

Connacher Oil and Gas Ltd. Announces Q2 2017 Results

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CALGARY, Aug. 29, 2017 - [Connacher Oil and Gas Ltd.](#) ("Connacher" or the "Company") announces its financial and operating results for the three and six months ended June 30, 2017 ("Q2 2017") (all amounts are in Canadian dollars unless otherwise noted). Connacher has posted four consecutive quarters with positive netbacks and two quarters with positive adjusted EBITDA for the first time since 2014. Improved pricing, major cost structure reductions while maintaining high operational reliability have all contributed to this success.

Financial

- Q2 2017 and YTD 2017 revenue, net of royalties, increased 137% to \$54.0 million (Q2 2016 - \$22.8 million) and 192% to \$100.9 (YTD 2016 - \$34.6 million), respectively, due to higher sales volumes and higher crude oil benchmark pricing. In 2017, the Company entered into fixed price sales agreements, which added incremental revenue for Q2 2017 and YTD 2017 totaling \$4.4 million and \$4.7 million, respectively
- Q2 2017 and YTD 2017 adjusted EBITDA increased to \$6.8 million (Q2 2016 - deficit of \$14.8 million) and \$8.7 million (YTD 2016 - deficit of \$41.5 million), respectively, primarily due to higher revenue, net of royalties, partially offset by higher input costs associated with increased production
- Q2 2017 and YTD 2017 funds used were \$5.5 million (Q2 2016 - funds used of \$23.2 million) and \$15.0 million (YTD 2016 - funds used of \$57.7 million), respectively, primarily due to an improved adjusted EBITDA, partially offset by higher interest costs
- In Q2 2017 and YTD 2017, the Company generated net losses of \$15.5 million (Q2 2016 - net loss of \$369.8 million) and \$40.1 million (YTD 2016 - net loss of \$412.8 million), respectively. For both periods, the decrease in net loss is primarily due to an improved adjusted EBITDA. In Q2 2016, the Company recorded an impairment of \$332.0 million related to its property, plant, and equipment ("PP&E") assets
- YTD 2017 capital expenditures totaled \$2.7 million (YTD 2016 - \$1.8 million) and focused primarily on well servicing. In Q2 2017, the Company completed its well restart program. At June 30, 2017, all 41 well pairs were on production
- Connacher closed Q2 2017 with a cash balance of \$19.9 million (including restricted cash of \$7.1 million) (Q4 2016 - \$17.8 million)

Operational

- Q2 2017 and YTD 2017 production increased 43% to 12,060 bbl/d (Q2 2016 - 8,416 bbl/d) and 68% to 12,056 bbl/d (YTD 2016 - 7,160 bbl/d), respectively, due to the completion of the Company's restart program
- Q2 2017 and YTD 2017 blending costs increased 63% to \$13.6 million (Q2 2016 - \$8.3 million) and 94% to \$27.7 million (YTD 2016 - \$14.3 million), respectively, primarily due to higher total diluent volumes associated with increased bitumen production and higher diluent pricing
- Q2 2017 transportation and handling costs increased 25% to \$8.9 million (Q2 2016 - \$7.1 million) due to the increase in dilbit sales volumes. YTD 2017 transportation and handling costs decreased 12% to \$16.2 million (YTD 2016 - \$18.3 million) as the additional transportation and handling costs associated with increased dilbit sales did not exceed the substantial penalties for non-delivery in 2016
- Q2 2017 and YTD 2017 production and operating expense increased 46% to \$21.6 million (Q2 2016 - \$14.8 million) and 29% to \$41.5 million (YTD 2016 - \$32.2 million), respectively, primarily due to higher natural gas costs associated with increased bitumen production

Q2 2017 Financial Highlights

FINANCIAL ⁽¹⁾	Q2 2017	Q2 2016	YTD 2017	YTD 2016
Revenue, net of royalties	\$53,986	\$22,757	\$100,886	\$34,581
Adjusted EBITDA ⁽²⁾	6,753	(14,795)	8,654	(41,478)
Net earnings (loss)	(15,464)	(369,777)	(40,072)	(412,792)
Basic per share	(0.55)	(13.05)	(1.41)	(14.57)
Diluted per share	(0.55)	(13.05)	(1.41)	(14.57)
Funds used ⁽³⁾	(5,485)	(23,233)	(14,985)	(57,657)
Capital expenditures	947	453	2,655	1,834
Cash on hand ⁽⁴⁾	19,861	18,520		
Working capital surplus (deficiency)	(297,000)	(254,607)		
Long-term debt	-	-		
Shareholders' equity	438,112	111,505		

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

(2) Adjusted EBITDA is a non-GAAP measure and is defined in the "Advisory Section" of the Q2 2017 MD&A and is reconciled to net loss under "Reconciliations of Net Loss to EBITDA, Adjusted EBITDA, and Bitumen Netback"

(3) Funds used is a non-GAAP measure and is defined in the "Advisory Section" of the Q2 2017 MD&A and is reconciled to cash flow from operating activities under "Reconciliations of Cash Flow From (Used in) Operating Activities to Funds Used"

(4) Balance includes restricted cash of \$7.1 million, pursuant to the terms of the Initial Order granted in the Company's CCAA proceeding before the Court of Queen's Bench of Alberta, Judicial Centre of Calgary

Q2 2017 Operational Highlights

OPERATIONAL	Q2 2017	Q2 2016	YTD 2017	YTD 2016
Average benchmark prices				
WTI (US\$/bbl)	\$48.29	\$45.59	\$50.10	\$39.52
WTI (\$/bbl)	64.62	58.75	66.59	52.19
Heavy oil differential (US\$/bbl)	(11.13)	(13.30)	(12.85)	(13.77)
WCS (\$/bbl)	49.73	41.61	49.51	34.01
\$/US\$ exchange rate	1.34	1.29	1.33	1.32
Production and sales volumes ⁽¹⁾				
Daily bitumen production (bbl/d)	12,060	8,416	12,056	7,160
Daily bitumen sales (bbl/d)	12,000	8,346	12,026	7,499
Bitumen netback (\$/bbl) ⁽²⁾⁽³⁾				
Dilbit sales	\$42.85	\$25.43	\$40.14	\$21.44
Blending of products sold	(5.07)	(6.30)	(5.79)	(6.48)
Realized bitumen sales price	37.78	19.13	34.35	14.96
Transportation and handling costs	(8.13)	(9.37)	(7.43)	(13.41)
Net realized bitumen sales price	29.65	9.76	26.92	1.55
Royalties	(0.77)	(0.15)	(0.72)	(0.08)
Net bitumen revenue price	28.88	9.61	26.20	1.47
Production and operating expenses	(19.79)	(19.49)	(19.06)	(23.58)
Bitumen netback	\$9.09	\$(9.88)	\$7.14	\$(22.11)

(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 Q2 2017 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

Companies' Creditors Arrangement Act ("CCAA") Proceeding and Status

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 Amendment No. 1 dated May 8, 2015) (the "Amended Term Loan Facility"). Under the terms of the Forbearance Agreement, the Lenders agreed to, among other

things, 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.

On May 17, 2016, the Company sought and obtained creditor protection under the Companies' Creditors Arrangement Act ("CCAA") pursuant to an order (the "Initial Order") granted by the Court of Queen's Bench of Alberta, Judicial Centre of Calgary (the "Court"). The Court granted CCAA protection for an initial period expiring on June 16, 2016. Since the Initial Order, six Court-ordered extensions have been obtained, with the most recent extending the stay of proceedings until and including January 31, 2018 (the "CCAA Stay Period").

Under the Initial Order, Ernst & Young Inc. was appointed by the Court as the monitor (the "Monitor").

The 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 and stays creditors and others from enforcing rights against the insolvent company.

The Initial Order also approved and authorized the Company and the Monitor to conduct a sale and investment solicitation process (the "SISP"), as set out in Schedule "A" to the Initial Order, to identify one or more purchasers and/or investors in the Company's business and/or property.

As authorized and approved by the Initial Order, the Company secured interim financing in the form of a senior secured debtor-in-possession credit facility (the "DIP") from certain existing lenders (certain of which are also significant shareholders of the Company) (the "Interim Lenders") for up to US\$20 million (collectively, the "Total DIP Commitments"), with initial commitments of up to US\$11.5 million (the "Initial Commitments").

On October 26, 2016, the Company entered into a Waiver, Approval, and Modification Agreement (the "First DIP Amendment Agreement") with its Interim Lenders related to the DIP. Pursuant to the First DIP Amendment Agreement, the Interim Lenders agreed to waive certain limited defaults under the DIP related to the CCAA SISP timelines and advanced to the Company an additional amount of approximately US\$5.0 million of the Total DIP Commitments initially authorized by the Court to support the Company's continuing operations. At June 30, 2017, the Company had drawn approximately US\$16.5 million of the DIP.

On December 16, 2016, the Company entered into a further Approval and Modification Agreement (the "Second DIP Amendment Agreement") with the Interim Lenders related to the DIP. The Second DIP Amendment Agreement extended the maturity date under the DIP from May 17, 2017 to December 31, 2017 and amended certain provisions of the DIP in order to provide the Company with greater flexibility to enter into hedging agreements and other long-term contracts.

On June 27, 2017, the Company entered into Approval and Modification Agreement #3 (the "Third DIP Amendment Agreement") with its Lenders with respect to the DIP. The Third DIP Amendment Agreement extended the maturity date of the DIP from December 31, 2017 to January 31, 2018 to correspond with the recent extension of the Company's CCAA proceeding.

As at June 30, 2017, in connection with the CCAA proceeding, the Company identified the following obligations subject to potential compromise:

(Canadian dollars in thousands)

Current and long-term portions of Amended Term Loan Facility \$206,312

Interest payable on Amended Term Loan Facility	34,891
Convertible Notes	44,000
Interest payable on Convertible Notes	14,391
Trade and accrued liabilities	17,490
Total liabilities subject to compromise	\$317,084

The aforementioned obligations, subject to potential compromise, represent the amounts expected to be resolved through the CCAA proceeding and remain subject to future, potentially material, adjustments. The liabilities that are not subject to the CCAA proceeding are excluded from the liabilities subject to potential compromise and include certain non-restructuring liabilities incurred subsequent to May 17, 2016.

The Company continues to investigate, evaluate, and consider possible sale and restructuring alternatives.

Operations

Based on field estimates, July 2017 production was approximately 12,800 bbl/d.

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 447 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 implementation and status of the CCAA proceeding and the SISF, the Company's ability to manage its liquidity position and deploy the capital required to maintain existing reserve and production bases, fund maintenance capital, fund working capital requirements and meet contractual and other commitments; expectations regarding future commodity prices, foreign exchange rates, diluent blend ratio, transportation costs, rail costs, rail usage, and production and operating costs in future periods; expectations regarding sales and production, bitumen netback, general and administrative expenses, and capital expenditures in future periods; the Company's reserves; and general operational and financial performance in future periods.

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), 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 risk that the SISF process may not result in a sale of the Company or its assets or a restructuring of the Company's debt obligations, the risk that the CCAA Stay Period will not be extended past January 31, 2018 and that as a result creditors will be entitled to exercise their various rights and remedies against the Company, the level of indebtedness of the Company, the implementation and impact of any reorganization or restructuring on the assets, business and financial

affairs of the Company, future co-operation of the creditors of the Company, the Company's ability to generate sufficient cash flow from operations or to obtain adequate financing to fund capital expenditures and working capital needs and to maintain the Company's ongoing obligations during the CCAA process and thereafter, the ability to maintain relationships with suppliers, customers, employees, shareholders and other third parties in light of the Company's current liquidity situation and the CCAA proceeding, as well as 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.

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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