



**ANNUAL INFORMATION FORM**

**For the Year Ended December 31, 2012**

**Dated March 7, 2013**

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**ABBREVIATIONS AND CONVERSION**

In this Annual Information Form, the following abbreviations have the meanings set forth below.

**Oil and Natural Gas Liquids**

bbl	barrel
Mbbl	thousand barrels
bbl/d	barrel per day
NGL	natural gas liquids

**Natural Gas**

Mcf	thousand cubic feet
MMcf	million cubic feet
Mcf/d	thousand cubic feet per day
MMBtu	million British Thermal Units
Bcf	billion cubic feet

**Other**

AECO	a natural gas storage facility located at Suffield, Alberta
API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28°API or higher is generally referred to as light crude oil.
BOE	barrel of oil equivalent on the basis of 1 BOE to 6 Mcf of natural gas. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 1 BOE for 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead
BOE/d	barrel of oil equivalent per day
M\$	thousands of dollars
MM\$	millions of dollars
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade

The following table sets forth certain standard conversions between Standard Imperial Units and the International System of Units (or metric units)

<b><u>To convert from</u></b>	<b><u>To</u></b>	<b><u>Multiply by</u></b>
Mcf	1,000 cubic metres of gas	0.028
1,000 cubic metres of gas	Mcf	35.493
bbl	cubic metres of oil	0.158
cubic metres of oil	bbl	6.290
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.405
hectares	acres	2.471

## PRESENTATION OF OIL AND GAS RESERVES AND PRODUCTION INFORMATION

All oil and natural gas reserves information contained in this Annual Information Form has been prepared and presented in accordance with National Instrument 51-101–*Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**"). Certain terms used in this Annual Information Form and the Appendices attached hereto but not otherwise defined in the Glossary of Terms are defined in NI 51-101 and, unless the context requires otherwise, shall have the same meanings herein as in NI 51-101. Actual oil and natural gas reserves and future production may be greater than or less than the estimates provided in this Annual Information Form. The estimated future net revenue from the production of the disclosed oil and natural gas reserves does not represent the fair market value of these reserves. The Company has adopted the standard of 6 Mcf:1 boe when converting natural gas to barrels of oil equivalent. A boe conversion ratio 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. Boes may be misleading as an indication of value, particularly given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1.

For fiscal 2012, the ratio between the average price of West Texas Intermediate ("**WTI**") crude oil at Cushing and New York Mercantile Exchange ("**NYMEX**") natural gas was approximately 33:1 ("**Value Ratio**"). The Value Ratio is obtained using the 2012 WTI average price of \$94.14 (US\$/Bbl) for crude oil and the 2012 NYMEX average price of \$2.83 (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.

## DEFINITIONS

In this Annual Information Form, the following words and phrases have the meanings set forth below, unless otherwise indicated.

"**ABCA**" means the *Business Corporations Act* (Alberta), together with any or all regulations promulgated thereunder, as amended from time to time.

"**associated gas**" means the gas cap overlying a crude oil accumulation in a reservoir.

"**Board**" means the board of directors of the Company.

"**CBM**" means coalbed methane.

"**Cequence Acquisitions**" means Cequence Acquisitions Ltd., a wholly-owned subsidiary of Cequence.

"**COGE Handbook**" means the Canadian Oil and Gas Evaluation Handbook prepared jointly by The Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society), as amended from time to time.

"**Company**" or "**Cequence**" means Cequence Energy Ltd.

"**COP 15**" means the United Nation's Framework Convention on Climate Change 15<sup>th</sup> session of the Conference of the Parties.

"**crude oil**" or "**oil**" as described in the COGE Handbook means a mixture consisting mainly of pentanes and heavier hydrocarbons that exists in the liquid phase in reservoirs and remains liquid at atmospheric pressure and temperature. Crude oil may contain small amounts of sulphur and other non-hydrocarbons but does not include liquids obtained from the processing of natural gas.

"**Deep Basin Assets**" means oil and natural gas assets located in the Deep Basin area of Northwest Alberta acquired by Cequence on September 8, 2010.

"**development costs**" means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and natural gas from the reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:

- (a) gain access to and prepare well locations for drilling, including surveying and acquiring well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines and power lines, to the extent necessary in developing the reserves;
- (b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and the wellhead assembly;
- (c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and
- (d) provide improved recovery systems.

"**development well**" means a well drilled inside the established limits of an oil or gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.

**"exploration costs"** means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and natural gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in part as "prospecting costs") and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

- (a) costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies (collectively sometimes referred to as "geological and geophysical costs");
- (b) costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence, and the maintenance of land and lease records;
- (c) dry hole contributions and bottom hole contributions;
- (d) costs of drilling and equipping exploratory wells; and
- (e) costs of drilling exploratory type stratigraphic test wells.

**"exploratory well"** means a well that is not a development well, a service well or a stratigraphic test well.

**"Framework"** means the 'Regulatory Framework for Air Emissions' paper released by the Government of Canada on April 26, 2007.

**"Federal Plan"** means the Framework as amended by the Update.

**"field"** means a defined geographical area consisting of one or more pools.

**"forecast prices and costs"** means future prices and costs that are:

- (a) generally accepted as being a reasonable outlook of the future; and
- (b) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which the Company is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

**"future income tax expenses"** means future income tax expenses estimated (generally, year-by-year):

- (a) making appropriate allocations of estimated unclaimed costs and losses carried forward for tax purposes, between oil and gas activities and other business activities;
- (b) without deducting estimated future costs (for example, Crown royalties) that are not deductible in computing taxable income;
- (c) taking into account estimated tax credits and allowances (for example, royalty tax credits); and
- (d) applying to the future pre-tax net cash flows relating to the Company's oil and gas activities the appropriate year-end statutory tax rates, taking into account future tax rates already legislated.

**"future net revenue"** means the estimated net amount to be received with respect to the development and production of reserves (including synthetic oil, CBM and other non-conventional reserves) estimated using forecast prices and costs.

"**GHG emissions**" or "**GHGs**" means, collectively, carbon dioxide, methane, nitrous oxide and other emissions.

"**GLJ**" means GLJ Petroleum Consultants Ltd.

"**GLJ Report**" means the independent engineering evaluation of the oil and natural gas reserves attributable to the properties of the Company prepared by GLJ dated March 7, 2013 and effective December 31, 2012.

"**gross**" means:

- (a) in relation to the Company's interest in production or reserves, its "company gross reserves", which are its working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the Company;
- (b) in relation to wells, the total number of wells in which the Company has an interest; and
- (c) in relation to properties, the total area of properties in which the Company has an interest.

"**NAFTA**" means the North American Free Trade Agreement among the Governments of Canada, the U.S. and Mexico.

"**natural gas**" as described in the COGE Handbook means a mixture of lighter hydrocarbons that exist either in the gaseous phase or in solution in crude oil in reservoirs but are gaseous at atmospheric conditions. Natural gas may contain sulphur or other non-hydrocarbon compounds.

"**natural gas liquids**" or "**NGL**" as described in the COGE Handbook means those hydrocarbon components that can be recovered from natural gas as liquids including, but not limited to, ethane, propane, butanes, pentanes plus, condensate and small quantities of non-hydrocarbons.

"**NEB**" means the National Energy Board.

"**net**" means

- (a) in relation to the Company's interest in production or reserves its working interest (operating or non-operating) share after deduction of royalty obligations, plus its royalty interests in production or reserves;
- (b) in relation to the Company's interest in wells, the number of wells obtained by aggregating the Company's working interest in each of its gross wells; and
- (c) in relation to the Company's interest in a property, the total area in which the Company has an interest multiplied by the working interest owned by the Company.

"**NI 51-101**" means National Instrument 51-101, *Standards of Disclosure for Oil and Gas Activities*.

"**non-associated gas**" means an accumulation of natural gas in a reservoir where there is no crude oil.

"**Non-Voting Shares**" means the non-voting shares in the capital of the Company.

"**OPEC**" means the Organization of Petroleum Exporting Countries.

"**operating costs**" or "**production costs**" means costs incurred to operate and maintain wells and related equipment and facilities, including applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities.

"**Option**" means an option to acquire a Share pursuant to the Stock Option Plan of the Company.

"**Peloton**" means Peloton Exploration Corp.

"**production**" means recovering, gathering, treating, field or plant processing (for example, processing gas to extract natural gas liquids) and field storage of oil and natural gas.

"**property**" includes:

- (a) fee ownership or a lease, concession, agreement, permit, licence or other interest representing the right to extract oil or gas subject to such terms as may be imposed by the conveyance of that interest;
- (b) royalty interests, production payments payable in oil or gas, and other non-operating interests in properties operated by others; and
- (c) an agreement with a foreign government or authority under which a reporting issuer participates in the operation of properties or otherwise serves as "producer" of the underlying reserves (in contrast to being an independent purchaser, broker, dealer or importer).

A property does not include supply agreements, or contracts that represent a right to purchase, rather than extract, oil or gas.

"**property acquisition costs**" means costs incurred to acquire a property (directly by purchase or lease, or indirectly by acquiring another corporate entity with an interest in the property), including:

- (a) costs of lease bonuses and options to purchase or lease a property;
- (b) the portion of the costs applicable to hydrocarbons when land including rights to hydrocarbons is purchased in fee; and
- (c) brokers' fees, recording and registration fees, legal costs and other costs incurred in acquiring properties.

"**proved property**" means a property or part of a property to which reserves have been specifically attributed.

"**reservoir**" means a porous and permeable subsurface rock formation that contains a separate accumulation of petroleum that is confined by impermeable rock or water barriers and is characterized by a single pressure system.

"**service well**" means a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane or flue gas), water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation, or injection for combustion.

"**Shareholders**" means the holders of Shares and "**Shareholder**" means any one of them.

"**Shares**" means the common shares in the capital of the Company.

"**solution gas**" means natural gas dissolved in crude oil.

"**stratigraphic test well**" means a drilling effort, geologically directed, to obtain information pertaining to a specific geologic condition. Ordinarily, such wells are drilled without the intention of being completed for hydrocarbon production. They include wells for the purpose of core tests and all types of expendable holes related to hydrocarbon exploration. Stratigraphic test wells are classified as: (a) "exploratory type" if not drilled into a proved property; or (b) "development type", if drilled into a proved property. Development type stratigraphic wells are also referred to as "evaluation wells".



"**support equipment and facilities**" means equipment and facilities used in oil and gas activities, including seismic equipment, drilling equipment, construction and grading equipment, vehicles, repair shops, warehouses, supply points, camps, and division, district or field offices.

"**Temple**" means Temple Energy Inc.

"**TSX**" means the Toronto Stock Exchange.

"**unproved property**" means a property or part of a property to which no reserves have been specifically attributed.

"**Update**" means the 'Turning the Corner: Regulatory Framework for Industrial Greenhouse Gas Emissions' paper released by the Government of Canada on March 10, 2008.

"**U.S.**" or "**United States**" means the United States of America, its territories and possessions, any state of the United States, and the District of Columbia.

"**well abandonment costs**" means costs of abandoning a well (net of salvage value) and of disconnecting the well from the surface gathering system. They do not include costs of abandoning the gathering system or remediating or reclaiming the wellsite.

## RESERVES DEFINITIONS

The determination of oil and natural gas reserves involves the preparation of estimates that have an inherent degree of associated uncertainty. Categories of proved, probable and possible reserves have been established to reflect the level of these uncertainties and to provide an indication of the probability of recovery.

The estimation and classification of reserves requires the application of professional judgment combined with geological and engineering knowledge to assess whether or not specific reserves classification criteria have been satisfied. Knowledge of concepts including uncertainty and risk, probability and statistics, and deterministic and probabilistic estimation methods is required to properly use and apply reserves definitions.

"**reserves**" are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on: (a) analysis of drilling, geological, geophysical, and engineering data; (b) the use of established technology; and (c) specified economic conditions, which are generally accepted as being reasonable and shall be disclosed. Reserves are classified according to the degree of certainty associated with the estimates.

"**proved**" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

"**probable**" reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

"**developed producing**" reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

"**developed non-producing**" reserves are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

"**undeveloped**" reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g., when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to sub-divide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

### FORWARD-LOOKING STATEMENTS

This Annual Information Form contains certain forward-looking statements and forward-looking information (collectively, referred to as "**forward-looking statements**") within the meaning of applicable securities laws. All statements other than statements of historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "believe", "could", "estimate", "expect", "forecast", "guidance", "intend", "may", "plan", "predict", "project", "should", "target", "will", or similar words suggesting future outcomes or language suggesting an outlook. In particular, this Annual Information Form contains forward-looking statements pertaining to the following:

- commodity prices;
- the impact and anticipated benefits of acquisitions on Cequence's operations, infrastructure, inventory and opportunities, financial condition, access to capital and overall strategy;
- development and drilling plans for the assets of Cequence and transportation and infrastructure availability;
- the performance characteristics of the oil and natural gas properties of Cequence;
- Cequence's 2013 capital program;
- business plans, strategies and objectives;
- the ability of Cequence to achieve drilling success consistent with management's expectations;
- quantity of the reserves of Cequence;
- net present values of future net revenues from reserves;
- production levels and mix of the assets of Cequence;
- timing of and bringing on production;
- future production rates;
- expected plans and costs of drilling;
- drilling inventory and presence of oil pools or gas accumulations;
- supply and demand for oil and natural gas;
- ability and cost of increasing plant capacity;
- expected levels of royalty rates, operating costs, general and administrative costs, costs of services and other costs and expenses;
- expectations regarding the ability to raise capital and to continually add to reserves through acquisitions, exploration and development;
- assessments of the value of acquisitions and exploration and development programs;
- geological, technical, drilling and processing problems;
- treatment under governmental regulatory regimes and tax laws;
- the impact of the climate change initiatives on operating costs; and
- the impact of Western Canada pipeline constraints.

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 reserves described exist in the quantities predicted or estimated and can be profitably produced in the future.

Undue reliance should not be placed on forward-looking statements as they are inherently uncertain, are based on estimates and assumptions, and are subject to known and unknown risks and uncertainties (both general and specific) that contribute to the possibility that the future events or circumstances contemplated by the forward-looking statements will not occur. There can be no assurance that the plans, intentions or expectations upon which forward-looking statements are based will in fact be realized. Actual results will differ, and the difference may be material and adverse to Cequence and the Shareholders. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Reliance on such information may not be appropriate for other purposes, such as making investment decisions.

Forward-looking statements are based on Cequence's current beliefs as well as assumptions made by, and information currently available to Cequence concerning, among other things, anticipated geological, well and financial performance, business prospects, strategies, any regulatory and tax developments, future commodity prices, future production levels of the assets of Cequence, the ability to obtain equipment, services, supplies and personnel in a timely manner to carry out development activities, the ability to obtain drilling success consistent with expectations, the ability to market oil and natural gas successfully to current and new customers, the impact of increasing competition, the ability to obtain financing on acceptable terms, the ability to add production and reserves through the acquisition and development and exploration activities based on historical cost structures, and that there will be no significant events occurring outside of the normal course of business of Cequence.

Although the management of Cequence considers these assumptions to be reasonable based on information currently available, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific), some of which are beyond the control of Cequence, that such forward-looking statements will not come to pass. These factors include, but are not limited to, risks associated with reservoir performance, oil and gas exploration, financial risks, substantial capital requirements, bank financing, government regulation, environmental matters, prices, markets and marketing, dependence on key personnel, availability of drilling equipment and access thereto, uninsurable risks, management of growth, expiration of licenses and leases, reserves estimates, seasonality, competition from industry players in Cequence's core areas, conflicts of interest, title to properties, variations in exchange rates and hedging and uncertainty in global financial markets. There is also the risk and uncertainty of access to, or expansion of, infrastructure including appropriate pipelines on acceptable terms or costs. See "Risk Factors" in this Annual Information Form.

The success of Cequence's drilling program is a key assumption in the production estimates for the 2013 financial year. The primary risk factors which could lead to Cequence not meeting its drilling targets are a weak natural gas pricing environment, a lack of access to drilling rigs and related equipment on a timely basis and at reasonable prices due to high industry demand, poor weather preventing access to the drill sites, delays in obtaining landowner consent for surface access, and delays in obtaining well licenses and drilling permits. Increases in capital costs from forecast amounts can result from the foregoing reasons as well as general cost inflation in the industry. Additionally, Cequence may choose to decrease capital expenditures based on lower commodity prices than those anticipated in its budget projections, therefore not meeting its drilling targets and affecting production estimates for the 2013 financial year.

There are many factors that could result in production levels being less than anticipated, including greater than anticipated declines in existing production due to poor reservoir performance, the unanticipated encroachment of water or other fluids into the producing formation, mechanical failures, human error or inability to access production facilities, among other factors.

The price of natural gas in North America is primarily related to the domestic supply and demand equation. Demand is primarily affected by industrial usage and also by heating requirements in winter and cooling requirements in summer, with slower industrial activity and/or warm winters and/or cool summers having a negative demand influence. Supplies are generally domestic and respond to prices, but an increase in the deliverability of global natural gas liquids into the North American market as well as the export of natural gas out of the North American market both also influence the supply situation at times. Recently, the spot price of natural gas in North America has reached historically low prices. The price of crude oil is set in U.S. dollars on the world market and is influenced by global supply and demand factors as well as external events, such as terrorist activity in oil exporting countries. Canadian producers realize a Canadian dollar price for crude oil, natural gas liquids and natural gas, all of which are determined in large part by the U.S. dollar price for such products adjusted for the U.S. to Canadian dollar exchange rate. The exchange rate is influenced by many factors, which have and may continue to result in high volatility.

Any estimates of cash flow and debt levels are based on assumptions regarding production and sales rates, production mix, natural gas, NGL and oil commodity prices, royalty rates, operating costs, general and administrative costs and capital expenditures. The risk that cash flow from operations may be less than expected or debt levels may be higher than expected is the aggregate of all risks affecting the individual components thereof.

Investors are cautioned that these factors and risks are difficult to predict and that the assumptions used in the preparation of such information, although considered reasonably accurate at the time of preparation, may prove to be incorrect. Accordingly, investors are cautioned that the actual results achieved will vary from the information provided herein and the variations may be material. Investors are also cautioned that the foregoing list of factors is not exhaustive. Consequently, there is no representation by Cequence that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements. Furthermore, the forward-looking statements contained in this Annual Information Form are made as of the date hereof, and Cequence does not undertake any obligation, except as required by applicable securities legislation, 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 Annual Information Form are expressly qualified by this cautionary statement.

### **NON-GAAP MEASURES**

In this Annual Information Form, management of Cequence uses certain financial reporting measures that are commonly used as benchmarks within the oil and natural gas industry. These measures include "netbacks" and "funds flow from operations". These measures are not defined under IFRS and should not be considered in isolation or as an alternative to conventional IFRS measures. Certain of these measures are not necessarily comparable to a similarly titled measure of another company. When these measures are used, they have been footnoted and the footnote to the applicable measure notes that the measure is "non-GAAP" and contains a description of how to reconcile the measure to the applicable financial statements. These measures should be given careful consideration by the investor.

Specifically, management of Cequence uses netbacks and funds flow from operations as they are non-GAAP measures used extensively in the Canadian energy sector for comparative purposes. Netbacks are calculated through total revenue less royalties, operating costs and transportation costs. Management utilizes this measure to analyze operating performance. Cequence defines the term "funds flow from operations" as cash flow from operating activities before adjustments for asset retirement expenditures, proceeds from the sale of commodity contracts and net changes in non-cash working capital. Cequence evaluates its performance based on earnings and funds flow from operations. Cequence considers funds flow from operations a key measure as it demonstrates Cequence's ability to generate the cash flow necessary to fund future growth through capital investment and to repay debt. Cequence's calculation of funds flow from operations may not be comparable to that reported by other companies.

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

## CEQUENCE ENERGY LTD.

The Company was originally incorporated pursuant to the provisions of the *Business Corporations Act* (Ontario) as "Metrophotonics Inc." on April 4, 2000 and was continued under the ABCA as "Sabretooth Energy Ltd." on September 5, 2005. In addition, the articles of the Company have been amended as follows: (i) on January 31, 2005, to add an unlimited number of Non-Voting Shares to its authorized capital, to consolidate the issued and outstanding Shares on a hundred-for-one basis and to reduce the stated capital of the issued and outstanding Shares; (ii) on February 4, 2005, to change its name to "1395177 Ontario Inc."; (iii) on February 15, 2006, the Company amalgamated with Stratagem Energy Corp. and the amalgamated corporation continued under the name "Sabretooth Energy Ltd."; (iv) on July 18, 2007, to convert all the issued and outstanding Non-Voting Shares into Shares and, immediately thereafter, to consolidate the issued and outstanding Shares on a four-for-one basis; (v) on January 1, 2008, the Company amalgamated with its wholly-owned subsidiary, Sabretooth Resources Inc. (formerly Bear Ridge Resources Inc.), and the amalgamated corporation continued under the name "Sabretooth Energy Ltd."; (vi) on July 30, 2009, to change the rights, privileges, restrictions and conditions attached to the Non-Voting Shares to ensure equitable economic treatment between holders of Shares and Non-Voting Shares in certain circumstances; (vii) on July 31, 2009, to change its name to "Cequence Energy Ltd."; (viii) on August 17, 2009, to consolidate the issued and outstanding Shares on a four-for-one basis; (ix) on July 1, 2010, the Company amalgamated with Peloton; and (x) on January 1, 2011, the Company amalgamated with Cequence Acquisitions.

The Company's principal office is located at 3100, 525 - 8th Avenue S.W., Calgary, Alberta, T2P 1G1 and its registered office is located at 3700, 400 - 3rd Avenue S.W., Calgary, Alberta, T2P 4H2.

## GENERAL DEVELOPMENT OF THE BUSINESS

### Three Year History

#### 2010

On May 5, 2010, the Company commenced a take-over bid for all the issued and outstanding shares of Peloton, a private company. The acquisition was completed on June 11, 2010 and Cequence issued approximately 12.1 million Shares to acquire all the shares of Peloton. Using the closing price of the Shares on the TSX on June 11, 2010, the Shares were valued at approximately \$28.8 million and the Company assumed net debt of approximately \$6.0 million. As at March 31, 2010, Peloton had production of approximately 640 BOE/d and proved plus probable reserves of 4.5 MMBOE (2.9 MMBOE proved) based on an independent reserves evaluation effective December 31, 2009.

On July 28, 2010, the Company concurrently announced: (i) a business combination with Temple; (ii) the acquisition of the Deep Basin Assets for \$85 million; (iii) a \$39 million (\$44.2 million including over-allotment option) short form prospectus offering of subscription receipts at \$2.10 per subscription receipt; (iv) a \$6.2 million private placement of 2,950,000 Shares at a price of \$2.10 per share to certain shareholders and insiders; (v) an \$8 million private placement of flow-through shares at a price of \$2.50 per share which entitled the subscribers to receive renunciations of Canadian exploration expenses ("CEE"); (vi) a \$2 million private placement of flow-through shares at a price of \$2.30 per share which entitled the subscribers to receive renunciations of Canadian development expenses ("CDE"); and (vii) the sale of the Company's interests in the Sinclair area of Alberta for approximately \$36.9 million.

*Business Combination with Temple:* Cequence and Temple combined their businesses effective September 10, 2010 pursuant to the terms of an arrangement agreement and a shareholder and court approved plan of arrangement. Under the terms of the plan of arrangement each share of Temple was exchanged for 0.355 of a Share and Temple and Cequence Acquisitions amalgamated. Cequence issued approximately 46.85 million Shares pursuant to the plan of arrangement. Using the closing price of the Shares on the TSX on September 10, 2010, the Shares were valued at approximately \$95.1 million and the Company assumed approximately \$40.3 million in net debt. As at March 31, 2010, Temple had production of approximately 1,900 BOE/d. Temple had 89,122 net acres of undeveloped land and had 9 MMBOE of proved reserves and 18.1 MMBOE of proved plus probable reserves, based on an independent engineering report effective July 1, 2010.

At the closing of the business combination with Temple, the executive team and board of Cequence was reconstituted through the resignations of certain directors and officers. The newly comprised executive team was led by Paul Wanklyn as President and Chief Executive Officer, Howard Crone as Executive Vice President and Chief Operating Officer and David Gillis as Vice President, Finance and Chief Financial Officer. The Board was reconstituted with five Cequence directors (Donald Archibald, Peter Bannister, Paul Colborne, Howard Crone and Francesco Mele) and five new Temple nominee directors (Robert Cook, Andrew Evans, Brian Felesky, James Gray and Paul Wanklyn), with Donald Archibald continuing in his capacity as Chairman of the Board. See "Directors and Officers" in this Annual Information Form for further information concerning the current management and directors of the Company.

*Deep Basin Assets Acquisition:* The acquisition of the Deep Basin Assets closed on September 8, 2010 pursuant to the terms of a purchase and sale agreement with an independent third party vendor. As at March 31, 2010, the Deep Basin Assets had production of approximately 2,600 BOE/d. The assets included 48,000 net acres of undeveloped land and had 6.2 MMBOE of proved reserves and 11.2 MMBOE of proved plus probable reserves based on an independent engineering report effective July 1, 2010.

*Equity Offerings:* The \$39 million subscription receipt offering closed on August 19, 2010 and the proceeds were released on September 8, 2010 and used to finance a portion of the Deep Basin Assets acquisition with the subscription receipts being converted, for no additional consideration and without further action, into Shares. The private placement of CEE and CDE flow-through shares also closed on August 19, 2010. The private placement of Shares to certain insiders and Shareholders closed on September 10, 2010 following receipt of the disinterested approval of the Shareholders. The over-allotment option granted to the underwriters in connection with the subscription receipt offering was exercised and the Company issued 2.5 million Shares to the underwriters for gross proceeds of approximately \$5.25 million on September 17, 2010.

*Sale of Sinclair Assets:* The sale of assets in the Sinclair area included the disposition of 8,960 acres of land, 1.5 MMBOE of proved reserves and 3.6 million of proved plus probable reserves, based on Cequence's December 31, 2009 year end reserves report.

## 2011

During 2011, Cequence focused its operational activities on evaluating and developing its resource-style plays of the Deep Basin at Simonette, Alberta in the Wilrich, Montney and Dunvegan zones. The Company also continued to develop and explore in the Peace River Arch area of Alberta. The Company drilled a total of 17 gross (13.3 net) wells in 2011, 16 gross (12.8 net) in the Deep Basin and 1 gross (0.5 net) in the Peace River Arch with an aggregate capital cost of \$93.7 million.

Cequence completed the construction and expansion of a new compressor and dehydration facility, increasing the Company's processing capacity by approximately 35 mmcf/d of natural gas at Simonette.

In 2011, Cequence added (net of dispositions) 7.7 MMBOE of proved reserves and 18.6 MMBOE of proved plus probable reserves.

Cequence completed two bought deal short form prospectus offerings in 2011. On March 17, 2011, the Company closed the offering of 13,397,500 Shares at \$2.85 per share and 2,100,000 CEE flow-through Shares at \$3.50 per share for gross proceeds of approximately \$45.5 million. On August 18, 2011, Cequence closed the offering of 11,960,000 Shares at \$3.85 per share and 2,110,000 CEE flow-through shares at \$4.75 per share for aggregate gross proceeds of approximately \$56.1 million.

On August 15, 2011, the Company completed the sale, on a private placement basis, of 2,250,000 CDE flow-through Shares at \$4.36 per share for gross proceeds of approximately \$9.8 million.

## 2012

During 2012, Cequence focused its operational activities on further exploration and development in the Deep Basin. The Company drilled its first Fahler horizontal well at Simonette/Resthaven as part of a farm-in commitment, the results of which management believes validates a 20 section geological prospect previously defined by well control

and confirmed by 3D seismic on Cequence lands. The Company drilled a total of 7 gross (5.8 net) wells in 2012 in the Deep Basin.

Cequence completed the construction of the meter station to tie in to the Alliance pipeline at Simonette related to the Aux Sable arrangement. Capacity at the Alliance/Aux Sable meter station is 120 MMcf/d. The Company also installed a third compressor at Simonette, resulting in current capacity through the Simonette gathering system of 40 MMcf/d.

In 2012, Cequence added (net of dispositions) 14.6 MMBOE of proved reserves and 26.9 MMBOE of proved plus probable reserves.

On May 31, 2012, Cequence entered into an arrangement agreement with Open Range Energy Corp. ("**Open Range**") pursuant to which it was proposed that Cequence would acquire all of the issued and outstanding common shares of Open Range. On July 3, 2012, Cequence received a termination fee of \$4.6 million concurrently with the termination of the arrangement agreement.

Cequence completed a bought deal short form prospectus offering in 2012. On June 20, 2012, the Company closed the offering of: 11,683,500 Shares at \$1.20 per share, 4,850,000 CEE flow-through Shares at \$1.45 per share and 3,800,000 CDE flow-through Shares for aggregate gross proceeds of approximately \$26.1 million. On July 12, 2012, pursuant to the exercise of the over-allotment option granted to the underwriters in connection with the June 20, 2012 closing, Cequence issued an additional 1,252,500 Shares at \$1.20 per share for gross proceeds of approximately \$1.5 million.

On June 22, 2012, Cequence completed the sale, on a private placement basis, of 8,333,333 Shares at a price of \$1.20 per share for gross proceeds of approximately \$10 million.

On December 5, 2012, the Company completed a bought deal short form prospectus offering of 8,560,000 CEE flow-through Shares at \$1.87 per share for gross proceeds of approximately \$16 million.

## GENERAL DESCRIPTION OF THE BUSINESS

Cequence is a public company engaged in the acquisition, exploration, development and production of petroleum and natural gas reserves in Western Canada. During the year ended December 31, 2012, the Company focused its activities in the Deep Basin area of Northwest Alberta, the Peace River Arch area of Northwest Alberta and Northeast British Columbia. Cequence pursues a strategy of drilling for low decline, long life, liquids rich natural gas and crude oil targets with multiple prospective horizons.

### Corporate Strategy

Cequence's business strategy is to increase production, cash flow and Shareholder value in a cost-effective manner through focused drilling, strategic acquisitions and operational efficiency. The Company manages risk by following its investment guidelines, namely:

- Drill for long-life, liquids-rich natural gas and crude oil;
- Invest in areas with large, scalable resources to target and existing infrastructure in place;
- Capitalize on the Company's extensive in-house technical expertise to generate drilling opportunities and take advantage of property and corporate acquisitions that add value to Shareholders;
- Use the Company's existing infrastructure and extensive seismic data base as a potential profit centre and as leverage to enhance the Company's position in its core areas; and
- Use financial expertise to efficiently raise capital.

The Board may, in its discretion, approve asset or corporate acquisitions or investments that do not conform to the guidelines discussed above.

## **Capital Expenditures**

Cequence may approve future capital expenditures or farm-outs. Future capital expenditures on the Company's assets are intended to maintain or improve production from the Company's properties. Cequence may finance capital expenditures from cash flow, drawings on its bank loan facility, proceeds from issuance of additional Shares or other securities, proceeds of disposition of oil and natural gas properties, farm-outs or with working capital.

The Company may acquire additional properties and related tangible equipment and fund such acquisitions from cash flow, drawings on its bank loan facility, proceeds from issuance of additional Shares or other securities, proceeds of disposition of oil and natural gas properties, farm-outs or with working capital. The Company may sell any of its interests in properties. In connection with the sale of any interests in Cequence's properties, the Board will determine whether the net proceeds of the sale should be reinvested in additional properties or capital expenditures, used to repay borrowings or distributed to Shareholders.

## **Ongoing Acquisition and Disposition Activities**

### *Potential Acquisitions*

Cequence evaluates potential acquisitions of all types of oil and natural gas and other energy related assets as part of its on-going asset management program. The Company is normally in the process of evaluating several potential acquisitions at any one time which individually or together could be material. As of the date hereof, Cequence has not reached agreement on the price or terms of any potential material acquisitions and cannot predict whether any current or future opportunities will result in one or more acquisitions.

### *Potential Dispositions and Farm-Outs*

Cequence evaluates potential dispositions of its oil and natural gas assets as part of the Company's ongoing asset management program. In addition, Cequence evaluates potential farm-out opportunities with other industry participants in respect of its oil and natural gas assets in circumstances where the Company believes it is prudent to do so based on, among other things, its capital program, development plan timelines and the risk profile of such assets. The Company is normally in the process of evaluating several potential dispositions of assets and farm-out opportunities at any one time, which individually or together could be material. As of the date hereof, the Company has not reached agreement on the price or terms of any potential material dispositions or farm-outs and cannot predict whether any current or future opportunities will result in one or more dispositions or farm-outs.

## **Environment Policies**

The oil and gas industry is subject to environmental regulations pursuant to applicable legislation. Such legislation provides for restrictions and prohibitions on releases or emissions of various substances produced in association with certain oil and gas industry operations, and requires that well, pipeline and facility sites be abandoned and reclaimed to the satisfaction of environmental authorities. As at December 31, 2012, Cequence recorded a liability on its balance sheet of \$32.6 million for asset abandonment and reclamation obligations. The Company is committed to managing and operating in a safe, efficient, environmentally responsible manner in association with its industry partners and is committed to continually improving the Company's environmental, health, safety and social performance. To fulfill this commitment, the Company's operating practices and procedures are consistent with the requirements established for the oil and gas industry. Cequence supports and endorses the Environmental Operating Procedures developed by the Canadian Association of Petroleum Producers ("**CAPP**"). Key environmental considerations include air quality and climate change, water conservation, spill management, waste management plans, lease and right-of-way management, natural and historic resource protection, and liability management (including site assessment, remediation and reclamation). These practices and procedures apply to the Company's employees and Cequence monitors all activities and makes reasonable efforts to ensure that companies who provide services to Cequence will operate in a manner consistent with this environmental policy.

The Company believes that it meets all existing environmental standards and regulations and includes sufficient amounts in its capital expenditure budget to continue to meet current environmental protection requirements. These requirements apply to all operators in the oil and gas industry; therefore, it is not anticipated that the Company's competitive position within the industry will be adversely affected by changes in applicable legislation. However, no



assurance can be given that the application of environmental laws to the business and operations of Cequence will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Cequence's financial condition, results of operations or prospects. Cequence has internal procedures designed to ensure that detailed due diligence reviews to assess environmental liabilities and regulatory compliance are completed prior to proceeding with new acquisitions and developments.

The Company's environmental management plan and operating guidelines focus on minimizing the environmental impact of Cequence's operations while meeting regulatory requirements and corporate standards. The environmental program includes: an internal environmental compliance audit and inspection program; a suspended well inspection program to support future development or eventual abandonment; appropriate remediation, reclamation and decommissioning standards for wells, pipelines and facilities ready for abandonment; an effective surface reclamation program; a groundwater monitoring program; a spill prevention, response, and clean-up program; a fugitive emission survey and repair program, and an environmental liability assessment program.

The Company participates in both the Canadian federal and provincial regulated GHG emissions reporting programs and continues to quantify annual GHG emissions for internal reporting purposes. Cequence also participates in the CAPP Responsible Canadian Energy Program. The Company believes participation in this program demonstrates a commitment to mitigate its environmental impact through monitoring metrics, identifying areas of improvement, and implementing new processes and procedures for key environmental consideration areas. See "Risk Factors - Environmental" and "Industry Conditions - Environmental Regulation" in this Annual Information Form.

The Company maintains an insurance program consistent with industry practice to protect against losses due to accidental destruction of assets, well blowouts, pollution and other operating accidents or disruptions. The Company also has operational and emergency response procedures and occupational health, safety and environmental programs in place to reduce potential loss exposure.

### **Cyclical and Seasonal Impact of Industry**

The Company's operational results and financial condition will be dependent on the prices received for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by supply and demand factors, including weather and general economic conditions, as well as conditions in other oil and natural gas regions. Any decline in oil and natural gas prices could have an adverse effect on the Company's financial condition.

### **Competition**

The oil and natural gas industry is competitive in all of its phases. Cequence competes with numerous other participants in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. Cequence's competitors include resource companies which have much greater financial resources, staff and facilities than those of Cequence. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery. Cequence believes that its competitive position is similar to that of other oil and gas issuers of similar size and at a similar stage of development.

### **Personnel**

As of December 31, 2012, Cequence had 28 head office employees and 6 part time consultants.

## **STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION**

In accordance with NI 51-101, GLJ prepared the GLJ Report. The GLJ Report evaluated, as at December 31, 2012, the oil, NGL and natural gas reserves attributable to the properties of Cequence.

The tables below are a summary of the oil, NGL and natural gas reserves attributable to the properties of Cequence and the net present value of future net revenue attributable to such reserves as evaluated in the GLJ Report based on forecast price and cost assumptions. The tables summarize the data contained in the GLJ Report and, as a result, may contain slightly different numbers than such report due to rounding. Also due to rounding, certain columns may not add exactly.

The net present value of future net revenue attributable to reserves is stated without provision for interest costs and general and administrative costs, but after providing for estimated royalties, production costs, development costs, other income, future capital expenditures and well abandonment costs for only those wells assigned reserves by GLJ. It should not be assumed that the undiscounted or discounted net present value of future net revenue attributable to reserves estimated by GLJ represent the fair market value of those reserves. Other assumptions and qualifications relating to costs, prices for future production and other matters are summarized herein. The recovery and reserve estimates of oil, NGL and natural gas reserves provided herein are estimates only. Actual reserves may be greater than or less than the estimates provided herein.

The values shown for income taxes and future net revenue after income taxes were calculated on a stand-alone basis in the GLJ Report. The values shown may not be representative of future income tax obligations, applicable tax horizon or after tax valuation.

The GLJ Report is based on certain factual data supplied by Cequence and GLJ's opinion of reasonable practice in the industry. The extent and character of ownership and all factual data pertaining to petroleum properties and contracts (except for certain information residing in the public domain) were supplied by Cequence to GLJ. GLJ accepted this data as presented and neither title searches nor field inspections were conducted.

### Summary of Oil, Natural Gas and NGL Reserves

Reserves Category	Light and Medium Crude Oil		NGL		Natural Gas		Total Oil Equivalent	
	Gross (Mbbbl)	Net (Mbbbl)	Gross (Mbbbl)	Net (Mbbbl)	Gross (MMcf)	Net (MMcf)	Gross (MBOE)	Net (MBOE)
Proved								
Developed Producing	809	629	863	666	73,622	65,829	13,942	12,266
Developed Non-Producing	49	39	120	93	6,752	6,001	1,295	1,132
Undeveloped	2,907	2,088	1,674	1,528	159,440	138,036	31,153	26,622
Total Proved	3,765	2,756	2,657	2,287	239,184	209,867	46,391	40,021
Probable	3,851	2,591	2,516	2,234	229,970	198,125	44,695	37,847
Total Proved plus Probable	7,615	5,347	5,173	4,521	469,783	407,992	91,086	77,867

### Summary of Net Present Value of Future Net Revenue

Reserves Category	Before Future Income Tax Expenses Discounted at (%/year)					
	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)	10 (\$/mcf)
Proved						
Developed Producing	253,091	205,774	173,947	151,218	134,221	2.36
Developed Non-Producing	14,499	11,282	9,087	7,500	6,305	1.34
Undeveloped	492,388	333,963	237,138	173,469	129,291	1.48
Total Proved	759,979	551,019	420,173	332,187	269,817	1.75
Probable	917,500	557,549	376,952	271,967	204,624	1.66
Total Proved plus Probable	1,677,479	1,108,568	797,124	604,154	474,441	1.71

Reserves Category	After Future Income Tax Expenses Discounted at (%/year)				
	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)
Proved					
Developed Producing	257,072	209,659	177,743	154,930	137,855
Developed Non-Producing	14,499	11,282	9,087	7,500	6,305
Undeveloped	461,605	318,410	228,792	168,760	126,522
Total Proved	733,177	539,350	415,622	331,191	270,682
Probable	689,293	417,292	281,241	202,314	151,746

Reserves Category	After Future Income Tax Expenses Discounted at (%/year)				
	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)
Total Proved plus Probable	1,422,469	956,643	696,862	533,504	422,427

### Total Future Net Revenue (Undiscounted)

Reserves Category	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$)	Capital Development Costs (M\$)	Abandonment Costs (M\$)	Future Net Revenue Before Future Income Tax Expenses	Future Income Tax Expenses	Future Net Revenue After Future Income Tax Expenses
						(M\$)	(M\$)	(M\$)
Total Proved	1,804,122	249,797	433,141	346,773	14,432	759,979	26,802	733,177
Total Proved plus Probable	3,768,071	571,913	864,868	632,586	21,224	1,677,479	255,010	1,422,469

### Future Net Revenue by Production Group

Reserves Category and Product Group	Future Net Revenue Before Future Income Tax Expenses (Discounted at 10%/year)	Unit Value Before Future Income Tax Expenses (Discounted at 10%/year) <sup>(1)</sup>
	(M\$)	(\$/Mcf) (\$/BOE)
Total Proved		
Light and Medium Crude Oil <sup>(2)</sup>	8,300	3.70 22.20
Natural Gas (associated & non-associated) <sup>(3)</sup>	411,873	1.73 10.39
Total Proved plus Probable		
Light and Medium Crude Oil <sup>(2)</sup>	11,252	3.67 21.99
Natural Gas (associated & non-associated) <sup>(3)</sup>	785,872	1.69 10.16

#### Notes:

- (1) Unit values are based on net reserve volumes
- (2) Including solution gas and other by-products
- (3) Including by-products but excluding solution gas

### Summary of Pricing Assumptions and Inflation Rate Assumptions

GLJ employed the following pricing, exchange rate and inflation rate assumptions as of January 1, 2013 in the GLJ Report in estimating Cequence's reserves data using forecast prices and costs:

Year	Natural Gas		Light Crude Oil		Pentanes Plus	Inflation Rates %/year	Exchange Rate (\$US/\$Cdn)
	Henry Hub (\$US/MMBtu)	AECO Gas Price (\$Cdn/MMBtu)	WTI (\$US/bbl)	Edmonton (\$Cdn/bbl)	Edmonton (\$Cdn/bbl)		
Forecast							
2013	3.75	3.38	90.00	85.00	96.63	2.0	1.00
2014	4.25	3.83	92.50	91.50	97.91	2.0	1.00
2015	4.75	4.28	95.00	94.00	97.76	2.0	1.00
2016	5.25	4.72	97.50	96.50	100.36	2.0	1.00
2017	5.50	4.95	97.50	96.50	100.36	2.0	1.00
2018	5.80	5.22	97.50	96.50	100.36	2.0	1.00
2019	5.91	5.32	98.54	97.54	101.44	2.0	1.00
2020	6.03	5.43	100.51	99.51	103.49	2.0	1.00
2021	6.15	5.54	102.52	101.52	105.58	2.0	1.00
2022	6.27	5.64	104.57	103.57	107.71	2.0	1.00

Thereafter escalation rate of 2%

The weighted average realized sales prices for Cequence for the year ended December 31, 2012 were \$2.68/Mcf for natural gas, \$85.02/bbl for light and medium crude oil and \$54.76/bbl for NGL.

### Reconciliation of Company Gross Reserves by Product Type

The following table sets forth the changes between the Company's reserve volume estimates made as at December 31, 2012 and the corresponding estimates as at December 31, 2011, using forecast prices and costs:

Factors	Light and Medium	Natural Gas	NGL	Total Oil
	Crude Oil	(associated & non-associated)		Equivalent
	(Mbbbl)	(MMcf)	(Mbbbl)	(MBOE)
<b>TOTAL PROVED</b>				
December 31, 2011	2,510	182,568	2,140	35,077
Extensions & Improved Recovery	1,207	63,838	644	12,490
Technical Revisions	346	17,354	105	3,344
Discoveries	-	-	-	-
Acquisitions	-	1,450	56	297
Dispositions	-	(889)	(29)	(177)
Economic Factors	(71)	(7,236)	(83)	(1,359)
Production	(228)	(17,271)	(176)	(3,282)
December 31, 2012	3,765	239,814	2,657	46,391
<b>TOTAL PROBABLE</b>				
December 31, 2011	2,302	168,178	2,034	32,366
Extensions & Improved Recovery	1,442	70,291	761	14,023
Technical Revisions	97	(1,642)	(159)	(336)
Discoveries	-	-	-	-
Acquisitions	-	511	20	105
Dispositions	-	(256)	(8)	(51)
Economic Factors	10	(7,724)	(131)	(1,412)
Production	-	-	-	-
December 31, 2012	3,851	229,970	2,516	44,695
<b>TOTAL PROVED PLUS PROBABLE</b>				
December 31, 2011	4,811	350,745	4,174	67,443
Extensions & Improved Recovery	2,649	134,759	1,405	26,513
Technical Revisions	444	15,712	(54)	3,008
Discoveries	-	-	-	-
Acquisitions	-	1,962	75	402
Dispositions	-	(1,144)	(37)	(228)
Economic Factors	(61)	(14,979)	(214)	(2,771)
Production	(228)	(17,271)	(176)	(3,282)
December 31, 2012	7,615	469,783	5,173	91,086

### Proved Undeveloped Reserves

The following table sets forth the volumes of proved undeveloped reserves that were first attributed for each of the Company's product types for each of the most recent three financial years and, in the aggregate, before that time, using forecast prices and costs:

Financial Year End	Light and Medium Oil		Natural Gas		NGL		Total Oil Equivalent	
	(Mbbbl)		(MMcf)		(Mbbbl)		(Mbbbl)	
	First Attributed	Total at Year-End	First Attributed	Total at Year-End	First Attributed	Total at Year-End	First Attributed	Total at Year-End
Prior	27	27	9,024	15,025	45	120	1,576	2,651
2010	-	-	55,911	60,904	1,010	1,134	10,329	11,285

Financial Year End	Light and Medium Oil (Mbbbl)		Natural Gas (MMcf)		NGL (Mbbbl)		Total Oil Equivalent (Mbbbl)	
	First Attributed	Total at Year-End	First Attributed	Total at Year-End	First Attributed	Total at Year-End	First Attributed	Total at Year-End
2011	1,320	1,567	59,692	96,185	566	1,096	11,835	18,694
2012	1,059	2,907	53,759	159,440	548	1,674	10,567	31,153

Proved undeveloped reserves are generally those reserves related to planned infill drilling locations. The Company's proved undeveloped reserves are forecasted to be developed during the next 4 years in accordance with the Company's development program and cash flows set out in the reserve report.

### Probable Undeveloped Reserves

The following table sets forth the volumes of probable undeveloped reserves that were first attributed for each of the Company's product types for each of the most recent three financial years and, in the aggregate, before that time, using forecast prices and costs:

Financial Year End	Light and Medium Oil (Mbbbl)		Natural Gas (MMcf)		NGL (Mbbbl)		Total Oil Equivalent (Mbbbl)	
	First Attributed	Total at Year-End	First Attributed	Total at Year-End	First Attributed	Total at Year-End	First Attributed	Total at Year-End
Prior	58	63	15,439	21,495	87	191	2,718	3,837
2010	11	112	76,563	82,284	1,410	1,558	14,182	15,384
2011	1,376	1,889	62,608	132,488	621	1,580	12,432	25,550
2012	1,501	3,506	73,570	199,802	787	2,135	14,550	38,941

Probable undeveloped reserves relate to wells to be drilled, tied in and brought on-stream in the future. The Company's probable undeveloped reserves are forecasted to be developed during the following 5 years in accordance with the Company's development program and cash flows set out in the reserve report.

### Significant Factors or Uncertainties Affecting Reserves Data

The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering, and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and natural gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, the subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end oil and natural gas prices, and reservoir performance. Such revisions can be either positive or negative.

## Future Development Costs

The table below sets out the development costs deducted in the estimation in the GLJ Report of future net revenue attributable to proved reserves and proved plus probable reserves, using forecast prices and costs:

Year	Proved Reserves	Proved Plus Probable Reserves
	(M\$)	(M\$)
2013	72,757	89,113
2014	96,269	192,666
2015	162,638	311,058
2016	13,367	23,062
2017	317	11,033
Remaining Years	1,425	5,654
Total Undiscounted	346,773	632,586

Cequence estimates that its internally generated cash flow will be sufficient to fund the future development costs disclosed above. Cequence typically has available three sources of funding to finance its capital expenditure program: internally generated cash flow from operations; new equity issues, if available on favourable terms; and debt financing, when appropriate. Debt financing is available to Cequence at its lender's prevailing lending rates plus an applicable margin (dependent upon debt to trailing cash flow).

Cequence expects to fund its total 2013 capital program with internally generated cash flow and through accessing its bank debt and, although quarterly fluctuations in funding levels are expected, the objective is to remain within the Company's debt capacity throughout the 2013 financial year. Cequence's further objective is to maintain its debt to cash flow ratio at less than 2.0 times estimated future cash flows.

## Description of Principal Properties

Cequence's principal properties are located in: (i) the Deep Basin area of Northwest Alberta (ii) the Peace River Arch area of Northwest Alberta; and (iii) Northeast British Columbia. The Company owns a total of approximately 617,899 gross acres (336,456 net acres) of oil and natural gas leases with the potential for multi-zone production at an average working interest of approximately 54 percent.

### *Deep Basin*

Cequence's Deep Basin assets are located in Northwest Alberta. These assets include an average working interest of approximately 61 percent in 251,459 gross (152,298 net) acres of undeveloped land. The Deep Basin assets include fields located in the Simonette, Resthaven, Kaybob and Ansell areas. The Deep Basin assets also include 5 gross (2.4 net) producing oil wells, 4 gross (1.8 net) non-producing oil wells, 164 gross (66.2 net) producing gas wells and 28 gross (17.9 net) non-producing gas wells.

Production from the Deep Basin assets are weighted 86 percent to natural gas with the balance being light crude oil and NGL. In November 2011, Cequence entered into an agreement with Aux Sable Canada LP and Alliance Pipeline Limited Partnership to construct a 120 mmcf/d meter station at the Simonette field. The meter station, which was completed late in the second quarter of 2012, allows for the delivery of Cequence gas to the Alliance System and has resulted in the reduction of operating costs.

The project also includes the completion of additional compression and dehydration capacity in Simonette and the looping of existing pipelines, which is currently underway and is expected to be completed in the first quarter of 2013.

During the year ended December 31, 2012, Cequence drilled 7 gross (5.8 net) wells in the Deep Basin area. In 2013, Cequence plans to focus its drilling operations in the Deep Basin area.

### ***Peace River Arch***

Cequence's Peace River Arch assets are located in Northwest Alberta. These assets include an average working interest of approximately 58 percent in 78,820 gross (44,927 net) acres of undeveloped land. The Peace River Arch assets include fields located in the Fourth Creek, George, Blueberry, Valhalla, Knopik and Cecil areas. The Peace River Arch assets also include 18 gross (10.5 net) producing oil wells, 7 gross (4.2 net) non-producing oil wells, 73 gross (44.3 net) producing gas wells and 46 gross (25.5 net) non-producing gas wells.

Production from the Peace River Arch assets are weighted 82 percent to natural gas with the balance being light crude oil and NGL. Production is pipelined to third party owned processing facilities that include fluid handling and gas processing with a sales gas connection to the Nova and Alliance pipelines.

During the year ended December 31, 2012, Cequence did not drill any wells in the area and does not plan to drill any wells in the Peace River Arch area in 2013.

### ***Northeast British Columbia***

Cequence's Northeast British Columbia assets include an average working interest of approximately 50 percent in approximately 102,981 gross (51,698 net) acres of undeveloped land. The properties include fields located in the Silver, Noel and Gunnell areas. The assets also include 2 gross (1.8 net) producing oil wells, 2 gross (1.7 net) non-producing oil wells, 111 gross (52.2 net) producing gas wells and 39 gross (27.5 net) non-producing gas wells.

Production from the Northeast British Columbia assets are weighted 94 percent to natural gas with the balance being light crude oil and NGL. Production is pipelined to a third party owned facility that includes NGL handling and gas processing with a sales gas connection to the Spectra and Altagas pipelines.

During the year ended December 31, 2012, Cequence did not drill any wells in the area and does not plan to drill any wells in the Northeast British Columbia area in 2013.

### **Oil and Natural Gas Wells**

The following table sets forth the number and status of wells in which Cequence has a working interest as at December 31, 2012:

	Light and Medium Crude Oil		Natural Gas	
	Gross	Net	Gross	Net
Producing				
Alberta	23.0	12.8	237.0	110.5
British Columbia	2.0	1.8	111.0	52.2
Non-producing				
Alberta	11.0	6.0	74.0	43.4
British Columbia	2.0	1.7	39.0	27.5
Total	38.0	22.3	461.0	233.5

### **Properties With No Attributed Reserves**

The following table summarizes the undeveloped gross and net acres of properties with no attributed reserves in which Cequence has an interest and also the number of net acres for which Cequence's rights to explore, develop or exploit will, absent further action, expire within one year:

	Gross Acres	Net Acres	Net Acres Expiring Within One Year
Alberta	251,459	152,298	9,501
British Columbia	102,985	51,698	34,014
Total	354,444	203,996	43,515

Cequence measures its land acreage based on the surface area overlying its mineral rights, irrespective of the number of mineral licenses underlying a given section of land.

### Commitments

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 \$3.5 million 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 \$1.0 million has been drawn down at December 31, 2012.

Other than the foregoing, the Company does not have any material work commitments.

Cequence's forward sales contracts are set forth in its management's discussion and analysis for the year-ended December 31, 2012.

### Additional Information Concerning Abandonment and Reclamation Costs

Cequence typically estimates well abandonment costs area by area. Reserve well abandonment costs are included in the GLJ Report as deductions in arriving at future net revenue.

The expected total abandonment and disconnect costs, net of salvage value, included in the GLJ Report for 212 net wells under the proved reserves category is \$14.4 million undiscounted (\$4.7 million discounted at 10 percent), of which a total of \$1.1 million undiscounted is estimated to be incurred in 2013, 2014 and 2015. This estimate does not include expected reclamation for surface leases of \$10.5 million undiscounted (\$3.4 million discounted at 10 percent).

Cequence will be liable for its share of ongoing environmental obligations and for the ultimate reclamation of the properties held by it upon abandonment. Ongoing environmental obligations are expected to be funded out of cash flow.

### Tax Horizon

Based on production from existing reserves, Cequence estimates that it will not be required to pay income taxes in the next three years.

### Costs Incurred

The following table summarizes capital expenditures (net of incentives and net of certain proceeds and including capitalized general and administrative expenses) incurred by Cequence for the year ended December 31, 2012:

Property Acquisition Costs		Exploration Costs	Development Costs
Proved Properties	Unproved Properties		
(M\$)	(M\$)	(M\$)	(M\$)
-	(13,258)	29,024	62,634

### Exploration and Drilling Activity

The following table summarizes the gross and net exploratory and development wells Cequence has drilled, or has participated in for the year ended December 31, 2012:



	Gross		Net	
	Exploratory	Development	Exploratory	Development
Light and Medium Crude Oil Wells	-	-	-	-
Natural Gas Wells	2.0	5.0	2.0	3.8
Dry Wells	-	-	-	-
Service Wells <sup>(1)</sup>	-	-	-	-
Total	2.0	5.0	2.0	3.8

**Note:**

(1) A service well is a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane, or flue gas), water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation or injection for combustion.

**Production Estimates**

The following table sets forth for each product type the average daily volume of production estimated by GLJ in the GLJ Report for the first year reflected in the estimates of gross proved reserves, gross probable reserves and gross proved plus probable reserves as disclosed above:

Reserve Category	Light and Medium Crude Oil	Natural Gas	NGL	Total Oil Equivalent
	(bbl/d)	(Mcf/d)	(bbl/d)	(BOE/d)
Proved				
Deep Basin	716	42,276	472	8,234
Other	179	18,484	194	3,453
	895	60,760	666	11,687
Probable				
Deep Basin	79	5,161	74	1,014
Other	12	1,310	20	250
	92	6,471	94	1,264
Total Proved Plus Probable				
Deep Basin	795	47,438	546	9,247
Other	191	19,793	214	3,704
	986	67,231	760	12,951

**Production History**

The following table sets forth, on a quarterly basis for the year ended December 31, 2012, certain information in respect of production, product prices received, royalties paid, operating expenses and resulting netback:

	Three Months Ended			
	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
Average Daily Production Volume				
Light and Medium Crude Oil (bbl/d)	684	618	605	583
Natural Gas (Mcf/d)	49,924	45,042	46,640	47,125
NGL (bbl/d)	459	535	516	515
Total (BOE/d)	9,464	8,660	8,893	8,951
Average Prices Received				
Light and Medium Crude Oil (\$/bbl)	89.58	79.92	83.52	86.78
Natural Gas (\$/Mcf)	2.44	2.09	2.58	3.56
NGL (\$/bbl)	76.63	59.54	41.92	45.83
Total (\$/BOE)	23.07	20.25	21.65	27.22
Royalties Paid				

	Three Months Ended			
	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
Light and Medium Crude Oil (\$/bbl)	11.80	15.54	12.10	11.18
Natural Gas (\$/Mcf)	0.14	(0.33)	(0.04)	0.08
NGL (\$/bbl)	19.08	12.17	8.87	12.70
Total (\$/BOE)	2.53	0.15	1.13	1.88
<b>Operating Expenses</b>				
Light and Medium Crude Oil (\$/bbl)	10.11	11.44	8.70	7.84
Natural Gas (\$/Mcf)	1.30	1.35	1.12	1.08
NGL (\$/bbl)	7.80	8.08	6.74	6.46
Total (\$/BOE)	7.97	8.32	6.88	6.55
<b>Transportation Costs</b>				
Light and Medium Crude Oil (\$/bbl)	2.64	3.34	4.68	5.07
Natural Gas (\$/Mcf)	0.35	0.35	0.35	0.27
NGL (\$/bbl)	1.11	0.84	0.53	0.08
Total (\$/BOE)	2.08	2.11	2.20	1.76
<b>Netback Received</b>				
Light and Medium Crude Oil (\$/bbl)	65.03	49.60	58.04	62.69
Natural Gas (\$/Mcf)	0.65	0.72	1.13	2.13
NGL (\$/bbl)	48.64	38.45	25.78	26.57
Total (\$/BOE)	10.51	9.67	11.45	16.86

### Production Volume by Field

The following table sets forth the average daily production from each of the Company's important fields for the year ended December 31, 2012:

Field	Light and Medium Oil (bbl/d)	Natural Gas (Mcf/d)	NGL (bbl/d)	Total Oil Equivalent (BOE/d)	%
Deep Basin	420	30,950	394	5,967	67
Peace River Arch	133	5,481	64	1,110	12
Northeast BC	70	10,745	48	1,908	21
<b>Total</b>	<b>622</b>	<b>47,181</b>	<b>506</b>	<b>8,990</b>	<b>100</b>

### Finding, Development and Acquisition Costs

Finding, development and acquisition costs ("FD&A") and finding and development costs ("F&D") both including and excluding future development capital ("FDC") have been calculated in accordance with NI 51-101. Cequence's finding, development and acquisition costs are as follows:

	Capital Expenditures <sup>(1)</sup> (\$000s)	Proved Reserve Additions (MBOE)	Proved Costs (\$/BOE)	Proved Plus Probable Reserve Additions (MBOE)	Proved Plus Probable Costs (\$/BOE)
FD&A Including Change in FDC <sup>(2)</sup>					
2012 Proved	188,776	14,595	12.93	N/A	N/A
2012 Proved Plus Probable	284,504	N/A	N/A	26,924	10.57
2011 Proved	212,557	11,035	19.26	N/A	N/A
2011 Proved Plus Probable	293,521	N/A	N/A	21,870	13.42
2010 Proved	392,267	21,495	18.25	N/A	N/A
2010 Proved Plus Probable	478,503	N/A	N/A	37,772	12.67
3 year average Proved	264,533	15,708	16.84	N/A	N/A
3 year average Proved Plus Probable	352,176	N/A	N/A	28,855	12.20

	Capital Expenditures <sup>(1)</sup>	Proved Reserve Additions	Proved Costs	Proved Plus Probable Reserve Additions	Proved Plus Probable Costs
	(\$000s)	(MBOE)	(\$/BOE)	(MBOE)	(\$/BOE)
<b>FD&amp;A Excluding Change in FDC<sup>(2)</sup></b>					
2012 Proved	78,402	14,595	5.37	N/A	N/A
2012 Proved Plus Probable	78,402	N/A	N/A	26,924	2.91
2011 Proved	117,868	11,035	10.68	N/A	N/A
2011 Proved Plus Probable	117,868	N/A	N/A	21,870	5.39
2010 Proved	280,726	21,495	13.06	N/A	N/A
2010 Proved Plus Probable	280,726	N/A	N/A	37,772	7.43
3 year average Proved	158,999	15,708	10.12	N/A	N/A
3 year average Proved Plus Probable	158,999	N/A	N/A	28,855	5.51
<b>F&amp;D Including Change in FDC</b>					
2012 Proved	202,034	14,475	13.96	N/A	N/A
2012 Proved Plus Probable	297,762	N/A	N/A	26,750	11.13
2011 Proved	255,411	12,091	21.12	N/A	N/A
2011 Proved Plus Probable	349,633	N/A	N/A	25,106	13.93
2010 Proved	84,067	428	196.42	N/A	N/A
2010 Proved Plus Probable	89,644	N/A	N/A	63	1,422.92
3 year average Proved	180,504	8,998	20.06	N/A	N/A
3 year average Proved Plus Probable	245,680	N/A	N/A	17,306	14.20
<b>F&amp;D Excluding Change in FDC</b>					
2012 Proved	91,660	14,475	6.33	N/A	N/A
2012 Proved Plus Probable	91,660	N/A	N/A	26,750	3.43
2011 Proved	149,601	12,091	12.37	N/A	N/A
2011 Proved Plus Probable	149,601	N/A	N/A	25,106	5.96
2010 Proved	64,120	428	149.81	N/A	N/A
2010 Proved Plus Probable	64,120	N/A	N/A	63	1,017.78
3 year average Proved	101,794	8,998	11.31	N/A	N/A
3 year average Proved Plus Probable	101,794	N/A	N/A	17,306	5.88

**Notes:**

- (1) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that year.
- (2) In addition to F&D costs, Cequence also calculates FD&A costs which incorporate both the costs and associated reserve additions related to acquisitions net of any dispositions during the year. Since acquisitions can have a significant impact on Cequence's annual reserve replacement costs, the Company believes that FD&A costs provide a more meaningful portrayal of Cequence's cost structure.

Substantially all of the Company's drilling expenditures during the year were on assets located in the Deep Basin area. The GLJ Report classifies all reserve changes due to discoveries, extensions, improved recoveries, technical revisions, acquisitions and economic factors on properties acquired or disposed of during the 2012 year as "Acquisitions" or "Dispositions". This definition includes the results of drilling operations before or after an acquisition or disposition is closed. The result is the F&D calculation for the 2012 fiscal year included in the table above based on the information contained in the GLJ reserve reconciliation.

**DESCRIPTION OF CAPITAL STRUCTURE**

Cequence is authorized to issue an unlimited number of Shares and an unlimited number of Non-Voting Shares. As at the date hereof, 200,610,083 Shares and no Non-Voting Shares were issued and outstanding.

**Shares**

Each Share entitles the holder thereof to one vote at all meetings of Shareholders (except meetings at which only holders of another specified class of shares are entitled to vote); to receive dividends as and when declared by the Board (provided that Cequence shall not pay dividends on Shares unless, at the same time Cequence declares and pays dividends on Non-Voting Shares in a proportionate amount); and subject to the prior rights of holders of any

other class of shares ranking ahead of Shares and on a *pari passu* basis together with the holders of Non-Voting Shares, to receive the remaining property of Cequence upon liquidation, dissolution or wind-up of Cequence.

### Non-Voting Shares

Holders of Non-Voting Shares are not, as such, entitled to receive notice of or to attend any meeting of Shareholders or to vote at any such meeting, subject to the provisions of the ABCA. Holders of Non-Voting Shares are entitled to dividends as and when declared by the Board (provided that Cequence shall not pay dividends on Non-Voting Shares unless, at the same time, Cequence also declares and pays dividends on Shares in a proportionate amount); and, subject to the rights of holders of any other class of shares ranking ahead of Non-Voting Shares on a *pari passu* basis together with the holders of Shares, to receive the remaining property of Cequence upon the liquidation, dissolution or wind-up of Cequence.

### DIVIDENDS

Cequence has not declared or paid any dividends on the Shares or the Non-Voting Shares since incorporation. It is not currently expected that dividends will be paid in respect of the Shares and/or Non-Voting Shares during the current phase of development of Cequence's business and operations. The payment of dividends in the future will be at the discretion of the Board and will be dependent on the future earnings and financial condition of the Company and such other factors as the Board considers appropriate.

### MARKET FOR SECURITIES

#### Trading Price and Volume

The Shares are listed and posted for trading on the TSX under the symbol "CQE". The following table sets forth the price ranges and volume traded of Shares as reported by the TSX for the periods indicated.

2012	High	Low	Close	Volume
January	3.05	1.71	1.80	17,080,055
February	1.81	1.44	1.50	34,471,725
March	1.64	1.20	1.32	11,604,221
April	1.60	1.26	1.56	6,668,704
May	1.61	1.22	1.22	16,323,473
June	1.20	0.88	0.96	42,115,723
July	1.47	1.07	1.45	28,072,991
August	1.47	1.18	1.22	4,501,210
September	1.79	1.19	1.77	19,066,233
October	2.05	1.64	1.85	19,086,063
November	1.91	1.50	1.54	11,486,161
December	1.58	1.41	1.44	8,378,447

#### Prior Sales

The following table sets forth, for each class of securities of the Company that is outstanding but not listed or quoted on a marketplace, the price at which securities of the class have been issued during the period from January 1, 2012 to December 31, 2012 and the number of securities of the class issued at that price and the date on which the securities were issued.

Date of Issue/Grant	Number and Designation of Securities	Issue/Exercise Price
January 30, 2012	70,000 Options	\$1.95
February 1, 2012	50,000 Options	\$1.92
March 8, 2012	150,000 Options	\$1.52
April 19, 2012	1,245,500 Options	\$1.34
June 20, 2012	11,683,000 Common Shares	\$1.20
June 20, 2012	4,850,000 Common Shares	\$1.45

<u>Date of Issue/Grant</u>	<u>Number and Designation of Securities</u>	<u>Issue/Exercise Price</u>
June 20, 2012	3,800,000 Common Shares	\$1.32
June 22, 2012	8,333,333 Common Shares	\$1.20
July 12, 2012	1,252,000 Common Shares	\$1.20
August 31, 2012	3,499,750 Options	\$1.24
October 9, 2012	100,000 Options	\$1.73
December 5, 2012	8,560,000 Common Shares	\$1.87
December 21, 2012	275,380 Common Shares	\$1.87

## DIRECTORS AND OFFICERS

### Directors and Officers

The following table sets forth the names, province or state and country of residence, present positions with Cequence and principal occupations during the past five years of the officers and directors of Cequence.

<u>Name and Residence</u>	<u>Position(s) with Cequence</u>	<u>Principal Occupation(s)</u>
Paul Wanklyn Alberta, Canada	President, Chief Executive Officer and Director	President and Chief Executive Officer of Cequence since September 2010. Prior thereto, from June 2004 to September 2010, President and Chief Executive Officer of Temple.
Howard Crone Alberta, Canada	Chief Operating Officer and Executive Vice President, Director	Chief Operating Officer of Cequence since September 2010. Prior thereto, from July 2009 to September 2010, President and Chief Executive Officer of Cequence. Prior thereto, from July 2004 to May 2009, an independent businessman.
David Gillis Alberta, Canada	Chief Financial Officer and Vice President, Finance	Chief Financial Officer and Vice President, Finance of Cequence since July 2009. Prior thereto, from March 2008 to June 2009, an independent consultant. Prior thereto, from July 2004 to March 2008, Treasurer of Cyries Energy Inc. ("Cyries"), a public oil and gas company.
James Jackson Alberta, Canada	Vice President, Engineering	Vice President, Engineering of Cequence since September 2010. Prior thereto, from August 2007 to September 2010, Vice-President Exploitation and Planning of Temple. Prior thereto, from July 2004 to July 2007, Senior Exploitation Engineer of Temple.
David Robinson Alberta, Canada	Vice President, Geology	Vice President, Geology of Cequence since September 2010. Prior thereto, from July 2004 to September 2010, Vice President and Chief Geologist of Temple.
Christopher Soby Alberta, Canada	Vice President, Land	Vice President, Land of Cequence since September 2010. Prior thereto, from July 2004 to September 2010, Vice President, Land and Business Development of Temple.
Michael Stewart Alberta, Canada	Vice President, Operations	Vice President, Operations of Cequence since September 2010. Prior thereto, from August 2007 to September 2010, Vice President, Operations of Temple. Prior thereto, from May 2006 to August 2007, Manager, Drilling & Completions of ProspEx Resources. Prior thereto, from December 2001 to May 2006, Senior Reservoir Engineer/Manager Engineering of Burlington Resources.
Stephen Stretch Alberta, Canada	Vice President, Geophysics	Vice President, Geophysics of Cequence since September 2010. Prior thereto Vice President and Chief Geophysicist of Temple from July 2004 to September 2010.
Erin Thorson Alberta, Canada	Controller	Controller of Cequence since July 2009. Prior thereto, from June 2004 to March 2008, Chief Financial Officer and Controller of Cyries.
Kirk Litvenenko Alberta, Canada	Corporate Secretary	Partner of Norton Rose Canada LLP.
Donald Archibald <sup>(1)(2)</sup> Alberta, Canada	Chairman and Director	Independent businessman since March 2008. Prior thereto, from June 2004 to March 2008, Chairman and Chief Executive Officer of Cyries.
Peter Bannister <sup>(3)(4)</sup> Alberta, Canada	Director	President of Destiny Energy Inc., a private oil and gas company, since February 2007. Prior thereto, from January 2006 to February 2007, Vice-President, Exploration of Mission. Prior thereto, from April 2004 to January 2005, Vice President, Exploration of StarPoint Energy Ltd. ("StarPoint"), a public oil and gas company.

<b>Name and Residence</b>	<b>Position(s) with Cequence</b>	<b>Principal Occupation(s)</b>
Paul Colborne <sup>(2)</sup> Alberta, Canada	Director	President of Star Valley Oil and Gas Ltd., a private oil and gas company, since October 2006. Prior thereto, from January 2005 to January 2006, President and Chief Executive Officer of StarPoint Energy Trust, a public oil and gas trust. Prior thereto, from September 2003 to January 2005, President and Chief Executive Officer of StarPoint.
Robert Cook <sup>(1)(4)</sup> Alberta, Canada	Director	Senior Vice-President, Exploration and Production Group of ARC Financial Corporation since March 2000.
Brian Felesky Q.C. O.C. <sup>(1)(2)</sup> Alberta, Canada	Director	Vice Chairman, Investment Banking Canada of Credit Suisse Securities (Canada) Inc. since February 2011. Prior thereto, from July 2006 to the present, Counsel to the law firm of Felesky Flynn LLP. Prior thereto, from April 1978 to July 2006, Partner of Felesky Flynn LLP.
Daryl Gilbert Alberta, Canada <sup>(4)(5)</sup>	Director	Managing Director of JOG Capital Inc. since May 2008. Prior thereto, from January 2005 to May 2008, independent businessman. Prior thereto, from 1994 to 2005, President and Chief Executive Officer of GLJ.
James Gray O.C. <sup>(3)</sup> Alberta, Canada	Director	Corporate Director. Prior thereto, from 1973 to December 2001, Executive Vice President, President, Chief Executive Officer and Chairman of Canadian Hunter Exploration Ltd., a public oil and gas company.
Francesco Mele <sup>(3)(4)</sup>	Director	Managing Director of KERN Partners Ltd. since May 2008. Prior thereto, from September 2005 to February 2008, Managing Director, Investment Banking of CIBC World Markets Inc.

**Notes:**

- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Nominating and Corporate Governance Committee.
- (4) Member of the Reserves and Environment, Health & Safety Committee.
- (5) Mr. Gilbert was a director of Globel Direct Inc. ("**Globel**") from May 1998 until the present. On November 20 and November 22, 2002 the British Columbia Securities Commission and the Alberta Securities Commission, respectively, issued cease trade orders because of the company's failure to file its financial statements. The required financial statements were filed and the cease trade orders were revoked on December 23, 2002. On June 12, 2007, the Court of Queen's Bench of Alberta granted an initial order to Globel for creditor protection under the CCAA. Such protection expired on December 7, 2007, the monitor was discharged on December 12, 2007 and a receiver manager was appointed.

Messrs. Crone, Archibald, Colborne and Bannister have been directors since July 2009. Mr. Mele has been a director since June 2010. Messrs. Cook, Felesky, Gray and Wanklyn have been directors since September 2010. Mr. Gilbert has served as a director since October 2012. Each of the directors has been elected or appointed to serve as such until the next annual meeting of the Shareholders or until his successor is duly elected or appointed, unless his office is earlier vacated in accordance with the articles or by-laws of the Company.

As of the date hereof, the directors and executive officers of Cequence as a group beneficially owned, directly or indirectly, or exercised control or direction over 15,070,389 Shares representing 7.5 percent of the issued and outstanding Shares. In addition, Mr. Mele is a Managing Director of KERN Partners Ltd., an affiliate of KERN Energy Partners Management Ltd. and KERN Energy Partners Management II Ltd., which collectively, hold 12,756,456 Shares, representing approximately 6.4 percent of the currently outstanding Shares. In addition, Mr. Cook is an officer of ARC Financial Corporation, an affiliate of ARC Equity Management (Fund 3) Ltd. and ARC Energy Venture Fund 4, which collectively, hold 17,960,127 Shares, representing approximately 9.0 percent of the currently outstanding Shares. In addition, Mr. Gilbert is a Managing Director of JOG Capital Inc., an affiliate of JOG Limited Partnership No. III, JOG Limited Partnership No. IV and JOG Limited Partnership No. V which collectively, hold 28,845,874 Shares, representing approximately 14.4 percent of the currently outstanding Shares. The directors and executive officers of Cequence, as a group, hold Options to purchase 10,842,500 Shares.

**Corporate Cease Trade Orders or Bankruptcies**

To the knowledge of management, except as otherwise disclosed herein, no director or executive officer of Cequence is, or has been, within the past 10 years before the date hereof, a director or executive officer of any issuer that, while that person was acting in that capacity: (i) was the subject of a cease trade or similar order or an order that denied the issuer access to any exemption under securities legislation for a period of more than 30 consecutive days; or (ii) was subject to an event that resulted, after the person ceased to be a director or executive officer, in the issuer being the subject of a cease trade or similar order or an order that denied the issuer access to any exemption under securities legislation for a period of more than 30 consecutive days.

To the knowledge of management, except as otherwise disclosed herein, no director, executive officer of Cequence is, or has been, within the past 10 years before the date hereof, a director or executive officer of any issuer that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

### **Personal Bankruptcies**

To the knowledge of management, no director, executive officer of Cequence has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such person's assets.

### **Penalties or Sanctions**

To the knowledge of management, no director, executive officer of Cequence has: (i) been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, other than penalties for late filing of insider reports; or (ii) been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

Circumstances may arise where Board members are directors or officers of corporations which are in competition to the interests of Cequence. No assurances can be given that opportunities identified by such Board members will be provided to Cequence. Pursuant to the ABCA, directors who have an interest in a proposed transaction upon which the Board is voting are required to disclose their interests and refrain from voting on the transaction.

## **AUDIT COMMITTEE**

### **Composition of the Audit Committee**

The Audit Committee of the Board operates under written terms of reference that set out its responsibilities and composition requirements. A copy of the terms of reference is attached to this Annual Information Form as Appendix "C". The Audit Committee consists of Messrs. Archibald, Cook and Felesky (Chairman). All members of the Audit Committee are independent and financially literate (as determined by National Instrument 52-110, *Audit Committees*).

In considering criteria for the determination of financial literacy, the Board looked at the ability to read and understand a balance sheet, an income statement and cash flow statement of a public company as well as the director's past experience in reviewing or overseeing the preparation of financial statements. The following sets out the education and experience of each director relevant to the performance of his duties as a member of the Audit Committee.

#### ***Donald Archibald***

Mr. Archibald has over 20 years experience in the oil and gas industry. Mr. Archibald currently also serves as a director for a number of public and private companies. Mr. Archibald holds a Bachelor of Commerce degree and a Masters in Business Administration degree. For more information with respect to Mr. Archibald's principal occupations during the past five years, see "Directors and Officers" in this Annual Information Form.

**Robert Cook**

Mr. Cook is the Senior Vice-President, Exploration and Production Group of ARC Financial Corporation and has over 20 years experience in the financial and oil and gas industries. Mr. Cook currently also serves as a director for various public and private companies. Mr. Cook holds a Bachelor of Engineering and Management degree and a Masters in Business Administration degree and is a CFA Charterholder. For more information with respect to Mr. Cook's principal occupations during the past five years, see "Directors and Officers" in this Annual Information Form.

**Brian Felesky Q.C. O.C.**

Mr. Felesky is the Vice-Chair, Investment Banking of Credit Suisse Securities (Canada), Inc. and has over 30 years experience as a tax lawyer involved in structuring company financings, reorganizations, acquisitions and dispositions. Mr. Felesky currently also serves as a director for various public and private companies. Mr. Felesky holds a Bachelor of Arts degree and a Bachelor of Laws degree. For more information with respect to Mr. Felesky's principal occupations during the past five years, see "Directors and Officers" in this Annual Information Form.

**Auditors' Fees**

Deloitte LLP, Chartered Accountants, became Cequence's auditors on December 1, 2009. Fees paid to Cequence's auditors for the years ended December 31, 2012 and 2011 are detailed below:

Fee	For the year ended December 31, 2012	For the year ended December 31, 2011
Audit-Related Fees <sup>(1)</sup>	\$ 178,000	\$ 181,360
Tax Fees <sup>(2)</sup>	6,000	60,432
All Other Fees <sup>(3)</sup>	61,000	139,092
Total	\$ 245,000	\$ 380,084

**Notes:**

(1) "Audit-Related Fees" include the aggregate professional fees paid to the external auditors for the audit of the annual consolidated financial statements and other annual regulatory audits and filings. It also includes the aggregate fees paid to the external auditors for services related to the audit services, including reviewing quarterly financial statements and management's discussion thereon and conferring with the Board and Audit Committee regarding financial reporting and accounting standards.

(2) "Tax Fees" include the aggregate fees paid to external auditors for tax compliance, tax advice, tax planning and advisory services, including namely preparation of tax returns.

(3) "Other Fees" include fees for assurance procedures in connection with filings statements and information circulars and services related to underwriter's due diligence.

All permissible categories of non-audit services require pre-approval by the Audit Committee, subject to certain statutory exemptions.

**RISK FACTORS**

**Exploration, Development and Production Risks**

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Company's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Company will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Company may determine that current markets, terms of acquisition and participation, pricing or cost conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Company.



Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological or mechanical conditions.

To the extent the Company is not the operator of its oil and gas properties, the Company is dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, pipelines, production facilities, other property and the environment or in personal injury. In accordance with standard industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although the Company maintains liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial condition.

### **Prices, Markets and Marketing**

The marketability and price of oil, natural gas and NGL that may be acquired or discovered by the Company will be affected by numerous factors beyond its control. The Company's ability to market its natural gas, oil and NGL may depend upon its ability to acquire space on pipelines that deliver production to commercial markets. The Company may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities, and related to operational problems with such pipelines and facilities, as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil, natural gas and NGL and many other aspects of the oil and natural gas business.

The Company's revenues, profitability and future growth and the carrying value of its oil and gas properties are substantially dependent on prevailing prices of oil, natural gas and NGL which are volatile and subject to fluctuations. The Company's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and natural gas prices. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond the control of the Company. These factors include economic conditions, in the United States and Canada, the actions of OPEC and Russia, governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and natural gas, the price of foreign imports and the availability of alternative fuel sources. Fluctuations in the price of oil and natural gas could have an adverse effect on the Company's carrying value of its proved reserves, borrowing capacity, revenues, profitability and funds flows from operations.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and the demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing credit and liquidity concerns.

Volatile oil, natural gas and NGL prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and natural gas producing properties, as buyers and

sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

In addition, financial resources available to the Company are in part determined by the Company's borrowing base. A sustained material decline in prices from historical average prices could reduce the Company's borrowing base, therefore reducing the bank credit available to the Company which could require that a portion, or all, of the Company's bank debt to be repaid.

### **Global Financial Environment**

The market events and conditions witnessed over the past several years, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to and reductions in commodity prices. The continued uncertainty in the global economic situation means that the company, along with all other oil and gas entities, may continue to face restricted access to capital and increased borrowing costs. To the extent that external sources of capital become limited or unavailable or available on unfavourable terms, the Company's ability to make capital investments and maintain existing properties may be constrained, and, as a result, Cequence's business, financial condition, results of operations and cash flow may be materially adversely affected.

Due to the current global credit crisis and recession, oil 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 actions of the OPEC and the ongoing global credit and liquidity concerns.

### **Failure to Realize Anticipated Benefits of Acquisitions and Dispositions**

The Company makes acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Company's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Cequence. The integration of acquired businesses may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets are periodically disposed of, so that the Company can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the Company, if disposed of, could be expected to realize less than their carrying value on the financial statements of the Company.

### **Variations in Foreign Exchange Rates and Interest Rates**

World oil and natural gas prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canadian/United States dollar exchange rates, which fluctuates over time. In recent years, the Canadian dollar has increased materially in value against the United States dollar. Material increases in the value of the Canadian dollar negatively impact the Company's production revenues. Future Canadian/United States dollar exchange rates could accordingly impact the future value of the Company's reserves as determined by independent evaluators.

To the extent that the Company engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which the Company may contract.

An increase in interest rates could result in a significant increase in the amount the Company pays to service debt, which could negatively impact the market price of the Shares.

### **Regulatory**

Oil and gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time, See "Industry Conditions" in this Annual Information Form. The Company's operations may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain or review

all necessary licenses and permits that may be required to carry out exploration and development of its projects and the obtaining of such licenses and permits may delay operations of the Company. Changes to the regulation of the oil and gas industry in jurisdictions in which the Company operates may adversely impact the Company's ability to economically develop existing reserves and add new reserves.

### **Environmental**

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and national, provincial, state and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned, remediated and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of same can result in the imposition of clean-up orders, fines and/or penalties, some of which may be material, as well as possible suspension or forfeiture of requisite licenses or permits obtained from the various governmental authorities. The release of GHG emissions and other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge. Although the Company believes that it is in material compliance with current applicable environmental laws and regulations, no assurance can be given that environmental laws and regulations will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects. See "Industry Conditions - Environmental Regulation" in this Annual Information Form.

### **Substantial Capital Requirements**

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. In the event the Company's revenues or reserves decline, the Company may have limited ability to expend the capital necessary to undertake or complete future drilling programs. 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 financial condition, results of operations or prospects.

### **Additional Funding Requirements**

The Company's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Company may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Company's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Company's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Company's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing to meet these requirements will be available at all or on terms acceptable to the Company.

### **Reserve Estimates**

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and NGL reserves and cash flows to be derived therefrom, including many factors beyond the Company's control. The reserve and associated cash flow information set forth in this Annual Information Form represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, future commodity prices, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil, natural gas and NGL, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons,

estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. The Company's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, GLJ has used forecast price and cost estimates in calculating reserve quantities included herein. Actual future net revenue will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and revenues derived therefrom will vary from the estimates contained in the GLJ Report and such variations could be material. The GLJ Report is based in part on the assumed success of activities the Company intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the GLJ Report will be reduced to the extent that such activities do not achieve the level of success assumed in the GLJ Report.

### **Royalty Rates**

The potential for additional future changes and corresponding changes in the royalty regimes applicable in the provinces of Alberta and British Columbia, have created uncertainty surrounding the ability to accurately estimate future royalties, resulting in additional volatility and uncertainty in the oil and gas market. Increases to royalty rates in jurisdictions in which the Company operates may negatively impact the Company's results from operations and its ability to economically develop existing reserves or add new reserves.

### **Competition**

Oil and natural gas exploration is intensely competitive in all of its phases and involves a high degree of risk. The Company competes with numerous other participants in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. The Company's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Company. The Company's ability to increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery. Competition may also be presented by alternate fuel sources.

### **Availability of Drilling Equipment and Access**

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities. To the extent the Company is not the operator of its oil and gas properties, the Company will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

### **Title to Assets**

It is the practice of the Company when acquiring significant oil and gas leases or interest in oil and gas leases to examine the title to the interest under the lease. In the case of minor acquisitions the Company may rely upon the judgment of oil and gas lease brokers or landmen who perform the field work in examining records in the appropriate governmental office before attempting to place under lease a specific interest. The Company believes

that this practice is widely followed in the oil and gas industry. Nevertheless, there may be title defects which affect lands comprising a portion of the Company's properties which may adversely affect the Company.

### **Hedging**

From time to time the Company may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company will not benefit from such increases. Similarly, from time to time the Company may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, the Company would not benefit from the fluctuating exchange rate for the fixed price agreement amount.

### **Issuance of Debt**

From time to time the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. Depending on future exploration and development plans, the Company may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Company's articles nor its by-laws limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time, could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

### **Credit Risk**

The majority of the Company's accounts receivable are due from joint venture partners in the oil and gas industry and from purchasers of the Company's petroleum and natural gas production and are subject to the same industry factors such as commodity price fluctuations and escalating costs. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions.

### **Seasonal Impact on Industry**

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments may at times restrict the movement of drilling rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the oil, natural gas and NGL produced by Cequence.

### **Conflicts of Interest**

There are potential conflicts of interest to which some of the directors and officers of the Company will be subject in connection with the operations of the Company. Some of the directors and officers are engaged and will continue to be engaged in the search of oil and gas interests on their own behalf and on behalf of other corporations, and situations may arise where the directors and officers will be in direct competition with the Company.

Conflicts of interest, if any, which arise will be subject to and be governed by procedures prescribed by the ABCA which require a director or officer of a corporation who is a party to or is a director or an officer of or has a material interest in any person who is a party to a material contract or proposed material contract with the Company, to disclose his interest and to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

### **Reliance on Key Personnel**

The Company's success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on the Company. The Company does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of the Company are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Company.

### **Expiration of Licences and Leases**

The Company's properties are held in the form of licences and leases and working interests in licences and leases. If the Company or the holder of the licence or lease fails to meet the specific requirements of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of the Company's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on the Company's results of operations and business.

### **Management of Growth**

The Company may be subject to growth related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expend, train and manage its employee base. The inability of the Company to deal with this growth could have a material adverse impact on its business, operations and prospects.

### **Insurance**

The Company's involvement in the exploration for and development of oil and natural gas properties may result in the Company becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although prior to drilling the Company will obtain insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Company's financial position, results of operations or prospects.

## **INDUSTRY CONDITIONS**

The oil and natural gas industry is subject to extensive laws and regulations governing its operations (including land tenure, exploration, development, production, refining, transportation, and marketing) imposed by various levels of governments and with respect to pricing and taxation of oil and natural gas by agreements among the Governments of Canada, Alberta and British Columbia, all of which should be carefully considered by investors in the oil and gas industry. It is not expected that any of these laws or regulations will affect the Company's operations in a manner materially different than they would affect other oil and gas companies of similar size. All current laws and regulations are a matter of public record and the Company is unable to predict what additional laws and regulations or amendments may be enacted. Outlined below are some of the principal aspects of the legislation, regulations and agreements governing the oil and gas industry.

### **Pricing and Marketing**

In Canada, oil producers negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. The price depends in part on oil quality, prices of competing fuels, distance to market, and the value of refined products. Oil exports may be made under export contracts having terms not exceeding one

year in the case of light oil, and not exceeding two years in the case of heavy oil, provided that an order approving any such export has been approved by the NEB. Any oil export to be made pursuant to a contract of longer duration requires an exporter to obtain an export licence from the NEB and the issue of such a licence requires the approval of the Government of Canada.

In Canada, the price of natural gas and NGL sold is determined by negotiation between buyers and sellers. Natural gas and NGL exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that export contracts in excess of two years must continue to meet certain criteria prescribed by the NEB and the Government of Canada. Natural gas exports for a term of less than two years must be made pursuant to an NEB order, or, in the case of exports for a longer duration, pursuant to an NEB licence and Government of Canada approval.

The provincial governments of Alberta and British Columbia also regulate the removal of gas from their jurisdictions for consumption elsewhere based upon such factors as reserve availability, transportation arrangements and market considerations.

### **Royalties**

Alberta and British Columbia each have legislation and regulations which govern royalties. The royalty regime is a significant factor in the profitability of oil and natural gas production. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production, and the royalty rate payable generally depends in part on the prescribed reference prices for the oil and natural gas, well productivity, geographical location, field discovery date, method of recovery and the type or quality of the petroleum product produced.

Royalties payable on production from lands other than Crown lands are determined by negotiation between the mineral freehold owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Other royalties and royalty-like interests are, from time to time, carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits interests, or net carried interests.

### **Competitive Conditions**

The oil and natural gas industry in Canada is intensely competitive in all of its phases. Cequence competes with a substantial number of other companies that may have greater technical or financial resources. Many such companies not only explore for and produce oil and natural gas, but also carry on refining operations and market oil and other products on a worldwide basis. Generally there is intense competition for the acquisition of undeveloped or producing resource properties considered to have commercial potential. Prices paid for oil and natural gas properties are subject to market fluctuations and will directly affect the profitability of producing any oil or natural gas reserves that may be acquired or developed by the Company.

### **Environmental Regulation**

#### ***Federal***

Canada is a signatory to the United Nations Framework Convention on Climate Change and the Kyoto Protocol thereunder but has announced that it is withdrawing from the Kyoto Protocol. The Canadian federal government originally indicated an intention to regulate the emissions of GHGs from a range of industries in the Framework. The Framework was updated on March 10, 2008 pursuant to the Update. The Federal Plan outlines a number of policies to reduce GHGs intensity of regulated facilities. New facilities (which are defined as those facilities whose first year of operation is 2004 or later) would face intensity reduction requirements beginning in their fourth year of commercial production, of 2% per year from their "baseline" emissions intensity (which baseline is the emissions intensity for such facility's third year of commercial production) until at least 2020. Compliance options for new facilities under the Federal Plan include making emissions intensity improvements; making investments in certified carbon capture and storage projects; buying offsets or emissions performance credits; and for a portion of each entity's emissions reduction obligations, making payments of \$20 per tonne in 2013 and an escalating annual rate per tonne thereafter; to the federal technology fund.

The Federal Plan also includes proposed requirements to be implemented by the Canadian federal government which would govern the emission of industrial air pollutants. Certain of the proposed requirements include fixed emissions caps, an emissions credit trading system, and several options from which companies can choose to meet their GHG emission reduction targets. At present, the status of its proposals is unclear. The Canadian federal government has repeatedly stated that it intends to align their GHG emission reduction policies with those of the United States, and it is willing to wait until the United States has developed its framework before implementing any policies here in Canada. As such, and given the current political climate in Washington, it is unclear if, when, or in what form, the Federal Plan will be implemented.

Several of the provinces and territories are working together with various American states to develop a cap and trade system. It remains to be seen whether the Canadian federal government would adopt such an approach, but given its statements regarding aligning policy with the United States, this will likely depend on whether the United States adopts a cap and trade system. No assurance can be given that either a modified Federal Plan or a North American cap and trade system will or will not be implemented, or what kinds of obligations may be imposed under such a system.

In February 2009, the United States and Canada established the 'Clean Energy Dialogue' in order for the two countries to collaborate on the development of clean energy science and technologies to reduce GHG emissions and combat climate change. A number of working groups have been created to develop recommendations for joint initiatives.

At the July 2009 G8 Summit in Italy, Canada and the other G8 members agreed to work together toward achieving at least a 50 percent reduction of global GHG emissions by 2050. Canada reiterated its commitment to this goal at the June 2010 G8 Summit in Huntsville, Ontario.

In December 2009, Canada participated in the COP 15 in Denmark, the goal of which was to reach a new agreement for fighting global climate change. COP 15 resulted in the non-binding Copenhagen Accord, whereby Canada and the other participating countries committed to implementing quantified economy-wide emissions targets by 2020. Canada submitted its GHG emission reduction targets on January 30, 2010, noting that: (a) its target is a 17 percent reduction from a baseline of 2005 emission levels (which target is aligned with the final economy-wide emissions target and base year of the United States); and (b) its submission is dependant on the other parties to the Copenhagen Accord submitting emissions targets and mitigation actions in accordance with such Accord.

There has been much public debate surrounding Canada's ability to meet emission reduction targets and the strategies proposed for controlling climate change and GHG emissions. It is likely that any such strategies which are eventually adopted by the Canadian government will materially impact the nature of oil and gas operations, including those carried out by Cequence. At present, it is not possible to predict the impact such strategies will have on the business, operations and/or finances of Cequence.

### ***Alberta***

Environmental legislation in the Province of Alberta has largely been consolidated into the *Environmental Protection and Enhancement Act* (Alberta), the *Water Act* (Alberta), and the *Oil and Gas Conservation Act* (Alberta). These statutes impose environmental standards, require compliance, reporting and monitoring obligations, and impose penalties. In addition, the emission reduction requirements in the *Climate Change and Emissions Management Act* (Alberta) came into effect on July 1, 2007. Under this legislation, Alberta facilities emitting more than 50,000 tonnes of GHG emissions per year must report such emission to Alberta Environment and Water and to Environment Canada while facilities emitting more than 100,000 tonnes of GHG emissions per year must reduce their emissions intensity by 12 percent. The Company has four options to choose from in order to meet the reduction requirements outlined in this legislation, and these are: making improvement to operations that result in reductions; purchasing emission credits from other sectors or facilities that have reduced their emissions below the required emission intensity reduction levels; purchasing off-set credits from other sectors or facilities that have emissions below the 100,000 tonne threshold and are voluntarily reducing their emissions in Alberta; or contributing to the 'Climate Change and Emissions Management Fund'. The Company can choose one of these options or a combination thereof, however it should be noted that the price of off-set credits could be raised, and the required reductions in GHG emissions intensity presently set forth can be increased to unspecified levels.



## ***British Columbia***

British Columbia's Oil and Gas Activities Act regulates the oil and gas industry, including imposing environmental standards, requiring compliance, reporting and monitoring obligations and imposing penalties.

On February 27, 2007, the Government of British Columbia unveiled the BC Energy Plan, which outlines the province's energy strategy. The BC Energy Plan sets targets for reducing GHG emissions, promoting investments in innovation, and sustainable environmental management. The BC Energy Plan's objectives are to achieve clean energy through conservation and energy efficient practices, and to increase competitiveness in order to attract new investment in the oil and natural gas industry. The changes proposed include: (i) the creation of policies and measures for the reduction of emissions; (ii) the elimination of routine flaring at producing wells; (iii) the establishment of the Innovative Clean Energy Fund, in order to find new technologies that will help solve energy and environmental issues; (iv) a new Oil and Gas Technology Transfer Incentive Program, which encourages the research, development and use of innovative technologies to responsibly develop new oil and natural gas reserves and increase recoveries from existing reserves; and (v) the development of unconventional resources such as tight gas and coalbed gas.

In furtherance of these initiatives, the Government of British Columbia introduced the *Carbon Tax Act* on July 1, 2008. The carbon tax applies to fuels such as gasoline, diesel, natural gas, propane and coal, and it is revenue-neutral, meaning tax revenues will be returned to taxpayers through reductions in other provincial taxes.

On April 3, 2008, the Government of British Columbia introduced the *Greenhouse Gas Reduction (Cap and Trade) Act*, which will allow participation in the Western Climate Initiative cap and trade systems being developed. The proposed system establishes a limit on GHG emissions, and allows regulated emitters to buy/sell GHG emission allowances or offset emits. The emitter is obliged to obtain GHG emission allowances (compliance units) which are equal to the amount of GHG emitted within a certain period of time, which are then to be surrendered to the British Columbia government as proof of compliance.

## **Pipeline Capacity**

Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and to market natural gas production. In addition, the pro-rationing of capacity on the inter provincial pipeline systems also continues to affect the ability to export oil and natural gas.

## **The North American Free Trade Agreement**

NAFTA became effective on January 1, 1994. NAFTA carries forward most of the material energy terms contained in the Canada U.S. Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions are justified under certain provisions of the General Agreement on Tariffs and Trade, and further provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to the total supply of the energy resource (based upon the proportion prevailing in the most recent 36 month period or in such other representative period as the parties may agree), (ii) impose an export price higher than the domestic price subject to an exception with respect to certain measures which only restrict the volume of exports, and (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum or maximum export or import price requirements, provided, in the case of export price requirements, prohibition in any circumstances in which any other form of quantitative restriction is prohibited, and in the case of import price requirements, such requirements do not apply with respect to enforcement of countervailing and anti dumping orders and undertakings.

NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes. NAFTA also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements and avoid undue interference with pricing, marketing and distribution arrangements, which is important for Canadian natural gas exports.

## **Land Tenure**

Crude oil and natural gas located in the western Canadian provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licenses and permits for varying periods and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

## **Seasonality**

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments may at times restrict the movement of drilling rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. See "Risk Factors – Seasonal Impact on Industry" in this Annual Information Form.

## **LEGAL AND REGULATORY PROCEEDINGS**

Cequence is not a party to any legal proceeding nor was it a party to, nor is or was any of its property the subject of any legal proceeding, during the financial year ended December 31, 2012, nor is Cequence aware of any such contemplated legal proceedings, which involve a claim for damages, exclusive of interest and costs, that may exceed 10 percent of the current assets of Cequence.

During the year ended December 31, 2012, there were no: (i) penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority; (ii) penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision; or (iii) settlement agreements the Company entered into before a court relating to securities legislation or with a securities regulatory authority.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Except as disclosed in this Annual Information Form, no director, officer or principal Shareholder, nor any affiliate or associate of such a person, has or has had any material interest in any transaction or any proposed transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect Cequence.

## **TRANSFER AGENT AND REGISTRAR**

Valiant Trust Company, at its principal offices in Calgary, Alberta and Toronto, Ontario, is the transfer agent and registrar for the Shares.

## **MATERIAL CONTRACTS**

Except for contracts entered into in the ordinary course of business, the Company has not entered into any material contracts within the most recently completed financial year, or before the most recently completed financial year that are still in effect.

## **INTERESTS OF EXPERTS**

Reserve estimates contained in this Annual Information Form have been prepared by GLJ. As at December 31, 2012, the effective date of those estimates, and as of the date hereof, the principals, directors, officers and associates of GLJ, as a group, owned, directly or indirectly, less than one percent of the outstanding Shares.

The auditors of the Company, Deloitte LLP, are independent with respect to the Company, in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

#### **ADDITIONAL INFORMATION**

Additional information, including information as to directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans is contained in the Proxy Statement and Information Circular of the Company prepared in connection with the most recent annual meeting of Shareholder that involved the election of directors. Additional financial information is provided in the Company's financial statements and management discussion and analysis for the year ended December 31, 2012.

Copies of this Annual Information Form, any interim financial statements of the Company subsequent to the annual financial statements, the Company's Proxy Statement and Information Circular and other additional information relating to the Company are available on SEDAR at [www.sedar.com](http://www.sedar.com).

APPENDIX "A"

FORM 51-101F2

REPORT ON RESERVES DATA BY  
INDEPENDENT QUALIFIED RESERVES EVALUATOR OR AUDITOR

Terms to which a meaning is ascribed in National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities have the same meaning herein.

To the board of directors of Cequence Energy Ltd. (the "Company"):

1. We have evaluated the Company's reserves data as at December 31, 2012. The reserves data are estimates of proved and probable reserves and related future net revenue as at December 31, 2012, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2011, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors.

Independent Qualified Reserves Evaluator	Description and Preparation Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate - \$M)			
			Audited	Evaluated	Reviewed	Total
GLJ Petroleum Consultants	February 19, 2013	Canada	-	797,124	-	797,124

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.
7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

GLJ Petroleum Consultants Ltd., Calgary, Alberta, Canada, March 7, 2013

**GLJ PETROLEUM CONSULTANTS**

(Signed) "*Terry Aarsby, P.Eng.*"

Terry Aarsby, P.Eng.  
Vice President

**APPENDIX "B"**

**FORM 51-101F3**

**REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE**

*Terms to which a meaning is ascribed in National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities have the same meaning herein.*

Management of Cequence Energy Ltd. (the "**Company**") are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data which are estimates of proved, probable and possible reserves and related future net revenue as at December 31, 2012, estimated using forecast prices and costs.

Independent qualified reserves evaluators have evaluated and reviewed the Company's reserves data. The report of the independent qualified reserves evaluators is presented in Appendix "A" to the Annual Information Form of the Company effective as at December 31, 2012.

The Reserves Committee of the Board of Directors of the Company has:

- (a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluators;
- (b) met with the independent qualified reserves evaluators to determine whether any restrictions affected the ability of the independent qualified reserves evaluators to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluators.

The Reserves Committee of the Board of Directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The Board of Directors has approved:

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;
- (b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluators on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

(Signed) "R. Paul Wanklyn"  
R. Paul Wanklyn  
President and Chief Executive Officer

(Signed) "Howard Crone"  
Howard Crone  
Executive Vice President and Chief Operating Officer

(Signed) "Don Archibald"  
Don Archibald  
Chairman

(Signed) "Peter Bannister"  
Peter Bannister  
Director

Dated March 7, 2013

**APPENDIX "C"**  
**AUDIT COMMITTEE TERMS OF REFERENCE**

The Audit Committee (the "**Committee**") of the Board of Directors (the "**Board**") of Cequence Energy Ltd. (the "**Corporation**") shall have the oversight responsibility, authority and specific duties as described below.

**Composition**

The Committee will be comprised of three or more directors as determined by the Board, none of whom shall be an officer or employee of the Corporation or any subsidiary of the Corporation. In addition, each Committee member shall satisfy the independence, financial literacy and experience requirements of applicable securities laws, rules or guidelines, any applicable stock exchange requirements or guidelines and any other applicable regulatory rules. Determinations as to whether a particular director satisfies the requirements for membership on the Committee shall be made by the Board with the assistance of the Corporate Governance and Nominating Committee, if requested by the Board.

Members of the Committee shall be appointed by the Board. The Corporate Governance and Nominating Committee of the Board shall recommend to the Board eligible directors to fill vacancies on the Committee. Each member shall serve until his successor is appointed, unless he shall resign or be removed by the Board or he shall otherwise cease to be a director of the Corporation. The Board shall fill any vacancy if the membership of the Committee is less than three directors.

The Chair of the Committee may be designated by the Board or, if it does not do so, the members of the Committee may elect a Chair by vote of a majority of the full Committee membership.

**Communication, Expenses and Authority to Engage Advisors**

The Committee shall have access to such officers and employees of the Corporation, the Corporation's external auditor and to such information respecting the Corporation, as it considers to be necessary or advisable in order to perform its duties and responsibilities.

The Committee provides an avenue for communication, particularly for outside directors, with the external auditor and financial and senior management and the Board. The external auditor shall have a direct line of communication to the Committee through its Chair and shall report directly to the Committee. The Committee, through its Chair, may directly contact any employee in the Corporation as it deems necessary, and any employee may bring before the Committee, on a confidential basis, any matter involving the Corporation's financial practices or transactions.

The Committee has the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties and to set the compensation for any such counsel and advisors. Any engagement of independent counsel or other advisors is to be at the Corporation's expense.

The Corporation shall be responsible for all expenses of the Committee that are deemed necessary or appropriate by the Committee in carrying out its duties.

**Meetings and Record Keeping**

Meetings of the Committee shall be conducted as follows:

- the Committee shall meet at least four times annually at such times and at such locations as the Chair of the Committee shall determine, provided that meetings shall be scheduled so as to permit timely review of the quarterly and annual financial statements and reports. The external auditor or any two members of the Committee may also request a meeting of the Committee. The Chair of the Committee shall hold *in camera* sessions of the Committee, without management present, at every meeting;
- the Chair of the Committee shall preside as chair at each Committee meeting and lead Committee discussion on meeting agenda items;

- the quorum for meetings shall be a majority of the members of the Committee, present in person or by telephone or by other telecommunication device that permits all persons participating in the meeting to hear each other;
- a resolution in writing, signed by all of the members of the Committee, is as valid as if it had been passed at a meeting of the Committee;
- if the Chair of the Committee is not present at any meeting of the Committee, one of the other members of the Committee who is present at the meeting shall be chosen by the Committee to preside at the meeting;
- the Chair shall, in consultation with management and the external auditor, establish the agenda for the meetings and instruct management to circulate properly prepared agenda materials to the Committee with sufficient time for study prior to the meeting;
- every question at a Committee meeting shall be decided by a majority of the votes cast; in the event of a tie vote on any matter, such matter shall be presented to the Board for its consideration and determination;
- the President and Chief Executive Officer, the Executive Vice President and Chief Operating Officer, the Vice President, Finance and Chief Financial Officer and the Controller shall be available to advise the Committee, shall receive notice of meetings and may attend meetings of the Committee at the invitation of the Chair of the Committee. Other management representatives may be invited to attend as necessary; and
- a Committee member, or any other person selected by the Committee, shall be appointed at each meeting to act as secretary for the purpose of recording the minutes of each meeting.

The Committee shall provide the Board with a copy of the minutes of such meetings. Where minutes have not yet been prepared, the Chair shall provide the Board with oral reports on the activities of the Committee. All material information reviewed and discussed by the Committee at any meeting shall be referred to in the minutes and made available for examination by the Board upon request to the Chair.

### **Responsibilities**

The Committee is part of the Board. Its primary functions are to assist the Board in fulfilling its oversight responsibilities with respect to: (i) the oversight, review and approval of the financial statements and the accounting and financial reporting processes of the Corporation; (ii) the assessment of the system of internal controls that management has established; and (iii) the external audit process. In addition, the Committee shall assist the Board, as requested, in fulfilling its oversight responsibilities with respect to: (a) financial policies and strategies; (b) financial risk management practices; and (c) transactions or circumstances which could materially affect the financial profile of the Corporation.

The Committee shall be directly responsible, in its capacity as a committee of the Board, for recommending to the Board the nomination of the external auditor and the compensation and retention of the external auditor and overseeing the work of the external auditor and the relationship of the external auditor with the Corporation (including the resolution of disagreements between management and the external auditor regarding financial reporting).

The Committee should have a clear understanding with the external auditor that they must maintain an open and transparent relationship with the Committee, and that the ultimate accountability of the external auditor is to the shareholders of the Corporation.

## **Specific Duties**

### Relationship with External Auditor

The Committee shall:

- consider and make a recommendation to the Board as to the nomination or re-appointment of the external auditor for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services, ensuring that such auditor is a participant in good standing pursuant to applicable securities laws;
- consider and make a recommendation to the Board as to the compensation of the external auditor which is to be paid by the Corporation;
- oversee the work of the external auditor in performing their audit, review or attest services and oversee the resolution of any disagreements between management of the Corporation and the external auditor;
- review and discuss with the external auditor all significant relationships that the external auditor and its affiliates have with the Corporation and its affiliates in order to determine the external auditor's independence;
- as may be required by applicable securities laws, rules and guidelines, either:
  - pre-approve all non-audit services to be provided by the external auditor to the Corporation (and its subsidiaries, if any); or
  - adopt specific policies and procedures for the engagement of the external auditor for the purposes of the provision of non-audit services; and
- review and approve the hiring policies of the Corporation regarding partners and employees and former partners and employees of the present and former external auditor of the Corporation.

### Financial Statements and Financial Reporting

The Committee shall:

- review with management and the external auditor, and recommend to the Board for approval, the annual and interim financial statements of the Corporation and related annual and interim financial reporting, including management's discussion and analysis and earnings press releases;
- upon completion of each audit, review with the external auditor the results of such audit. This process should include but not be limited to reviewing:
  - the scope and quality of the audit work performed;
  - the capability of the Corporation's financial personnel;
  - the co-operation received from the Corporation's financial personnel during the audit;
  - the internal resources used;
  - significant transactions outside of the normal business of the Corporation; and
  - significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems;



- review with management and recommend to the Board for approval, any financial statements of the Corporation which have not previously been approved by the Board and which are to be included in a prospectus or other public disclosure document of the Corporation;
- consider and be satisfied that adequate policies and procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, and periodically assess the adequacy of such procedures; and
- review accounting, tax, legal and financial aspects of the operations of the Corporation as the Committee considers appropriate.

#### Internal Controls

The Committee shall:

- review with management and the external auditor, the adequacy and effectiveness of the internal control and management information systems and procedures of the Corporation (with particular attention given to accounting, financial statements and financial reporting matters) and determine whether the Corporation is in compliance with applicable legal and regulatory requirements and with the Corporation's policies;
- read the external auditor's recommendations regarding any matters, including internal control and management information systems and procedures, and management's responses thereto; and
- establish procedures for the receipt, retention and treatment of complaints, submissions and concerns regarding accounting, internal controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

#### Financial Risk Management

The Committee may, if requested by the Board, review the appropriateness and effectiveness of the Corporation's policies and business practices which impact on the financial integrity of the Corporation, including those relating to accounting and management reporting. The Committee may, if requested by the Board, also review the financial risks arising from the Corporation's exposure to such things as commodity prices, interest rates, foreign currency exchange rates and credit, the activities of the Corporation's marketing group, the Corporation's insurance program and tax or government audits and report the results of such reviews to the Board for the purpose of assisting the Board in identifying the principal business risks associated with the business of the Corporation.

#### **Review of Terms of Reference**

The Corporate Governance and Nominating Committee shall review and reassess the adequacy of these terms of reference annually, and otherwise as it deems appropriate and recommend changes to the Board. Such review shall include the evaluation of the performance of the Committee against criteria defined in the Committee and Board terms of reference.