

CALGARY, May 10, 2016 /CNW/ - [Connacher Oil and Gas Ltd.](#) (CLC - TSX; "Connacher" or the "Company") announces its financial and operating results for the quarter-ended March 31, 2016 ("Q1 2016") (all amounts are in Canadian dollars unless otherwise noted).

Q1 2016 Highlights

Financial

- Q1 2016 revenue, net of royalties, decreased 78% to \$11.8 million (Q1 2015 - \$53.8 million) due to the decline in crude oil prices and lower sales volumes associated with the curtailment of production
- In Q1 2016, the adjusted EBITDA deficit increased to \$26.7 million (Q1 2015 - deficit of \$18.8 million), substantially due to lower revenue, net of royalties, partially offset by lower blending and transportation and handling costs
- Q1 2016 funds used was \$34.4 million (Q1 2015 - funds used of \$42.1 million). The decrease in funds used in Q1 2016 was primarily due to lower interest on long-term debt as the 2018 and 2019 secured second lien notes (the "Notes") were exchanged for common shares as part of the recapitalization transaction (the "Recapitalization") which closed in Q2 2015, partially offset by lower adjusted EBITDA
- In Q1 2016, the Company generated a net loss of \$43.0 million (Q1 2015 - net loss of \$139.9 million). The decrease in net loss is primarily due to lower finance charges and lower foreign exchange losses, partially offset by a decrease in adjusted EBITDA
- In Q1 2016, capital expenditures totaled \$1.4 million (Q1 2015 - \$6.1 million) and was focused on non-discretionary maintenance capital
- Connacher closed Q1 2016 with a cash balance of \$30.5 million (Q4 2015 - \$47.2 million)

Operational

- Q1 2016 production decreased 61% to 5,904 bbl/d (Q1 2015 - 15,078 bbl/d) due to the Company's strategic decision to reduce production in the low commodity price environment
- In Q1 2016, blending costs and transportation and handling costs decreased 73% to \$5.9 million (Q1 2015 - \$21.9 million) and 47% to \$11.2 million (Q1 2015 - \$21.3 million), respectively, primarily due to the reduction in production volumes and reduced diluent costs
- In Q1 2016, approximately 9% (Q1 2015 - 57%) of the Company's dilbit sales were to locations outside of Alberta. The rail volumes sold represent dilbit inventory in rail cars at December 31, 2015 which did not transfer ownership until Q1 2016

Q1 2016 Financial Highlights

FINANCIAL ⁽¹⁾	Q1 2016	Q1 2015
Revenue, net of royalties	\$11,824	\$53,774
Adjusted EBITDA ⁽²⁾	(26,683)	(18,764)
Net loss	(43,015)	(139,883)
Basic per share ⁽³⁾	(1.52)	(240.00)
Diluted per share ⁽³⁾	(1.52)	(240.00)
Funds used ⁽⁴⁾	(34,424)	(42,144)
Capital expenditures	1,381	6,101
Cash on hand	30,503	49,307
Working capital surplus (deficiency)	(227,317)	8,093
Long-term debt	-	1,160,842
Shareholders' equity	481,179	(128,865)

(1) (\$ 000) except per share amounts

(2) Adjusted EBITDA is a non-GAAP measure and is defined in the "Advisory Section" of the Q1 2016 MD&A and is reconciled to net loss under "Reconciliations of Loss to EBITDA, Adjusted EBITDA, and Bitumen Netback"

(3) Basic and diluted EPS amounts reflect the 800:1 share consolidation associated with the Company's Recapitalization for the three months ended March 31, 2016 and 2015

(4) Funds used is a non-GAAP measure and is defined in the "Advisory Section" of the Q1 2016 MD&A and is reconciled to cash flow used in operating activities under "Reconciliation of Cash Flow Used in Operating Activities to Funds Used"

Q1 2016 Operational Highlights

OPERATIONAL	Q1 2016	Q1 2015
Average benchmark prices		
WTI (US\$/bbl)	33.45	48.63
WTI (\$/bbl)	45.24	61.45
Heavy oil differential (US\$/bbl)	(14.24)	(14.73)
WCS (\$/bbl)	25.99	42.84
\$/US\$ exchange rate	1.35	1.26
Production and sales volumes ⁽¹⁾		
Daily bitumen production (bbl/d)	5,904	15,078
Daily bitumen sales (bbl/d)	6,651	14,865
Bitumen netback (\$/bbl) ⁽²⁾⁽³⁾		
Dilbit sales	\$16.45	\$31.94
Diluent costs	(6.73)	(8.23)
Realized bitumen sales price	9.72	23.71
Transportation and handling costs	(18.50)	(15.91)
Net realized bitumen sales price	(8.78)	7.80
Royalties	(0.01)	0.12
Net bitumen revenue price	(8.79)	7.92
Production and operating expenses	(28.73)	(16.67)
Bitumen netback	\$(37.52)	\$(8.75)

(1) The Company's bitumen sales and production volumes differ due to changes in inventory and product losses

(2) A non-GAAP measure which is defined in the "Advisory Section" of the Q1 2016 MD&A. Bitumen netback is reconciled to net loss under "Reconciliations of Net Loss to EBITDA, Adjusted EBITDA, and Bitumen Netback". Bitumen netbacks per barrel amounts are calculated by dividing the total amounts presented in the "Bitumen Netback" table on page 8 by bitumen sold volumes as presented in the "Production and Sales Volumes" table on page 7, with the exception of dilbit sales (presented as dilbit sales divided by dilbit sales volume) and diluent costs (presented as the cost of diluent in excess of the dilbit selling price)

(3) Before risk management contract gains or losses

Operations

In light of the exceptionally low commodity price environment, the Company elected to accelerate planned maintenance and reduce production at Great Divide.

In Q1 2016, the Company completed the previously scheduled turnaround at Pod One and production averaged 5,900 bbl/d.

Process to Review Capital Structure

As previously announced, the Board of Directors initiated a process to investigate, evaluate and consider possible financing and restructuring alternatives available to the Company and formed a special committee (the "Special Committee") to assist the Board in this process.

On March 31, 2016, the Company entered into a forbearance agreement (the "Forbearance Agreement") with Credit Suisse AG, Cayman Islands Branch, as administrative agent, and certain lenders constituting the "Required Lenders" in respect of US\$153.8 million of loans made by the lenders (the "Lenders") under the credit agreement dated as of May 23, 2014 (as amended, restated, supplemented, or otherwise modified from time to time), including as amended pursuant to the Amendment No. 1 dated May 8, 2015 (the "Amended Term Loan Facility"). Under the terms of the Forbearance Agreement, among other things, the Lenders agreed to forbear from exercising enforcement rights and remedies arising from the Company's failure to pay the cash interest and principal payments due on March 31, 2016 until the earlier of April 30, 2016; the occurrence of an event of default under the Amended Term Loan Facility, unrelated to the failure to pay principal and interest due on March 31, 2016; or the occurrence of a default or breach of representation by the Company under the Forbearance Agreement.

On April 30, 2016, the Company entered into a second forbearance agreement (the "Second Forbearance Agreement") which extended the forbearance period until May 16, 2016 and can be found on the Company's SEDAR profile.

The failure to pay the principal payment and the failure to pay cash interest due on March 31, 2016 within the applicable grace period pursuant to the Amended Term Loan Facility both constitute an event of default under the note indenture (the "Convertible Note Indenture") governing the 12% convertible second lien notes due August 31, 2018 (the "Convertible Notes"). The Company is working and will continue to work with an ad hoc committee of the holders of the Convertible Notes during the forbearance period.

The deterioration of crude oil pricing has constrained the Company's ability to generate positive cash flow from operations. Coupled with the low-price commodity environment, the restrictive provisions of the Company's long-term debt arrangements have severely constrained the Company's access to additional financing. As a result, the Company did not discharge the principal and interest payable due on March 31, 2016 related to the Amended Term Loan Facility. Without the injection of new sources of financing and positive cash flow from operations, the Company will be challenged to deploy the capital required to maintain existing reserve and production bases, fund maintenance capital, fund working capital requirements, and will be unable to discharge future obligations as they come due.

The Special Committee will continue to investigate restructuring and refinancing alternatives that may be available to the Company. A final decision as to what alternative will be pursued has not been made at this time. One alternative available to the Company that is under consideration is to file for creditor protection under the Companies' Creditors Arrangement Act ("CCAA"). CCAA is a federal insolvency statute that allows an insolvent company, which owes creditors in excess of \$5 million, to restructure its business and financial affairs as it stays creditors and others from enforcing rights against the insolvent company.

About Connacher

Connacher is a Calgary-based in situ oil sands developer, producer, and marketer of bitumen. The Company holds a 100 per cent interest in approximately 435 million barrels of proved and probable bitumen reserves and operates two steam-assisted gravity drainage facilities located on the Company's Great Divide oil sands leases near Fort McMurray, Alberta.

Forward Looking Information

This press release contains forward looking information, including but not limited to the Second Forbearance Agreement and the consequences thereof, anticipated production rates and the Company's liquidity outlook. Forward looking information is based on management's expectations regarding the Company's future financial position; the Company's future growth, results of operations and production, future commodity prices and foreign exchange rates; future capital and other expenditures (including the amount, nature, and sources of funding thereof); 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: that cash flows from operations and current working capital may not provide adequate funds to fund the Company's operating losses and capital plan; 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 geological interpretations; the uncertainty of estimates and projections

relating to production, costs and expenses; and health, safety and environmental risks), risk of commodity price and foreign exchange rate fluctuations, risks associated with the impact of general economic conditions, risks and uncertainties associated with maintaining the necessary regulatory approvals and securing the financing to continue operations and increase production to levels previously achieved.

Reported average production levels may not be reflective of sustainable production rates and future production rates may differ materially from the production rates reflected in this press release due to, among other factors, difficulties or interruptions encountered during the production of bitumen.

Additional risks and uncertainties affecting Connacher and its business and affairs are described in further detail in Connacher's AIF for the year ended December 31, 2015. 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. Any forward looking information included in this press release is expressly qualified in its entirety by this cautionary statement. Any forward looking information included herein is made as of the date of this press release and Connacher assumes no obligation to update or revise any forward looking information to reflect new events or circumstances, except as required by law.

SOURCE [Connacher Oil and Gas Ltd.](#)

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