HIGHLIGHTS

(000's except per share amounts)	Three months ended December 31			Year ended December 31		
	2011	2010	% Change	2011	2010	% Change
Financial ($)						
Production revenue [1]	$ 23,527	$ 22,352	**5**	$ 101,996	$ 54,570	**87**
Comprehensive loss [2]	(15,598)	(23,206)	**(33)**	(20,158)	(52,349)	**(61)**
Per share, basic and diluted	(0.10)	(0.18)	**(44)**	(0.14)	(0.75)	**(81)**
Funds flow from operations [2] [3]	10,002	7,629	**31**	42,262	15,997	**164**
Per share, basic and diluted	0.06	0.06	**-**	0.29	0.23	**26**
Production volumes						
Natural gas (Mcf/d)	47,203	38,702	**22**	47,825	22,956	**108**
Crude oil (bbls/d)	503	478	**5**	575	333	**73**
Natural gas liquids (bbls/d)	509	557	**(9)**	464	292	**59**
Total (boe/d)	8,879	7,485	**19**	9,010	4,451	**102**
Sales prices						
Natural gas, including realized hedges ($/Mcf)	$ 3.59	$ 4.40	**(18)**	$ 4.03	$ 4.63	**(13)**
Crude oil ($/bbl)	97.15	77.24	**26**	92.60	74.12	**25**
Natural gas liquids ($/bbl)	73.19	64.13	**14**	71.99	63.88	**13**
Total ($/boe)	$ 28.80	$ 32.46	**(11)**	$ 31.02	$ 33.59	**(8)**
Operating Netbacks ($/boe)						
Price	$ 28.80	$ 32.46	**(11)**	$ 31.02	$ 33.59	**(8)**
Royalties	(3.75)	(3.80)	**(1)**	(4.18)	(3.55)	**18**
Transportation	(1.93)	(2.25)	**(14)**	(2.18)	(2.68)	**(19)**
Operating costs	(8.60)	(10.20)	**(16)**	(9.02)	(10.90)	**(17)**
Operating netback	$ 14.52	$ 16.21	**(10)**	$ 15.64	$ 16.46	**(5)**
Capital expenditures	$ 56,335	$ 24,392	**131**	$ 149,601	$ 64,120	**133**
Corporate acquisitions [2]	-	-	**-**	-	155,602	**(100)**
Property acquisitions (net) [2]	-	(4,707)	**(100)**	(23,023)	43,157	**N/A**
Total capital expenditures	$ 56,335	$ 19,685	**186**	$ 126,578	$ 262,879	**(52)**
Net debt and working capital (deficiency) [4]	(51,442)	(72,739)	**(29)**	(51,442)	(72,739)	**(29)**
Weighted average shares outstanding (basic and diluted)	161,818	127,258	**27**	147,558	69,713	**112**
Undeveloped land (net acres)	254,400	293,800	**(13)**	254,400	293,800	**(13)**

(1) Production revenue is presented gross of royalties and includes realized gain on commodity contracts.
(2) 2010 figures have been restated from previously reported amounts resulting from the application of IFRS. See 'Adoption of International Financial Reporting Standards' section below.
(3) Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liability expenditures, proceeds from the sale of commodity contracts and net changes in non-cash working capital.
(4) Net debt and working capital (deficiency) is calculated as cash and net working capital less commodity contract asset and demand credit facilities and excluding other liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD & A") of the financial and operating results of Cequence Energy Ltd. ("Cequence" or the "Company") should be read in conjunction with the Company's audited consolidated financial statements (the "Financial Statements") and related notes for the years ended December 31, 2011 and 2010.

Additional information relating to the Company, including its MD & A for the prior year and the annual information form ("AIF") is available on SEDAR at www.sedar.com.

This MD & A is dated March 8, 2012.

BASIS OF PRESENTATION

The Financial Statements and comparative information 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"). Previously, the Company prepared its Financial Statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The financial information presented reflects the consolidated financial statements of Cequence.

The reporting and the measurement currency is the Canadian dollar. For the purpose of calculating unit costs, natural gas is converted to a barrel of oil equivalent ("boe") using six thousand cubic feet of natural gas equal to one barrel of oil unless otherwise stated. The term barrel of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe conversion ratio for gas of 6 Mcf:1 boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

For fiscal 2011, the ratio between the average price of West Texas Intermediate ("WTI") crude oil at Cushing and NYMEX natural gas was approximately 24:1 ("Value Ratio"). The Value Ratio is obtained using the 2011 WTI average price of $95.11 (US$/Bbl) for crude oil and the 2011 NYMEX average price of $4.03 (US$/MMbtu) for natural gas. This Value Ratio is significantly different from the energy equivalency ratio of 6:1 and using a 6:1 ratio would be misleading as an indication of value.

Unless otherwise stated and other than per unit items, all figures are presented in thousands.

NON-GAAP MEASUREMENTS

Within the MD & A references are made to terms commonly used in the oil and gas industry. Netback is not defined by IFRS in Canada and is referred to as a non-GAAP measure. Netbacks equal total revenue less royalties, operating costs and transportation costs. Management utilizes this measure to analyze operating performance.

Funds flow from operations is a non-GAAP term that represents cash flow from operating activities before adjustments for decommissioning liability expenditures, proceeds from the sale of commodity contracts and net changes in non-cash working capital. The Company evaluates its performance based on earnings and funds flow from operations. The Company considers funds flow from operations a key measure as it demonstrates the Company's ability to generate the cash flow necessary to fund future growth through capital investment and to repay debt. The Company's calculation of funds flow from operations may not be comparable to that reported by other companies. Funds flow from operations per share is calculated using the same weighted average number of shares outstanding used in the calculation of comprehensive income (loss) per share.

Non-GAAP financial measures do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

OVERVIEW

A summary of the Company's significant transactions that occurred in the current and prior periods is as follows:

2010 Transactions

On July 27, 2010, Cequence sold certain non-producing gas weighted properties in the Sinclair region of Northwest Alberta for total cash consideration of $36,900, subject to final adjustments. A gain of $18 resulted on the sale, recognized with other expense (income) in comprehensive income (loss) for the year ended December 31, 2010.

On August 19, 2010, the Company completed the sale of 3,200 shares on a CEE "flow-through" private placement basis at $2.50 per share for gross proceeds of $8,000, 870 shares on a CDE "flow-through" private placement basis at $2.30 per share for gross proceeds of $2,001 and 18,545 subscription receipts at a price of $2.10 per subscription receipt for gross proceeds of $38,945. 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 gross proceeds of $5,250. Total gross proceeds from the above issuances were $54,196 and as at December 31, 2011, the Company has incurred all of the qualifying expenditures under the flow-through share agreements.

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. A decommissioning liability of $7,703 has been recognized as part of the 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 is as follows:

($000's)	
Cost of Acquisition	
Common shares (46,846 at $2.03)	95,098
Total	**95,098**

($000's)	
Fair Value of the Assets and Liabilities Acquired	
Property and equipment	128,968
Fair value of commodity contracts	4,201
Bank debt	(36,423)
Working capital deficiency	(3,834)
Decommissioning liabilities	(10,184)
Deferred income tax assets – non-current	12,370
Total	**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.

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"). The 2011 Warrants were exercised during the third quarter of 2011 (see '2011 Transactions' section below); 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).

Under the terms of the agreement, Cequence renounced $3,000 of CDE expenditures in February 2011. As at December 31, 2011, the Company has incurred all of the qualifying CDE expenditures.

2011 Transactions

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.

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 June 10, 2011, the Company closed the acquisition of certain gas weighted properties located in Northeast British Columbia for total cash consideration of $22,200, subject to adjustments. A decommissioning liability of $1,539 has been recognized as part of the acquisition.

On August 15, 2011, 2,250 warrants were exercised for 2,250 common voting shares on a CDE "flow-through" basis at $4.36 per share for gross proceeds of $9,801. The shares were issued on exercise of the 2011 Warrants, as disclosed in the '2010 Transactions' section 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 related 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.

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.

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.

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.

SUBSEQUENT EVENTS

On March 8, 2012, the 2012 Warrants (see '2010 Transactions' above) were cancelled at no cost to Cequence and no redress to the shareholder.

SELECTED FINANCIAL INFORMATION

	Year ended December 31		
$(000's)	**2011**	**2010**	**2009** [4]
Production revenue [1]	$ 101,996	$ 54,570	$ 27,983
Funds flow from operations [2] [3]	42,262	15,997	3,927
Per share – basic and diluted	0.29	0.23	0.19
Comprehensive loss [2]	(20,158)	(52,349)	(8,654)
Per share – basic and diluted	(0.14)	(0.75)	(0.41)
Total assets [2]	491,365	409,381	208,111
Demand credit facilities [2]	11,618	56,739	-
Long-term debt related to investments	$ -	$ -	$ 18,054

(1) Production revenue is presented gross of royalties and includes realized gain on commodity contracts.
(2) 2010 figures have been restated from previously reported amounts resulting from the application of IFRS. See 'Adoption of International Financial Reporting Standards' section below.
(3) Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liability expenditures, proceeds from the sale of commodity contracts and net changes in non-cash working capital.
(4) 2009 figures are presented in accordance with Canadian GAAP.

A reconciliation of cash flow from operating activities to funds flow from operations is as follows:

	Three months ended December 31		Year ended December 31	
$(000's)	**2011**	**2010**	**2011**	**2010**
Cash flow from operating activities [1]	$ 6,743	$ 13,715	$ 36,700	$ 17,240
Decommissioning liabilities expenditures	455	21	955	126
Proceeds from sale of commodity contracts	-	(3,386)	-	(3,386)
Net change in non-cash working capital [1]	2,804	(2,721)	4,607	2,017
Funds flow from operations	$ 10,002	$ 7,629	$ 42,262	$ 15,997

(1) 2010 figures have been restated from previously reported amounts resulting from the application of IFRS. See 'Adoption of International Financial Reporting Standards' section below.

Cequence recorded a comprehensive loss of $15,598 for the quarter ended December 31, 2011. Comprehensive income (loss) and funds flow from operations for the period were negatively impacted by low natural gas prices and impairments recognized on the Company's property and equipment at December 31, 2011 (see 'Depletion, Depreciation and Impairment' section below).

Funds flow from operations was $10,002 for the quarter ended December 31, 2011 compared to funds flow from operations of $7,629 for the quarter ended December 31, 2010. The increase in funds flow from operations is due largely to an increase in revenue resulting from the expanded production base of the Company and cost reductions, offset by lower realized natural gas prices for the period.

RESULTS OF OPERATIONS

Average production volumes, revenue and prices for the three and twelve month periods ended December 31, 2011 and 2010 are outlined below:

	Three months ended December 31		Year ended December 31	
	2011	**2010**	**2011**	**2010**
Production				
Natural gas (Mcf/d)	47,203	38,702	47,825	22,956
Crude oil (bbls/d)	503	478	575	333
Natural gas liquids (bbls/d)	509	557	464	292
Total (boe/d)	8,879	7,485	9,010	4,451
Total production (boe)	816,873	688,579	3,288,563	1,624,519
$(000's)				
Revenue				
Natural gas	$ 15,162	$ 14,054	$ 69,467	$ 34,800
Realized gains on natural gas contracts	443	1,621	906	3,956
Total natural gas	15,605	15,675	70,373	38,756
Crude oil	4,492	3,393	19,429	9,015
Natural gas liquids	3,430	3,284	12,194	6,799
Total production revenue, gross of royalties	$ 23,527	$ 22,352	$ 101,996	$ 54,570
Average prices				
Natural gas ($/Mcf)	$ 3.49	$ 3.95	$ 3.98	$ 4.15
Realized natural gas hedge ($/Mcf)	0.10	0.45	0.05	0.48
Natural gas including realized hedge gains and losses ($/Mcf)	3.59	4.40	4.03	4.63
Crude oil ($/bbl)	97.15	77.24	92.60	74.12
Natural gas liquids ($/bbl)	73.19	64.13	71.99	63.88
Average sales price before hedge ($/boe)	$ 28.26	$ 30.11	$ 30.74	$ 31.16
Average sales price including hedge ($/boe)	$ 28.80	$ 32.46	$ 31.02	$ 33.59

PRODUCTION

Production for the year ended December 31, 2011 averaged 9,010 boe/d compared to production of 4,451 boe/d in the comparable period of 2010. Production for the three months ended December 31, 2011 averaged 8,879 boe/d compared to production of 7,485 boe/d in the fourth quarter of 2010. The increase in production is due to new drilling and recompletions in 2010 and 2011.

REVENUE

Total production revenue, gross of royalties, was $23,257 in the fourth quarter of 2011 compared to $22,352 for the comparable period in 2010. The increase in revenue is mainly attributable to the 19 percent increase in production, offset by an 11 percent decrease in realized sales prices. For the year ended December 31, 2011, production revenue, gross of royalties, increased 87 percent to $101,996 from $54,570 in the prior year. The increase is a result of a 102 percent increase in production volumes, offset by an 8 percent decrease in realized sales prices.

PRICING

The realized natural gas prices for the three and twelve months ended December 31, 2011 are above prevailing market prices as much of the Company's natural gas sells at a premium to AECO due to the heat content of the gas. The Company also entered into a commodity contract effective February 1, 2011 for the sale of 5,000 gj per day of natural gas for a price of $3.83 per gj and a commodity contract effective July 1, 2011 for the sale of 2,500 gj per day of natural gas for a price of $4.00 per gj (see 'Commodity Price Management' below). Cequence's production is approximately 88 percent natural gas and consequently, fluctuations in natural gas prices have a significant impact on the Company's revenue.

Cequence realized a natural gas price including hedging gain (as described below) for the fourth quarter of 2011 of $3.59 per Mcf, a decrease of 18 percent from the comparable period in 2010. Realized natural gas prices for the year ended December 31, 2011 were $4.03 per Mcf, down 13 percent from the comparable period in 2010.

Oil prices for the fourth quarter of 2011 were $97.15 per barrel, up 26 percent from the same time period in 2010. Oil prices for the year ended December 31, 2011 were $92.60 per barrel, up 25 percent from the comparable period in 2010.

Natural gas liquids prices for the fourth quarter of 2011 were $73.19 per barrel, up 14 percent from the same time period in 2010. Natural gas liquids prices for the year ended December 31, 2011 were $71.99 per barrel, up 13 percent from the comparable period in 2010.

Benchmark natural gas prices were lower than the three and twelve month comparative periods in 2010. Benchmark crude oil and natural gas liquids prices were higher than the three and twelve month comparative periods in 2010. The following table details the Company's benchmark indices:

	Three months ended December 31		**Year ended December 31**	
Benchmark Pricing	**2011**	**2010**	**2011**	**2010**
AECO-C spot (CDN$/Mcf)	$ 3.19	$ 3.61	$ 3.64	$ 3.99
WTI crude oil (US$/bbl)	94.03	85.16	95.05	79.51
Edmonton par price (CDN$/bbl)	98.17	80.91	95.57	78.16
US$/CDN$ exchange rate	0.98	0.99	1.01	0.97

COMMODITY PRICE MANAGEMENT

	Three months ended December 31		**Year ended December 31**	
	2011	**2010**	**2011**	**2010**
Realized gain on commodity contracts	$ 443	$ 1,621	$ 906	$ 3,956
Unrealized loss on commodity contracts	(168)	(1,445)	-	(2,793)
Total	$ 275	$ 176	$ 906	$ 1,163

Cequence has a commodity price risk management program which provides the Company flexibility to enter into derivative and physical commodity contracts to protect future cash flows for planned capital expenditures. The Company had a natural gas contract in place that expired on March 31, 2010 for the sale of 6,000 gj per day of natural gas for a price of $7.85 per gj. The Company entered into a commodity contract effective February 1, 2011 for the sale of 5,000 gj per day of natural gas for a price of $3.83 per gj which expired December 31, 2011 as well as a contract effective July 1, 2011 for the sale of 2,500 gj per day of natural gas for a price of $4.00 per gj which expired October 31, 2011. The fair value of derivative commodity contracts at December 31, 2011 is $nil compared to $nil at December 31, 2010.

ROYALTY EXPENSE

	Three months ended December 31		**Year ended December 31**	
$(000's)	**2011**	**2010**	**2011**	**2010**
Crown	$ 2,518	$ 1,783	$ 10,845	$ 4,476
Freehold / Overriding	545	833	2,898	1,293
	$ 3,063	$ 2,616	$ 13,743	$ 5,769
As a % of Revenue, Before Hedging Activity				
Crown	11%	9%	11%	9%
Freehold / Overriding	2%	4%	3%	3%
	13%	13%	14%	12%
Per Unit of Production ($/boe)				
Crown	$ 3.08	$ 2.59	$ 3.30	$ 2.75
Freehold / Overriding	0.67	1.21	0.88	0.80
	$ 3.75	$ 3.80	$ 4.18	$ 3.55

Royalty expense in the fourth quarter of 2011 was $3,063 or 13 percent of revenue compared to $2,616 or 13 percent of revenue in the fourth quarter of 2010. For the year ended December 31, 2011, royalties as a percentage of revenue were 14 percent compared to 12 percent in the comparative period in 2010. The overall royalty rate has increased in the twelve months ended December 31, 2011 as compared to the same period in 2010 due to higher royalties on properties acquired in 2010. Royalties as a percentage of revenue are consistent with the Company's expectation of 12 to 14 percent of revenue for 2011. The Company expects, based on forecast oil and natural gas prices, that royalties will average approximately 11 to 13 percent of revenue in 2012.

A significant portion of the Company's production is in the Province of Alberta. Under the Alberta Royalty Framework ("ARF") the Crown royalty rate varies with production rates and commodity prices. The royalty rate expressed as a percentage of sales revenue will fluctuate from period to period due to the fact that the Alberta Reference Price can differ significantly from the commodity prices realized by the Company and that hedging gains and losses are not subject to royalties.

In addition to the basic underlying royalty structure (the ARF), Alberta has instituted additional features that impact the royalty paid on gas, particularly for newly drilled wells. These additional features include:

1. A one year flat 5% royalty period (18 months for horizontal wells) for each new well but capped at a cumulative production level of 500 MMcf for each new well; and
2. A Natural Gas Deep Drilling Holiday program that provides a royalty holiday value for new wells based on meterage drilled. This holiday feature further reduces the royalty for new wells to a minimum of 5% for a maximum 5 year period from on-stream date. This benefit sequentially follows the benefit under point (1) above.

TRANSPORTATION EXPENSE

	Three months ended December 31		Year ended December 31	
$(000's)	2011	2010	2011	2010
Transportation ($)	$ 1,580	$ 1,551	$ 7,153	$ 4,357
Per unit of production ($/boe)	$ 1.93	$ 2.25	$ 2.18	$ 2.68

Transportation costs for the year ended December 31, 2011 were $2.18 per boe, a decrease of 19 percent from the comparative period in 2010. In the fourth quarter of 2011, transportation costs decreased to $1.93 per boe from $2.25 per boe in the comparative period in 2010. Beginning in the fourth quarter of 2009, approximately 3,070 Mcf/d of natural gas is being shipped on the Alliance pipeline at a cost of $1.50 per Mcf for sale at Chicago. This contract had a less significant effect on transportation costs per boe in the year ended December 31, 2011 compared to 2010 as the production base of the Company has grown by 102 percent in 2011 as compared to 2010. Transportation costs per boe are in line with Cequence's expectation of $2.00 to $2.50 per boe for 2011. Cequence expects transportation expense to average approximately $1.50 to $2.00 per boe in 2012.

OPERATING COSTS

	Three months ended December 31		Year ended December	
$(000's)	2011	2010	2011	2010
Operating costs ($)	$ 7,022	$ 7,023	$ 29,673	$ 17,700
Per unit of production ($/boe)	$ 8.60	$ 10.20	$ 9.02	$ 10.90

For the year ended December 31, 2011, operating costs decreased to $9.02 per boe from $10.90 per boe in the comparative period in 2010. Operating costs during the fourth quarter of 2011 were $7,022 or $8.60 per boe compared to $7,023 or $10.20 per boe for the same time period in 2010. Operating costs per boe decreased in the three and twelve months ended December 31, 2011 compared to the same periods in 2010 due mainly to lower costs on new wells drilled and recompleted in 2011 and 2010 and on wells acquired through acquisitions in 2010 and 2011. Operating costs for the year ended December, 2011 are in line with Cequence's expectation of approximately $9 to $10 per boe for 2011. Cequence expects operating costs to continue to decrease to average $8 to $9 per boe in 2012.

OPERATING NETBACKS

	Three months ended December 31		Year ended December 31	
	2011	2010	2011	2010
Production revenue [(1)]	$ 28.80	$ 32.46	$ 31.02	$ 33.59
Royalty expense	(3.75)	(3.80)	(4.18)	(3.55)
Transportation expense	(1.93)	(2.25)	(2.18)	(2.68)
Operating costs	(8.60)	(10.20)	(9.02)	(10.90)
Netback, $/boe	$ 14.52	$ 16.21	$ 15.64	$ 16.46
Netback, excluding realized hedge gains (losses), $/boe	$ 13.98	$ 13.86	$ 15.36	$ 14.03

(1) Production revenue is presented gross of royalties and includes realized gain on commodity contracts.

Cequence's netback for the fourth quarter of 2011 decreased to $14.52 per boe from $16.21 per boe in 2010. For the year ended December 31, 2011, the netback decreased to $15.64 per boe from $16.46 per boe in the comparative period in 2010. In comparison to 2010, the decrease in the netback in the year ended December 31, 2011 is primarily due to a lower realized sales price resulting from the expiry of the Company's 6,000 gj per day commodity contract at March 31, 2010, decreases in benchmark natural gas prices from 2010 to 2011 and an increase in royalty expense. The decrease above was partially offset by improvements to transportation expense and operating costs.

Prior to hedging, Cequence's netbacks were higher than the prior year as the decrease in the average sales price and increase to royalty expense was more than offset by improvements in transportation expense and operating costs.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended December 31		Year ended December 31	
$(000's)	**2011**	**2010**	**2011**	**2010**
G&A expenses ($)	$ 1,665	$ 2,224	$ 7,325	$ 5,544
Total G&A ($/boe)	$ 2.04	$ 3.23	$ 2.23	$ 3.41

For the year ended December 31, 2011, general and administrative ("G&A") expenses increased to $7,325 from $5,544 in the comparative period in 2010. On a per barrel basis, G&A costs decreased for the year ended December 31, 2011 to $2.23 per boe compared to $3.41 per boe in 2010 as the production base of the Company has increased from the prior year.

G&A expenses were $1,665 or $2.04 per boe for the three months ended December 31, 2011. On a per barrel basis, G&A expenses decreased 37 percent from the same period in 2010 as a result of increased sales volumes. G&A expenses for the year ended December 31, 2011 are in line with Cequence's expectation of approximately $2.00 to $2.25 per boe for the year ended December 31, 2011. The Company expects G&A expenses to average approximately $2.00 to $2.50 per boe in 2012.

FINANCE COSTS

	Three months ended December 31		Year ended December 31	
$(000's)	**2011**	**2010**	**2011**	**2010**
Interest expense ($)	$ 224	$ 741	$ 1,928	$ 1,426
Accretion expense on decommissioning liabilities ($) [1]	174	231	905	495
Amortization of transaction costs on financial instruments ($) [1]	-	139	443	169
Total Finance Costs ($)	$ 398	$ 1,111	$ 3,276	$ 2,090
Per unit of production ($/boe)	$ 0.49	$ 1.61	$ 1.00	$ 1.29
Per unit of production, excluding accretion expense and amortization of transaction costs ($/boe)	$ 0.27	$ 1.08	$ 0.59	$ 0.88

(1) 2010 figures have been restated from previously reported amounts resulting from the application of IFRS. See 'Adoption of International Financial Reporting Standards' section below.

Finance costs for the three months ended December, 2011 were $398 compared to $1,111 for the comparative period in 2010. Included in finance costs for the three months ended December 31, 2011 is $nil of amortization related to transaction costs on the establishment and renewal of the Company's credit facilities (2010 - $139) as well as accretion expense on decommissioning liabilities of $174 (2010 - $231). Finance costs net of the amortization and accretion described above were $224 for the three months ended December 31, 2011, compared to $741 for the comparative period in 2010.

Finance costs for the year ended December 31, 2011 were $3,276 compared to $2,090 for the comparative period in 2010. Included in finance costs for the year ended December 31, 2011 is $443 of amortization related to transaction costs on the establishment and renewal of the Company's credit facilities (2010 - $169) as well as accretion expense on decommissioning liabilities of $905 (2010 - $495). Finance costs net of the amortization and accretion described above were $1,928 for the year ended December 31, 2011, compared to $1,426 for the comparative period in 2010.

The Company's debt increased late in the third quarter of 2010, as debt was assumed on the acquisition of Temple and used in part to pay the cash consideration for the Deep Basin Assets. This resulted in interest expense increasing in the twelve month period ended December 31, 2011 as compared to the same period in 2010.

DEPLETION, DEPRECIATION AND IMPAIRMENT

	Three months ended December 31		**Year ended December 31**	
$(000's)	**2011**	**2010**	**2011**	**2010**
Depletion and depreciation expense ($)[1]	$ 10,186	$ 9,517	$ 41,228	$ 24,076
Impairment ($)[1]	18,332	28,597	18,332	58,483
Total depletion, depreciation and impairment	$ 28,518	$ 38,114	$ 59,560	$ 82,559
Per unit of production ($/boe)	$ 34.91	$ 55.35	$ 18.11	$ 50.82
Per unit of production, excluding impairment ($/boe)	$ 12.47	$ 13.82	$ 12.54	$ 14.82

(1) 2010 figures have been restated from previously reported amounts resulting from the application of IFRS. See 'Adoption of International Financial Reporting Standards' section below.

Depletion and depreciation expense for the three and twelve month periods ended December 31, 2011 was $10,186 or $12.47 per boe and $41,228 or $12.54 per boe, respectively. Depletion and depreciation rates are lower than in the comparable periods in 2010 due mainly to drilling in 2011 and the acquisitions of Peloton, Temple and the Deep Basin Assets, which were completed at a lower cost per boe than Cequence's existing resource base.

Impairment expense for the three and twelve months ended December 31, 2011 was $18,332 compared to $28,597 and $58,483 for the three and twelve months ended December 31, 2010, respectively. Impairment in 2011 and 2010 resulted largely from declining natural gas prices as well as from the application of IFRS standards, which are more restrictive than those under Canadian GAAP (see 'Adoption of International Financial Reporting Standards' section below) and require that impairment tests be performed on individual cash generating units as per the table below. Substantially all of the Company's planned capital expenditures in 2012 and actual expenditures in 2011 are in the Deep Basin CGU.

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

PROVISIONS

Decommissioning liabilities

Total decommissioning liabilities at December 31, 2011 were $28,135 compared to $26,130 at December 31, 2010. Net additions to decommissioning liabilities in the year ended December 31, 2011 totalled $2,005 which relates to liabilities assumed on the acquisition of assets, liabilities sold on the sale of properties, as well as to drilling activity, facility additions, accretion expense and changes in estimates.

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.

STOCK-BASED COMPENSATION

The Company recognizes stock-based compensation expense for stock options. For the year ended December 31, 2011, Cequence recorded $6,758 (2010 – $2,863) in stock-based compensation expense related to stock options and performance warrants, as applicable, with a corresponding increase to contributed surplus.

The Company issued 4,221 stock options in the year ended December 31, 2011. Total stock-based compensation expense of $6,866 was determined using the Black-Scholes option pricing model and will be expensed over the three year vesting period of the options. During the year ended December 31, 2011, 240 stock options were forfeited and 600 stock options were exercised.

COMMON SHARES OUTSTANDING

Issued common voting shares (000's)	Number	Stated Value
Balance, December 31, 2010 (1)	128,750	$ 452,526
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 shares private placement	688	2,649
Share issue costs, net of taxes of $1,531	-	(4,599)
Balance, December 31, 2011	161,856	$ 559,371
Warrants, December 31, 2010	4,500	$ -
Warrants exercised	(2,250)	-
Warrants, December 31, 2011	2,250	$ -

(1) 2010 amounts have been restated from previously reported amounts resulting from the application of IFRS. See 'Adoption of International Financial Reporting Standards' section below.

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. In accordance with IFRS, 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 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 disclosed in the Financial Statements for the year ended December 31, 2011. 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. In accordance with IFRS, 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.

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. In accordance with IFRS, 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. In accordance with IFRS, 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).

As of the date of this MD&A, Cequence had the following securities outstanding: 161,856 common voting shares and 13,214 stock options.

CAPITAL EXPENDITURES

	Three months ended December 31		Year ended December 31	
$(000's)	**2011**	**2010**	**2011**	**2010**
Property acquisitions [(1) (2)]	$ -	$ (182)	$ 22,150	$ 84,728
Property dispositions [(1)]	-	(4,525)	(45,173)	(41,571)
Land, net	1,014	2,876	13,242	6,217
Geological & geophysical and capitalized overhead	2,327	1,515	3,623	3,528
Drilling, completions and workovers	38,160	17,543	93,667	46,599
Equipment and facilities	14,557	2,432	38,678	7,731
Office furniture & equipment	277	26	391	45
Total capital expenditures	$ 56,335	$ 19,685	$ 126,578	$ 107,277

(1) Figures represent the cash proceeds from the sale of assets and cash paid for the acquisition of assets, as applicable.
(2) 2010 amounts have been restated from previously reported amounts resulting from the application of IFRS. See 'Adoption of International Financial Reporting Standards' section below.

For the year ended December 31, 2011, drilling, completion and workover expenditures totalled $93,667 which included the drilling of 13 gross (10.0 net) horizontal wells and 4 gross (3.3 net) vertical wells as well as the completion of 12 gross (10.0 net) horizontal wells and 5 gross (3.6 net) vertical wells. For the year ended December 31, 2010, drilling, completion and workover expenditures included the drilling and completion of 5.6 net horizontal wells and 3.8 net vertical wells. Facility expenditures in the year ended December 31, 2011 of $38,678 were directed towards compression and gathering facilities in the Deep Basin.

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 June 10, 2011, the Company closed the acquisition of certain gas weighted properties located in Northeast British Columbia for total cash consideration of $22,200, subject to adjustments. A decommissioning liability of $1,539 has been recognized as part of the acquisition.

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.

Cequence has budgeted capital expenditures of $92,000 for 2012, excluding acquisitions and dispositions, which will be directed towards the drilling of an expected 10 net horizontal wells. Capital expenditures will be funded out of cash flow, existing credit lines and the sale of properties expected to close in the first quarter of 2012.

INCOME TAXES

At December 31, 2011, a deferred income tax asset of $48,316 (December 31, 2010 - $47,340) has been recognized as the Company believes, based on estimated cash flows, its realization is probable. At December 31, 2011, Cequence has the following tax pools:

Classification	Amount $(000's)
CEE	$ 189,650
UCC	117,042
Non-capital losses	94,637
COGPE	90,883
CDE	62,121
SRED	22,704
Share issue costs	9,480
ITCs	3,981
Other	798
	$ 591,296

The Company's non-capital losses expire $6,812 in 2012, $4,512 in 2013 and $83,313 in 2024 and thereafter.

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 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 $2,001 and exploration expenditures of $8,000 to the holders of the flow-through common shares effective December 31, 2010. Deferred 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 expense (recovery) in comprehensive income (loss). As at December 31, 2011, the Company has incurred all of the qualifying expenditures.

On November 30, 2010, the Company completed the sale of 2,250 units at $2.00 per unit for total gross proceeds of $4,500, which included 2,250 common voting shares on a CDE "flow-through" private placement basis. 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 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 expense (recovery) in comprehensive income (loss). As at December 31, 2011, the Company has incurred all of the qualifying expenditures.

Based on the Company's expected cash flow and available tax pools, Cequence does not expect to be taxable for the next three years.

INVESTMENTS

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.

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.

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. All proceeds from the sale of MAV 2 notes were used to repay this 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.

LIQUIDITY AND CAPITAL RESOURCES

The Company has 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 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).

NET DEBT AND WORKING CAPITAL (DEFICIENCY)

Net debt and working capital (deficiency) is calculated as cash and net working capital less commodity contract asset and demand credit facilities and excluding other liabilities, as follows:

$(000's)	As at December 31, 2011	As at December 31, 2010
Demand credit facilities	$ (11,618)	$ (56,739)
Accounts payable and accrued liabilities	(64,467)	(36,240)
Cash	380	1,321
Accounts receivable	21,032	16,439
Deposits and prepaid expenses – current	3,231	2,480
Net debt and working capital (deficiency)	$ (51,442)	$ (72,739)

CONTRACTUAL OBLIGATIONS

	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 acquired a pipeline transportation contract in a property acquisition 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.

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.

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).

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The Committee of Sponsoring Organizations ("COSO") framework provides the basis for management's design of internal controls over financial reporting. Management and the Board work to mitigate the risk of a material misstatement in financial reporting; however, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met and it should not be expected that the disclosure and internal control procedures will prevent all errors or fraud.

As at December 31, 2011, the Chief Executive Officer and the Chief Financial Officer have concluded, based on their evaluation of the design and operating effectiveness of the Company's disclosure controls and internal controls over financial reporting ("ICFR") that disclosure controls and ICFR are effective.

QUARTERLY INFORMATION

FINANCIAL

($ thousands except per share data)	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1
Production revenue [1]	$23,527	$27,144	$27,293	$24,032	$22,352	$12,951	$ 9,174	$10,093
Royalties	3,063	3,872	3,565	3,243	2,616	1,340	699	1,114
Operating expenses	7,022	8,471	7,439	6,741	7,023	4,410	3,392	2,875
Transportation expenses	1,580	1,861	1,883	1,829	1,551	1,223	840	744
Comprehensive loss [2]	(15,598)	(1,884)	(701)	(1,975)	(23,205)	(10,598)	(4,029)	(14,517)
Per share – basic [2]	(0.10)	(0.01)	(0.00)	(0.02)	(0.18)	(0.15)	(0.10)	(0.37)
Per share – diluted [2]	(0.10)	(0.01)	(0.00)	(0.02)	(0.18)	(0.15)	(0.10)	(0.37)
Funds flow from operations [2][3]	10,002	10,438	12,042	9,780	7,629	1,672	2,197	4,498
Per share – basic [2]	0.06	0.07	0.08	0.07	0.06	0.02	0.05	0.11
Per share – diluted [2]	0.06	0.07	0.08	0.07	0.06	0.02	0.05	0.11
Capital expenditures, net	56,335	31,222	16,470	45,574	24,392	8,309	5,057	26,412
Acquisitions, net [2][4]	-	(15,513)	14,134	(21,644)	(4,707)	47,534	-	279
Total expenditures	$56,335	$15,709	$30,604	$23,930	$19,685	$55,843	$ 5,057	$26,691

(1) Production revenue is presented gross of royalties and includes realized gain on commodity contracts.
(2) 2010 figures have been restated from previously reported amounts resulting from the application of IFRS. See 'Adoption of International Financial Reporting Standards' section below.
(3) Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liability expenditures, proceeds from the sale of commodity contracts and net changes in non-cash working capital.
(4) Figures represent the cash proceeds from the sale of assets and cash paid for the acquisition of assets, as applicable.

OPERATIONS	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1
Production volumes								
Natural gas (Mcf/d)	47,203	52,694	48,785	42,514	38,702	23,674	16,559	12,592
Oil (bbls/d)	503	514	599	686	478	332	253	268
NGLs (bbls/d)	509	536	396	413	557	342	184	78
Total (boe/d)	8,879	9,833	9,125	8,185	7,485	4,619	3,197	2,444
Average selling price								
Natural gas ($per Mcf)	3.59	4.04	4.30	4.21	4.40	4.13	4.21	6.83
Oil ($per bbl)	97.15	87.65	97.80	88.38	77.24	70.47	70.22	76.80
NGLs ($per bbl)	73.19	69.34	80.15	66.12	64.13	57.33	72.07	71.81
Combined ($per boe)	28.80	30.00	32.87	32.62	32.46	30.47	31.53	45.88
Royalties ($per boe)	3.75	4.28	4.29	4.40	3.80	3.15	2.40	5.06
Operating expenses ($per boe)	8.60	9.36	8.96	9.15	10.20	10.38	11.66	13.07
Transportation ($per boe)	1.93	2.06	2.27	2.48	2.25	2.88	2.88	3.38
Netback ($per boe)	14.52	14.30	17.35	16.59	16.21	14.06	14.59	24.37

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Financial Statements and comparative information have been prepared in accordance with IFRS as issued by the 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. Previously, the Company prepared its Financial Statements in accordance with Canadian GAAP. The adoption of IFRS has not had a material impact on the Company's operations, strategic decisions, cash flow or capital expenditures.

The Company's IFRS accounting policies are provided in Note 2 to the Financial Statements. In addition, Note 4 to the Financial Statements presents reconciliations between the Company's 2010 Canadian GAAP results and the 2010 IFRS results. The reconciliations include the Consolidated Balance Sheets as at January 1, 2010, and December 31, 2010, and the Consolidated Statements of Comprehensive Loss, Changes in Equity and Cash Flows for the year ended December 31, 2010.

The following provides summary reconciliations of Cequence's 2010 Canadian GAAP and IFRS results, along with a discussion of the significant IFRS accounting policy changes.

Summary Balance Sheet Reconciliations

As at January 1, 2010

($000's)	Canadian GAAP	E&E	Impairment	Decommissioning liabilities	Other [1]	IFRS
Current assets	30,605	-	-	-	-	30,605
Investments	13,920	-	-	-	-	13,920
Exploration and evaluation assets	-	29,411	-	-	-	29,411
Property and equipment	158,011	(29,411)	(6,791)	-	-	121,809
Deferred income taxes	5,575	-	1,717	813	(424)	7,681
Total assets	208,111	-	(5,074)	813	(424)	203,426
Current liabilities	23,599	-	-	-	(36)	23,563
Long-term debt related to investments	18,204	-	-	-	-	18,204
Provisions	4,059	-	-	3,251	-	7,310
Shareholders' equity	162,249	-	(5,074)	(2,438)	(388)	154,349
Total liabilities and shareholders' equity	208,111	-	(5,074)	813	(424)	203,426

(1) Other includes adjustments related to flow-through share issuances affecting current liabilities and shareholders' equity and the reclassification of the current portion of deferred income taxes to long-term.

As at December 31, 2010

($000's)	Canadian GAAP	DD&A	Cumulative Impairment	Decommissioning liabilities	Business Combinations	Other [1]	IFRS
Current assets	20,240	-	-	-	-	-	20,240
Property and equipment	409,955	8,356	(65,274)	105	(13,827)	2,486	341,801
Deferred income taxes	26,441	-	-	-	5,645	15,254	47,340
Total assets	456,636	8,356	(65,274)	105	(8,182)	17,740	409,381
Current liabilities	93,365	-	-	-	-	1,682	95,047
Provisions	14,622	-	-	3,265	8,599	(356)	26,130
Shareholders' equity	348,649	8,356	(65,274)	(3,160)	(16,781)	16,414	288,204
Total liabilities and shareholders' equity	456,636	8,356	(65,274)	105	(8,182)	17,740	409,381

(1) Other includes adjustments related to: flow-through share issuances affecting current liabilities and shareholders' equity; adjustments related to the sale of assets in 2010 affecting PP&E, decommissioning liabilities and shareholders' equity; adjustments related to transaction costs on financial instruments affecting current liabilities and shareholders' equity; and the deferred income tax effect of the aggregate of the above adjustments, other than deferred income tax on business combinations, at December 31, 2010.

Summary of Comprehensive Loss Reconciliation

	2010				
($000's)	Annual	Q4	Q3	Q2	Q1
Comprehensive loss as reported under Canadian GAAP	$ (14,518)	$ (6,122)	$ (3,620)	$ (3,751)	$ (1,025)
Differences increasing (decreasing) reported amounts:					
Depletion, depreciation and impairment	(50,127)	(25,490)	(7,486)	673	(17,824)
Finance costs on decommissioning liabilities	90	54	24	8	4
Transaction costs on financial instruments	386	(139)	525	-	-
Business combinations	(3,623)	(400)	(2,578)	(645)	-
Gain (loss) on sale of assets	2,842	2,824	18	-	-
Deferred tax on above	12,601	6,068	2,519	(314)	4,328
Comprehensive loss as reported under IFRS	$ (52,349)	$ (23,205)	$ (10,598)	$ (4,029)	$ (14,517)
Per share, basic and diluted	$ (0.75)	$ (0.18)	$ (0.15)	$ (0.10)	$ (0.37)

Summary of Funds Flow From Operations Reconciliation

	2010				
($000's)	Annual	Q4	Q3	Q2	Q1
Funds flow from operations as reported under Canadian GAAP [1]	$ 19,065	$ 8,029	$ 3,695	$ 2,842	$ 4,498
Differences increasing (decreasing) reported amounts:					
Transaction costs on financial instruments	555	-	555	-	-
Business combinations	(3,623)	(400)	(2,578)	(645)	-
Funds flow from operations as reported under IFRS [1]	$ 15,997	$ 7,629	$ 1,672	$ 2,197	$ 4,498
Per share, basic and diluted	$ 0.23	$ 0.06	$ 0.02	$ 0.05	$ 0.11

(1) A non-GAAP measure, which is defined under the 'Non-GAAP Measurements' section of this MD&A.

Accounting Policy Changes

The following discussion explains the significant differences between Cequence's Canadian GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters.

The most significant changes to the Company's accounting policies relate to the accounting for oil and gas assets. Under Canadian GAAP, Cequence followed Accounting Guidelines 16, "Oil and Gas Accounting – Full Cost" ("AcG 16") of Canadian GAAP in which all costs directly associated with the acquisition of, the exploration for, and the development of oil and natural gas reserves were capitalized on a country-by-country cost centre basis. Costs accumulated within each country cost centre were depleted using the unit-of-production method based on proved reserves determined using estimated future prices and costs. Upon transition to IFRS, the Company was required to adopt new accounting policies for oil and gas assets, including exploration and evaluation costs and development costs.

Under IFRS, exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. Development costs include those expenditures for areas where technical feasibility and commercial viability has been determined. 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. Cequence adopted the IFRS 1 exemption whereby the Company deemed its January 1, 2010 IFRS oil and gas asset costs to be equal to its Canadian GAAP historical property, plant and equipment net book value. Accordingly, 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 date of transition to IFRS. The remaining full cost pool was allocated to development and production assets pro rata using proved plus probable reserve values. The Company chose to base the opening balance sheet allocation of production and development assets as well as to base its depletion and impairment assessment under IFRS on proved plus probable reserves as Cequence believes that this provides the most meaningful measure of the value of the Company's asset base. Under IFRS, exploration and evaluation costs are presented as exploration and evaluation assets and development costs are presented within property and equipment on the Consolidated Balance Sheet.

Exploration and Evaluation ("E&E") expenditures

Exploration and evaluation assets at January 1, 2010 were deemed to be $29,411 in accordance with the Company's policies and IFRS 6, "Exploration for and Evaluation of Mineral Resources" ("IFRS 6"). This resulted in a reclassification of $29,411 from property and equipment to exploration and evaluation assets on Cequence's Consolidated Balance Sheet as at January 1, 2010. As at December 31, 2010, the Company recognized no exploration and evaluation assets as the assets recognized at January 1, 2010 were sold during 2010 and no further assets met the definition of exploration and evaluation assets during 2010.

Depletion and Depreciation

Development costs at January 1, 2010 were deemed to be $121,809, representing the full cost pool balance under Canadian GAAP less the amount allocated to E&E assets discussed above and net of impairment recognized on transition to IFRS as discussed below. Consistent with Canadian GAAP, these costs are capitalized as property and equipment under IFRS.

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.

Impairment

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. Impairments under Canadian GAAP were not reversed.

Under IAS 36, "Impairment of Assets" ("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 cash generating unit ("CGU") assessed by the Company. 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. 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).

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.

The application of IFRS resulted in an aggregate impairment loss which reduced property and equipment by $58,483 at December 31, 2010, including a $3,992 impairment of exploration and evaluation assets (January 1, 2010 - $6,791) with a commensurate increase to deficit. The recoverable amount of each CGU was estimated based on the higher of the value in use and the fair value less cost to sell. The estimate of fair value less cost 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 reports, adjusted for internal estimates and results, as applicable. The prices used to estimate the fair value less cost to sell are those used by independent industry reserve engineers.

Disposals

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 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.

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. Liabilities were not re-measured to reflect period end discount rates.

Under IFRS, decommissioning liabilities are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the liabilities are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the liability as well as changes to the discount rate. The increase in the provision due to the passage of time is recognized as finance costs whereas increases or decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Further, IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37") requires the application of a risk-free rate in determining the amount of accretion to be included with finance costs in comprehensive income (loss) for the period.

In conjunction with the IFRS 1 exemption regarding oil and gas assets discussed above, Cequence was required to re-measure its decommissioning liabilities upon transition to IFRS and recognize the difference in deficit. The application of this exemption resulted in a $3,251 increase to the provisions on Cequence's Consolidated Balance Sheet as at January 1, 2010 and a corresponding increase to deficit.

The application of IFRS further resulted in an incremental increase to provisions of $8,257 as at December 31, 2010 and an increase to property and equipment of $105 at December 31, 2010.

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 deferred income tax liability and reducing shareholders' equity.

Under IFRS, the difference between the value of a flow-through share issuance and the 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 flow-through shares is reduced and the difference is recognized 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 January 1, 2010. This further 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.

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 date of transition to IFRS.

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.

The aggregate differences related to the expensing of transaction costs under IFRS 3 versus capitalization under Canadian GAAP resulted in an increase to comprehensive loss of $3,623 for the year ended December 31, 2010 and a commensurate increase to deficit. The above adjustments under IFRS 3 further resulted 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.

Other exemptions and mandatory exceptions

Other significant exemptions and mandatory exceptions taken by Cequence as at January 1, 2010 on transition to IFRS are as follows:

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 January 1, 2010.

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 January 1, 2010.

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.

The remaining IFRS exemptions and mandatory exceptions were not applicable or material to the preparation of Cequence's Consolidated Balance Sheet at the date of transition to IFRS on January 1, 2010.

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.

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.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by Cequence are disclosed in note 2 to the Financial Statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimate amounts that differ materially from current estimates. The following discussion identifies the critical accounting policies and practices of the Company and helps to assess the likelihood of materially different results being reported.

RESERVES

Oil and gas reserves are estimates made using all available geological and reservoir data, as well as historical production data. All of the Company's reserves were evaluated and reported on by an independent qualified reserves evaluator. However, revisions can occur as a result of various factors including: actual reservoir performance, change in price and cost forecasts or a change in the Company's plans. Reserve changes will impact the financial results as reserves are used in the calculation of depletion and are used to assess whether asset impairment occurs. Reserve changes also affect other non-GAAP measurements such as finding and development costs, recycle ratios and net asset value calculations.

DEPLETION

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. An increase in estimated proved plus probable reserves would result in a reduction in depletion expense. A decrease in estimated future development costs would also result in a reduction in depletion expense.

EXPLORATION AND EVALUATION ASSETS

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.

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.

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).

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 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.

DECOMMISSIONING LIABILITIES

The Company records a liability for the fair value of legal obligations associated with the retirement of petroleum and natural gas assets. The liability is equal to the discounted fair value of the obligation in the period in which the asset is recorded with an equal offset to the carrying amount of the asset. The liability then accretes to its fair value with the passage of time and the accretion is recognized as finance costs in the consolidated financial statements. The total amount of the decommissioning liability is an estimate based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total amount of the estimated cash flows required to settle the decommissioning liabilities, the timing of those cash flows and the discount rate used to calculate the present value of those cash flows are all estimates subject to measurement uncertainty. Any change in these estimates would impact the decommissioning liabilities and the accretion expense.

STOCK BASED COMPENSATION

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 is recorded as share capital. The Company incorporates an estimated forfeiture rate for stock options and performance warrants that will not vest, and adjusts for actual forfeitures as they occur.

INCOME TAXES

The determination of income and other tax assets and liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax asset may differ significantly from that estimated and recorded by management.

The recognition of a deferred income tax asset is also based on estimates of whether it is probable that the Company is able to realize these assets. This estimate, in turn, is based on estimates of proved and probable reserves, future oil and natural gas prices, royalty rates and costs. Changes in these estimates could materially impact comprehensive income (loss) and the deferred income tax asset recognized.

ACQUISITIONS

The allocation of the purchase price of business combinations to the net assets acquired at the respective acquisition dates are based on estimates of numerous factors affecting valuation including discount rates, proved and probable reserves, future petroleum and natural gas prices and other factors.

COMMODITY CONTRACTS

The fair value of commodity contracts and the resultant unrealized gain (loss) on commodity contracts is based on estimates of future natural gas prices.

OTHER ESTIMATES

The accrual method of accounting requires management to incorporate certain estimates including estimates of revenues, royalties, capital, drilling credits and operating costs as at a specific reporting date, but for which actual revenues and costs have not yet been received. In addition, estimates are made on capital projects which are in progress or recently completed where actual costs have not been received by the reporting date. The Company obtains the estimates from the individuals with the most knowledge of the activity and from all project documentation received. The estimates are reviewed for reasonableness and compared to past performance to assess the reliability of the estimates. Past estimates are compared to actual results in order to make informed decisions on future estimates.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments, including derivative financial instruments and embedded derivative financial instruments, recognized in the consolidated balance sheet 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 is engaged in the exploration, development, production and acquisition of crude oil and natural gas. This business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates and currency exchange rates along with the credit risk of the Company's industry partners. Operational risks include reservoir performance uncertainties, the reliance on operators of the Company's non-operated properties, competition, environmental and safety issues, and a complex and changing regulatory environment.

The primary risks and how the Company mitigates them are as follows:

Commodity price and exchange rate volatility

Revenues and consequently cash flows fluctuate with commodity prices and the U.S. / Canadian dollar exchange rate. Commodity prices are determined on a global basis and circumstances that occur in various parts of the world are outside of the control of the Company. The Company protects itself from fluctuations in prices by maintaining an appropriate hedging strategy, diversifying its asset mix and strengthening its balance sheet in order to take advantage of low price environments by making strategic acquisitions. Cequence enters into commodity price contracts to actively manage the risks associated with price volatility and thereby protect the Company's cash flows used to fund its capital program. Comprehensive income (loss) for the year ended December 31, 2011 includes $906 of realized gains and $nil of unrealized losses on these transactions.

Cequence is also exposed to fluctuations in the exchange rate between the Canadian and U.S. dollar. Most commodity prices are based on U.S. dollar benchmarks that results in the Company's realized prices being influenced mainly by the U.S. / Canadian currency exchange rates. As at December 31, 2011, the Company has a pipeline commitment in U.S. dollars and sells certain quantities of natural gas in the U.S. dollar. There are no other forward contracts, foreign exchange contracts or other significant 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.

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

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 obligations. 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. At December 31, 2011, the Company has an allowance for doubtful accounts of $551 (2010 – $490).

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. The Company believes it has sufficient credit facilities to satisfy its financial obligations as they come due.

The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic environment.

The 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	-

Access to Capital Risk

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As the Company's revenues may decline as a result of decreased commodity pricing, it may be required to reduce capital expenditures. In addition, uncertain levels of near term industry activity coupled with the present global credit crisis exposes the Company to additional access to capital risk. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Operational Matters

The ownership and operation of oil and natural gas wells, pipelines and facilities involves a number of operating and natural hazards which may result in blowouts, environmental damage and other unexpected or dangerous conditions resulting in damage to the Company's natural gas and oil properties and assets, as well as possible liability to third parties. The Company may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities will reduce the cash flow of the Company. The Company employs prudent risk management practices and maintains suitable liability insurance.

Environmental Concerns

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. A breach of such legislation may result in the imposition of fines or issuance of clean up orders in respect of Cequence or its working interests. Such legislation may be changed to impose higher standards and potentially more costly obligations on Cequence. Furthermore, management believes the federal political parties appear to favor new programs for environmental laws and regulation, particularly in relation to the reduction of emissions, and there is no assurance that any such programs, laws or regulations, if proposed and enacted, will not contain emission reduction targets which Cequence cannot meet, and financial penalties or charges could be incurred as a result of the failure to meet such targets. In particular there is uncertainty regarding the Federal Government's future regulation of air emissions.

Regulatory Risk

There can be no assurance that government royalties, income tax laws, environmental laws and regulatory requirements relating to the oil and gas industry will not be changed in a manner which adversely affects the Company or its shareholders. Although the Company has no control over these regulatory risks, it continuously monitors changes in these areas by participating in industry organizations and conferences, exchanging information with third party experts and employing qualified individuals to assess the impact of such changes on the Company's financial and operating results.

CURRENT ECONOMIC CONDITIONS

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions persisted throughout 2010 and 2011, causing a loss of confidence in the global credit and financial markets and resulted in the collapse of, and government intervention in, major banks, financial institutions and insurers and created a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward. Petroleum and natural gas prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, the intensification and broadening of North African and Middle East protest movements, OPEC actions and the ongoing global credit and liquidity concerns.

OUTLOOK INFORMATION

Cequence provided 2012 guidance on February 14, 2012. Capital expenditures for 2012 are expected to be funded from cash flow from operations, available bank lines and proceeds from the sale of assets expected to close in the first quarter of 2012.

Cequence's current guidance for 2012 is as follows:

	2012
Average 2012 production, BOE/d [1]	9,800
Exit 2012 production, BOE/d [1]	10,000
Capital expenditures 2012 ($000's) [2]	92,000
Planned net dispositions ($000's)[3]	(11,000)
Operating costs ($ per boe)[4]	$8.05
Royalties (% revenue)	12
Crude – WTI (US$/bbl)	$101.00
Natural gas – AECO (Cdn$/GJ)	$2.50
Funds flow ($)	$37 million
December 31, 2012 Net debt ($)	$90 million
Basic shares outstanding, Dec. 31, 2012	161.86 million

Notes:

(1) Production figures are presented without giving effect to any anticipated production curtailments.
(2) Excludes the planned $11 million in net dispositions of non-core assets and undeveloped land discussed below.
(3) Includes the planned disposition of non-core assets with no attributed production for approximately $17 million and the planned acquisition of undeveloped land for approximately $6 million.
(4) Assumes that the previously disclosed Aux Sable project commences April 1, 2012.

The Company closely monitors fluctuations in natural gas prices and will adjust the 2012 budget if facts and circumstances require.

FORWARD-LOOKING STATEMENTS

Certain statements contained within this MD & A constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", and similar expressions. Forward-looking statements in this MD & A include, but are not limited to, statements with respect to: the potential impact of implementation of the Alberta Royalty Framework on Cequence's condition and projected 2012 capital investments; projections with respect to growth of natural gas production; the projected impact of land access and regulatory issues; projections relating to the volatility of crude oil and natural gas prices in 2012 and beyond and reasons therefore; the Company's projected capital investment levels for 2012 and the source of funding therefore; the effect of the Company's risk management program, including the impact of derivative financial instruments; the Company's defence of lawsuits; the impact of the climate change initiatives on operating costs; the impact of Western Canada pipeline constraints. Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur.

By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These assumptions, risks and uncertainties include, among other things: volatility of and assumptions regarding oil and natural gas prices; assumptions based upon Cequence's current guidance; fluctuations in currency and interest rates; product supply and demand; market competition; risks inherent in the Company's marketing operations, including credit risks; imprecision of reserves estimates and estimates of recoverable quantities of oil, natural gas and liquids from resource plays and other sources not currently classified as proved; the Company's ability to replace and expand oil and gas reserves; the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations; the Company's ability to access external sources of debt and equity capital; the timing and cost of well and pipeline constructions; the Company's ability to secure adequate product transportation; changes in royalty, tax, environmental and other laws or regulations or the interpretations of such laws or regulations; risks associated with existing and potential future lawsuits and regulatory actions made against the Company; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Cequence. Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future.

The forward looking statements contained herein concerning production, sales prices, and capital spending are based on Cequence's 2012 capital program. The material assumptions supporting the 2012 capital program are: i) 2012 annual production of approximately 9,800 boe/day; ii) a $2.50 Cdn$/gj AECO gas price; iii) capital spending of approximately $92,000.

Financial outlook information contained in this MD & A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. The purpose of such financial outlook is to enrich this MD&A. Readers are cautioned that such financial outlook information contained in this MD & A should not be used for purposes other than for which it is disclosed herein.

Although Cequence believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD & A are made as of the date of this MD & A and, except as required by law, Cequence does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD & A are expressly qualified by this cautionary statement.