Consolidated Financial Statements of

CEQUENCE ENERGY LTD.

December 31, 2011 and 2010

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Cequence Energy Ltd.:

We have audited the accompanying consolidated financial statements of Cequence Energy Ltd., which comprise the consolidated balance sheets as at December 31, 2011 and 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and 2010, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cequence Energy Ltd. as at December 31, 2011 and 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Chartered Accountants
Calgary, Alberta
March 8, 2012

CEQUENCE ENERGY LTD.

Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)

	December 31, 2011 $	December 31, 2010 [(1)] $	January 1, 2010 [(1)] $
ASSETS			
CURRENT			
Cash	**380**	1,321	18,128
Accounts receivable (Note 8)	**21,032**	16,439	10,144
Deposits and prepaid expenses (Note 20)	**3,231**	2,480	913
Commodity contracts (Note 21)	**-**	-	1,420
	24,643	20,240	30,605
Investments (Note 5)	**-**	-	13,920
Exploration and evaluation assets (Note 6)	**6,221**	-	29,411
Property and equipment (Note 6)	**409,729**	341,801	121,809
Deposits and prepaid expenses (Note 20)	**2,456**	-	-
Deferred income taxes (Note 16)	**48,316**	47,340	7,681
	491,365	409,381	203,426
LIABILITIES			
CURRENT			
Demand credit facilities (Note 7)	**11,618**	56,739	-
Accounts payable and accrued liabilities (Note 9)	**64,467**	36,240	23,175
Other liabilities (Note 10)	**5,289**	2,068	388
	81,374	95,047	23,563
Long-term debt related to investments (Note 5)	**-**	-	18,204
Provisions (Note 15)	**28,942**	26,130	7,310
	110,316	121,177	49,077
CONTINGENCIES AND COMMITMENTS (Note 20)			
SUBSEQUENT EVENTS (Note 25)			
SHAREHOLDERS' EQUITY			
Share capital (Note 17)	**559,371**	452,526	269,185
Contributed surplus	**16,839**	10,681	7,818
Deficit	**(195,161)**	(175,003)	(122,654)
	381,049	288,204	154,349
	491,365	409,381	203,426

[(1)] *Refer to note 4 for effects of adoption of IFRS*

APPROVED BY THE BOARD

"Donald Archibald" Donald Archibald, Director

"Brian Felesky" Brian Felesky, Director

The accompanying notes are an integral part of these consolidated financial statements.

CEQUENCE ENERGY LTD.

Consolidated Statements of Comprehensive Loss

(Expressed in thousands of Canadian dollars except per share amounts)

	Year ended December 31, 2011 $	2010 [1] $
REVENUE		
Production revenue (Note 11)	**87,347**	44,845
Gain on derivative financial instruments (Note 21)	**906**	1,163
	88,253	46,008
EXPENSES		
Depletion, depreciation and impairment (Note 6)	**59,560**	82,559
General and administrative (Note 14)	**7,325**	5,544
Finance costs (Note 13)	**3,276**	2,090
Operating costs	**29,673**	17,700
Stock-based compensation (Note 18)	**6,758**	2,863
Transportation	**7,153**	4,357
Other expense (income) (Note 12)	**(4,013)**	1,031
	109,732	116,144
INCOME (LOSS) BEFORE INCOME TAXES	**(21,479)**	(70,136)
INCOME TAXES (Note 16)	**(1,321)**	(17,787)
NET LOSS AND COMPREHENSIVE LOSS	**(20,158)**	(52,349)
Loss per share, basic and diluted (Note 19)	**$ (0.14)**	$ (0.75)

[1] *Refer to note 4 for effects of adoption of IFRS*

The accompanying notes are an integral part of these consolidated financial statements.

CEQUENCE ENERGY LTD.

Consolidated Statements of Changes in Equity
(Expressed in thousands of Canadian dollars)

	Year ended December 31, 2011 $	Year ended December 31, 2010 [(1)] $
SHARE CAPITAL		
Common Shares		
Balance, beginning of year	**452,526**	269,185
Proceeds from shares issued in public offerings (Note 17)	**98,338**	-
Flow-through share private placement (Note 17)	**2,649**	12,433
Subscription receipts (Note 17)	**-**	44,195
Shares issued in business combinations (Note 4)	**-**	123,920
Common share private placement (Note 17)	**-**	6,195
Shares issued on exercise of stock options (Note 17)	**1,794**	-
Shares issued on exercise of the 2011 Warrants (Note 17)	**8,663**	-
Share issue costs, net of tax of $1,531 (2010 - $1,178)	**(4,599)**	(3,402)
Balance, end of year	**559,371**	452,526
CONTRIBUTED SURPLUS		
Balance, beginning of year	**10,681**	7,818
Stock-based compensation expense (Note 18)	**6,758**	2,863
Exercise of stock options (Note 17)	**(600)**	-
Balance, end of year	**16,839**	10,681
DEFICIT		
Balance, beginning of year	**(175,003)**	(122,654)
Comprehensive loss	**(20,158)**	(52,349)
Balance, end of year	**(195,161)**	(175,003)
TOTAL EQUITY	**381,049**	288,204

[(1)] *Refer to note 4 for effects of adoption of IFRS*

CEQUENCE ENERGY LTD.

Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)

	Year ended December 31,	
	2011	2010 [1]
	$	$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net loss	**(20,158)**	(52,349)
Adjustments for non-cash items:		
Depletion, depreciation and impairment	**59,560**	82,559
Finance costs related to decommissioning liabilities (Note 15)	**905**	495
Stock-based compensation (Note 18)	**6,758**	2,863
Loss on investments (Note 5)	**-**	281
Gain on sale of commodity contracts (Note 21)	**-**	(219)
Amortization of transaction costs on financial instruments (Note 13)	**443**	169
Unrealized loss (gain) on derivative financial instruments	**-**	2,793
Write-down of loan premium and other derivative financial instruments	**-**	32
Provisions related to onerous contracts (Note 15)	**1,138**	-
Gain on sale of assets (Note 6)	**(5,077)**	(2,842)
Deferred income tax (recovery)	**(1,307)**	(17,785)
	42,262	15,997
Decommissioning liabilities expenditures (Note 15)	**(955)**	(126)
Proceeds from sale of commodity contracts (Note 21)	**-**	3,386
Net change in non-cash working capital (Note 22)	**(4,607)**	(2,017)
	36,700	17,240
INVESTING		
Property and equipment and exploration and evaluation assets expenditures	**(149,601)**	(64,120)
Acquisitions	**(22,150)**	(84,728)
Proceeds from sale of assets	**45,173**	41,571
Proceeds from sale of investments	**-**	13,457
Net change in non-cash working capital (Note 22)	**24,976**	2,353
	(101,602)	(91,467)
FINANCING		
Proceeds from demand credit facilities (Note 7)	**46,305**	36,169
Repayment of demand credit facilities (Note 7)	**(91,812)**	(20,451)
Transaction costs on financial instruments (Note 7)	**(57)**	(555)
Repayment of long-term debt related to investments	**-**	(18,054)
Issue of common shares (Note 17)	**115,597**	64,891
Share issue costs (Note 17)	**(6,130)**	(4,580)
Net change in non-cash working capital (Note 22)	**58**	-
	63,961	57,420
NET DECREASE IN CASH	**(941)**	(16,807)
CASH, BEGINNING OF YEAR	**1,321**	18,128
CASH, END OF YEAR	**380**	1,321
SUPPLEMENTARY INFORMATION		
Income taxes paid	**14**	-
Interest paid	**1,852**	2,242

[1] *Refer to note 4 for effects of adoption of IFRS*

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE AND DESCRIPTION OF THE COMPANY

Cequence Energy Ltd. (the "Company" or "Cequence") is incorporated under the laws of Alberta with common shares that are widely held and listed on the Toronto Stock Exchange ("TSX"). Cequence is engaged in the acquisition, exploration and production of petroleum and natural gas reserves in Western Canada. The registered office of the Company is located at Suite 3100, 525 - 8th Ave. SW, Calgary, Alberta, T2P 1G1.

These consolidated financial statements ("consolidated financial statements") include all assets, liabilities, revenues and expenses of Cequence and its wholly-owned subsidiary, 1175043 Alberta Ltd. Effective January 1, 2011, Cequence Acquisitions Ltd., a wholly-owned subsidiary of the Company, was amalgamated with Cequence and the combined entity was continued as Cequence Energy Ltd.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance and authorization

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and represent the first annual financial statements of the Company prepared in accordance with IFRS. The Company adopted IFRS in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"). Refer to note 4 for a discussion of the effects of adoption of the above noted standards.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on March 8, 2012.

Basis of presentation

The consolidated financial statements have been prepared using historical costs, except for financial instruments carried at fair value, on a going concern basis and have been presented in Canadian dollars, which is also the Company's functional currency, rounded to the nearest thousand. The accounting policies set out below have been applied consistently in all material respects.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries, which are the entities over which the Company has control. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. All intercompany transactions and balances are eliminated on consolidation.

Business combinations

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are recognized in comprehensive income (loss) as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets and liabilities acquired and contingent liabilities for which a provision is provided is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in comprehensive income (loss). Results of subsidiaries are included in the consolidated statement of comprehensive income (loss) from the closing date of acquisition.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognized on the consolidated balance sheet at the time the Company becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument.

The Company has made the following classifications:

- Cash and investments are classified as financial assets recorded at fair value through profit or loss and are carried at fair value. Gains and losses from revaluation are recognized in comprehensive income (loss).
- Accounts receivable are classified as loans and receivables and are initially measured at fair value plus directly attributable transaction costs. Subsequently, they are recorded at amortized cost using the effective interest method.
- Demand credit facilities, accounts payable and accrued liabilities and long-term debt related to investments are classified as other liabilities and are initially measured at fair value less directly attributable transaction costs. Subsequently, they are recorded at amortized cost using the effective interest method.
- Derivative instruments, including embedded derivative instruments, that do not qualify as hedges, or are not designated as hedges on the consolidated balance sheet, including commodity contracts, are classified as fair value through profit or loss and are recorded and carried at fair value with changes in fair value recognized in comprehensive income (loss). Derivative instruments are used by the Company to manage economic exposure to market risks relating to commodity prices. Cequence's policy is to not utilize derivative financial instruments for speculative purposes.

Transaction costs related to financial instruments classified as fair value through profit or loss are expensed as incurred. All other transaction costs related to financial instruments are recorded as part of the instrument and are amortized using the effective interest method.

Contracts that are entered into for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements (such as physical delivery commodity contracts) do not qualify as financial instruments and thus, are accounted for in accordance with other applicable standards and are not accounted for on the consolidated balance sheet.

IFRS establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

Level 1: Values based on quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measure in its entirety.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

Impairment of financial assets

Financial assets, other than those classified as fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been negatively affected.

For financial assets carried at amortized cost, the amount of the impairment loss recognized in comprehensive income (loss) is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized in comprehensive income (loss). Changes in the carrying amount of the allowance accounts are recognized in comprehensive income (loss).

Property and equipment and exploration and evaluation assets

Recognition and measurement

Exploration and evaluation expenditures

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable costs, are initially capitalized as exploration and evaluation assets to the extent that they do not relate to a field with proven reserves attributed. The costs are accumulated in cost centers by field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven reserves are determined to exist and are capable of economic production. A review of each exploration field is carried out, at least annually, to ascertain whether proven reserves have been discovered that are capable of economic production. Upon determination of proven reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to development and production assets included in property and equipment.

Other intangible costs

Costs of data purchased to formulate strategy for license applications, such as seismic data, and asset purchases are accumulated and capitalized as other intangible assets to the extent that they are incurred prior to obtaining related licenses and do not relate to a field with proven reserves attributed.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment and exploration and evaluation assets (continued)

Recognition and measurement (continued)

Development and production costs

Items of property and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses, net of any reversals.

Development and production assets are grouped into Cash Generating Units ("CGUs") for impairment testing. CGUs are defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company evaluates the geography, geology, production profile and infrastructure of its assets in determining its CGUs. Based on this assessment, Cequence's CGUs are generally composed of significant development areas. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

When significant parts of an item of property and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of the related property and equipment and are recognized net within "other expense (income)" in comprehensive income (loss).

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in comprehensive income (loss) as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized as operating costs in comprehensive income (loss) as incurred.

Depletion and depreciation

The net carrying value of development and production assets plus future development costs on proved plus probable reserves is depleted using the unit of production method based on proved and probable reserves, gross of royalties, as determined by independent engineers, on an area by area basis. For the purpose of this calculation, production and reserves of petroleum and natural gas are converted to a common unit of measurement on the basis of their relative energy content, where six thousand cubic feet of natural gas equates to one barrel of oil. Costs are only depleted once production in a given area begins.

Cequence depletes separately, where applicable, any significant components within development and production assets, such as fields, processing facilities and pipelines, which are significant in relation to the total cost of a development and production asset and have a different useful life than such assets.

Other property and equipment and other intangible assets are amortized over 3 to 5 years on a straight line basis.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment and exploration and evaluation assets (continued)

Impairment

The carrying amounts of all assets, other than financial assets and deferred tax assets, are reviewed at each reporting date to determine whether there is indication of an impairment loss. If any such indication exists, the asset's recoverable amount is estimated.

For any asset that does not generate largely independent cash flows, the recoverable amount is determined for the CGU to which the asset belongs. If the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is written down.

The recoverability of the carrying amount of an exploration and evaluation asset is dependent on successful development and commercial exploitation, or alternatively, sale of the respective area of interest. Where a potential impairment is indicated, assessment is performed for each field or area to which the exploration and evaluation expenditure is attributed. To the extent that capitalized expenditures are not expected to be recovered, the excess of the carrying amount over the recoverable amount is recognized immediately in comprehensive income (loss).

The recoverable amount of a development and production asset (or CGU) or other intangible asset (or CGU) is determined as the higher of its value in use and fair value less cost to sell. Value in use is determined by estimating future cash flows after taking into account the risks specific to the asset (or group of assets within a CGU) and discounting them to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by external valuation metrics or other available fair value indicators wherever possible.

Where the carrying amount of a development and production asset (or CGU) or other intangibles asset (or CGU) exceeds its recoverable amount, the excess is recognized immediately in comprehensive income (loss).

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or depletion, if no impairment loss had been recognized.

Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event that can be estimated with reasonable certainty and are measured at the amount that the Company would rationally pay to be relieved of the present obligation. To the extent that provisions are estimated using a present value technique, such amounts are determined by discounting the expected future cash flows at a risk-free pre-tax rate and adjusting the liability for the risks specific to the liability.

Decommissioning liabilities

The Company records the present value of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation arises. The nature of restoration activities includes the removal of facilities, abandonment of wells and restoration of affected areas. Provision is made for the estimated cost of restoration and capitalized in the relevant asset category.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions (continued)

Decommissioning liabilities (continued)

Decommissioning liabilities are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation as well as changes to the discount rate. The increase in the provision due to the passage of time is recognized as finance cost whereas increases or decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning liabilities are charged against the decommissioning liabilities.

Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Borrowing costs

Borrowing costs incurred for the acquisition or construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Assets are considered to be qualifying assets when this period of time is substantial (greater than 12 months).

The interest rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

All other borrowing costs are recognized in comprehensive income (loss) as finance costs in the period in which they are incurred.

Jointly controlled assets

A significant portion of the Company's oil and natural gas activities involve jointly controlled assets and any related liabilities incurred. The consolidated financial statements include the Company's share of these jointly controlled assets and liabilities and a proportionate share of the relevant revenues and related costs, classified according to their nature.

Share-based payments

The Company has a stock option plan and issues stock options and performance warrants to directors, officers, employees and other service providers. Compensation costs attributable to stock options and performance warrants granted are measured at fair value at the date of grant and are expensed over the vesting period, using a graded vesting schedule, with a corresponding increase in contributed surplus. When stock options and performance warrants are exercised, the cash proceeds together with the amount previously recorded as contributed surplus are recorded as share capital. The Company incorporates an estimated forfeiture rate for stock options and performance warrants that will not vest, and subsequently adjusts for actual forfeitures as they occur.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue

Revenue from the sale of petroleum and natural gas is recognized when the risks and rewards of ownership of the product are transferred to the customer, based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded. Revenue is measured net of related royalties.

Revenue from interest income is recognized as it accrues, using the effective interest method.

Flow-through shares

The Company, from time to time, issues flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. The difference between the value ascribed to flow-through shares issued and the value that would have been received for common shares at the date of issuance of the flow-through shares is initially recognized as a liability on the consolidated balance sheet. When the expenditures are renounced and incurred, the liability is drawn down, a deferred income tax liability is recorded equal to the estimated amount of deferred income tax payable by the Company as a result of the renunciation, and the difference is recognized as income tax expense in comprehensive income (loss).

Earnings per share

Basic per share amounts are computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the period. Diluted per share amounts are calculated giving effect to the potential dilution that would occur if stock options and warrants were exercised. The dilutive effect of stock options and warrants is calculated with the assumption that proceeds received from the exercise of options and warrants for which the exercise price is less than the market price plus the unamortized portion of stock-based compensation are used to repurchase common shares at the average market price for the period.

Government grants

The Company receives government grants in the form of drilling royalty credits.

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are deducted from the cost of the related assets. The net amount is amortized to income over the useful life of the related assets in accordance with the Company’s relevant policies.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable income for the year. Taxable income differs from income as reported in the consolidated statement of comprehensive income (loss) because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor the accounting income.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in comprehensive income (loss), except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets, liabilities, and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are described in the following notes:

Note 6: Property and equipment and exploration and evaluation assets

Note 15: Provisions

Note 18: Stock-based compensation plans

Note 20: Contingencies and commitments

Note 21: Financial instruments and risk management

Estimates of recoverable quantities of proved and probable reserves include judgmental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, the provision for decommissioning liabilities and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserve estimates are prepared in accordance with the Canadian Oil and Gas Evaluation Handbook and are reviewed by third party reservoir engineers.

The amounts recorded for depletion and depreciation of property and equipment, the provision for decommissioning liabilities, and the valuation of property and equipment are based on estimates of proved and probable reserves, production rates, future petroleum and natural gas prices, future costs and the remaining lives and period of future benefit of the related assets.

The Company makes judgments in determining its CGUs and evaluates the geography, geology, production profile and infrastructure of its assets in making such determinations, which are based on estimates of reserves. Based on this assessment, Cequence's CGUs are generally composed of significant development areas. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

The amount recorded as decommissioning liabilities is based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting judgments, estimates and assumptions (continued)

Amounts recorded from joint venture partners are based on the Company's interpretation of underlying agreements and may be subject to joint approval. The Company has recorded balances due from its joint venture partners based on costs incurred and its interpretation of allowable expenditures. Any adjustment required as a result of joint venture audits are recorded in the period of settlement with joint venture partners.

The amounts recorded for deferred income tax assets and deferred tax expense (recovery) are based on estimates of the probability of the Company utilizing certain tax pools and assets which, in turn, is dependent on estimates of proved and probable reserves, production rates, future petroleum and natural gas prices, and changes in legislation, tax rates and interpretations by taxation authorities.

The fair value of derivative contracts is estimated, wherever possible, based on quoted market prices, and if not available, on estimates from third-party brokers. Another significant assumption used by the Company in determining the fair value of derivatives is market data or assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. The actual settlement of derivatives could differ materially from the value recorded and could impact future results.

The above judgments, estimates and assumptions relate primarily to unsettled transactions and events as of the date of the consolidated financial statements. Actual results could differ from these estimates and the differences could be material.

3. FUTURE ACCOUNTING PRONOUNCEMENTS

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective.

As of January 1, 2015, the Company will be required to adopt IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

3. FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

As of January 1, 2013, Cequence will be required to adopt the following standards and amendments, as issued by the IASB:

- IFRS 10, “Consolidated Financial Statements”, which is the result of the IASB’s project to replace Standing Interpretations Committee 12, “Consolidation – Special Purpose Entities” and the consolidation requirements of IAS 27, “Consolidated and Separate Financial Statements”. The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity.
- IFRS 11, “Joint Arrangements”, which is the result of the IASB’s project to replace IAS 31, “Interest in Joint Ventures”. The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted.
- IFRS 12, “Disclosure of Interests in Other Entities”, which outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity’s interests in subsidiaries and joint arrangements.
- IFRS 13, “Fair Value Measurement”, which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.

The Company is currently evaluating the impact of adoption of these standards and thus, the effect on Cequence's consolidated financial statements at the time of adoption is not currently determinable.

4. TRANSITION TO IFRS

The Company has adopted IFRS effective January 1, 2010 (the “Transition Date”) and has prepared its opening IFRS balance sheet as at that date. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Canadian GAAP. The Company’s consolidated financial statements for the year ending December 31, 2011 are the first annual financial statements that comply with IFRS. The Company has prepared its opening IFRS balance sheet by applying existing IFRS with an effective date of December 31, 2011 or prior.

a) Elected exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, “First-time Adoption of International Financial Reporting Standards” (“IFRS 1”), the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

i) Deemed cost for oil and gas assets

The Company has elected to measure oil and gas assets previously recorded in the full cost pool under Accounting Guidelines 16, “Oil and Gas Accounting – Full Cost” (“AcG 16”) of Canadian GAAP at the Transition Date as follows:

i) the Company evaluated its existing asset base and reclassified from the full cost pool to exploration and evaluation assets those assets that met the definition of exploration and evaluation assets at the Transition Date; and

ii) the remaining full cost pool was allocated to development and production assets pro rata using proved plus probable reserve values.

4. TRANSITION TO IFRS (Continued)

a) Elected exemptions from full retrospective application (continued)

ii) Decommissioning liabilities included in the cost of property and equipment

The Company has elected to measure decommissioning liabilities as at the Transition Date in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37") and recognize directly in deficit the difference between that amount and the carrying amount of those liabilities at the Transition Date determined under Canadian GAAP.

iii) Business combinations

The Company has applied the business combinations exemption in IFRS 1 to not apply IFRS 3, "Business Combinations" ("IFRS 3") retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the Transition Date.

iv) Share-based payment transactions

The Company has elected to apply IFRS 2, "Share-based Payments" ("IFRS 2") to equity instruments granted after November 7, 2002 that have not vested by the Transition Date.

v) Borrowing costs

The Company has applied the borrowing costs exemption in IFRS to not apply IAS 23, "Borrowing Costs" ("IAS 23") retrospectively to past borrowing costs related to transactions that took place prior to the Transition Date.

b) Mandatory exceptions to retrospective application

i) Estimates

Hindsight was not used to create or revise estimates and accordingly, the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

4. TRANSITION TO IFRS (Continued)

c) Reconciliation of opening balance sheet as reported under Canadian GAAP to IFRS

The following is a reconciliation of the Company's balance sheet, including total shareholders' equity, reported in accordance with Canadian GAAP to its balance sheet in accordance with IFRS as at January 1, 2010:

	Canadian GAAP $	Adjustments $	Notes	IFRS $
ASSETS				
CURRENT				
Cash	**18,128**	-		**18,128**
Accounts receivable	**10,144**	-		**10,144**
Deposits and prepaid expenses	**913**	-		**913**
Commodity contracts	**1,420**	-		**1,420**
	30,605	-		**30,605**
Investments	**13,920**	-		**13,920**
Exploration and evaluation assets	**-**	29,411	(i)	**29,411**
Property and equipment	**158,011**	(29,411)	(i)	**121,809**
	-	(6,791)	(ii)	**-**
Deferred income taxes	**5,575**	(424)	(iii)	**7,681**
	-	813	(v)	**-**
	-	1,717	(ii)	**-**
	208,111	(4,685)		**203,426**
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	**23,175**	-		**23,175**
Other liabilities	**-**	388	(iv)	**388**
Deferred income taxes	**424**	(424)	(iii)	**-**
	23,599	(36)		**23,563**
Long-term debt related to investments	**18,204**	-		**18,204**
Provisions	**4,059**	3,251	(v)	**7,310**
	45,862	3,215		**49,077**
SHAREHOLDERS' EQUITY				
Share capital	**267,908**	1,277	(iv)	**269,185**
Contributed surplus	**7,818**	-		**7,818**
Deficit	**(113,477)**	(3,251)	(v)	**(122,654)**
	-	(6,791)	(ii)	**-**
	-	(1,665)	(iv)	**-**
	-	813	(v)	**-**
	-	1,717	(ii)	**-**
	162,249	(7,900)		**154,349**
	208,111	(4,685)		**203,426**

4. TRANSITION TO IFRS (Continued)

c) Reconciliation of opening balance sheet as reported under Canadian GAAP to IFRS (continued)

i) Reclassification to exploration and evaluation assets

The Company evaluated its existing asset base and reclassified from the full cost pool to exploration and evaluation assets those assets than met the definition of exploration and evaluation assets at the Transition Date in accordance with the Company's policies and IFRS 6, "Exploration for and Evaluation of Mineral Resources" ("IFRS 6"). The above resulted in a $29,411 increase to exploration and evaluation assets and a commensurate decrease to property and equipment at the Transition Date.

ii) Deemed cost for oil and gas assets

As at the Transition Date, the Company tested all of its CGUs for impairment. The recoverable amount of each CGU was estimated based on the higher of the value in use and the fair value less costs to sell, being the fair value less cost to sell. The fair value less costs to sell was determined using discounted proved plus probable forecasted cash flows, with escalating prices and future development costs, as obtained from the Company's reserve report.

Based on the above assessment, the carrying amounts of the Company's CGUs were determined to be $6,791 higher than their recoverable amounts, on an aggregate basis, and a corresponding impairment loss was recognized by reducing property and equipment by $6,791 and increasing deficit by the same amount. The impairment loss resulted mainly from the adjustments discussed in Note 4(a)(i) as well as the application of IAS 36, "Impairment of Assets" ("IAS 36"), which has a more restrictive impairment test than under AcG 16 of Canadian GAAP.

The above adjustment resulted in a $1,717 increase to deferred income tax assets with a corresponding decrease to the Company's deficit at the Transition Date.

iii) Current portion of deferred income tax

As required under Canadian GAAP, Cequence separately disclosed the portion of deferred tax related to current balances and those related to non-current balances in the consolidated balance sheet. IAS 1, "Presentation of Financial Statements" ("IAS 1") requires that all deferred taxes be presented as non-current on the balance sheet. This resulted in a decrease of $424 to deferred income tax liability and a corresponding decrease to deferred income tax assets at the Transition Date.

4. TRANSITION TO IFRS (Continued)

c) Reconciliation of opening balance sheet as reported under Canadian GAAP to IFRS (continued)

iv) Flow-through shares

Under Canadian GAAP, the proceeds from the issuance of flow-through shares were recognized as shareholders' equity. Further, the tax basis of assets related to expenditures incurred to satisfy flow-through share obligations was not reduced until the renunciation of the related tax pools at which time, the expected tax effect of the renunciation had the effect of increasing the future income tax liability and reducing shareholders' equity. As at December 31, 2009, Cequence had $2,025 in flow-through shares outstanding for which the related expenditures had been incurred. These expenditures were renounced in the first quarter of 2010, resulting in deferred tax of $512.

Under IFRS, the difference between the fair value of a flow-through share issuance and the fair value of a common share issuance is initially accrued as an obligation on issuance of the flow-through shares. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, on renunciation with the Canada Revenue Agency, a deferred tax liability is recorded equal to the estimated amount of deferred income taxes payable by the Company as a result of the renunciations, the obligation on issuance of the flow-through shares is reduced and the difference is recognized as income tax expense in comprehensive income (loss).

The above differences resulted in an increase to shareholders' equity of $1,277, an increase to deficit of $1,665 and the recognition of an obligation on issuance of flow-through shares included with other liabilities of $388, at the Transition Date.

v) Decommissioning Liabilities

Under Canadian GAAP, decommissioning liabilities were discounted at a weighted average credit-adjusted risk-free interest rate of 7.47 percent. Under IAS 37, the estimated cash flows related to decommissioning liabilities have been discounted at a risk-free rate of 4.07 percent based on Government of Canada long-term benchmark bonds. This resulted in a $3,251 increase to provisions with a corresponding increase to the Company's deficit at the Transition Date. This further resulted in an $813 increase to deferred income tax assets with a corresponding decrease to the Company's deficit at the Transition Date.

4. TRANSITION TO IFRS (Continued)

d) Reconciliation of subsequent balance sheets as reported under Canadian GAAP to IFRS

The following is a reconciliation of the Company's balance sheet, including total shareholders' equity, reported in accordance with Canadian GAAP to its balance sheet in accordance with IFRS as at December 31, 2010:

	Canadian GAAP $	Adjustments $	Notes	**IFRS $**
ASSETS				
CURRENT				
Cash	**1,321**	-		**1,321**
Accounts receivable	**16,439**	-		**16,439**
Deposits and prepaid expenses	**2,480**	-		**2,480**
	20,240	-		**20,240**
Property and equipment	**409,955**	(6,791)	4(c)(ii)	**341,801**
	-	8,356	(ii)	**-**
	-	(58,483)	(ii)	**-**
	-	105	(iii)	**-**
	-	(13,827)	(vi)	**-**
	-	2,486	(vii)	**-**
Deferred income taxes	**26,441**	20,899	(viii)	**47,340**
	456,636	(47,255)		**409,381**
LIABILITIES				
CURRENT				
Demand credit facilities	**57,125**	(386)	(v)	**56,739**
Accounts payable and accrued liabilities	**36,240**	-		**36,240**
Other liabilities	**-**	2,068	(iv)	**2,068**
	93,365	1,682		**95,047**
Provisions	**14,622**	3,251	4(c)(v)	**26,130**
	-	8,257	(iii)	**-**
	107,987	13,190		**121,177**
SHAREHOLDERS' EQUITY				
Share capital	**465,963**	1,277	4(c)(iv)	**452,526**
	-	(1,556)	(iv)	**-**
	-	(13,158)	(vi)	**-**
Contributed surplus	**10,681**	-		**10,681**
Deficit	**(127,995)**	(9,177)	4(c)	**(175,003)**
	-	8,356	(ii)	**-**
	-	(58,483)	(ii)	**-**
	-	90	(iii)	**-**
	-	386	(v)	**-**
	-	(3,623)	(vi)	**-**
	-	2,842	(vii)	**-**
	-	12,601	(viii)	**-**
	348,649	(60,445)		**288,204**
	456,636	(47,255)		**409,381**

4. TRANSITION TO IFRS (Continued)

d) Reconciliation of subsequent balance sheets as reported under Canadian GAAP to IFRS (continued)

i) Reclassification to exploration and evaluation assets and impairment

The change in recognition of property and equipment as exploration and evaluation assets based on the adoption of IFRS 6, as discussed in note 4(c)(i) did not result in a change to exploration and evaluation assets or to property and equipment as at December 31, 2010 as the exploration and evaluation assets recognized on the consolidated balance sheet at January 1, 2010 were sold during the year ended December 31, 2010.

Based on the Company's policy under IFRS 6, exploration and evaluation assets are reviewed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. This assessment resulted in an aggregate impairment loss of $3,992 which did not reduce exploration and evaluation assets at December 31, 2010 as the exploration and evaluation assets recognized on the consolidated balance sheet at January 1, 2010 were sold during the year ended December 31, 2010.

ii) Depletion, depreciation and impairment

Under Canadian GAAP, the Company depleted the full cost pool based on proved reserves. Under IAS 16, "Property, plant and equipment" ("IAS 16"), the Company has elected to deplete property and equipment based on proved plus probable reserves. This has resulted in a decrease to depletion and depreciation of $8,356 for the year ended December 31, 2010 with a commensurate decrease to deficit.

Under Canadian GAAP, impairment of the full cost pool was assessed by comparing the carrying amount of the full cost pool to the sum of undiscounted cash flows expected from the production of proved reserves. If the carrying amount of the full cost pool was determined to not be recoverable based on this test, impairment was recognized to the extent that the carrying amount of the full cost pool exceeded the sum of discounted cash flows expected from the production of proved plus probable reserves. Under IAS 36, impairment is assessed by comparing the carrying amount of property and equipment to the sum of discounted cash flows expected from the production of proved plus probable reserves for each individual CGU assessed by the Company. This resulted in an aggregate impairment loss which reduced property and equipment by $58,483 at December 31, 2010, including an impairment to exploration and evaluation assets of $3,992, prior to the sale of exploration and evaluation assets in the year ended December 31, 2010, discussed in note 4(d)(i), above with a commensurate increase to deficit.

4. TRANSITION TO IFRS (Continued)

d) Reconciliation of subsequent balance sheets as reported under Canadian GAAP to IFRS (continued)

iii) Decommissioning liabilities

Under Canadian GAAP, accretion expense was calculated through the application of a credit-adjusted risk-free rate to the Company's discounted decommissioning liabilities. Under IAS 37, the Company applied a risk-free rate in determining the amount of accretion to be included with finance costs in the statement of comprehensive income (loss) for the period. The above difference, along with changes to decommissioning liabilities discussed in note 4(d)(vi) resulted in a decrease to accretion expense included as finance costs in the consolidated statement of comprehensive income (loss) of $90 for the year ended December 31, 2010 with a commensurate decrease to deficit. Such changes further resulted in an increase to provisions of $8,257 as at December 31, 2010 and an increase to property and equipment of $105 at December 31, 2010.

iv) Flow-through shares

The change in accounting for flow-through shares discussed in note 4(c)(iv) resulted in a decrease to share capital for the year ended December 31, 2010 of $1,556 and the recognition of an obligation on flow-through shares included with other liabilities on the consolidated balance sheet of $2,068 as at December 31, 2010.

v) Transaction costs on financial instruments

The Company's policy under Canadian GAAP was to expense all transaction costs as incurred. Under IAS 39, the Company is required to capitalize transaction costs on all financial instruments other than those classified as through profit or loss and amortize such costs using the effective interest rate method. This resulted in a decrease to demand credit facilities of $386 for the year ended December 31, 2010 and a commensurate decrease to the deficit.

vi) Business combinations

Under Canadian GAAP, transaction costs related to business combinations were capitalized as part of the purchase equation. Under IFRS 3, transaction costs on business combinations are expensed as incurred. Also, under Canadian GAAP, shares issued as consideration in a business combination were valued based on the weighted average trading price surrounding the date of announcement of the transaction. Under IFRS 3, such shares are valued as at the acquisition date. Further, the determination of fair value assigned to assets and liabilities at the date of acquisition differs from Canadian GAAP due to the application of IFRS as opposed to Canadian GAAP in determining such fair values. These differences resulted in the following changes to Cequence's business combinations effected in the year ended December 31, 2010:

4. TRANSITION TO IFRS (Continued)

d) Reconciliation of subsequent balance sheets as reported under Canadian GAAP to IFRS (continued)

vi) Business combinations (continued)

Peloton Exploration Corp. Acquisition

On June 11, 2010, the Company acquired all of the issued and outstanding shares of Peloton Exploration Corp. ("Peloton"), a private oil and gas company, for consideration of 12,059 common voting shares. Under IFRS 3, the shares were valued based on Cequence's closing trading price on the TSX on June 11, 2010. The transaction was accounted for using the acquisition method whereby the assets acquired and liabilities assumed are recorded at their fair value as determined by reference to the relevant IFRS standards. The accounts of the Company include the results of Peloton effective June 11, 2010.

The purchase price allocation with adjustments from Canadian GAAP to IFRS is as follows:

($000's)

Cost of Acquisition	**Canadian GAAP**	**Adjustments**	**IFRS**
Common shares (12,059 at $2.39)	30,269	(1,447)	28,822
Transaction costs	645	(645)	-
Total	**30,914**	**(2,092)**	**28,822**

($000's)

Fair Value of the Assets and Liabilities Acquired	**Canadian GAAP**	**Adjustments**	**IFRS**
Property and equipment	29,319	(2,685)	26,634
Fair value of commodity contracts	339	-	339
Bank debt	(4,984)	-	(4,984)
Working capital deficiency	(1,031)	-	(1,031)
Decommissioning liabilities	(552)	(297)	(849)
Deferred income tax assets – non-current	7,918	795	8,713
Deferred income tax liabilities - current	(95)	95	-
Total	**30,914**	**(2,092)**	**28,822**

4. TRANSITION TO IFRS (Continued)

d) Reconciliation of subsequent balance sheets as reported under Canadian GAAP to IFRS (continued)

vi) Business combinations (continued)

Temple Energy Inc. Acquisition

On September 10, 2010, the Company acquired all of the issued and outstanding shares of Temple Energy Inc. ("Temple"), a private oil and gas company, for consideration of 46,846 common voting shares. Under IFRS 3, the shares were valued based on Cequence's closing trading price on the TSX on September 10, 2010. The transaction was accounted for using the acquisition method whereby the assets acquired and liabilities assumed are recorded at their fair value as determined by reference to the relevant IFRS standards. The accounts of the Company include the results of Temple effective September 10, 2010.

The purchase price allocation with adjustments from Canadian GAAP to IFRS is as follows:

($000's)

Cost of Acquisition	Canadian GAAP	Adjustments	IFRS
Common shares (46,846 at $2.03)	106,809	(11,711)	95,098
Transaction costs	2,838	(2,838)	-
Total	**109,647**	**(14,549)**	**95,098**

($000's)

Fair Value of the Assets and Liabilities Acquired	Canadian GAAP	Adjustments	IFRS
Property and equipment	143,990	(15,022)	128,968
Fair value of commodity contracts	4,201	-	4,201
Bank debt	(36,423)	-	(36,423)
Working capital deficiency	(3,834)	-	(3,834)
Decommissioning liabilities	(5,902)	(4,282)	(10,184)
Deferred income tax assets - non-current	8,798	3,572	12,370
Deferred income tax liabilities - current	(1,183)	1,183	-
Total	**109,647**	**(14,549)**	**95,098**

Deep Basin Acquisition

On September 8, 2010, the Company closed the acquisition of certain gas weighted properties located in the Simonette area of Northwest Alberta (the "Deep Basin Assets"). The purchase price, subject to final adjustments, was $85,000 in cash. Under Canadian GAAP, the transaction was accounted for as an asset acquisition and the consideration was allocated to property and equipment and decommissioning liabilities. IFRS 3 has a broader view than Canadian GAAP as to what constitutes a business, and resultantly, the transaction was determined to be a business combination under IFRS.

4. TRANSITION TO IFRS (Continued)

d) Reconciliation of subsequent balance sheets as reported under Canadian GAAP to IFRS (continued)

vi) Business combinations (continued)

Deep Basin Acquisition (continued)

The estimated purchase price allocation with adjustments from Canadian GAAP to IFRS is as follows:

($000's)

Cost of Acquisition	**Canadian GAAP**	**Adjustments**	**IFRS**
Cash consideration	85,000	-	85,000
Transaction costs	140	(140)	-
Total	**85,140**	**(140)**	**85,000**

($000's)

Fair Value of the Assets and Liabilities Acquired	**Canadian GAAP**	**Adjustments**	**IFRS**
Property and equipment	88,823	3,880	92,703
Decommissioning liabilities	(3,683)	(4,020)	(7,703)
Total	**85,140**	**(140)**	**85,000**

The aggregate differences related to the expensing of transaction costs under IFRS 3 versus capitalization under Canadian GAAP resulted in a decrease to comprehensive income (loss) of $3,623 for the year ended December 31, 2010 and a commensurate increase to deficit. The above adjustments under IFRS 3 further result in an aggregate decrease to property and equipment of $13,827 as at December 31, 2010 and an aggregate decrease to share capital of $13,158 as at December 31, 2010.

vii) Gain (loss) on sale of assets

Under Canadian GAAP, no gain or loss was recognized on the sale of oil and gas properties unless the sale resulted in a change of 20 percent or more to the depletion rate applied to the full cost pool. No such provision exists under IFRS. This resulted in an increase to gain (loss) on sale of assets of $2,842 for the year ended December 31, 2010 with a commensurate decrease to deficit and an increase to property and equipment of $2,486 at December 31, 2010.

viii) Deferred tax

The above adjustments resulted in an increase to deferred tax assets of $20,899 as at December 31, 2010 and an increase to deferred tax recovery of $12,601 for the year ended December 31, 2010.

4. TRANSITION TO IFRS (Continued)

e) Reconciliation of comprehensive income (loss) under Canadian GAAP to IFRS

The following is a reconciliation of the Company's comprehensive income (loss) reported in accordance with Canadian GAAP to its comprehensive income (loss) in accordance with IFRS for the year ended December 31, 2010:

($000's)	Note	Year ended Dec. 31, 2010
Comprehensive income (loss) as reported under Canadian GAAP		(14,518)
Differences increasing (decreasing) reported amounts:		
Depletion, depreciation and impairment	4(d)(i)(ii)	(50,127)
Finance costs on decommissioning liabilities	4(d)(iii)	90
Transaction costs on financial instruments	4(d)(v)	386
Business combinations	4(d)(vi)	(3,623)
Gain (loss) on sale of assets	4(d)(vii)	2,842
Deferred tax on above	4(d)(viii)	12,601
Comprehensive income (loss) as reported under IFRS		(52,349)

f) Reconciliation of cash flow under Canadian GAAP to IFRS

The following is a reconciliation of the Company's cash flows reported in accordance with Canadian GAAP to its cash flows in accordance with IFRS for the year ended December 31, 2010:

($000's)	Notes	Operating	Investing	Financing	Total
As reported under Canadian GAAP – Dec. 31, 2010		20,308	(95,090)	57,975	(16,807)
Differences increasing (decreasing) reported amounts:					
Transaction costs on financial instruments	(i)	555	-	(555)	-
Business combinations	(ii)	(3,623)	3,623	-	-
As reported under IFRS – Dec. 31, 2010		17,240	(91,467)	57,420	(16,807)

i) Transaction costs on financial instruments

As discussed in note 4(d)(v), the Company's policy under Canadian GAAP was to expense transaction costs on financial instruments as incurred. These costs were included with cash flows related to operating activities in the consolidated statement of cash flows under Canadian GAAP. Under IFRS, such transaction costs are capitalized and amortized over the life of the related financial instrument. Presentation in the statement of cash flows under IFRS is to include such costs with cash flows related to financing activities. This resulted in an increase to cash flows related to operating activities of $555 for the year ended December 31, 2010 with a commensurate decrease to cash flows related to financing activities.

4. TRANSITION TO IFRS (Continued)

f) Reconciliation of cash flow under Canadian GAAP to IFRS (continued)

ii) Business combinations

As discussed in note 4(d)(vi), the Company's policy under Canadian GAAP was to capitalize transaction costs related to business combinations. These costs were included with cash flows related to investing activities in the consolidated statement of cash flows under Canadian GAAP. Under IFRS, such transaction costs are expensed as incurred. Presentation in the statement of cash flows under IFRS is to include such costs with cash flows related to operating activities. This resulted in a decrease to cash flows related to operating activities of $3,623 for the year ended December 31, 2010 with a commensurate increase to cash flows related to investing activities.

The application of IFRS further resulted in numerous changes to non-cash items in the consolidated statement of cash flows from the amounts reported under Canadian GAAP as well as reclassifications between asset acquisitions and corporate acquisitions included under investing activities resulting from changes discussed in note 4(d)(vi). These changes did not affect the classification of cash flows between operating, investing and financing.

5. INVESTMENTS AND LONG-TERM DEBT RELATED THERETO

As at December 31, 2009, the Company held long-term floating rate notes ("MAV 2" notes) issued as a result of the restructuring discussed below. At December 31, 2008, the Company held the original Canadian asset-backed commercial paper ("ABCP") with an original cost of $24,147. These investments matured during the third quarter of 2007 but, as a result of the liquidity issues in the ABCP market, did not settle on maturity.

On January 21, 2009, the Pan-Canadian Investors Committee announced that the restructuring had been completed to extend the maturity of the ABCP to provide for a maturity similar to that of the underlying assets. As a result, the Company received new replacement MAV 2 notes with a total face value of $24,142.

The following are the face value of the new notes received from the restructuring at December 31, 2009:

		$
MAV2	Class A1	6,700
MAV2	Class A2	14,149
MAV2	Class B	2,568
MAV2	Class C	725
		24,142

On August 25, 2010, the Company completed the sale of its entire interest in MAV 2 notes for net proceeds of $13,453 (net of transaction costs of $96) which represents approximately $0.68 per $1.00 of face value for the Class A1 notes, $0.58 per $1.00 of face value for the Class A2 notes, $0.33 per $1.00 of face value for the Class B notes and $0.05 per $1.00 of face value for the Class C notes. This has resulted in a loss on MAV 2 notes recognized in comprehensive income (loss) of $281 for the year ended December 31, 2010.

5. INVESTMENTS AND LONG-TERM DEBT RELATED THERETO (Continued)

A summary of changes to the carrying value is as follows:

	December 31, 2010 $
Opening balance	13,738
Principal Repayments	(4)
Valuation loss on investments	(281)
Sale of investments	(13,453)
Ending balance	-

On March 31, 2009, the Company's bank provided the Company with an additional credit facility to provide liquidity in respect to the MAV 2 notes. The credit facility was structured to a maximum of $18,054 available for draws under revolving credit facilities and $18,054 was drawn at December 31, 2009.

All proceeds from the sale of MAV 2 notes were used to repay the long-term debt related to investments facility. The balance of the facility was paid with available cash and the long-term debt related to investments facility was closed. The effective interest rate for the year ended December 31, 2010 was 1.19 percent. Interest expense on long-term debt related to investments included as finance costs in comprehensive income (loss) for the year ended December 31, 2010 was $129.

6. PROPERTY AND EQUIPMENT AND EXPLORATION AND EVALUATION ASSETS

	Property and equipment	Exploration and evaluation assets	Total
Cost or deemed cost:			
Balance at January 1, 2010	121,809	29,411	151,220
Additions	52,367	12,158	64,525
Acquisitions	248,043	-	248,043
Disposals	(1,851)	(41,569)	(43,420)
Balance at December 31, 2010	420,368	-	420,368
Additions	152,569	6,221	158,790
Acquisitions	25,540	-	25,540
Disposals	(57,273)	-	(57,273)
Balance at December 31, 2011	541,204	6,221	547,425

	Property and equipment	Exploration and evaluation assets	Total
Depletion, depreciation and impairment:			
Balance at January 1, 2010	-	-	-
Depletion and depreciation	(24,076)	-	(24,076)
Impairment loss	(54,491)	(3,992)	(58,483)
Disposals	-	3,992	3,992
Balance at December 31, 2010	(78,567)	-	(78,567)
Depletion and depreciation	(41,228)	-	(41,228)
Impairment loss	(18,332)	-	(18,332)
Disposals	6,652	-	6,652
Balance at December 31, 2011	(131,475)	-	(131,475)
Carrying amounts:			
At January 1, 2010	121,809	29,411	151,220
At December 31, 2010	341,801	-	341,801
At December 31, 2011	409,729	6,221	415,950

Costs subject to depletion include $426,485 of estimated future capital costs (December 31, 2010 – $250,830).

The Company's credit facilities are secured by a demand debenture with a first floating charge over all assets of the Company (see note 7).

Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of proven reserves that are capable of economic production. Costs consist primarily of undeveloped land and drilling costs until the drilling of the well is complete and proven reserves which are capable of economic production have been established.

Impairment

The Company reviewed each CGU comprising its property and equipment at December 31, 2011 for indicators of impairment and determined that indicators were present, related to decreases to future natural gas prices used to estimate the value in use and fair value less cost to sell of each of the Company's CGUs.

6. PROPERTY AND EQUIPMENT AND EXPLORATION AND EVALUATION ASSETS (Continued)

Impairment (continued)

As a result, impairment tests were carried out at December 31, 2011. The recoverable amounts of each of the Company's CGUs at December 31, 2011 were estimated as their fair value less cost to sell, based on the net present value of discounted future cash flows from oil and gas reserves, as estimated by the Company's independent reserves evaluator. Consideration was also given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant CGU.

The benchmark escalated prices on which the December 31, 2011 impairment tests are based are as follows:

	Natural Gas	**Condensate**	**Crude Oil**
	AECO Spot ($/mmbtu)	Edmonton Pentanes Plus ($/bbl)	Edmonton Par ($/bbl)
2012	3.49	107.76	97.96
2013	4.13	108.09	101.02
2014	4.59	105.06	101.02
2015	5.05	105.06	101.02
2016	5.51	105.06	101.02
2017	5.97	105.06	101.02
2018	6.21	106.49	102.40
2019	6.33	108.65	104.47
2020	6.46	110.84	106.58
2021	6.58	113.08	108.73

Prices increase at a rate of approximately 2.0 percent per year for natural gas, condensate and crude oil after 2021. Adjustments were made to the benchmark prices, for purposes of the impairment tests, to reflect varied delivery points and quality differentials in the products delivered.

Results of the Company's impairment tests at December 31, 2011 and 2010 are as follows:

	2011 Impairment	**2010 Impairment** (i)
Northeast British Columbia	$ 4,770	$ 17,445
Peace River Arch	13,562	37,046
Deep Basin	-	-
Total	$ 18,332	$ 54,491

(i) See Note 4(d)(ii) for a discussion of impairment at December 31, 2010.

A one percent increase in the discount rate applied to the Company's future estimated cash flows would result in an additional impairment of $4,220, whereas a ten percent decrease in forward benchmark natural gas prices would result in additional impairment of $21,838 recognized in comprehensive income (loss) for the year ended December 31, 2011.

6. PROPERTY AND EQUIPMENT AND EXPLORATION AND EVALUATION ASSETS (Continued)

Sale of Assets

On July 27, 2010, the Company closed the sale of certain gas-weighted properties located in Northwest Alberta for total cash consideration of $36,900, subject to final adjustments. The sale resulted in a gain recognized in comprehensive income (loss) of $18.

On March 23, 2011, the Company closed the sale of certain oil and gas properties located in central Alberta for total cash consideration of $22,000, subject to adjustments. The sale resulted in a gain recognized in comprehensive income (loss) of $2,116.

On April 15, 2011, the Company closed the sale of certain oil and gas properties located in Northwest Alberta for total cash consideration of $7,500, subject to adjustments. The sale resulted in a gain recognized in comprehensive income (loss) of $1,835.

On September 8, 2011, the Company closed the sale of certain oil and gas properties located in Northeast British Columbia for total cash consideration of $13,982, subject to adjustments. The sale resulted in a gain recognized in comprehensive income (loss) of $1,126.

7. DEMAND CREDIT FACILITIES

As at January 1, 2010, the Company had established two credit facilities with a Canadian chartered bank; a $40,000 revolving operating demand loan and a $5,000 non-revolving acquisition/development demand loan. During the year ended December 31, 2010, the Company repaid all amounts owing and terminated the facilities.

During the year ended December 31, 2010, the Company established two credit facilities with a syndicate of Canadian chartered banks. Credit facility A is a $100,000 extendible revolving term credit facility by way of prime loans, U.S. Base Rate Loans, Banker's Acceptances and Libor Loans. Credit facility B is a $10,000 operating facility by way of prime loans, U.S. Base Rate Loans, Banker's Acceptances and letters of credit. Prime loans and U.S. Base Rate Loans on these facilities bear interest at the bank prime rate or U.S. Base Rate, respectively, plus 1.0 percent to 2.5 percent on a sliding scale, depending on the Company's debt to adjusted EBITDA ratio (ranging from being less than or equal to 1.0:1.0 to greater than 2.5:1.0). Banker's Acceptances, Libor Loans and letters of credit on these facilities bear interest at the Banker's Acceptance rate, Libor rate or letter of credit rate, as applicable, plus 2.0 percent to 3.5 percent based on the same sliding scale as above. The credit facilities may be extended and revolve beyond the initial one-year period, if requested by the Company and accepted by the lenders. If the credit facilities do not continue to revolve, the facilities will convert to a 366-day non-revolving term loan facility.

Both credit facilities, and the amount available for draws under the facilities, are subject to periodic review by the bank and are secured by a general assignment of book debts and a $250,000 demand debenture with a first floating charge over all assets of the Company. The Company is permitted to hedge up to 67 percent of its production under the lending agreement. As at December 31, 2011, the Company has drawn $11,618 under the extendible revolving term credit facility and $nil under the operating facility (December 31, 2010 – $57,125 and $nil for the revolving and operating facilities, respectively) and is in compliance with all covenants. The effective interest rate, including standby fees and commitment fees, for the year ended December 31, 2011 was 5.40 percent (2010 – 4.56 percent). The next scheduled review is to take place in May 2012.

During the year ended December 31, 2011 the Company capitalized transaction costs related to its credit facilities of $57 (December 31, 2010 – $555).

7. DEMAND CREDIT FACILITIES (Continued)

A reconciliation of the Company's credit facilities to the amount presented on the consolidated balance sheet is as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Credit facilities	**11,618**	57,125	-
Less: transaction costs capitalized (net of accumulated amortization	**-**	(386)	-
	11,618	56,739	-

8. ACCOUNTS RECEIVABLE

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	**13,015**	5,356	2,494
Less: allowance for doubtful accounts	**(551)**	(490)	(274)
Net trade receivables	**12,464**	4,866	2,220
Accrued revenue	**6,332**	9,082	4,111
Other receivables	**2,236**	2,491	3,813
Total accounts receivable	**21,032**	16,439	10,144

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable	**36,267**	12,663	15,080
Accrued liabilities	**28,200**	23,577	8,095
Total accounts payable and accrued liabilities	**64,467**	36,240	23,175

10. OTHER LIABILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
Obligations related to onerous contracts – current (Note 15)	**331**	-	-
Obligations related to flow-through shares (Note 17)	**4,958**	2,068	388
Total other liabilities	**5,289**	2,068	388

11. PRODUCTION REVENUE

	Year ended December 31, 2011	2010
Sales of oil and natural gas	**101,090**	50,614
Less: royalties	**(13,743)**	(5,769)
Total production revenue	**87,347**	44,845

12. OTHER EXPENSE (INCOME)

	Year ended December 31, 2011	2010
Gain on sale of property and equipment	**(5,077)**	(2,842)
Loss on investment in MAV 2 notes	**-**	281
Transaction costs on business combinations	**-**	3,623
Provisions related to onerous contracts (Note 15)	**1,138**	-
Other	**(74)**	(31)
Total other expense (income)	**(4,013)**	1,031

13. FINANCE COSTS

	Year ended December 31, 2011	2010
Interest expense on demand credit facilities (including stand-by fees and commitment fees of $544 (2010 - $162))	**1,928**	1,297
Interest expense on long-term debt related to investments	**-**	129
Accretion expense on decommissioning liabilities	**905**	495
Amortization of transaction costs on financial instruments	**443**	169
Total finance costs	**3,276**	2,090

14. COMPENSATION COSTS AND KEY MANAGEMENT PERSONNEL EXPENSES

Total wages, salaries, benefits and other personnel costs included in comprehensive income (loss) for the year ended December 31, 2011 were $5,775 (2010 - $4,266).

The aggregate expense of key management personnel, defined as the Company's chief executive officer, chief operating officer, chief financial officer and the Company's board of directors, was as follows:

	Year ended December 31, 2011	**Year ended December 31, 2010**
Wages, salaries, benefits and other personnel costs	1,187	653
Share based payments (i)	2,495	2,949
Total remuneration	3,682	3,602

(i) Represents the total fair value of stock-based compensation awards granted to officers and directors in the year of grant, as determined using the Black-Scholes option pricing model (see note 18).

15. PROVISIONS

Decommissioning liabilities

The following table summarizes the changes in decommissioning liabilities for the years ended December 31, 2011 and 2010:

	December 31, 2011	December 31, 2010
Balance - beginning of year	**26,130**	7,310
Acquisitions	**1,539**	18,736
Property dispositions (Note 6)	**(7,135)**	(722)
Accretion expense	**905**	495
Liabilities incurred	**3,217**	837
Abandonment costs incurred	**(955)**	(126)
Revisions in estimated cash flows	**(21)**	(1,175)
Revisions due to change in discount rates	**4,455**	775
Balance - end of year	**28,135**	26,130

The Company's decommissioning liabilities result from its ownership in oil and natural gas assets including well sites, facilities and gathering systems. The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are $42,659 (December 31, 2010 - $44,359). These cash flows have been discounted using a risk-free interest rate of 2.50 percent (December 31, 2010 – 3.54 percent) based on Government of Canada long-term benchmark bonds. The Company expects these obligations to be settled in approximately 2 to 30 years. As at December 31, 2011, no funds have been set aside to settle these liabilities.

15. PROVISIONS (Continued)

Onerous contracts

As at December 31, 2011, the Company recognized a provision related to an onerous lease contract of $1,138 (December 31, 2010 - $nil). The provision for onerous lease contract represents the present value of the future lease obligations that the Company is presently obligated to make under a non-cancellable onerous operating lease contract, less revenue expected to be earned on the lease, including estimated future sub-lease revenue. The total estimated, undiscounted cash flows, required to settle the obligations are $1,164. These cash flows have been discounted using a risk-free interest rate of 0.99 percent based on Government of Canada three year benchmark bonds.

Cequence expects to reduce the provision by $331 in the twelve months ended December 31, 2012, which amount is included with other liabilities in the consolidated balance sheet (see note 10). The portion of the provision expected to be realized in the period subsequent to December 31, 2012 of $807 is carried with provisions as a non-current liability in the consolidated balance sheet as at December 31, 2011. The estimate may vary as a result of changes in the utilization of the lease premises and the sub-lease arrangements, where applicable. The unexpired term of the leases at December 31, 2011 is 43 months.

16. INCOME TAXES

a) The following table sets forth the components of the Company's deferred income tax asset at December 31, 2011 and 2010 and January 1, 2010:

	December 31, 2011	December 31, 2010	January 1, 2010
Excess of net book value of property and equipment and provisions over related tax pools	13,605	12,798	(12,327)
Unrealized gain on financial instruments	-	-	(425)
Non-capital loss carry-forwards	23,659	24,211	10,228
Scientific research and development expenses and investment tax credits	8,602	8,616	8,943
Other tax assets	2,450	1,715	1,262
Total net deferred income tax assets	48,316	47,340	7,681

At December 31, 2011, Cequence has total tax pools of $591,296 including non-capital loss carry-forwards, investment tax credit carry-forwards and Scientific Research and Experimental Development ("SRED") expenses available to reduce future years' income for tax purposes. Deferred income tax assets have been recognized to the extent that estimated future taxable profits are sufficient to realize the deferred income tax assets in the allowable timeframes. As at December 31, 2011, a deferred income tax asset has not been recognized on $18,600 (December 31, 2010 – $20,612) of deductible temporary differences in respect of certain successored resources properties; the deductible temporary differences do not expire. The Scientific Research and Development expenses of approximately $22,704 available for carry-forward do not expire. The non-capital loss carry-forwards expire in 1 to 20 years and the investment tax credit carry-forwards expire in 8 to 12 years.

16. INCOME TAXES (Continued)

b) Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial tax rates of 26.5 percent (2010 – 28 percent) to income (loss) before income taxes as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Expected income tax recovery	(5,692)	(19,680)
Effect of valuation allowance on investment in MAV 2 notes, net of interest	-	79
Effect of stock-based compensation	1,791	803
Change in value of reserves and losses due to reassessments	(258)	(1,110)
Change in effective tax rate applied	1,039	2,123
Effect of renunciation of flow-through shares (Note 17)	1,395	124
Other	418	(124)
Deferred income tax recovery	(1,307)	(17,785)
Current income tax recovery	(14)	(2)
Income tax recovery	(1,321)	(17,787)

c) Movements in deferred income tax balances are as follows:

	Balance, Jan. 1, 2010	Recognized in comprehensive income (loss)	Recognized in liabilities	Recognized in equity	Acquired in business combinations	Balance, Dec. 31, 2010
Property and equipment and provisions	(12,327)	17,781	(388)	-	7,732	12,798
Unrealized gain on financial instruments	(425)	1,703	-	-	(1,278)	-
Non-capital losses	10,228	(340)	-	-	14,323	24,211
SRED expenses and investment tax credits	8,943	(327)	-	-	-	8,616
Other	1,262	(1,032)	-	1,178	307	1,715
Total	7,681	17,785	(388)	1,178	21,084	47,340

	Balance, Jan. 1, 2011	Recognized in comprehensive income (loss)	Recognized in liabilities	Recognized in equity	Acquired in business combinations	Balance, Dec. 31, 2011
Property and equipment and provisions	12,798	2,669	(1,862)	-	-	13,605
Unrealized gain on financial instruments	-	-	-	-	-	-
Non-capital losses	24,211	(552)	-	-	-	23,659
SRED expenses and investment tax credits	8,616	(14)	-	-	-	8,602
Other	1,715	(796)	-	1,531	-	2,450
Total	47,340	1,307	(1,862)	1,531	-	48,316

17. SHARE CAPITAL

Cequence has an unlimited number of common voting shares and common non-voting shares with no par value.

	Year ended December 31, 2011		Year ended December 31, 2010	
Issued common voting shares	**Number (000's)**	**Stated Value $**	Number (000's)	Stated Value $
Balance, beginning of year	**128,750**	**452,526**	39,530	269,185
Corporate acquisition - Peloton	**-**	**-**	12,059	28,822
Flow-through share private placement	**-**	**-**	4,070	8,547
Subscription receipts	**-**	**-**	21,045	44,195
Corporate acquisition - Temple	**-**	**-**	46,846	95,098
Common share private placement	**-**	**-**	2,950	6,195
Flow-through share private placement	**-**	**-**	2,250	3,886
Common shares	**13,398**	**38,183**	-	-
Flow-through shares	**2,100**	**5,985**	-	-
Common shares on exercise of stock options	**600**	**1,794**	-	-
Common shares on exercise of the 2011 Warrants	**2,250**	**8,663**	-	-
Common shares	**11,960**	**46,046**	-	-
Flow-through shares	**2,110**	**8,124**	-	-
Flow-through share private placement	**688**	**2,649**	-	-
	161,856	**563,970**	128,750	455,928
Share issue costs, net of taxes of $1,531 (2010 - $1,178)	**-**	**(4,599)**	-	(3,402)
Balance, end of year	**161,856**	**559,371**	128,750	452,526
Warrants, beginning of year	4,500	-	-	-
Flow-through warrant private placement	-	-	4,500	-
Warrants exercised	(2,250)	-	-	-
Warrants, end of year	**2,250**	**-**	**4,500**	**-**

On June 11, 2010, the Company completed the acquisition of Peloton (see note 4(d)(vi)) and issued 12,059 common voting shares with a deemed value of $2.39 per share for total deemed consideration of $28,822.

17. SHARE CAPITAL (Continued)

On August 19, 2010, the Company completed the sale of 3,200 common voting shares on a CEE "flow-through" private placement basis at $2.50 per share for gross proceeds of $8,000 as well as 870 common voting shares on a CDE "flow-through" private placement basis at $2.30 per share for gross proceeds of $2,001, resulting in a total issuance of 4,070 common voting shares for total gross proceeds of $10,001. In accordance with IFRS, the above transaction resulted in an increase to share capital of $8,547 and the recognition of an obligation related to flow-through shares of $1,454 included with other liabilities in the consolidated balance sheet at December 31, 2010. In accordance with the terms of the related agreements and pursuant to certain provisions of the Income Tax Act (Canada), the Company renounced, for income tax purposes, development expenditures of $2,001 and exploration expenditures of $8,000 to the holders of the flow-through common shares effective December 31, 2010. Deferred income tax of approximately $2,506 associated with renouncing the expenditures was recorded on the date of renunciation in the first quarter of 2011, the obligation on flow-through shares of $1,454 was drawn down and the difference was recognized as deferred income tax recovery in comprehensive income (loss). As at December 31, 2011, the Company has incurred all of the qualifying expenditures.

On August 19, 2010, the Company completed the sale of 18,545 subscription receipts at a price of $2.10 per subscription receipt for total gross proceeds of $38,945. The subscription receipts were convertible to Cequence common voting shares without further consideration upon the closing of the Deep Basin Assets acquisition (see note 4(d)(vi)). Upon closing of the Deep Basin Assets acquisition on September 8, 2010, the subscription receipts were converted on a one for one basis, for no additional consideration and without further action, into common voting shares of the Company. On September 17, 2010, Cequence completed the sale of 2,500 common voting shares related to an over-allotment option on the subscription receipts offering discussed above at $2.10 per share for total gross proceeds of $5,250.

On September 10, 2010, the Company completed the acquisition of Temple (see note 4(d)(vi)) and issued 46,846 common voting shares with a deemed value of $2.03 per share for total deemed consideration of $95,098.

On September 10, 2010, Cequence completed the sale of 2,950 common voting shares through a private placement to a major shareholder as well as certain management and directors of the Company at $2.10 per share for total gross proceeds of $6,195. The transaction has been recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties, and is equal to fair value. As at December 31, 2011 no amounts are included in accounts payable and accrued liabilities related to the transaction (December 31, 2010 - $nil).

On November 30, 2010, the Company completed the sale, on a private placement basis, of 2,250 units at a price of $2.00 per unit for total gross proceeds of $4,500. Each unit entitles the holder to:

- one common voting share on a CDE "flow-through" basis;
- one warrant to purchase one common voting share on a CDE "flow-through" basis at any time on or after August 1, 2011 and prior to August 15, 2011 at a price set as a 10 percent premium to the 10 day volume weighted average trading price of the Company's shares on the TSX for the period July 18, 2011 to July 29, 2011 (the "2011 Warrants"); and
- one warrant to purchase one common voting share on a CDE "flow-through" basis at any time on or after August 1, 2012 and prior to August 15, 2012 at a price set as a 10 percent premium to the 10 day volume weighted average trading price of the Company's shares on the TSX for the period July 18, 2012 to July 31, 2012 (the "2012 Warrants).

17. SHARE CAPITAL (Continued)

The purchaser unconditionally committed to exercise the 2011 Warrants prior to August 15, 2011 and Cequence exercised the option to hold 1,500 of the shares initially issued in escrow until such time as the 2011 Warrants were exercised. If the 2011 Warrants were not exercised, the shares held in escrow were to be cancellable at no cost to Cequence and no redress to the shareholder. The 2012 Warrants were conditional on the exercise of the 2011 Warrants and if the 2011 Warrants were not exercised in accordance with their terms, the 2012 Warrants were to become null and void. The 2011 Warrants were exercised in accordance with their terms in the year ended December 31, 2011 (see below). No value has been attributed to the 2011 Warrants or 2012 Warrants as the underlying common voting shares are issuable at a fixed premium to the prevailing value of the stock at the time of issuance. As at December 31, 2011, the Company has incurred all of the qualifying CDE expenditures.

The above transaction resulted in an increase to share capital of $3,886 and the recognition of an obligation related to flow-through shares of $614 included with other liabilities in the consolidated balance sheet at December 31, 2010. In accordance with the terms of the agreement and pursuant to certain provisions of the Income Tax Act (Canada), the Company renounced, for income tax purposes, development expenditures of $3,000 to the holders of the flow-through common shares effective December 31, 2010. Deferred income tax of approximately $752 associated with renouncing the expenditures was recorded on the date of renunciation in the first quarter of 2011, obligation on flow-through shares of $409 was drawn down and the difference was recognized as deferred income tax recovery in comprehensive income (loss). As at December 31, 2011, the Company has incurred all of the qualifying expenditures.

On March 17, 2011, the Company completed the sale of 13,398 common voting shares at a price of $2.85 per share for total gross proceeds of $38,183.

On March 17, 2011, the Company completed the sale of 2,100 common voting shares on a CEE “flow-through” basis at $3.50 per share for total gross proceeds of $7,350. Under the terms of the respective agreements, Cequence is required to renounce $7,350 of CEE expenditures in February 2012. As at December 31, 2011, the Company has incurred all of the qualifying CEE expenditures. The above transaction resulted in an increase to share capital of $5,985 and the recognition of an obligation related to flow-through shares of $1,365 included with other liabilities in the consolidated balance sheet at December 31, 2011.

On June 20, 2011, a total of 600 stock options were exercised resulting in the issuance of 600 common voting shares at $1.99 per share for total gross proceeds of $1,194. The exercise of stock options further resulted in a reduction to contributed surplus of $600 and a commensurate increase to share capital to account for stock based compensation previously expensed related to the exercised options.

On August 15, 2011, 2,250 2011 Warrants were exercised for 2,250 common voting shares on a CDE “flow-through” basis at $4.36 per share for total gross proceeds of $9,801. The shares were issued on exercise of the 2011 Warrants, as discussed above. In accordance with the exercise of the 2011 Warrants, 1,500 common voting shares initially held in escrow were released on August 15, 2011. The exercise of the 2011 Warrants also qualifies the remaining 2,250 2012 Warrants for exercise in 2012. Under the terms of the respective agreement, Cequence is required to renounce $9,801 of CDE expenditures in February 2012. As at December 31, 2011, the Company has incurred all of the qualifying CDE expenditures. The above transaction resulted in an increase to share capital of $8,663 and the recognition of an obligation related to flow-through shares of $1,138 included with other liabilities in the consolidated balance sheet at December 31, 2011.

On August 18, 2011, the Company completed the sale of 11,960 common voting shares at a price of $3.85 per share for total gross proceeds of $46,046.

17. SHARE CAPITAL (Continued)

On August 18, 2011, the Company completed the sale of 2,110 common voting shares on a CEE "flow-through" basis at $4.75 per share for total gross proceeds of $10,023. Under the terms of the respective agreements, Cequence is required to renounce $10,023 of CEE expenditures in February 2012. As at December 31, 2011, the Company has incurred all of the qualifying CEE expenditures. The above transaction resulted in an increase to share capital of $8,124 and the recognition of an obligation related to flow-through shares of $1,899 included with other liabilities in the consolidated balance sheet at December 31, 2011.

On October 5, 2011, the Company completed the sale of 688 common voting shares on a CDE "flow-through" basis at $4.36 per share for total gross proceeds of $3,000. Under the terms of the respective agreements, Cequence is required to renounce $3,000 of CDE expenditures in February 2012. As at December 31, 2011, the Company has incurred all of the qualifying CDE expenditures. The above transaction resulted in an increase to share capital of $2,649 and the recognition of an obligation related to flow-through shares of $351 included with other liabilities in the consolidated balance sheet at December 31, 2011.

As at December 31, 2011, there were no issued or outstanding non-voting shares (December 31, 2010 – none).

18. STOCK BASED COMPENSATION PLANS

Stock options

The Company has a stock option plan for directors, officers, employees and consultants of the Company and its subsidiaries. The number of common shares granted with respect to options may not exceed a rolling maximum of 10 percent of the Company's outstanding common shares. Options typically vest over a three year period, expire five years from the date of grant and are settled by issuing shares of the Company.

During the year ended December 31, 2011, the Company issued 4,221 stock options at prices ranging from $2.96 to $3.94 to employees and directors. The options have a five year life and one third vest annually commencing one year following the grant date. The Company utilized a Black-Scholes option pricing model to price the options. During the year ended December 31, 2011, 240 options were forfeited and 600 options were exercised.

A summary of the inputs used to value stock options is as follows:

	December 31, 2011 **$**	December 31, 2010 $
Risk-free interest rate	**1.3% - 2.8%**	1.9% - 2.9%
Expected life of options	**5 years**	5 years
Expected volatility	**60%**	50% - 60%
Expected dividend rate	**0%**	0%
Expected forfeiture rate	**15%**	6% - 15%
Weighted average fair value	**$1.91**	$1.00

Expected volatility is determined by reference to the Company's industry peers as, due largely to changes in the size and structure of the Company in recent years, this was determined to be a more meaningful measure than the historical volatility of the Company's shares.

18. STOCK BASED COMPENSATION PLANS (Continued)

Stock options (continued)

A summary of the status of the Company's stock option plan and changes during the years ended December 31, 2011 and 2010 is as follows:

	December 31, 2011		December 31, 2010	
	Number of Options (000's)	**Weighted Average Exercise Price, $**	Number of Options (000's)	Weighted Average Exercise Price, $
Outstanding, beginning of year	**9,713**	**1.99**	839	4.40
Granted	**4,221**	**3.69**	10,958	1.92
Cancelled	**-**	**-**	(880)	3.50
Forfeited	**(240)**	**1.99**	(1,204)	2.72
Exercised (Note 17)	**(600)**	**1.99**	-	-
Outstanding, end of year	**13,094**	**2.54**	9,713	1.99

The following table summarizes information about stock options outstanding at December 31, 2011:

	Options Outstanding			**Options Exercisable**	
Range of Exercise Price, $	Weighted Average Exercise Price, $	Number of Options Outstanding (000's)	Weighted Average Contractual Life Remaining (years)	Number of Options (000's)	Weighted Average Exercise Price, $
1.76 – 1.99	1.98	8,868	3.7	2,956	1.98
2.96 – 3.94	3.69	4,221	4.5	-	-
8.36	8.36	5	5.8	5	8.36
	2.54	13,094	4.0	2,961	1.99

During the year ended December 31, 2011, $6,758 (2010 - $2,721) in compensation expense related to equity-settled stock options has been recognized in comprehensive income (loss).

Performance warrants

As at December 31, 2009, the Company had a total of 5,200 performance warrants that were exercisable into a common, non-voting share of Cequence at a price of $1.88. At the time the performance warrants were negotiated the market price of the Company's shares was $1.48. The performance warrants were divided into three equal tranches with the first one-third having a four year term and vested if the 20 day weighted average share price of Cequence exceeded $3.20. The second tranche had a 54 month term and vested if the 20 day weighted average share price of Cequence exceeded $4.40. The final third of the performance warrants had a five year term and vested if the 20 day weighted average share price of Cequence exceeded $5.60. The performance warrants were exercisable for non-voting shares of Cequence.

18. STOCK BASED COMPENSATION PLANS (Continued)

Performance warrants (continued)

During the year ended December 31, 2010 these warrants were cancelled as part of the acquisition of Temple and any unrecognized stock based compensation expense was recognized in income. The cost to cancel the warrants of $451 was recognized as a transaction cost and expensed (see note 4(d)(vi)).

During the year ended December 31, 2010, the Company recognized $142 of stock based compensation for the performance warrants in comprehensive income (loss).

19. LOSS PER SHARE

Loss per share has been calculated based on the weighted average number of common shares outstanding during the period. The following table reconciles the denominators used for the basic and diluted loss per share calculations. No stock options or warrants have been included in the calculation of diluted shares outstanding for the year ended December 31, 2011 (2010 – none) as their inclusion would be anti-dilutive.

	Year ended December 31,	
	2011	2010
Basic weighted average shares	**147,558**	69,713
Effect of dilutive stock options and warrants	**-**	-
Diluted weighted average shares	**147,558**	69,713

20. CONTINGENCIES AND COMMITMENTS

	2012	**2013**	**2014**	**2015**	**2016+**	**Total**
Office leases	$ 1,217	1,133	922	187	-	$ 3,459
Drilling services	2,138	2,138	-	-	-	4,276
Pipeline transportation	1,699	1,699	1,699	1,554	-	6,651
Total	$ 5,054	4,970	2,621	1,741	-	$ 14,386

The Company has a pipeline transportation contract that expires on November 30, 2015.

During the year ended December 31, 2011, the Company entered into a drilling service agreement whereby the Company has committed to use a drilling rig for 360 days over the two years following commencement of use of the drilling rig at current market rates. The commitment is drawn down when the rig is in use, whether by Cequence or third parties. Cequence expects to meet the commitment in the required time.

20. CONTINGENCIES AND COMMITMENTS (Continued)

During the year ended December 31, 2011, the Company entered into a drilling service agreement whereby the Company made a deposit of $3,500 to obtain a right of first refusal on the use of two drilling rigs over the five years following the date that use of the rigs commences. The deposit is to be drawn down as the Company incurs costs related to the use of the drilling rigs and $285 has been drawn down at December 31, 2011. Cequence expects to reduce the deposit by $759 in the twelve months ended December 31, 2012, which amount is included with deposits and prepaid expenses in the consolidated balance sheet. The portion of the outstanding deposit expected to be drawn down in the period subsequent to December 31, 2012 of $2,456 is carried as a non-current asset in the consolidated balance sheet as at December 31, 2011.

During the year ended December 31, 2011, the Company recognized $1,311 (December 31, 2010 – $940) of expense related to office leases, included with general and administrative expense in comprehensive income (loss).

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company’s financial instruments, including derivative financial instruments and embedded derivative financial instruments, recognized in the consolidated balance sheets consist of cash, accounts receivable, commodity contracts, demand credit facilities and accounts payable and accrued liabilities.

The Company's accounts receivable, demand credit facilities and accounts payable and accrued liabilities approximate their carrying values due to their short terms to maturity and the floating interest rate on the Company's debt.

The Company’s fair value hierarchy for those assets and liabilities measured at fair value as of December 31, 2011 comprises cash, which is considered a level 1 financial instrument.

The nature of these financial instruments and the Company's operations expose the Company to market risk, credit risk and liquidity risk. The Company manages its exposure to these risks by operating in a manner that minimizes these risks. Senior management employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Company's business objectives and risk tolerance levels. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established policies in setting risk limits and controls and monitors these risks in relation to market conditions.

A) MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's comprehensive income (loss) to the extent the Company has outstanding financial instruments. The objective of the Company is to mitigate market risk exposures within acceptable limits, while maximizing returns.

Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices and initiates instruments to manage exposure to these risks when it deems appropriate. As a means of managing commodity price volatility, the Company enters into various derivative financial instrument agreements and physical contracts. Derivative financial instruments are marked-to-market and are recorded on the consolidated balance sheet as either an asset or liability with the change in fair value recognized in comprehensive income (loss).

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

A) MARKET RISK (Continued)

Commodity price risk (continued)

On October 15, 2010, the Company completed the sale of its 2011 fixed price commodity contracts totalling 4,000 GJ/day at prices ranging from $5.85 to $6.20 per GJ for total proceeds of $3,386. This resulted in a gain recognized in comprehensive income (loss) of $219.

The Company had no outstanding positions for commodity derivative financial instruments at December 31, 2011.

For the year ended December 31, 2011 realized gains from commodity derivative contracts recognized in comprehensive income (loss) were $906 compared to a gain of $3,737 in the year ended December 31, 2010.

The fair value of the commodity contracts outstanding at December 31, 2011 was $nil (December 31, 2010 - $nil; January 1, 2011 - $1,420). For the year ended December 31, 2011 the Company recorded an unrealized loss of $nil from derivative commodity contracts compared to a loss of $2,793 for the year ended December 31, 2010. An estimate of credit risk has been made in the valuation of all derivative commodity contracts.

Foreign exchange risk

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices are referenced to U.S. dollar denominated prices. As at December 31, 2011 the Company had no forward, foreign exchange contracts in place, nor any significant working capital items denominated in foreign currencies.

Interest rate risk

The Company is exposed to interest rate risk to the extent that changes in market interest rates impact its borrowings under the floating rate credit facilities. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. The Company has no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2011.

As at December 31, 2011 a 1 percent change in interest rates on the Company's outstanding debt, with all other variables constant, would result in a change in comprehensive income (loss) of $116 ($85 after tax).

B) CREDIT RISK

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company is exposed to credit risk with respect to its accounts receivable and cash.

The majority of the Company's accounts receivable are due from joint venture partners in the oil and gas industry and from marketers of the Company's petroleum and natural gas production. The Company mitigates its credit risk by entering into contracts with established counterparties that have strong credit ratings and reviewing its exposure to individual counterparties on a regular basis.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

B) CREDIT RISK (Continued)

As at December 31, 2011, the accounts receivable balance was $21,032 of which $1,516 was past due. The Company considers all amounts greater than 90 days past due. These past due accounts are considered to be collectible, except as provided in the allowance for doubtful accounts. When determining whether past due accounts are uncollectible, the Company factors in the past credit history of the counterparties. At December 31, 2011, the Company has an allowance for doubtful accounts of $551 (2010 – $490). As at December 31, 2011, 33 percent of the total receivables balance is due from marketers of the Company's oil and natural gas production and 18 percent is due from a joint venture partner related to current drilling, completion and tie-in activities. A reconciliation of the Company's allowance for doubtful accounts is as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Balance, beginning of year	$ 490	$ 274
Amounts collected	(37)	(2)
Amounts written off to accounts receivable	(4)	(4)
Additional provision	102	222
Balance, end of year	$ 551	$ 490

As at December 31, 2011, the maximum exposure to credit risk was $21,412 (2010 - $17,760) being the carrying value of the Company's cash and accounts receivable.

C) LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The nature of the oil and gas industry is capital intensive and the Company maintains and monitors a certain level of cash flow to finance operating and capital expenditures. Refer to note 23 for disclosure related to the management of capital.

The expected timing of cash flows relating to financial liabilities as at December 31, 2011 is as follows:

	< 1 Year	1 – 2 Years	2 – 5 Years	Thereafter
Demand credit facilities	-	-	11,618	-
Accounts payable and accrued liabilities	64,467	-	-	-
	64,467	-	11,618	-

22. CHANGES IN NON-CASH WORKING CAPITAL

	Year ended December 31,	
	2011	2010
	$	$
Accounts receivable	**(4,593)**	(1,693)
Deposits and prepaid expenses	**(3,207)**	274
Accounts payable and accrued liabilities	**28,227**	1,755
Net change in non-cash working capital	**20,427**	336
Allocated to:		
Operating activities	**(4,607)**	(2,017)
Investing activities	**24,976**	2,353
Financing activities	**58**	-
	20,427	336

23. CAPITAL MANAGEMENT

Cequence's objectives are to maintain a flexible capital structure in order to meet its financial obligations and to execute on strategic opportunities throughout the business cycle. The Company's capital comprises shareholders' equity, demand credit facilities and working capital. Cequence manages the capital structure and makes adjustments in light of economic conditions and the risk characteristics of the underlying assets.

In order to maintain or adjust the capital structure, Cequence may issue new common shares, issue new debt or replace existing debt, adjust capital expenditures and acquire or dispose of assets.

The Company evaluates its capital structure based on net debt to cash flow from operating activities and the current credit available to Cequence compared to its budgeted capital expenditures.

Net debt to cash flow provides a measure of the Company's ability to manage its debt levels under current operating conditions. The ratio is calculated as net debt, defined as current debt, long term debt and working capital excluding commodity derivative assets or liabilities and other liabilities, divided by cash flow from operations before decommissioning liabilities expenditures, proceeds from the sale of commodity contracts and changes in non-cash working capital for the most recent quarter.

At December 31, 2011 Cequence has a net debt and working capital deficiency of $51,442 (December 31, 2010 – $72,739).

It is the Company's objective to maintain a net debt to annualized cash flow ratio of less than 2:1. As at December 31, 2011, the ratio was calculated as 1.3:1 (December 31, 2010 – 2.4:1) based on annualized fourth quarter results.

The Company's current borrowing capacity is based on the lenders' semi-annual review of the Company's oil and natural gas reserves. The Company is also subject to various restrictions, including being permitted to hedge up to 67 percent of its production under the lending agreement. Compliance with these restrictions is monitored on a regular basis and at December 31, 2011 Cequence was in compliance with all such restrictions.

24. RELATED PARTIES

An executive of the Company is a member of the board of directors of an entity that is a supplier of seismic services to Cequence. The Company incurred a total of $26 with this vendor in the year ended December 31, 2011 (2010 - $11). These transactions have been recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties, and is equal to fair value. As at December 31, 2011, no amounts are included in accounts payable and accrued liabilities related to these transactions (December 31, 2010 - $5).

25. SUBSEQUENT EVENTS

On March 8, 2012, the 2012 Warrants (see note 17) were cancelled at no cost to Cequence and no redress to the shareholder.