CALGARY, Aug. 26, 2016 /CNW/ - Connacher Oil and Gas Ltd. ("Connacher" or the "Company") announces its financial and operating results for the three and six months ended June 30, 2016 ("Q2 2016") (all amounts are in Canadian dollars unless otherwise noted).

Q2 2016 Highlights

Financial

- Q2 2016 and YTD 2016 revenue, net of royalties, decreased 68% to $22.8 million (Q2 2015 - $71.3 million) and 72% to $34.6 million (YTD 2015 - $125.1 million), respectively, due to the decline in crude oil prices and lower sales volumes associated with the Company's strategic decision to reduce production in the low commodity price environment
- Q2 2016 and YTD 2016 adjusted EBITDA decreased to deficits of $14.8 million (Q2 2015 - $2.6 million) and $41.5 million (YTD 2015 - deficit of $16.2 million), respectively, substantially due to lower revenue, net of royalties, partially offset by lower input costs
- Q2 2016 and YTD 2016 funds used were $23.2 million (Q2 2015 - funds used of $12.5 million) and $57.7 million (YTD 2015 - funds used of $54.7 million), respectively. For both periods, the increase in funds used was primarily due to lower adjusted EBITDA, partially offset by 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 dated May 8, 2015 (the "Recapitalization")
- In Q2 2016 and YTD 2016, the Company generated net losses of $369.8 million (Q2 2015 - net income of $442.8 million) and $412.8 million (YTD 2015 - net income of $302.9 million), respectively. For both periods, the net losses were primarily due to lower adjusted EBITDA and impairment on property, plant, and equipment ("PP&E"). Q2 2015 and YTD 2015 net income included significant accounting gains associated with the Company's Recapitalization
- In Q2 2016 and YTD 2016, capital expenditures totaled $0.5 million (Q2 2015 - $5.0 million) and $1.8 million (YTD 2015 - $11.1 million), respectively, and were focused on non-discretionary maintenance capital
- Connacher closed Q2 2016 with a cash balance of $18.5 million (including restricted cash of $7.1 million) (Q4 2015 - $47.2 million)

Operational

- Q2 2016 and YTD 2016 production decreased 44% to 8,416 bbl/d (Q2 2015 - 14,951 bbl/d) and 52% to 7,160 bbl/d (YTD 2015 - 15,014 bbl/d), respectively, due to voluntarily reduced production
- In Q2 2016 and YTD 2016, transportation and handling costs decreased 64% to $7.1 million (Q2 2015 - $19.9 million) and 56% to $18.3 million (YTD 2015 - $41.2 million), respectively, primarily due to the reduction in sales volumes, partially offset by penalties for non-delivery incurred in 2016
- Q2 2016 and YTD 2016 blending costs decreased 54% to $8.3 million (Q2 2015 - $18.3 million) and 64% to $14.3 million (YTD 2015 - $40.2 million), respectively, primarily due to the decrease in diluent volumes required resulting from lower production volumes and reduced diluent purchase prices for both periods

Q2 2016 Financial Highlights

FINANCIAL [1]	Q2 2016	Q2 2015	YTD 2016	YTD 2015
Revenue, net of royalties	$22,757	$71,349	$34,581	$125,123
Adjusted EBITDA [2]	(14,795)	2,579	(41,478)	(16,185)
Net earnings (loss)	(369,777)	442,795	(412,792)	302,912
Basic per share [3]	(13.05)	26.19	(14.57)	34.68
Diluted per share [3]	(13.05)	5.32	(14.57)	4.04
Funds used [4]	(23,233)	(12,546)	(57,657)	(54,690)
Capital expenditures	453	4,950	1,834	11,051
Cash on hand [5]	18,520	73,869		
Working capital surplus (deficiency)	(254,607)	114,469		
Long-term debt	-	247,599		
Shareholders' equity	111,505	869,130		

(1) Canadian dollar in thousands except per share amounts

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

(3) Basic and diluted earnings per share amounts reflect the 800:1 share consolidation associated with the Company's recapitalization transaction dated May 8, 2015 for the three and six months ended June 30, 2016 and 2015

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

(5) Balance includes restricted cash of $7.1 million

Q2 2016 Operational Highlights

OPERATIONAL	Q2 2016	Q2 2015	YTD 2016	YTD 2015
Average benchmark prices				
WTI (US$/bbl)	45.59	57.94	39.52	53.29
WTI ($/bbl)	58.75	71.37	52.19	66.48
Heavy oil differential (US$/bbl)	(13.30)	(14.28)	(13.77)	(16.42)
WCS ($/bbl)	41.61	57.09	34.01	50.06
$/US$ exchange rate	1.29	1.23	1.32	1.25
Production and sales volumes (1)				
Daily bitumen production (bbl/d)	8,416	14,951	7,160	15,014
Daily bitumen sales (bbl/d)	8,346	14,112	7,499	14,486
Bitumen netback ($/bbl) (2)(3)				
Dilbit sales	$25.43	$47.10	$21.44	$39.18
Diluent costs	(6.30)	(5.09)	(6.48)	(6.51)
Realized bitumen sales price	19.13	42.01	14.96	32.67
Transportation and handling costs	(9.37)	(15.52)	(13.41)	(15.72)
Net realized bitumen sales price	9.76	26.49	1.55	16.95
Royalties	(0.15)	(0.71)	(0.08)	(0.29)
Net bitumen revenue price	9.61	25.78	1.47	16.66
Production and operating expenses	(19.49)	(15.62)	(23.58)	(16.16)
Bitumen netback	$(9.88)	$10.16	$(22.11)	$0.50

(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 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

Based on field estimates, July 2016 production was approximately 9,700 bbl/d.

Companies' Creditor Arrangement Act ("CCAA") Announcement

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$154.6 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, 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, which was first extended to August 16, 2016 and subsequently extended to September 15, 2016. 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 decision to file for creditor protection was a result of, among other things, the continued deterioration of prices for oil and the Company's limited ability to access capital markets.

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 for up to US$20 million, with initial commitments of up to US$11.5 million (the "Initial Commitments"). The DIP is expected to provide sufficient liquidity to support the Company during the CCAA proceeding.

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 in order to identify one or more purchasers and/or investors in the Company's business and/or property. The SISP is currently in progress.

At May 17, 2016, in connection with the filing of CCAA, the Company identified the following obligations subject to potential compromise:

(Canadian dollars in thousands)	
Current and long-term portions of Amended Term Loan Facility	$201,138
Interest payable on Amended Term Loan Facility	9,033
Convertible Notes	44,000
Interest payable on Convertible Notes	6,714
Trade and accrued liabilities	21,025
Total liabilities subject to compromise	$281,910

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.

On August 24, 2016, the Court granted a claims procedure order establishing a process for the filing, review, and determination of claims against the Company and its directors and officers.

Connacher closed Q2 2016 with outstanding borrowings under the DIP of $13.0 million. At August 26, 2016, the Company has drawn approximately $15.0 million (US$11.5 million), the full committed amount currently available.

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 implementation of CCAA proceeding and the SISP, 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, G&A 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 SISP process may not result in a sale of the Company or its assets, 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.

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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