91%	91%
Other feedstocks and blends	7%	7%	6%	9%	9%
Total	100%	100%	100%	100%	100%
Revenues and Margins (\$000)					
Refining sales revenue	\$ 117,820	\$ 127,726	\$ 56,803	\$ 33,152	\$ 69,094
Refining - crude oil and operating costs	117,926	125,455	66,964	30,720	65,611
Refining margin	\$ (106)	\$ 2,271	\$ (10,161)	\$ 2,432	\$ 3,483
Refining margin	(0.1%)	1.8%	(17.9%)	7%	5%
Sales of Produced Refined Products (Volume %)					
Gasolines	32%	35%	44%	55%	48%
Diesel fuels	11%	19%	25%	22%	11%
Jet fuels	5%	5%	8%	7%	7%
Asphalt	48%	38%	19%	12%	31%
LPG and other	4%	3%	4%	4%	3%
Total	100%	100%	100%	100%	100%
Per Barrel of Refined Product Sold					
Refining sales revenue	\$ 100.54	\$ 112.10	\$ 81.62	\$ 62.54	\$ 80.34
Less: refining - crude oil purchases and operating costs	100.63	110.10	96.23	57.95	76.29
Refining margin	\$ (0.09)	\$ 2.00	\$ (14.61)	\$ 4.59	\$ 4.05

INTEREST AND OTHER INCOME

In the second quarter of 2009, the company earned interest of \$246,000 (second quarter June 30, 2008 - \$713,000; 2009 year to date - \$699,000; 2008 year to date - \$1.5 million) on excess funds invested in secure short-term investments and realized a gain of \$475,000 on the repurchase of U.S.\$660,000 (face value) of Second Lien Notes in the first quarter of 2009.

GENERAL AND ADMINISTRATIVE EXPENSES

In the second quarter of 2009, general and administrative ("G&A") expenses were \$3.2 million compared to \$2.9 million in the second quarter of 2008, an increase of 11 percent, reflecting increased staffing and activity levels. Additionally, G&A of \$1.1 million was capitalized in the second quarter of each of 2009 and 2008.

For the first six months of 2009, G&A expenses were \$7.7 million compared to \$6 million in the first six months of 2008, after capitalizing \$2.6 million in the first half of 2009 and \$3 million in the first half of 2008.

FINANCE CHARGES

Finance charges include interest expense relating to the Convertible Debentures, standby fees associated with the company's undrawn lines of credit, which we cancelled in March 2009, fees on letters of credit issued and a portion of the Second Lien Senior Notes interest 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 of the First and Second Lien Senior Notes.

Finance charges of \$8.9 million in the second quarter of 2009 were \$1.4 million lower than the 2008 comparative period, as the prior year period included a non-cash mark-to-market charge on our cross-currency interest rate swap then in place. No such charge applied in 2009, as the cross-currency swap was unwound in the fourth quarter of 2008 for an \$89 million net cash gain.

Year to date finance charges of \$18 million are \$3.3 million higher than the 2008 comparative period as a result of not capitalizing interest to the Pod One project since declaring it "commercial" on March 1, 2008 and due to interest charges on higher debt levels, since issuing the First Lien Senior Notes in mid-June 2009.

We continued to capitalize interest to our Algar project for that portion of our debt attributed to the project.

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	
	2009	2008	2009	2008
Charged to G&A expense	\$ 551	\$ 1,181	\$ 1,821	\$ 2,697
Capitalized to property and equipment	114	224	507	1,022
	\$ 665	\$ 1,405	\$ 2,328	\$ 3,719

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

FOREIGN EXCHANGE GAINS AND LOSSES

Over the past few months, the value of the Canadian dollar has strengthened relative to the U.S. dollar. This has had a significant impact to Connacher upon translating its U.S. dollar denominated long-term debt and U.S. dollar cash balances into Canadian dollars for financial reporting purposes.

In 2009, we had unrealized foreign exchange translation gains of \$61.5 million in the second quarter and \$33.6 million for the year to date. We also realized foreign exchange gains of \$3.9 million in the second quarter and in the year to date 2009 from the foreign exchange revenue collar and upon the settlement of U.S. dollar denominated obligations.

Throughout most of 2008 we had a cross-currency swap in place to hedge one-half of the foreign exchange exposure on our U.S. dollar debt. This insulated us from some foreign currency volatility and reduced the impact of a weaker Canadian dollar, which resulted in the unrealized foreign exchange translation losses reported in the comparative 2008 periods.

Having unwound the cross-currency swap in the fourth quarter of 2008 for a net cash gain of \$89 million, Connacher is now fully exposed to changes in the U.S.: Canadian dollar exchange rate when translating its U.S. dollar debt to Canadian dollars for financial reporting purposes and for purposes of paying U.S. denominated interest and repaying such indebtedness. To mitigate some of this exposure, the company may put into place another cross-currency swap in the future.

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

Depletion expense is calculated using the unit-of-production method based on total estimated proved reserves. Refining properties and other assets are depreciated over their estimated useful lives. Effective March 1, 2008 Pod One's accumulated capital costs were added to the depletion pool and have been depleted from that date. DD&A in the second quarter of 2009 was \$16.5 million, and for the first six months of 2009 was \$33 million. These charges are 20 percent and 55 percent higher, respectively, than the 2008 comparative periods, reflecting a full six months of depletion on Pod One capital costs in 2009. Depletion equates to \$16.28 per boe of production year to date compared to \$13.43 per boe in the 2008 comparative period.

Future development costs of \$1.3 billion (2008 – \$999 million) for proved undeveloped reserves were included in the year to date depletion calculation. Capital costs of \$369 million (2008 – \$193 million) related to oil sands projects currently in the pre-production stage and undeveloped land acquisition costs of \$12.2 million (2008 – \$14.0 million) were excluded from the depletion calculation.

Included in year to date DD&A is an accretion charge of \$981,000 (2008 – \$845,000) 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 \$27.7 million to the estimated total undiscounted liability of \$48.2 million over the remaining economic life of the company's oil sands, crude oil and natural gas properties.

At June 30, 2009, the recoverable value of the company's productive crude oil, oil sands and natural gas assets and its major development projects significantly exceeded their carrying values and, therefore, no ceiling test write-down was required.

INCOME TAXES

The income tax recovery of \$6.5 million in the first six months of 2009 includes a current income tax provision of \$293,000, principally related to Canadian capital and other taxes and a future income tax recovery of \$6.8 million reflecting the benefit of increased tax pools during the period.

At June 30, 2009 the company had approximately \$233 million of non-capital losses which expire between 2010 and 2028, \$610 million of deductible resource pools and \$33 million of deductible financing costs. The future income tax benefit of these have been recognized at June 30, 2009. Additionally, the company had \$32 million of capital losses available to reduce capital gains in future. These capital losses have no expiry date and their future income tax benefit has not been recognized, due to uncertainty of their realization at June 30, 2009.

EQUITY INTEREST IN PETROLIFERA PETROLEUM LIMITED (“PETROLIFERA”) AND DILUTION GAINS

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 under the equity method of accounting. Connacher's share of Petrolifera's earnings in the first six months of 2009 was \$1.1 million (six months ended June 30, 2008 - \$1.4 million). In the second quarter of 2009, Connacher's share of Petrolifera's earnings was \$856,000 (second quarter 2008 - \$935,000).

NET EARNINGS

In the second quarter of 2009, the company reported earnings of \$40 million (\$0.15 per basic and \$0.14 per diluted share outstanding) compared to earnings of \$6.7 million (\$0.03 per basic and diluted share outstanding) in the second quarter of 2008.

In the first six months of 2009, the company reported a loss of \$6.9 million (\$0.03 loss per basic and diluted share outstanding) compared to earnings of \$4.9 million or \$0.02 per basic and diluted share for the first six months of 2008.

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

SHARES OUTSTANDING

For the first six months of 2009, the weighted average number of common shares outstanding was 239,007,899 (2008 – 210,446,291) and the weighted average number of diluted shares outstanding, as calculated by the treasury stock method, was 239,007,899 (2008 – 213,324,122).

As at August 11, 2009, the company had the following equity securities issued and outstanding:

- 403,567,309 common shares;
- 15,362,784 share purchase options; and
- 489,292 share units under the non-employee director share awards plan.

Additionally, 20,002,800 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, 2009, the company had working capital of \$455 million, including \$401 million of cash on hand of which \$10 million was segregated to collateralize letters of credit. These balances reflect the receipt of net proceeds from the recently completed common share equity issuance and the First Lien Senior Note financing.

On June 5, 2009 Connacher issued 191,762,500 common shares from treasury at a price of \$0.90 per common share for gross proceeds of \$172.6 million.

On June 16, 2009 the company issued U.S.\$200 million face value of 11.75 percent First Lien Senior Secured Notes (the “First Lien Senior Notes”) at a price of 93.678 percent for gross proceeds of U.S.\$187.4 million. The First Lien Senior Notes are not repayable until July 15, 2014 and are secured on a first priority basis (subject to specified liens up to U.S.\$50 million for prior ranking senior debt) by liens on all of the company's assets, excluding Connacher's investment holding in Petrolifera. The company is currently in discussions with its banker to put in place a U.S.\$30 - U.S.\$50 million revolving banking facility which would rank in priority to the First Lien Senior Notes.

Proceeds from the equity and First Lien Senior Note financings, net of issuance costs, were approximately \$370 million. These funds were raised for working capital and general corporate purposes, including to fund the remaining costs associated with the construction of Algar, the company's second 10,000 bbl/d SAGD oil sands project and the drilling and completion of the associated SAGD well pairs.

As the company has no principal debt repayment obligations until June 2012, management believes that the company has sufficient liquidity to complete the Algar project, to fund its ongoing capital program and to satisfy its financial obligations.

The financial crisis has severely reduced liquidity in capital and bank markets. Economic uncertainty and significant volatility in commodity markets and stock markets have also occurred around the world. Connacher's share price and the trading value of its Second Lien Senior Notes and Convertible Debentures have been adversely affected by the uncertainty of future crude oil and natural gas prices, as well as by the impact of anticipated new environmental regulations, which could affect the economics of our business. Notwithstanding the challenges imposed by this crisis and current economic conditions, management believes that the company has attractive internally-generated growth prospects which, with our cash balances and the impact of an improvement in commodity prices, will allow us to expand our operations. In the interim, however, lower world oil prices are expected to result in lower per unit revenues, netbacks, cash flow and earnings. We anticipate increasing production and sales volumes throughout 2009, which could partially offset the impact of lower world commodity prices.

In light of the volatility of current commodity prices and the U.S.:Canadian dollar exchange rate and their significance to the company's operating performance, management continues to assess alternative hedging strategies to protect the company's cash flow from the risk of potentially lower crude oil and refined product pricing and adverse exchange rate fluctuations. Although the company's integrated business model provides some protection, it does not provide a perfect hedge. The purpose of any such hedge(s) would be to ensure sufficient cash flow to continue to service indebtedness, complete capital projects and protect the credit capacity of Connacher's oil and gas reserves in a volatile and weak commodity price and weakened economic environment.

In order to mitigate foreign exchange exposure to commodity pricing, the company entered into a foreign exchange revenue collar which throughout 2009 sets a floor of CAD\$1.1925 per U.S.\$1.00 and a ceiling of CAD\$1.30 per U.S.\$1.00 on a notional amount of U.S.\$10 million of production revenue per month.

Additionally, in 2009 the company entered into WTI derivatives at crude oil prices of U.S.\$46.00/bbl and U.S.\$49.50/bbl on two tranches of 2,500 bbl/d of notional production with staggered August 2009 and December 2009 maturities and has put in place a WTI crude oil "collar" contract on a notional volume of 2,500 bbl/d of production from September to December 2009 with a floor of WTI U.S.\$60.00/bbl and a ceiling of WTI U.S.\$84.00/bbl.

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.

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	
	2009	2008	2009	2008
(\$000s)				
Net earnings (loss)	\$ 39,966	\$ 6,683	\$ (6,878)	\$ 4,850
Items not involving cash:				
Depletion, depreciation and accretion	16,538	13,825	32,987	21,289
Stock-based compensation	551	1,181	1,821	2,697
Finance charges—non-cash portion	1,134	4,058	2,175	5,307
Future employee benefits	107	114	294	227
Future income tax provision (recovery)	5,369	373	(6,801)	(1,790)
Unrealized foreign exchange (gain) loss	(61,482)	3,317	(33,616)	5,209
Unrealized loss on risk management contracts	8,243	-	16,510	-
Gain on repurchase of Second Lien Senior Notes	-	-	(475)	-
Equity interest in Petrolifera earnings	(856)	(935)	(1,139)	(1,390)
Dilution gain	-	(8,066)	-	(8,024)
Cash flow from operations before changes in non-cash working capital and other changes	\$ 9,570	\$ 20,550	\$ 4,878	\$ 28,375

In the second quarter of 2009 cash flow was \$9.6 million (\$0.04 per basic and \$0.03 per diluted share), 53 percent lower than the \$20.6 million reported (\$0.10 per basic and diluted share) for the second quarter of 2008 and in the first half of 2009 cash flow was \$4.9 million (\$0.02 per basic and diluted share) compared to cash flow of \$28.4 million (\$0.14 per basic and \$0.13 per diluted share) reported in the first half of 2008. The primary reason for lower reported cash flows in 2009 compared to 2008 was lower commodity selling prices for each of our upstream and downstream business segments, as noted in the detailed explanations of our business activities, above.

Cash flow per share is calculated by dividing cash flow by the calculated weighted average number of shares outstanding. Management uses this non-GAAP measurement (which is a common industry parameter) for its own performance measure and to provide its shareholders and investors with a measurement of the company's efficiency and its ability to fund future growth expenditures.

The company's only financial instruments are cash, restricted cash, accounts receivable and payable, amounts due from Petrolifera, the Convertible Debentures, and the First and Second Lien Senior Notes. The company maintains no off-balance sheet financial instruments.

As the First and Second Lien Senior Notes are denominated in U.S. dollars, there is a foreign exchange risk associated with their semi-annual interest payments and the repayment of their principal balances in 2014 and 2015, using Canadian currency. The next semi-annual interest payment of U.S.\$43 million is due in December 2009.

Connacher's capital structure is composed of:

	As at June 30, 2009	As at December 31, 2008
(\$000)		
Long term debt ⁽¹⁾	\$ 960,593	\$ 778,732
Shareholders' equity		
Share capital, contributed surplus and equity component	606,493	437,899
Accumulated other comprehensive income (loss)	(766)	7,802
Retained earnings	16,508	23,386
Total	\$ 1,582,828	\$ 1,247,819
Debt to book capitalization ⁽²⁾	61%	62%
Debt to market capitalization ⁽³⁾	71%	81%

(1) Long-term debt is stated at its carrying value, which is net of 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 calculated ratio of debt to capitalization. This is due to pre-funding the full cost of Algar. As at June 30, 2009, the company's net debt (long-term debt, net of cash on hand) was \$559.4 million and its calculated ratio of net debt to book capitalization was 47 percent and the percentage of its net debt to market capitalization was 59 percent.

FINANCINGS COMPLETED IN 2009

COMMON SHARE ISSUANCE

On June 5, 2009 Connacher issued 191,762,500 common shares from treasury at a price of \$0.90 per common share for net proceeds of \$164 million after fees and expenses. The proceeds were raised for working capital and general corporate purposes to fund the company's capital expenditures, including Algar.

To June 30, 2009, the proceeds of the common share issuance have been utilized as follows:

	As stated at the time of financing	As actually applied
(\$000)		
Gross proceeds	\$ 172,586	\$ 172,586
Underwriters commissions and issue costs	(8,629)	(8,785)
Net proceeds for working capital and general corporate purposes to fund capital expenditures	\$ 163,957	\$ 163,801

FIRST LIEN SENIOR SECURED NOTES

On June 16, 2009 the company issued U.S.\$200 million first lien five-year secured notes ("First Lien Senior Notes") at an issue price of 93.678 percent for net proceeds of \$205.6 million after fees and expenses. The proceeds were to be used for working capital and general corporate purposes, including to fund a portion of the remaining construction, drilling and completion costs associated with the construction of Algar.

To June 30, 2009, the proceeds of the First Lien Senior Note financing have been utilized as follows:

	As stated at the time of financing	As actually applied
(\$000s)		
Gross proceeds	\$ 226,475	\$ 226,475
Underwriters commissions and issue costs	(20,875)	(20,858)
Net proceeds to be used for working capital and general corporate purposes, including to fund a portion of the remaining construction, drilling and completion costs associated with the construction of Algar	\$ 205,600	\$ 205,617

PROPERTY AND EQUIPMENT EXPENDITURES

Property and equipment expenditures totaled \$40.2 million in the second quarter of 2009 and \$104.5 million year to date. A breakdown of these expenditures together with prior year comparatives follows.

(\$000)	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Oil sands, crude oil and natural gas expenditures	\$ 36,724	\$ 75,475	\$ 97,723	\$ 188,432
Refinery expenditures	3,512	4,928	6,768	7,956
	\$ 40,236	\$ 80,403	\$ 104,491	\$ 196,388

In the second quarter of 2009, oil sands capital expenditures totaled \$36 million, \$12 million of which was incurred on our Algar oil sands project, while this project was "on-hold", for the continued construction of long-lead order equipment items, and for associated project-delay costs; additionally, \$6 million of capital costs were incurred at Pod One for the completion of the two additional SAGD well pairs, for costs to install four electric submersible pumps and for other facility enhancement expenditures; \$5 million was incurred on our co-generation and transfer pipeline facilities; and \$13 million of interest and G&A costs were capitalized.

For the year to date, \$33 million was incurred on the Algar project for engineering, civil work, facilities, equipment and project delay costs; \$18 million was incurred at Pod One to drill and complete the two additional SAGD well pairs and to install ESP's and for other facility enhancement expenditures; and \$47 million was incurred on drilling 23 exploratory core holes, two conventional wells, for co-generation and pipeline facilities and for capitalized interest and G&A costs.

Refinery capital costs in the second quarter and year to date for 2009 were primarily directed to the completion and tie-in of our new hydrogen plant to complete our ultra-low sulphur diesel project.

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

For the 2008 year to date, oil sands and conventional 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.

Most of the 2008 capital expenditures at our refinery were incurred on the ultra low sulphur diesel conversion project.

Second half 2009 capital expenditures will be focused on Algar.

OUTLOOK

We anticipate that the current general economic conditions and product price volatility will continue to challenge industry profitability and growth in the short-term. However, recent oil price improvements have provided a basis for some investment optimism. Together with the optimization of some of our operational and marketing processes, moderately higher oil prices have contributed to Connacher's improved operating and financial results in the second quarter of 2009.

We continue to anticipate a greater contribution to profitability from our refining operations, primarily due to improved throughput volumes and anticipated healthy asphalt markets, with wider margins, as newly-announced U.S. government infrastructure projects are anticipated to result in an unprecedented demand for asphalt. This improvement is now starting to be apparent. However, the Montana refinery will undergo a scheduled one-month turnaround commencing in mid-September 2009, which will have an adverse effect on throughput and refined product sales volumes later in the year.

We also anticipate improved netbacks from our upstream operations during the balance of 2009, as a result of recent marketing arrangements and anticipated reductions in transportation and operating costs. At Pod One, we surpassed 10,000 bbl/d in April on a test basis and have adopted a more measured ramp-up process to introduce steady state conditions which should allow for better reservoir conformance on a sustained basis.

Four new electric submersible pumps were also installed at Pod One in April 2009. This required the shut-in of the related well pairs for a one week period, which affected average daily production rates in the second quarter of 2009. Two new SAGD well pairs were recently completed at Pod One and have commenced bitumen production. Pod One is currently producing approximately 7,000 bbl/d and we anticipate approaching design capacity of 10,000 bbl/d by year-end 2009.

Our recently completed financings have added significant financial liquidity. Our cash balances, together with anticipated positive operating income in 2009, are anticipated to be sufficient to meet all our financial and capital obligations, including the completion of Algar. Upon the completion of the equity and First Lien Senior Note financings, Connacher's Board of Directors sanctioned the resumption of construction of Algar (which was suspended in December 2008). To date, approximately \$162 million has been invested in Algar. The majority of the long-lead equipment items have been built and the roads to the plant site and three well pads have been constructed. We estimated that it would require approximately 275 days from the re-start of the project in early July 2009, to completion of the project. Algar is expected to begin contributing to operating results in late 2010 or early 2011.

The cost to complete Algar, excluding capitalized items and contingencies, is estimated to be \$360 million. Savings arising from remaining activities occurring in a more "normalized" construction and labour environment have been offset by minor scope changes to the project and the decision to drill and complete two additional SAGD well pairs at Algar, bringing the total SAGD well pairs to 17, to ensure effective exploitation of the reservoir.

In addition, to recognize unplanned events that often occur during a major construction project and to factor unpredictable and often severe weather that can occur in northern Alberta, management has added a \$15 million contingency to the Algar budget, bringing the total cost for Algar, excluding capitalized items, to \$375 million, of which \$128 million was incurred pre-2009, \$175 million is estimated to be incurred in 2009 and the \$72 million balance is forecast to be incurred in 2010. Connacher's revised capital budget for 2009 is as follows:

(\$ millions)	
Conventional	\$ 11
Pod One	24
Algar	175
Algar capitalized items	54
Cogeneration facility, sales transfer lines and EIA	34
Coreholes/seismic	8
Refining	19
	\$ 325

The revised Pod One budget reflects additional electric submersible pumps and an evaporator condenser to be added in the fall of 2009.

The company's business plan anticipates continued long-term growth with continued increases in revenue and cash flow from our oilsands projects, conventional crude oil and natural gas production and from stable refining operations.

Future-oriented financial projections for the year 2010 have been included in the company's recent corporate presentations. Management believes the assumptions underlying the projections are reasonable, given a U.S.\$65/bbl price for crude oil during that year. No changes are currently required to those projections.

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.

NEW SIGNIFICANT ACCOUNTING POLICIES

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets." The new Section became applicable in 2009 and the company adopted the new standard effective 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 did not cause any change to the company's financial statements.

In January 2009, the CICA Emerging Issues Committee ("EIC") issued EIC-173, "Credit risk and the fair value of financial assets and liabilities", which requires that an entity's own credit risk and counterparty credit risk be taken into account in determining the fair value of financial assets and liabilities, including derivative financial instruments. The provisions of EIC-173 apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this standard had no material impact on the company's financial statements.

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, Financial Instruments – Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009 and are consistent with recent amendments to financial instrument disclosure standards in IFRS. The company will include these additional disclosures in its annual consolidated financial statements for the year ending December 31, 2009.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011.

We have commenced our IFRS conversion project which consists of four phases: diagnostic; design and planning; solution development; and implementation. Regular reporting is provided to management and to the Audit Committee of the Board of Directors.

We have completed the diagnostic phase, which involved a review of the differences between current Canadian GAAP and IFRS. During this phase we determined that the differences which will have the greatest impact on Connacher's consolidated financial statements relate to accounting for exploration and development activities and property and equipment, impairments of capital assets, asset retirement obligations and the reporting of employee future benefits. Their financial impacts have yet to be quantified. We are currently engaged in the design and planning and the solution development phases of our project. We have identified and documented the high impact areas, including an analysis of financial system impacts and have engaged in ongoing discussions with our external auditors. The impact on our disclosure controls, internal controls over financial reporting and the impact on contracts and lending agreements will also be determined.

In July 2009 the International Accounting Standards Board ("IASB") issued an amendment to IFRS accounting standards in respect of property, plant and equipment as at the date of the initial transition to IFRS which permits issuers currently using the full cost method of accounting, (as described in the CICA Handbook – Accounting Guideline 16 Oil and Gas accounting – Full Cost), to allocate the balance of property, plant and equipment as determined under Canadian GAAP to the IFRS categories of exploration and evaluation assets and development and producing properties without requiring full retroactive restatement of historic balances to the IFRS basis of accounting. We anticipate using the exemption.

RISK FACTORS AND RISK MANAGEMENT

Connacher is engaged in the oil and gas exploration, development, production and refining industry. This business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Operational risks include competition, reservoir performance uncertainties, environmental factors and regulatory and safety concerns. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, currency exchange rates and the cost of goods and services.

Connacher's financial and operating performance is potentially affected by a number of factors including, but not limited to, risks associated with the exploration, development and production of oil and gas, commodity prices and exchange rates, environmental legislation, changes to royalty and income tax legislation, credit and capital market conditions, credit risk for failure of performance by third parties and other risks and uncertainties described in more detail in Connacher's Annual Information Form filed with securities regulatory authorities.

Reference should be made to Connacher's most recent Annual Information Form for a description of its risk factors. The company's Annual Information Form is available on SEDAR at www.sedar.com.

DISCLOSURE CONTROLS AND PROCEDURES

The company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the company is made known to the company's CEO and CFO by others, particularly during the period in which the annual and interim filings are prepared; and (ii) information required to be disclosed by the company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the company's disclosure controls and procedures at December 31, 2008 and have concluded that the company's disclosure controls and procedures were effective.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the company's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the company's internal controls over financial reporting at the financial year end of the company and concluded that the company's internal controls over financial reporting is effective at the financial year end of the company for the foregoing purpose.

The company's CEO and CFO are required to cause the company to disclose any change in the company's internal controls over financial reporting that occurred during the company's most recent interim period that has materially affected, or is reasonably likely to materially affect, the company's internal controls over financial reporting. No material changes in the company's internal controls over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, the company's internal controls over financial reporting.

It should be noted that a control system, including the company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. 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. Significant volatility and declining commodity prices, together with severe economic uncertainty in the fourth quarter of 2008 and the first quarter of 2009 are the primary factors affecting financial results during those quarters. The magnitude of the changes in commodity prices during these periods was unprecedented.

	2007		2008			2009		
Three Months Ended	Sep 30	Dec 31	Mar 31	Jun 30	Sept 30	Dec 31	Mar 31	June 30
(\$000 except per share amounts)								
Revenues, net of royalties	101,991	83,340	100,656	202,016	224,558	102,109	61,757	100,219
Cash flow ⁽¹⁾	10,025	7,083	7,825	20,550	31,130	(4,688)	(4,692)	9,570
Basic, per share ⁽¹⁾	0.05	0.03	0.04	0.10	0.15	(0.02)	(0.02)	0.04
Diluted, per share ⁽¹⁾	0.05	0.03	0.03	0.10	0.14	(0.02)	(0.02)	0.03
Net earnings (loss)	14,589	(840)	(1,833)	6,683	12,139	(43,592)	(46,844)	39,966
Basic per share	0.07	0.00	(0.01)	0.03	0.06	(0.21)	(0.22)	0.15
Diluted per share	-	-	-	-	-	-	-	0.14
Property and equipment additions	64,006	55,852	115,984	80,403	69,175	86,174	64,255	40,236
Cash on hand	754	392,271	323,423	232,704	236,375	223,663	96,220	401,160
Working capital surplus (deficiency)	(19,853)	389,789	287,105	234,110	200,177	197,914	120,035	455,001
Term debt	260,606	664,462	671,014	684,705	689,673	778,732	803,915	960,593
Shareholders' equity	428,764	480,439	471,559	479,477	496,509	469,087	428,276	622,235
Operating Highlights								
Upstream: Daily production/sales volumes								
Bitumen – bbl/d ⁽²⁾	-	-	1,773	6,123	6,810	7,086	6,170	6,284
Crude oil – bbl/d	781	752	996	981	957	1,187	1,180	1,114
Natural gas – Mcf/d	9,413	8,889	10,493	14,220	13,188	12,405	12,828	12,144
Equivalent – boe/d ⁽³⁾	2,350	2,233	4,518	9,474	9,966	10,341	9,488	9,421
Product pricing ⁽⁴⁾								
Bitumen – \$/bbl ⁽²⁾	-	-	53.01	60.80	65.34	12.06	22.45	40.95
Crude oil – \$/bbl	55.98	56.79	79.50	105.28	103.60	48.13	39.63	54.87
Natural gas – \$/Mcf	4.70	5.82	7.79	10.02	8.92	6.61	4.89	3.35
Selected Highlights – \$/boe ⁽³⁾								
Weighted average sales price	37.43	42.29	56.44	65.25	66.41	21.73	26.13	38.11
Realized derivative gain (loss)	-	-	-	(0.47)	-	-	0.47	(7.19)
Royalties	6.32	6.34	7.45	6.21	4.65	3.19	3.02	1.90
Operating costs	9.00	13.77	14.32	22.78	20.41	20.76	17.73	13.98
Cash operating netback ⁽⁵⁾	22.11	22.18	34.67	35.79	41.35	(2.23)	5.85	15.04
Downstream: Refining								
Crude charged – bbl/d	9,400	9,610	9,830	9,329	9,239	8,333	6,867	9,145
Refining utilization – %	100	101	104	98	97	88	72	96
Margins – %	15	6	1	(0.1)	2	(18)	7	5
Common Share Information								
Shares outstanding at end of period (000)	199,447	209,971	210,277	211,027	211,182	211,182	211,291	403,546
Weighted average shares outstanding for the period								
Basic (000)	199,167	204,701	210,234	210,658	211,093	211,182	211,286	266,425
Diluted (000)	221,554	220,362	210,234	214,530	213,174	211,575	211,286	286,985
Volume traded (000)	70,939	52,198	63,718	107,001	112,401	110,244	67,387	249,700
Common share price (\$)								
High	4.40	4.08	3.94	5.26	4.65	2.95	1.00	1.66
Low	3.20	3.31	2.59	3.10	2.63	0.60	0.61	0.74
Close (end of period)	4.01	3.79	3.13	4.30	2.75	0.74	0.74	0.92

(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 applicable Management Discussion & Analysis for the periods referenced. Management uses these non-GAAP measurements for its own performance measures and to provide its shareholders and investors with a measurement of the company's efficiency and its ability to fund its 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, no production volumes were reported and 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. 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. Boes may be misleading, particularly if used in isolation.

(4) Product pricing excludes realized hedging gains/losses and excludes unrealized mark-to-market non-cash accounting gains/losses.

(5) Netback is a non-GAAP measure used by management as a measure of operating efficiency and profitability. Netback per boe is calculated as bitumen, crude oil and natural gas revenue less royalties and operating costs divided by related production/sales volume. Netbacks are reconciled to net earnings in the applicable MD&A for the periods referenced.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(\$000)	June 30, 2009	December 31, 2008
ASSETS		
CURRENT		
Cash	\$ 391,160	\$ 223,663
Restricted cash (Note 9(c))	10,000	-
Accounts receivable	47,794	20,492
Inventories (Note 5)	52,494	35,993
Income taxes recoverable	14,335	13,875
Prepaid expenses	2,566	2,221
Due from Petrolifera	75	42
	518,424	296,286
Property and equipment	1,053,471	985,054
Goodwill	103,676	103,676
Investment in Petrolifera	47,799	46,659
	\$ 1,723,370	\$ 1,431,675
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 46,913	\$ 98,372
Risk management contracts (Note 4(b))	16,510	-
	63,423	98,372
Long term debt (Note 4(e))	960,593	778,732
Future income taxes	48,591	58,296
Asset retirement obligations (Note 6)	27,727	26,396
Employee future benefits	801	792
	1,101,135	962,588
SHAREHOLDERS' EQUITY		
Share capital, contributed surplus and equity component (Note 7)	606,493	437,899
Retained earnings	16,508	23,386
Accumulated other comprehensive income (loss)	(766)	7,802
	622,235	469,087
	\$ 1,723,370	\$ 1,431,675

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(UNAUDITED)

(\$000, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
REVENUES				
Upstream, net of royalties (Note 4(b))	\$ 33,882	\$ 83,483	\$ 62,028	\$ 111,409
Downstream	66,091	117,820	98,774	189,719
Interest and other income	246	713	1,174	1,544
	100,219	202,016	161,976	302,672
EXPENSES				
Upstream - diluent purchases and operating costs	23,654	50,909	51,690	64,901
Upstream transportation costs	2,575	2,934	5,482	3,428
Downstream – crude oil purchases and operating costs (Note 5)	65,611	117,926	96,331	189,319
General and administrative	3,224	2,911	7,698	5,977
Finance charges	8,877	10,298	18,037	14,729
Stock-based compensation (Note 7(b))	551	1,181	1,821	2,697
Foreign exchange loss (gain) (Note 4(d))	(65,411)	3,317	(37,545)	5,209
Depletion, depreciation and accretion	16,538	13,825	32,987	21,289
	55,619	203,301	176,501	307,549
Earnings (loss) before income taxes and other items	44,600	(1,285)	(14,525)	(4,877)
Current income tax provision	121	660	293	1,477
Future income tax provision (recovery)	5,369	373	(6,801)	(1,790)
	5,490	1,033	(6,508)	(313)
Earnings (loss) before other items	39,110	(2,318)	(8,017)	(4,564)
Equity interest in Petrolifera earnings	856	935	1,139	1,390
Dilution gain (Note 9(d))	-	8,066	-	8,024
NET EARNINGS (LOSS)	\$ 39,966	6,683	\$ (6,878)	4,850
RETAINED EARNINGS, (DEFICIT) BEGINNING OF PERIOD	(23,458)	48,156	23,386	49,989
RETAINED EARNINGS, END OF PERIOD	\$ 16,508	\$ 54,839	\$ 16,508	\$ 54,839
EARNINGS PER SHARE (Note 9(a))				
Basic	\$ 0.15	\$ 0.03	\$ (0.03)	\$ 0.02
Diluted	\$ 0.14	\$ 0.03	\$ (0.03)	\$ 0.02

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(\$000)	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Net earnings (loss)	\$ 39,966	\$ 6,683	\$ (6,878)	\$ 4,850
Foreign currency translation adjustment	(12,999)	(429)	(8,568)	3,080
Comprehensive income (loss)	\$ 26,967	\$ 6,254	\$ (15,446)	\$ 7,930

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(\$000)	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Balance, beginning of period	\$ 12,233	\$ (10,127)	\$ 7,802	\$ (13,636)
Foreign currency translation adjustment	(12,999)	(429)	(8,568)	3,080
Balance, end of period	\$ (766)	\$ (10,556)	\$ (766)	\$ (10,556)

CONSOLIDATED STATEMENTS OF CASH FLOW

(UNAUDITED)

(\$000)	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Cash provided by (used in) the following activities:				
OPERATING				
Net earnings (loss)	\$ 39,966	\$ 6,683	\$ (6,878)	\$ 4,850
Items not involving cash:				
Depletion, depreciation and accretion	16,538	13,825	32,987	21,289
Stock-based compensation	551	1,181	1,821	2,697
Finance charges – non cash portion	1,134	4,058	2,175	5,307
Employee future benefits	107	114	294	227
Future income tax provision (recovery)	5,369	373	(6,801)	(1,790)
Unrealized loss on risk management contracts	8,243	-	16,510	-
Unrealized foreign exchange loss (gain)	(61,482)	3,317	(33,616)	5,209
Gain on repurchase of Second Lien Senior Notes	-	-	(475)	-
Equity interest in Petrolifera earnings	(856)	(935)	(1,139)	(1,390)
Dilution gain (Note 9(d))	-	(8,066)	-	(8,024)
Cash flow from operations before changes in non-cash working capital and other changes	9,570	20,550	4,878	28,375
Changes in non-cash working capital (Note 9(b))	(26,364)	(12,863)	(50,668)	8,907
Asset retirement expenditures	(29)	(83)	(133)	(206)
Pension funding	(234)	-	(234)	-
	(17,057)	7,604	(46,157)	37,076
FINANCING				
Issue of common shares (Note 7(a))	172,586	-	172,586	-
Share issue costs	(8,785)	-	(8,785)	-
Exercise of stock options (Note 7)	160	675	160	692
Issuance of First Lien Senior Notes	226,475	-	226,475	-
Debt issue costs	(20,858)	-	(20,858)	-
Repurchase of Second Lien Senior Notes	-	-	(309)	-
Deferred financing costs	-	5	-	(77)
	369,578	680	369,269	615
INVESTING				
Acquisition and development of oil and gas properties	(39,620)	(73,139)	(102,764)	(187,194)
Decrease (increase) in restricted cash	-	33,546	(10,000)	30,773
Change in non-cash working capital (Note 9(b))	(14,155)	(25,249)	(49,523)	(12,849)
	(53,775)	(64,842)	(162,287)	(169,270)
NET INCREASE (DECREASE) IN CASH	298,746	(56,558)	160,825	(131,579)
Foreign exchange gains (losses) on U.S. dollar cash balances held	6,194	(615)	6,672	2,785
CASH, BEGINNING OF PERIOD	86,220	257,489	223,663	329,110
CASH, END OF PERIOD	\$ 391,160	\$ 200,316	\$ 391,160	\$ 200,316

Supplementary information – Note 9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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, 2008, 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, 2008.

3. NEW ACCOUNTING STANDARDS

In February 2008, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3064, “Goodwill and Intangible Assets”, replacing Section 3062, “Goodwill and Other Intangible Assets”. The new Section has been applied since 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, did not have any impact on the company’s consolidated financial statements.

In January 2009, the CICA Emerging Issues Committee (“EIC”) issued EIC-173, “Credit risk and the fair value of financial assets and liabilities”, which requires that an entity’s own credit risk and counterparty credit risk be taken into account in determining the fair value of financial assets and liabilities, including derivative financial instruments. The provisions of EIC-173 apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this standard had no material impact on the company’s consolidated financial statements.

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, Financial Instruments – Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009 and are consistent with recent amendments to financial instrument disclosure standards in IFRS. The company will include these additional disclosures in its annual consolidated financial statements for the year ending December 31, 2009.

Over the next two 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 with IFRS.

4. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values recognized in Other Comprehensive Income (“OCI”). Financial assets “held-to-maturity,” “loans and receivables” and “other financial liabilities” are measured at amortized cost using the effective interest rate method of amortization.

The company has classified all of its financial instruments, with the exception of the First and Second Lien Senior Notes and the Convertible Debentures as “held for trading”. This classification has been chosen due to the nature of the company’s financial instruments, which, except for the First and Second Lien Senior Notes and the Convertible Debentures are of a short-term nature such that there are no material differences between the carrying values and the fair values.

The First and Second Lien Senior Notes and the Convertible Debentures have been classified as “other financial liabilities” and are accounted for on the amortized cost method, with transaction costs being amortized over the life of the instruments using the effective interest rate method.

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 Petrolifera, the Convertible Debentures and the First and Second Lien Senior Notes.

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.

(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 company’s financial assets subject to credit risk 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 closely approximates 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 and no allowance for uncollectible accounts is considered necessary.

The majority of the company's upstream revenues are composed of bitumen sales. Substantially all of the company's bitumen sales were made to two customers in the first half of 2009.

(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.

Risk Management Contracts

In November 2008, Connacher entered into a foreign exchange collar which sets a floor of CAD\$1.1925 per U.S.\$1.00 and a ceiling of CAD\$1.30 per U.S.\$1.00 on a notional amount of U.S.\$10 million of production revenue per month throughout 2009. At June 30, 2009 the fair value of this contract was an asset of \$3.1 million, which is recorded in accounts receivable on the consolidated balance sheet. For the year to date, an unrealized foreign exchange gain of \$1.3 million and a realized foreign exchange gain of \$1.1 million was included in the net foreign exchange gain on the consolidated statement of operations in respect of this contract. A \$0.01 change on the USD/CAD exchange rate would result in a \$500,000 change in the fair value of the collar.

Connacher has entered into derivative contracts to fix the WTI crude oil price on a portion of its production at a price of U.S.\$46.00/bbl on a notional volume of 2,500 barrels per day until August 31, 2009 and at a price of U.S.\$49.50/bbl on a notional volume of 2,500 bbl/d until December 31, 2009. On June 30, 2009, Connacher put in place a WTI crude oil "collar" contract on a notional volume of 2,500 bbl/d of bitumen production from September 1 to December 31, 2009 with a floor of U.S.\$60.00/bbl and a ceiling of U.S.\$84.00/bbl. At June 30, 2009 the fair value of these derivative contracts was a liability of \$16.5 million and a \$16.5 million loss was recorded in upstream revenue on the consolidated statement of operations for the year to date. A U.S.\$1.00 change in WTI would result in a \$815,000 change in the value of the derivatives, resulting in a similar impact on earnings.

(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 company's First and Second Lien Senior Notes and Convertible Debentures have fixed interest rate obligations and, therefore, are not subject to changes in variable interest rates.

(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 U.S./Canadian dollar exchange rate on pricing of its sales of crude oil and bitumen (which are generally priced by reference to U.S. dollars but settled in Canadian dollars) and for the translation of its U.S. refining operating results, its U.S. dollar cash holdings and its U.S. dollar denominated First and Second Lien Senior Notes to Canadian dollars for financial statement reporting purposes.

In 2009, we had unrealized foreign exchange translation gains of \$61.5 million in the second quarter and \$33.6 million for the year to date; and we realized foreign exchange gains of \$3.9 million in the second quarter and in the year to date, 2009 from the foreign exchange revenue collar and upon the settlement of U.S. dollar denominated obligations.

Throughout most of 2008, we had a cross-currency swap in place to hedge one-half of the foreign exchange exposure on our U.S. dollar debt. This insulated us from some foreign currency volatility and reduced the impact of a weaker Canadian dollar, which resulted in the unrealized foreign exchange translation losses reported in the comparative 2008 periods.

Relative to the company's U.S. dollar cash balances, its crude oil and bitumen revenue receivables, and its First and Second Lien Senior Notes, a \$0.01 change in the Canadian dollar exchange rate would have resulted in a change in net earnings of \$5.7 million for the six months ended June 30, 2009 (six 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, usually maintains accessible revolving banking lines of credit and maintains prudent insurance programs to minimize exposure to insurable losses.

On June 16, 2009, the company issued U.S.\$200 million face value of 11.75 percent First Lien Senior Secured Notes (the "First Lien Senior Notes") at a price of 93.678 percent for gross proceeds of U.S.\$187.4 million. The First Lien Senior Notes are not repayable until July 15, 2014 and are secured on a first priority basis (subject to specified liens up to U.S.\$50 million for prior ranking senior debt) by liens on all of the company's assets, excluding Connacher's investment holding in Petrolifera.

The long-term nature of the company's debt repayment obligations is structured to be 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 First Lien Senior Notes until July 15, 2014 and on the Second Lien Senior Notes until their maturity date of December 15, 2015. This affords Connacher the opportunity to deploy its conventional, oil sands and refining 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.

At June 30, 2009, the fair values of the Convertible Debentures, the First Lien Senior Notes and Second Lien Senior Notes were \$57 million, \$224 million and \$406 million, respectively, based on their quoted market prices.

As at June 30, 2009, the company's long-term debt was repayable as follows:

- Convertible Debentures – June 30, 2012 in the amount of \$100,014,000, unless converted into common shares prior thereto;
- First Lien Senior Notes – July 15, 2014 in the amount of U.S.\$200 million; and
- Second Lien Senior Notes – December 15, 2015 in the amount of U.S.\$591.3 million.

Connacher's 13.1 million shares held in Petrolifera, which trade on the TSX, also provides liquidity, 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 flexibility.

(f) Capital risks

Connacher's objectives in managing its cash, debt and equity (its capital or 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 and 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. Connacher's long-term debt contains no financial or maintenance covenants.

In March 2009, the company cancelled its Revolving Credit Facility and put in place a \$20 million demand operating banking facility ("the L/C facility") for the purposes of issuing letters of credit. The L/C facility is secured by cash of \$10 million and a first lien claim on certain assets of the company and contains no financial or maintenance covenants. At June 30, 2009, the L/C Facility secured letters of credit in the amount of \$5.9 million.

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

	As at June 30, 2009	As at December 31, 2008
(\$000)		
Long term debt ⁽¹⁾	\$ 960,593	\$ 778,732
Shareholders' equity		
Share capital, contributed surplus and equity component	606,493	437,899
Accumulated other comprehensive income (loss)	(766)	7,802
Retained earnings	16,508	23,386
Total	\$ 1,582,828	\$ 1,247,819
Debt to book capitalization ⁽²⁾	61%	62%
Debt to market capitalization ⁽³⁾	71%	81%

(1) Long-term debt is stated at its carrying value, which is net of 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 calculated ratio of debt to capitalization. This is due to pre-funding the full cost of Algar. As at June 30, 2009, the company's net debt (long-term debt, net of cash on hand) was \$559.4 million and its calculated ratio of net debt to book capitalization was 47 percent and its net debt to market capitalization was 59 percent.

5. INVENTORIES

Inventories consist of the following:

(\$000)	June 30, 2009	December 31, 2008
Crude oil	\$ 5,572	\$ 3,433
Other raw materials and unfinished products (1)	1,860	1,762
Refined products (2)	37,565	18,901
Process chemicals (3)	3,670	8,110
Repairs and maintenance supplies and other (4)	3,827	3,787
	\$ 52,494	\$ 35,993

(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.

Inventories are valued at the lower of cost and net realizable value. At December 31, 2008, net realizable value was lower than cost and therefore, net realizable values were used to value most refined inventory products. At June 30, 2009, the net realizable value of most refined products was higher than their cost, so average cost was used to value most refined inventory products. As a result, refined inventory product values at June 30, 2009 increased from December 31, 2008 by approximately \$11 million and downstream crude oil purchases and operating costs were lower than they otherwise would have been by \$11 million in the first half of 2009.

Included in downstream crude oil purchases and operating costs for the three months ended June 30, 2009 was approximately \$58 million of inventory costs (three months ended June 30, 2008 - \$110 million) and for the six months ended June 30, 2009, this amount was approximately \$79 million (six months ended June 30, 2008 - \$174 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, 2009	Year ended December 31, 2008
Asset retirement obligations, beginning of period	\$ 26,396	\$ 24,365
Liabilities incurred	483	1,496
Liabilities settled	(133)	(209)
Change in estimated future cash flows	-	(960)
Accretion expense	981	1,704
Asset retirement obligations, end of period	\$ 27,727	\$ 26,396

Liabilities incurred in 2009 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 to estimate a date or range of dates for settlement of any asset retirement obligation related to the refinery.

7. SHARE CAPITAL, CONTRIBUTED SURPLUS AND EQUITY COMPONENT

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)
Share Capital, December 31, 2008	211,181,815	\$ 395,023
Issued for cash in public offering (a)	191,762,500	172,586
Issued upon exercise of options in 2009 (b)	266,504	160
Assigned value of options exercised in 2009		63
Issued to directors under share award plan (c)	327,623	301
Conversion of debentures (d)	7,200	37
Share issue costs, net of income taxes		(6,489)
Share Capital, June 30, 2009	403,545,642	561,681
Contributed Surplus, December 31, 2008		26,053
Stock based compensation for share options in 2009		2,005
Assigned value of options exercised in 2009		(63)
Contributed Surplus, June 30, 2009		27,995
Equity component of Convertible Debentures, December 31, 2008		16,823
Conversion of debentures (d)		(6)
Equity Component, June 30, 2009		16,817
Total Share Capital, Contributed Surplus and Equity Component December 31, 2008		437,899
June 30, 2009		606,493

(a) June 2009 Common Share Issue

In June 2009, the company issued from treasury 191,762,500 common shares at \$0.90 per common share, for gross proceeds of \$172.6 million.

(b) Stock Options

A summary of the company's outstanding stock options, as at June 30, 2009 and 2008 and changes during those periods is presented below:

For the six months ended June 30	2009		2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	16,383,104	\$ 3.16	17,432,717	\$ 3.60
Granted	4,375,947	\$ 0.72	2,743,792	\$ 3.22
Exercised	(266,504)	\$ 0.60	(946,934)	\$ 0.81
Expired	(4,913,598)	\$ 4.77	(155,782)	\$ 3.85
Outstanding, end of period	15,578,949	\$ 2.01	19,073,793	\$ 3.68
Exercisable, end of period	9,880,984	\$ 2.44	13,254,013	\$ 3.70

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

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life at June 30, 2009
\$0.20 - \$0.99	4,952,934	4.0
\$1.00 - \$1.99	4,436,940	3.4
\$2.00 - \$3.99	5,231,566	2.4
\$4.00 - \$5.56	957,509	2.0
	15,578,949	3.2

In the second quarter of 2009 a non-cash charge of \$551,000 million (2008 - \$1.2 million) 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 \$114,000 (2008 - \$224,000) was capitalized to property and equipment.

During the first half of 2009 a non-cash charge of \$1.8 million (2008 - \$2.7 million) 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 \$507,000 (2008 - \$1.0 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	2009	2008
Risk free interest rate	1.3%	3.1%
Expected option life (years)	3	3
Expected volatility	67%	48%

The weighted average fair value at the date of grant of all options granted in the first six months of 2009 was \$0.32 per option (2008 - \$1.14) and for the three months ended June 30, 2009 was \$0.52 per option (2008 - \$1.40).

(c) Share award plan for non-employee directors

Under the share award plan, share units may be granted to non-employee directors of the company in amounts determined by the Board of Directors on the recommendation of the Governance Committee. Payment under the plan is made by delivering common shares to non-employee directors either through purchases on the TSX or by issuing common shares from treasury, subject to certain limitations. The Board of Directors may alternatively elect to pay cash equal to the fair market value of the common shares to be delivered to non-employee directors upon vesting of such share units in lieu of delivering common shares.

In January 2009, 108,975 common shares were issued to non-employee directors in respect of the share units which were then vested. In March 2009, the Board of Directors, on the recommendation of the Governance Committee, voted to accelerate the vesting of 218,648 share units originally scheduled to vest on January 1, 2010 and January 1, 2011 such that they vested immediately. Concurrently, an additional 478,872 share units were granted with vesting on January 1, 2010. In April, 218,648 common shares were issued to non-employee directors. In the first quarter of 2009, 54,662 share units held by a deceased director were cancelled.

A total of 489,292 share awards were outstanding at June 30, 2009 and have vested or vest on the following dates:

Vested	5,210
December 31, 2009	5,210
January 1, 2010	478,872
	489,292

In the second quarter of 2009, a non-cash charge of \$164,000 (2008 - \$388,000) was accrued as a liability and expensed in respect of shares yet to be issued under the share award plan. In the first six months of 2009, a non-cash charge of \$323,000 (2008 - \$433,000) was accrued as an expense and a liability in respect of shares to be issued under the plan.

(d) Conversion of debentures

In June 2009, \$36,000 principal amount of Convertible Debentures were converted to 7,200 common shares. A portion of each of the liability and equity components of the debenture together with the principal amount were transferred to share capital. No gain or loss was recorded.

8. SEGMENTED INFORMATION

The company has two business segments. 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.

Three months ended June 30

(\$000)	Upstream Canada Oil and Gas	Downstream USA Refining	Intersegment Elimination ⁽¹⁾	Total
2009				
Revenues, net of royalties	\$ 33,882	\$ 69,094	(3,003)	\$ 99,973
Equity interest in Petrolifera earnings	856	-		856
Interest and other income	57	189		246
Finance charges	8,819	58		8,877
Depletion, depreciation and accretion	14,723	1,815		16,538
Tax provision (recovery)	5,773	(283)		5,490
Net earnings (loss)	40,413	(447)		39,966
Property and equipment, net	967,786	85,685		1,053,471
Goodwill	103,676	-		103,676
Capital expenditures	36,724	3,512		40,236
Total assets	\$ 1,543,740	\$ 179,630		\$ 1,723,370
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

Six months ended June 30

(\$000)	Upstream Canada Oil and Gas	Downstream USA Refining	Intersegment Elimination ⁽¹⁾	Total
2009				
Revenues, net of royalties	\$ 62,028	\$ 102,246	(3,472)	\$ 160,802
Equity interest in Petrolifera earnings	1,139	-		1,139
Interest and other income	791	383		1,174
Finance charges	17,676	361		18,037
Depletion, depreciation and accretion	29,323	3,664		32,987
Tax provision (recovery)	(5,361)	(1,147)		(6,508)
Net earnings (loss)	(5,238)	(1,640)		(6,878)
Property and equipment, net	967,786	85,685		1,053,471
Goodwill	103,676	-		103,676
Capital expenditures	97,723	6,768		104,491
Total assets	\$ 1,543,740	\$ 179,630		\$ 1,723,370

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

(1) Intersegment transactions are eliminated on consolidation.

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)	2009	2008
Weighted average common shares outstanding	266,425	210,658
Dilutive effect of stock options, share units under the non-employee directors share award plan and Convertible Debentures	20,560	3,872
Weighted average common shares outstanding – diluted	286,985	214,530

For the six months ended June 30 (000)	2009	2008
Weighted average common shares outstanding	239,008	210,446
Dilutive effect of stock options and share units under the non-employee directors share award plan and Convertible Debentures	-	2,878
Weighted average common shares outstanding – diluted	239,008	213,324

The Convertible Debentures, stock options and share units were anti-dilutive to the loss per share calculation for the six months ended June 30, 2009.

(b) Net change in non-cash working capital

For the three months ended June 30

(\$000)	2009	2008
Accounts receivable	\$ (25,477)	\$ (6,847)
Inventories	(1,287)	492
Due from Petrolifera	2	44
Prepaid expenses	5,640	192
Accounts payable and accrued liabilities	(19,823)	(32,260)
Income taxes payable/recoverable	426	267
Total	\$ (40,519)	\$ 38,112

Summary of working capital changes:

Operations	\$ (26,364)	\$ (12,863)
Investing	(14,155)	(25,249)
	\$ (40,519)	\$ (38,112)

For the six months ended June 30

(\$000)	2009	2008
Accounts receivable	\$ (27,449)	\$ (34,344)
Due from Petrolifera	(33)	37
Prepaid expenses	(2,696)	1,184
Inventories	(19,819)	(19,162)
Accounts payable and accrued liabilities	(49,063)	48,664
Income taxes payable/recoverable	(1,131)	(321)
Total	\$ (100,191)	\$ (3,942)

Summary of working capital changes:

Operations	\$ (50,668)	\$ 8,907
Investing	(49,523)	(12,849)
	\$ (100,191)	\$ (3,942)

(c) Supplementary cash flow information

For the three months ended June 30

(\$000)	2009	2008
Interest paid	\$ 36,805	\$ 34,953
Income taxes paid	19	245

For the six months ended June 30

(\$000)	2009	2008
Interest paid	\$ 37,532	\$ 35,336
Income taxes paid	1,363	1,372

At June 30, 2009 cash of \$10 million was restricted to provide cash collateral to support letters of credit (Note 4(f)).

(d) Dilution gain

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. As a result, a dilution gain of \$8 million was recognized by Connacher in the second quarter of 2008.

(e) Defined benefit pension plan

In the first six months of 2009, \$294,000 (2008 - \$227,000) three months ended June 30, 2009 - \$107,000 (2008 - \$114,000) was changed to expense in relation to MRCL's defined benefit pension plan.