

CALGARY, March 24, 2015 /CNW/ - [Connacher Oil and Gas Ltd.](#) (CLL - TSX; "Connacher" or the "Company") announces its financial and operating results for the quarter and the year-ended December 31, 2014 (all amounts are in Canadian dollars unless otherwise noted).

The Company's annual financial statements and related management's discussion and analysis ("MD&A") for the quarter- and the year-ended December 31, 2014 can be accessed on Connacher's website at www.connacheroil.com and on SEDAR at www.sedar.com.

Q4 2014 Highlights

- Adjusted EBITDA decreased 54% to \$6.7 million in Q4 2014 (Q4 2013 - \$14.6 million), primarily due to lower bitumen netbacks
- In Q4 2014, net loss increased to \$99.4 million (Q4 2013 - \$41.4 million), primarily due to lower bitumen netbacks; higher foreign exchange losses, primarily on the translation of long-term US dollar-denominated debt; and recognition of an impairment on exploration and evaluation ("E&E") assets
- Q4 2014 capital expenditures totaled \$10.9 million (Q4 2013 - \$9.7 million). Growth capital was focused primarily on the advancement of the mini-steam expansion project at Pod One and the SAGD+® process commercial project implementation at Algar

2014 Highlights

- Adjusted EBITDA decreased 19% to \$69.7 million in 2014 (2013 - \$86.5 million), primarily due to higher operating costs and higher realized risk management contract losses, offset by higher production
- In 2014, net loss increased to \$211.8 million (2013 - \$122.4 million), primarily due to lower bitumen netbacks; higher foreign exchange losses, primarily on the translation of long-term US dollar-denominated debt; higher finance charges; and recognition of an E&E impairment
- In 2014, capital expenditures totaled \$80.2 million (2013 - \$93.7 million). Growth capital was focused on the drilling and completion of nine infill wells at Pod One and the pre-fabrication of equipment for both the mini-steam expansion at Pod One and SAGD+® process commercial project at Algar
- Connacher closed Q4 2014 with a cash balance of \$87.7 million (excluding restricted cash of \$6.5 million) (Q4 2013 - \$55.6 million) and available credit facilities of \$9.9 million (Q4 2013 - \$76.7 million), net of \$20.1 million (Q4 2013 - \$18.3 million) of outstanding letters of credit

2014 Financial Highlights

FINANCIAL ⁽¹⁾	Q4 2014	Q4 2013	% Change	2014	2013	% Change
Revenue, net of royalties	\$96,647	\$93,209	4	\$437,477	\$427,861	2
Adjusted EBITDA ⁽²⁾	6,688	14,609	(54)	69,689	86,470	(19)
Net loss	(99,371)	(41,350)	140	(211,786)	(122,390)	73
Basic and diluted per share ⁽³⁾	(0.22)	(0.09)	144	(0.47)	(0.27)	74
Funds flow (used) ⁽⁴⁾	(16,809)	(5,685)	196	(20,489)	6,892	(397)
Capital expenditures	10,871	9,736	12	80,196	93,727	(14)
Cash on hand ⁽⁵⁾	94,164	55,610	69			
Working capital surplus ⁽⁵⁾	56,285	19,574	188			
Long-term debt	1,089,520	890,751	22			
Shareholders' equity	10,880	222,022	(95)			

- (1) (\$ 000) except per share amounts
- (2) Adjusted EBITDA is a non-GAAP measure and is defined in the "Advisory Section" of the 2014 MD&A and is reconciled to net loss under "Reconciliations of Net Loss to EBITDA, Facility EBITDA, Adjusted EBITDA, and Bitumen Netback"
- (3) Basic and diluted amounts are the same due to the net loss position
- (4) Funds flow (used) is a non-GAAP measure and is defined in the "Advisory Section" of the 2014 MD&A and is reconciled to cash flow from operating activities under "Reconciliation of Cash Flow from Operating Activities to Funds Flow (Used)"
- (5) Includes restricted cash of \$6.5 million

2014 Operational Highlights

Q4 2014 Q4 2013 % Change 2014 2013 % Change

Average benchmark					
WTI (US\$/bbl)	97.46	(25)	93.00	97.97	(5)
Heavy oil (US\$/bbl)	(33.85)	(52)	(21.46)	(26.03)	(18)
WTI differential (C\$/bbl)	8.43	(2)	81.32	75.10	8
Production and sales volumes (barrels)	11,375	34	14,139	11,783	20
Production and sales volumes (bbl/den)	1,568	34	13,916	11,823	18
Bitumen netback (US\$/bbl)	73.93	(22)	\$74.10	\$82.36	(10)
Diluent costs (US\$/bbl)	(7.47)	6	(7.65)	(7.81)	(2)
Revised bitumen netback (US\$/bbl)	66.46	(25)	66.45	74.55	(11)
Freight and handling (US\$/bbl)	(16.76)	5	(16.53)	(20.62)	(20)
Realized bitumen netback (US\$/bbl)	50.70	(35)	49.92	53.93	(7)
Storage and royalties (US\$/bbl)	(3.45)	(32)	(3.73)	(3.58)	5
Net bitumen price (US\$/bbl)	47.25	(35)	46.19	50.35	(8)
Freight and handling (US\$/bbl)	(4.60)	(26)	(22.68)	(21.32)	6
Storage and royalties (US\$/bbl)	22.65	(45)	\$23.51	\$29.03	(19)
Operating expenses					

- (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 2014 MD&A. Bitumen netback is reconciled to net loss under "Reconciliations of Net Loss to EBITDA, Facility 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 11 by bitumen sold volumes as presented in the "Production and Sales Volumes" table on page 9, 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 Q4 2014, production increased 34% to 15,250 bbl/d (Q4 2013 - 11,375 bbl/d) and 2014 production increased 20% to 14,139 bbl/d (2013 - 11,783 bbl/day). Production increases are attributable to the Company's five infill wells at Pod One that were brought on production in Q3 2014; four well pairs at Pad 104 which came online in Q1 2014; and from the four infill wells drilled at Pod One in Q3 2013.

In December 2014, production averaged 15,500 bbl/d.

The record production in Q4 2014 and for the year-ended 2014 was due to the Company capitalizing on its 2013 and 2014 drilling programs, which added five well pairs and 13 infill wells. Currently, nine of the 13 infill wells are on production. In addition, asset reliability contributed to record results as the Company achieved operating uptime averaging 97 per cent for the year-ended 2014.

Marketing

Throughout 2014, Connacher continued to utilize rail as a transportation alternative for navigating market volatility and maximizing net realized bitumen sales price.

In Q4 2014, the volume of dilbit sales moved outside of Alberta was approximately 57% (Q4 2013 - 62%).

During 2014, the utilization of multiple unit trains allowed the Company to transport dilbit to additional markets more efficiently. In 2015, it is anticipated that the Company will continue to incorporate unit train logistics as part of its marketing strategy.

Capital Projects

In the first nine months of 2014, capital spending was primarily focused on the drilling and completion of the 9 infill wells. In 2014, capital expenditures totaled \$80.2 million

In Q4 2014, capital spending was focused on SAGD+® process commercial project at Algar and the mini-steam expansion at Pod One.

Due to depressed commodity prices and liquidity constraints, the Company has decided to delay completions of the SAGD+® process commercial project at Algar and the mini-steam expansion at Pod One. As a result, 2015 growth capital expenditures have been reduced by 70% to \$15 million, down from the \$49 million originally budgeted.

Proposed Recapitalization Transaction ("Recapitalization")

On January 30, 2015, the Company announced the Recapitalization aimed at significantly reducing the Company's debt and annual interest expense, and providing additional liquidity to fund ongoing operations. As a result of the Recapitalization:

- Connacher will reduce its total debt by approximately \$1 billion from \$1.2 billion;
- Connacher will reduce its annual interest payments by approximately \$80 million per year;
- Connacher will be relieved from the obligation to pay cash interest in respect of the second lien senior notes as accrued and unpaid interest will be settled and extinguished for no consideration;
- Connacher will issue US\$35 million aggregate principal amount of new convertible note (the "New Convertible Notes");
- Connacher will replace its existing revolving credit facility with a \$30 million first lien term loan facility ("New Term Loan Facility");
- Connacher's existing first lien term loan with certain institutional investors will be unaffected by the Recapitalization; and
- Connacher's current shareholders will retain their existing common shares, adjusted for a common share consolidation of one new common share for 800 existing common shares, which will represent approximately 2% of the outstanding new common shares.

On February 19, 2015, the Company obtained an interim order to proceed with meetings of the shareholders and noteholders to approve the Recapitalization. Assuming that all of the conditions to the transaction are satisfied, the Company expects the Recapitalization to become effective in April 2015.

On March 16, 2015, in conjunction with the Recapitalization, the Company exercised the new facility option to have the New Term Loan Facility implemented in accordance with terms set forth in the backstop agreement.

The hearing in respect of the final order is scheduled to be heard on March 31, 2015 at 10:00 a.m. (Calgary time) at Calgary

Courts Centre, 601 – 5th Street S.W., Calgary, Alberta.

A summary of the Recapitalization is contained in the management information circular dated February 20, 2015, which is available on the Company's website and on SEDAR.

Noteholders' and Shareholders' Meetings

Noteholders' and shareholders' meetings will be held on March 30, 2015 to consider and approve the Recapitalization. The meetings will occur at Centrium Place located at 332 - 6th Avenue, SW, Calgary, Alberta, in the second level (plus-15) conference room, at the following times:

- Shareholders' meeting: March 30, 2015 at 8:30 a.m. (Calgary time)
- Noteholders' meeting: March 30, 2015 at 10:00 a.m. (Calgary time)

Reserves

Proved producing reserves decreased 10 per cent to 20.2 million barrels taking into account additions and bitumen sales of 5.06 million barrels for the year.

Estimated proved ("1P") bitumen reserves totaled approximately 219 million barrels, an increase of three per cent over yearend 2013 volumes. The ten per cent present value ("10% PV") of 1P bitumen reserves is approximately \$868 million as compared to \$900 million in 2013.

Proved and probable ("2P") reserve volumes were approximately 441 million barrels of bitumen, down one per cent from a year earlier. The 10% PV of these 2P bitumen reserves decreased by 15 per cent to approximately \$1.45 billion, due mainly to the lower near-term bitumen prices forecast by GLJ Petroleum Consultants ("GLJ").

Going Concern

The annual financial statements have been prepared on a going concern basis, which asserts the Company has the ability to realize its assets and discharge its liabilities and commitments in the normal course of business. Conversely, if the going concern assumption is not appropriate, adjustments to the carrying amounts of the Company's assets, liabilities, revenues, expenses, and balance sheet classifications may be necessary.

On January 30, 2015, the Company announced the proposed Recapitalization aimed at significantly reducing the Company's debt burden and annual interest, and providing additional liquidity to fund ongoing operations.

Given the depressed crude oil prices, additional funding may be necessary.

The Company will continue to monitor its working capital balances and commitments as changing economic and risk conditions emerge.

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 440 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, expectations relating to the proposed Recapitalization, including the terms of the Recapitalization, its benefits and implications on the Company, its liquidity and capital resources, and timing for completion; future capital expenditures and other working capital requirements, and funding thereof; expectations regarding the Company's ability to rely on cash flow and other sources of financing to fund capital expenditures and meet contractual and other commitments; the timing of the future development of the commercial SAGD+® process project; the mini-steam expansion at Pod One and the anticipated impact thereof; future development activities and the timing of production therefrom; expectations regarding future commodity prices and exchange rates; future debt levels and annual interest costs; 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; securing

necessary approvals to implement the Recapitalization; the Company's future growth, results of operations and production (including the ability to manage unanticipated operating events which could reduce production or cause production to be shut-in or delayed); future commodity prices (including the commodity price protection afforded by the use of risk management contracts) and foreign exchange rates; future capital and other expenditures (including the amount, nature, and sources of funding thereof); the Company's ability to optimize operating costs; 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 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 proceed with the operation of the Great Divide oil sands project; and risks associated with securing third-party approvals or consents (including shareholder, noteholder, and court approval in connection with the Recapitalization).

Information relating to "reserves" and "future net revenues" are deemed to be forward looking information, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future to achieve the future net revenue calculated in accordance with certain assumptions. The effective date of the reserves estimate provided herein is December 31, 2014. The assumptions relating to the reserves and associated future net revenues reported herein are contained in the report of GLJ Petroleum Consultants Ltd. for the year ended December 31, 2014 and are summarized in the AIF, which is available on SEDAR at www.sedar.com.

In addition, design capacity is not necessarily indicative of the steam generation capacity which may ultimately be achieved at Connacher's SAGD project sites. Similarly, 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 and in connection with the Recapitalization in the Management Information Circular of the Company dated February 20, 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. The forward looking information included in this press release is expressly qualified in its entirety by this cautionary statement. The 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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