Fourth Quarter Report
Year ended December 31, 2014

Q4

cequence energy ltd

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HIGHLIGHTS

(000s except per share and per unit amounts)	Three months ended December 31, 2014	2013	% Change	Twelve months ended December 31, 2014	2013	% Change
Financial ($)						
Production revenue [(1)]	**25,566**	28,483	(10)	**136,893**	105,617	30
Comprehensive income (loss)	**(4,422)**	(827)	(435)	**79,368**	(2,613)	3,137
Per share - basic	**(0.02)**	(0.00)	n/a	**0.38**	(0.01)	3,900
Per share - diluted	**(0.02)**	(0.00)	n/a	**0.37**	(0.01)	3,800
Funds flow from operations [(2)]	**13,745**	14,855	(7)	**70,650**	51,312	38
Per share - basic	**0.07**	0.07	-	**0.33**	0.25	32
Per share - diluted	**0.06**	0.07	(14)	**0.33**	0.25	32
Production volumes						
Natural gas (Mcf/d)	**49,265**	53,433	(8)	**55,826**	52,705	6
Crude oil (bbls/d)	**97**	119	(18)	**118**	125	(6)
Natural gas liquids (bbls/d)	**541**	569	(5)	**583**	524	11
Condensate (bbls/d)	**872**	800	9	**927**	750	24
Total (boe/d)	**9,720**	10,394	(6)	**10,932**	10,183	7
Sales prices						
Natural gas, including realized hedges ($/Mcf)	**3.92**	3.82	3	**4.54**	3.57	27
Crude oil ($/bbl)	**73.15**	78.56	(7)	**89.76**	86.46	4
Natural gas liquids ($/bbl)	**29.67**	44.46	(33)	**41.10**	39.72	3
Condensate ($/bbl)	**70.59**	88.44	(20)	**94.04**	92.52	2
Total ($/boe)	**28.59**	29.79	(4)	**34.31**	28.42	21
Netback ($/boe)						
Price	**28.59**	29.79	(4)	**34.31**	28.42	21
Royalties	**(1.25)**	(1.85)	(32)	**(3.51)**	(2.32)	51
Transportation	**(1.48)**	(1.62)	(9)	**(1.48)**	(1.60)	(8)
Operating costs	**(6.67)**	(7.33)	(9)	**(7.63)**	(7.66)	-
Operating netback	**19.19**	18.99	1	**21.69**	16.84	29
General and administrative	**(2.27)**	(1.65)	38	**(2.21)**	(1.95)	13
Interest [(5)]	**(1.87)**	(1.77)	6	**(1.87)**	(0.93)	101
Cash netback	**15.05**	15.57	(3)	**17.61**	13.96	26
Capital expenditures ($)						
Capital expenditures	**56,472**	51,578	9	**180,215**	117,909	53
Net acquisitions (dispositions) [(4)]	**(2,381)**	(47)	4,966	**(150,782)**	(2,675)	5,537
Total capital expenditures	**54,091**	51,531	5	**29,433**	115,234	(74)
Net debt and working capital (deficiency) [(3)]	**(71,354)**	(111,433)	(36)	**(71,354)**	(111,433)	(36)
Weighted average shares outstanding						
Basic	**211,028**	210,917	-	**210,990**	207,950	1
Diluted	**212,069**	210,917	1	**214,092**	207,950	3

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

(2) Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures and net changes in non-cash working capital.

(3) Net debt and working capital (deficiency) is calculated as cash and net working capital less commodity contract assets and liabilities, demand credit facilities, principal value of senior notes and excluding other liabilities.

(4) Represents the cash proceeds from the sale of assets and cash paid for the acquisition of assets, as applicable.

(5) Represents finance costs less amortization on transaction costs and accretion expense on senior notes and provisions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial and operating results of Cequence Energy Ltd. ("Cequence" or the "Company") should be read in conjunction with the Company's audited consolidated financial statements (the "consolidated financial statements") and related notes for the years ended December 31, 2014 and 2013.

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

This MD&A is dated March 5th, 2015.

Basis of Presentation

The Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

For fiscal 2014, the ratio between the average price of West Texas Intermediate ("WTI") crude oil at Cushing and NYMEX natural gas was approximately 22:1 ("Value Ratio"). The Value Ratio is obtained using the 2014 WTI average price of $93.03 (US$/Bbl) for crude oil and the 2014 NYMEX average price of $4.26 (US$/MMbtu) for natural gas. This Value Ratio is significantly different from the energy equivalency ratio of 6:1 and using a 6:1 ratio would be misleading as an indication of value.

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

Non-GAAP Measurements

Within the MD&A references are made to terms commonly used in the oil and gas industry, including operating netback, cash netback, net debt and working capital (deficiency) and funds flow from operations.

Operating and cash netback is not defined by IFRS in Canada and is referred to as a non-GAAP measure. Operating netback equals total revenue less royalties, operating costs and transportation costs. Cash netback equals the operating netback less general and administrative expenses and interest expense. Management utilizes these measures to analyze operating performance.

Net debt and working capital (deficiency) is a non-GAAP term that is calculated as cash and net working capital less commodity contract assets and liabilities, demand credit facilities, principal value of senior notes and excluding other liabilities. Cequence uses net debt and working capital deficiency as it provides an estimate of the Company's assets and obligations expected to be settled in cash.

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

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

Description of the Business

Cequence is actively engaged in the exploration for and the development of oil and natural gas reserves. Cequence's primary focus is the development of its Simonette asset in the Alberta Deep Basin. The Company also has assets in Northeast British Columbia and the Peace River Arch of Alberta.

On July 7, 2014, Cequence sold its Ansell property for total cash consideration of $139,956, prior to closing adjustments ("Ansell Disposition") and net of costs. The Ansell property is located in the Alberta Deep Basin and at the time of sale consisted of 18,800 net acres of land, 1,600 boe/d of current production and a 49% working interest in the field infrastructure. The sale resulted in a gain recognized in comprehensive income of $91,847.

Proceeds of the disposition were initially used to repay borrowings on the Company's demand credit facilities with the excess amount held as cash and will be used to fund the Company's ongoing capital expenditure program.

The common shares of Cequence trade on the Toronto Stock Exchange under the symbol CQE.

Selected Financial Information

A reconciliation of cash flow from operating activities to funds flow from operations and other selected financial information is as follows:

	Three months ended December 31,		Twelve months ended December 31,		
($000s)	**2014**	2013	**2014**	2013	2012
Cash flow from operating activities	**10,499**	9,317	**68,132**	43,823	37,770
Decommissioning liabilities expenditures	**426**	137	**1,382**	619	904
Net change in non-cash working capital	**2,820**	5,401	**1,136**	6,870	(4,950)
Funds flow from operations	**13,745**	14,855	**70,650**	51,312	33,724
Per share, basic ($)	**0.07**	0.07	**0.33**	0.25	0.19
Per share, diluted ($)	**0.06**	0.07	**0.33**	0.25	0.19
Production revenue	**25,566**	28,483	**136,893**	105,617	75,650
Comprehensive income (loss)	**(4,422)**	(827)	**79,368**	(2,613)	(17,673)
Per share - basic ($)	**(0.02)**	(0.00)	**0.38**	(0.01)	(0.10)
Per share - diluted ($)	**(0.02)**	(0.00)	**0.37**	(0.01)	(0.10)
Total assets	**678,831**	597,674	**678,831**	597,674	519,324
Demand credit facilities	**-**	22,763	**-**	22,763	23,191
Senior notes – principal	**60,000**	60,000	**60,000**	60,000	-

Funds flow from operations was $13,745 for the three months ended December 31, 2014 compared to $14,855 in 2013. The decrease in funds flow is due to a decrease in commodity prices and production volumes from the comparable period. Annual funds flow from operations increased by 38 percent from 2013 due a 21 percent increase in commodity prices and higher production volumes.

Cequence recorded a comprehensive loss of $4,422 for the three months ended December 31, 2014 compared to loss of $827 in 2013. The increase is mainly due to the recording of $18,482 of impairment expense which more than offset unrealized gains recorded on derivatives and decreased operating costs in 2014 compared to 2013.

Cequence recorded comprehensive income of $79,368 for the twelve months ended December 31, 2014 compared to a loss of $2,613 in 2013. The increase is directly due to the $91,847 gain recorded on the Ansell disposition and increased production revenues which more than offset increased impairment expense and interest expense on the Senior Notes.

Financial and Operating Results

PRODUCTION

Average production volumes, revenue and prices for the three and twelve months ended December 31, 2014 and 2013 are outlined below:

	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	**2014**	2013
Natural gas (Mcf/d)	**49,265**	53,433	**55,826**	52,705
Crude oil (bbls/d)	**97**	119	**118**	125
Natural gas liquids (bbls/d)	**541**	569	**583**	524
Condensate (bbls/d)	**872**	800	**927**	750
Total (boe/d)	**9,720**	10,394	**10,932**	10,183
Total production (boe)	**894,254**	956,234	**3,990,149**	3,716,742

Average production for the twelve months ended December 31, 2014 increased by seven percent from the prior year to 10,932 boe/d. Production additions resulted from the company's active drilling program at Simonette and Ansell. Peak production volumes were achieved in the first half of 2014 where corporate production averaged 11,800 boe/d. In July 2014, production was negatively impacted by the sale of the Company's Ansell property that was producing approximately 1,600 boe/d.

Following the Ansell disposition, Cequence focused its drilling program on its Simonette property and began pad style drilling operations. This technique results in longer lead times between the commencement of drilling operations and production additions as multiple wells are drilled from single padsites prior to completion. As a result, the Company's second half drilling program did not result in significant increases in production volumes in 2014 as most of the wells drilled did not produce material volumes until 2015. This delay is partly responsible for the six percent decline in production volumes in the fourth quarter of 2014 compared to the prior year. Cequence anticipates that all of the wells drilled in the second half of 2014 will commence production in the first quarter of 2015. Annual production is forecast to average approximately 11,500 boe/d in 2015.

REVENUE AND PRICING

	Three month ended December 31,		Twelve months ended December 31,	
($000s)	2014	2013	2014	2013
Revenue				
Natural gas	17,581	19,237	101,264	67,650
Realized gain (loss) on natural gas hedges	196	(453)	(8,786)	1,103
Total natural gas	17,777	18,784	92,478	68,753
Crude oil	651	863	3,860	3,949
Natural gas liquids	1,476	2,329	8,751	7,593
Condensate	5,662	6,507	31,804	25,322
Total production revenue, gross of royalties	25,566	28,483	136,893	105,617
Average prices				
Natural gas ($/Mcf)	3.88	3.91	4.97	3.52
Realized natural gas hedge ($/Mcf)	0.04	(0.09)	(0.43)	0.05
Natural gas including hedge ($/Mcf)	3.92	3.82	4.54	3.57
Crude oil ($/bbl)	73.15	78.56	89.76	86.46
Natural gas liquids ($/bbl)	29.67	44.46	41.10	39.72
Condensate ($/bbl)	70.59	88.44	94.04	92.52
Average sales price before hedge ($/boe)	28.37	30.26	36.51	28.12
Average sales price including hedge ($/boe)	28.59	29.79	34.31	28.42
Benchmark pricing				
AECO-C spot (CDN$/Mcf)	3.63	3.52	4.50	3.17
WTI crude oil (US$/bbl)	73.21	97.56	93.03	98.01
Edmonton par price (CDN$/bbl)	75.22	87.00	94.11	93.54
US$/CDN$ exchange rate	0.88	0.95	0.91	0.97

Total production revenue, gross of royalties, was $25,566 in the fourth quarter of 2014 compared to $28,483 in 2013. The decrease in revenue is attributable to the 4 percent decrease in realized sales prices and 6 percent decrease in production. For the twelve months ended December 31, 2014, production revenue, gross of royalties, increased 30 percent to $136,893 from $105,617 in the comparable period of 2013. The increase is a result of a 21 percent increase in realized sales prices and 7 percent increase in production volumes.

Cequence's production is approximately 85 percent natural gas and consequently, fluctuations in natural gas prices have a significant impact on the Company's revenue and funds flow. Canadian benchmark natural gas prices averaged $4.50 per mcf in 2014, an increase of 42 per cent from 2013 when AECO natural gas prices averaged $3.17 per mcf. The first half of 2014 AECO prices average $5.14 per mcf as a result of a cold winter and low inventory levels. North American natural gas production achieved record levels in the second half of 2014 and inventory levels recovered. By the fourth quarter of 2014 AECO natural gas prices had decreased to $3.63 per mcf.

Realized natural gas prices for the three months ended December 31, 2014 were $3.88 per mcf consistent with the comparable period in 2013. Realized natural gas prices for the twelve months ended December 31, 2014 were $4.97 per mcf, up 41 percent from the comparable period in 2013. Realized natural gas prices for the twelve months ended December 31, 2014 are above benchmark prices as much of the Company's natural gas sells at a premium to AECO due to the heat content of the gas.

Crude oil prices also declined in the second half of 2015 as a supply-demand imbalance became evident due to continued oil production growth, lower projected global demand growth and sustained production levels from

OPEC. Oil prices for the fourth quarter of 2014 were $73.15 per barrel, down 7 percent from the same time period in 2013. Oil prices for the twelve months ended December 31, 2014 were $89.76 per barrel, up 4 percent from the comparable period in 2013. Condensate prices for the three months ended December 31, 2014 were $70.59 per barrel down 20 percent from the same time period in 2013. Condensate prices for the twelve months ended December 31, 2014 were $94.04 per barrel, up 2 percent from 2013.

Natural gas liquids prices for the three months ended December 31, 2014 were $29.67 per barrel, down 33 percent from the same time period in 2013. Natural gas liquids prices for the twelve months ended December 31, 2014 were $41.10 per barrel, up three percent from 2013. Benchmark natural gas liquids prices decreased throughout 2014.

COMMODITY PRICE MANAGEMENT

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	2014	2013	2014	2013
Realized gain (loss) on commodity contracts	196	(453)	(8,786)	1,103
Unrealized gain (loss) on commodity contracts	10,605	(3,769)	11,140	(3,713)
Total	10,801	(4,222)	2,354	(2,610)

Cequence has a commodity price risk management program which provides the Company flexibility to enter into derivative and physical commodity contracts to protect future cash flows for planned capital expenditures against an unpredictable commodity price environment. Management is authorized to establish hedges equal to approximately 50 percent of production net of estimated royalty payments. Historically, natural gas hedges have been executed on the AECO 5A index to match the Company's marketing arrangements.

Cequence has the following natural gas hedges as at the date of this MD&A:

Term	Product	Type	Average Volume	Average Price ($/GJ)	Basis
January 1, 2015 to March 31, 2015	Gas	Swap	27,583 gj/day	$3.67	AECO-5A
April 1, 2015 to December 31, 2015	Gas	Swap	27,500 gj/day	$3.42	AECO-5A
January 1, 2016 to March 31, 2016	Gas	Swap	10,000 gj/day	$3.30	AECO-5A
April 1, 2016 to December 31, 2016	Gas	Swap	5,000 gj/day	$3.04	AECO-5A

The fair value of the commodity contracts outstanding at December 31, 2014 was a current asset of $7,994 and a non-current asset of $190 (December 31, 2013 - current liability of $2,880 and a non-current liability of $76).

OPERATING NETBACK

	Three months ended December 31,		Twelve months ended December 31,	
($/boe)	2014	2013	2014	2013
Production revenue (1)	28.59	29.79	34.31	28.42
Royalty expense	(1.25)	(1.85)	(3.51)	(2.32)
Transportation expense	(1.48)	(1.62)	(1.48)	(1.60)
Operating costs	(6.67)	(7.33)	(7.63)	(7.66)
Operating netback, $/boe	19.19	18.99	21.69	16.84
Operating netback, excluding realized hedges, $/boe	18.97	19.46	23.89	16.54

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

Cequence's netback for the three months ended December 31, 2014 increased 1 percent to $19.19 per boe from $18.99 per boe in 2013. For the twelve months ended December 31, 2014, the netback increased to $21.69 per boe from $16.84 per boe in the comparative period in 2013. The increase in 2014 operating netbacks is mainly due to increased production revenue due to higher production volumes and commodity prices in 2014 compared to 2013.

ROYALTY EXPENSE

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	2014	2013	2014	2013
Crown	271	550	8,177	4,672
Freehold / Overriding	848	1,219	5,848	3,943
Total royalties	1,119	1,769	14,025	8,615
Royalties as a percentage of revenue, before hedging	4	6	10	8
Per unit of production	1.25	1.85	3.51	2.32

Royalty expense for the three months ended December 31, 2014 was $1,119 or 4 percent of revenue compared to $1,769 or 6 percent of revenue in 2013. Royalty expense decreased as a result of higher gas cost allowance estimated in the fourth quarter of 2014. Royalty expense for the twelve months ended December 31, 2014 was $14,025 or 10 percent of revenue compared to $8,615 or 8 percent of revenue in 2013. The increase in crown royalties as a percentage of revenue is a result of higher overriding royalties and lower gas cost allowance. Royalties as a percentage of revenue are consistent with the Company's guidance of approximately 10 to 11 percent of production revenue for the year ended December 31, 2014.

OPERATING COSTS

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	2014	2013	2014	2013
Operating costs	5,961	7,007	30,429	28,472
Per unit of production ($/boe)	6.67	7.33	7.63	7.66

Operating costs for the twelve months ended December 31, 2014 were $7.63 per boe consistent with $7.66 per boe in 2013. For the three months ended December 31, 2014, operating costs decreased to $6.67 per boe from $7.33 per boe in the comparative period in 2013. Lower than expected third party equalizations resulted in a reduction in operating expense of $0.41 per boe in the fourth quarter.

For the three and twelve month periods ended December 31, 2014 operating costs in the Company's primary operating area of Simonette were significantly lower than corporate operating costs. For the twelve months ended December 31, 2014 Simonette operating costs were $5.85 per boe, compared to operating costs of $11.98 per boe in the Company's other properties. In 2014, Simonette comprises 72 percent of corporate production and has been the focus of the Company's capital expenditures and production growth for the past four years.

TRANSPORTATION EXPENSE

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	2014	2013	2014	2013
Transportation	1,324	1,550	5,895	5,957
Per unit of production ($/boe)	1.48	1.62	1.48	1.60

Transportation expense for the three months ended December 31, 2014 was $1.48 per boe, a decrease of nine percent from the comparative period in 2013. For the twelve months ended December 31, 2014, transportation expense decreased to $1.48 per boe from $1.60 per boe in the comparative period in 2013. Total transportation and operating expense was $9.11 per boe for the year ended December 31, 2014, slightly higher than corporate guidance of $9.00 per boe.

GENERAL AND ADMINISTRATIVE EXPENSES

($000s)	Three months ended December 31, 2014	2013	Twelve months ended December 31, 2014	2013
G&A expenses	2,659	2,062	10,548	8,469
Administrative and capital recovery	(627)	(487)	(1,718)	(1,203)
Total G&A expenses	2,032	1,575	8,830	7,266
Per unit of production ($/boe)	2.27	1.65	2.21	1.95

Total G&A expense costs for the twelve months ended December 31, 2014 increased by 22 percent from the prior year to $8,830. The increase is primarily a result of higher compensation costs compared to the prior year. G&A expense increased by 29 percent in the fourth quarter of 2014 compared to the prior year due to increased compensation costs and an increase in the Company's allowance for doubtful accounts. The Company's G&A expenses per boe for the year ended December 31, 2014 were higher than expectations of approximately $1.95 per boe.

FINANCE COSTS

($000s)	Three months ended December 31, 2014	2013	Twelve months ended December 31, 2014	2013
Interest expense on credit facilities	592	355	2,069	2,105
Interest expense on senior notes	1,083	1,334	5,409	1,334
Amortization of transaction costs	87	76	324	76
Accretion expense on senior notes	65	58	251	58
Accretion expense on provisions	217	215	847	830
Total finance costs	2,044	2,038	8,900	4,403
Per unit of production ($/boe)	2.29	2.13	2.23	1.18
Interest per unit of production ($/boe)	1.87	1.77	1.87	0.93

Finance costs for the three months ended December 31, 2014 were $2,044 compared to $2,038 for the comparative period in 2013. Finance costs for the twelve months ended December 31, 2014 were $8,900 compared to $4,403 for the comparative period in 2013. The increase is directly attributable to increased interest expense on the senior notes which were issued by the Company on October 3, 2013.

OTHER INCOME

($000s)	Three months ended December 31, 2014	2013	Twelve months ended December 31, 2014	2013
Gain on sale of property and equipment	(44)	-	(99,814)	(1,092)
Interest income	(347)	(15)	(646)	(41)
Transaction costs	-	-	-	353
Other	(25)	(28)	(89)	(77)
Total other income	(416)	(43)	(100,549)	(857)

During the twelve months ended December 31, 2014, the Company completed the sales of certain oil and gas properties, including the Ansell disposition, for total cash consideration of $153,047 (2013 - $2,878), subject to final adjustments. The sales resulted in a gain recognized in comprehensive income of $99,814 (2013 - $1,092).

On April 15, 2013, the Company acquired oil and gas properties located in the Simonette area of Alberta and recorded transaction costs of $353 related to this acquisition.

DEPLETION, DEPRECIATION AND IMPAIRMENT

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	2014	2013	2014	2013
Depletion and depreciation expense	11,178	10,907	48,577	40,932
Impairment loss	18,482	-	18,482	2,164
Total depletion, depreciation and impairment	29,660	10,907	67,059	43,096
Per unit of production ($/boe)	33.17	11.41	16.81	11.59
Per unit of production, excluding impairment ($/boe)	12.50	11.41	12.17	11.01

Depletion and depreciation expense for the three and twelve months ended December 31, 2014, was $11,178 ($12.50 per boe) and $48,577 ($12.17 per boe), respectively. Depletion and depreciation rates are similar to the comparable period in 2013 as there have not been significant changes to Cequence's resource base during this time.

Impairment is recognized when the carrying value of an asset or cash generating units ("CGU") exceeds its recoverable amount which is determined as the higher of its value in use or fair value less cost to sell. Impairment expense for the twelve months ended December 31, 2014 was $18,482 compared to $2,164 for the comparable period in 2013. The impairment of $18,482 in the Northeast British Columbia and Peace River Arch CGUs was mainly the result of declining commodity prices and lower reserve estimates. Cequence has focused its recent capital expenditures in the Deep Basin and has allocated minimal expenditures to the Northeast British Columbia and Peace River Arch CGUs.

In 2013, the Company recorded an impairment of $2,164 reflecting the difference between the carrying value and fair value of the Fir assets included as consideration transferred in the Simonette property acquisition. The following represents impairment recognized per CGU in the three and twelve months ended December 31, 2014 and 2013:

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	2014	2013	2014	2013
Northeast British Columbia	10,396	-	10,396	-
Peace River Arch	8,086	-	8,086	-
Deep Basin disposition	-	-	-	2,164
Total	18,482	-	18,482	2,164

PROVISIONS

Decommissioning liabilities

Decommissioning liabilities represent the estimated future cost of abandoning and reclaiming the company's oil and natural gas wells and related facilities. Total decommissioning liabilities at December 31, 2014 were $37,263 compared to $26,643 at December 31, 2013. Decommissioning obligations are adjusted periodically for revisions to the future liability costs and the estimated timing of costs to be incurred in future years. The following table summarizes the changes in decommissioning liabilities for the respective periods:

(000s)	December 31, 2014	December 31, 2013
Balance, beginning of year	26,643	32,564
Property acquisitions	-	285
Property dispositions	(2,414)	(1,729)
Accretion expense	840	819
Liabilities incurred	3,147	1,120
Abandonment costs incurred	(1,382)	(619)
Revisions in estimated cash flows	4,881	(973)
Revisions due to change in discount rates	5,548	(4,824)
Balance, end of year	37,263	26,643

The Company's decommissioning liabilities result from its ownership in oil and natural gas assets including well sites, facilities and gathering systems. The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are $67,840 (2013 - $55,632). These cash flows have been discounted using a risk-free interest rate of 2.33 percent (2013 – 3.20 percent) based on Government of Canada long-term benchmark bonds. The Company expects these obligations to be settled in approximately 1 to 50 years (2013 – 1 to 50 years).

SHARE BASED PAYMENTS

The Company uses both stock options and restricted stock units ("RSU") as long term compensation incentives for its employees, directors and service providers. The Company recognizes share based payment expense for stock options and RSUs.

Stock Options

The Company has 18,252 stock options outstanding with an average exercise price of $2.11. The options have a five year life and vest evenly over a three year period on the anniversary date of their grant. For the twelve months ended December 31, 2014, Cequence recorded $2,180 (2013 – $3,633) in share based payment expense related to stock options with a corresponding increase to contributed surplus.

	December 31, 2014		December 31, 2013	
	Number of Options (000s)	Weighted Average Exercise Price $	Number of Options (000s)	Weighted Average Exercise Price $
Outstanding, beginning of year	18,617	2.15	17,289	2.19
Granted	650	2.15	1,780	1.70
Forfeited	(905)	2.88	(444)	1.92
Exercised	(110)	1.73	(8)	1.34
Outstanding, end of year	18,252	2.11	18,617	2.15

Restricted Share Units

The Company issues RSUs as part of its long term incentive program. The program is designed to offer cash compensation based on the underlying value of the RSU unit. RSUs are granted to directors, officers and employees of the Company and vest annually in equal amounts over a three year period. For the twelve months ended December 31, 2014, Cequence recognized $350 (2013 – $111) in share based payment expense related to RSUs with a corresponding increase to share based payment liability.

Number of RSUs (000s)	2014	2013
Outstanding, beginning of year	561	-
Granted	473	561
Forfeited	(33)	-
Exercised	(187)	-
Outstanding, end of year	814	561

COMMON SHARES OUTSTANDING

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

Issued common voting shares (000s)	Number	Stated Value
Balance, December 31, 2012	200,610	$606,703
Common shares issued on property acquisition	10,300	17,510
Common shares issued on exercise of stock options	8	15
Share issue costs, net of taxes of ($35)	-	104
Balance, December 31, 2013	210,918	$624,332
Common shares issued on exercise of stock options	110	287
Balance, December 31, 2014	211,028	$624,619

On April 15, 2013, the Company issued an aggregate of 10,300,000 Cequence common shares as partial consideration for the acquisition of oil and gas properties located in the Simonette area of Alberta. The common shares were distributed directly to the shareholders of a publicly listed Canadian company.

Issued warrants (000s)	Number	Stated Value
Balance, December 31, 2012	-	$-
Granted on issuance of senior notes, net of tax of $183	3,000	1,399
Share issue costs, net of taxes of $13	-	(39)
Balance, December 31, 2013 and 2014	3,000	$1,300

On October 3, 2013, Cequence granted to the lender of the senior notes 3.0 million warrants at an exercise price of $2.03 to purchase common shares. The warrants will expire on October 3, 2020 and were issued with an exercise price of $2.03 which was based at a 30 percent premium to the 30 trading day volume weighted average trading price of the Cequence common shares on the TSX ending on the day immediately preceding the closing date.

As of the date of this MD&A, Cequence had the following securities outstanding: 211,027,882 common voting shares, 3,000,000 warrants to purchase common shares, 18,252,375 stock options and 813,664 RSUs.

CAPITAL EXPENDITURES

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	2014	2013	2014	2013
Property acquisitions [1]	(142)	(6)	2,265	203
Property dispositions [1]	(2,239)	(41)	(153,047)	(2,878)
Land	339	9,281	1,183	11,614
Geological & geophysical and capitalized overhead	430	315	2,092	1,997
Drilling, completions and workovers	45,229	34,681	126,920	77,101
Equipment, facilities and tie-ins	10,378	7,283	49,784	27,105
Office furniture & equipment	96	18	236	92
Total capital expenditures	54,091	51,531	29,433	115,234

(1) Represent the cash proceeds from the sale of assets and cash paid for the acquisition of assets, as applicable.

For the twelve months ended December 31, 2014, capital expenditures, excluding acquisitions and dispositions, increased to $180,215 from $117,909 in 2013. Drilling, completion and workover expenditures totalled $126,920 which included the drilling of 14.0 gross (10.25 net) horizontal wells and the completion of 20.0 gross (14.9 net) horizontal wells. Of the wells drilled 16.0 gross (13.95 net) wells were drilled at the Company's Simonette property and 4.0 (0.94 net) wells at the Ansell property prior to its disposition.

Equipment, facility and tie-in expenditures in the twelve months ended December 31, 2014 of $49,784 were mainly directed towards the construction of a gathering system and compression facility at Ansell, facility expansions at Simonette, surface equipment and the tie-in of new wells. The Ansell facilities were completed in the second quarter prior to the disposition of the Ansell property in the third quarter. Facility expansions at Simonette increased the capacity of the main production facility to approximately 100 mmcf/d. Equipment and facility expenditures in the twelve months ended December 31, 2013 of $27,105 were mainly directed towards a facility expansion for the Simonette compression and dehydration facility, along with additional pipelines.

On July 7, 2014, the Company closed the disposition of all non-operated assets located in the Ansell area for total consideration of approximately $139,956, prior to closing adjustments. The Ansell sale resulted in a gain of $91,847 recognized in comprehensive income.

During the twelve months ended December 31, 2014, the Company completed additional sales of certain oil and gas properties for total cash consideration of $13,091 (2013 - $2,878), subject to final adjustments. The sales resulted in a gain recognized in comprehensive income of $7,967 (2013 - $1,092).

The Company's capital expenditures, prior to acquisitions and dispositions, for the twelve months ended December 31, 2014 were $180,215 compared to the Company's guidance of $185,000. Capital expenditures were funded from cash flow, and proceeds from the Ansell disposition in the third quarter of 2014.

Cequence has budgeted net capital expenditures of $60 million for the year ended December 31, 2015 and is expected to be focused on the development of the Company's Simonette assets. Capital expenditures for 2015 are expected to be funded from cash flow, borrowing from the Company's credit facility and potential asset sales. The Company continually monitors fluctuations in natural gas prices and may adjust budgeted discretionary capital spending based on the Company's hedge position and short to medium term natural gas prices.

PROPERTY ACQUISITION

On April 15, 2013, the Company acquired oil and gas properties located in the Simonette area of Alberta. As consideration for the assets, Cequence transferred its interest in its non-operated oil and gas properties located in the Fir area, and issued an aggregate of 10,300,000 Cequence common shares to the Corporation. Total consideration for the acquisition was $23,094. The Company recorded $353 of transaction costs related to this acquisition. The acquisition expanded the Company's contiguous Montney land position at Simonette.

INCOME TAXES

At December 31, 2014, a deferred income tax asset of $4,548 (December 31, 2013 - $36,094) has been recognized as the Company believes, based on estimated cash flows, its realization is probable. The future income tax expense for the twelve months ended December 31, 2014 was $31,546 compared to $3,821 in the comparable period in 2013. The increase in consistent with the higher pre-tax income in the current year which includes $99,814 in gains from the sale of property and equipment.

At December 31, 2014, Cequence has the following tax pools:

Classification	Amount ($000s)	Annual Deductibility
Canadian exploration expense	191,391	100%
Non-capital losses	175,164	100%
Undepreciated capital cost	103,275	Primarily 25% declining balance
Canadian oil and gas property expense	10,007	10%, declining balance
Canadian development expense	102,228	30%, declining balance
Other	29,322	Various
	611,387	

The Company's non-capital losses expire in 2025 and thereafter. Based on the Company's expected cash flow and available tax pools, Cequence does not expect to be taxable for the next three years.

Net Debt and Working Capital (Deficiency)

Net debt and working capital (deficiency) is calculated as cash and net working capital less commodity contract assets and liabilities, demand credit facilities, principal value of senior notes and excluding other liabilities, as follows:

($000s)	As at December 31, 2014	As at December 31, 2013
Cash	27,679	-
Demand credit facilities	-	(22,763)
Senior notes – principal	(60,000)	(60,000)
Accounts payable and accrued liabilities	(65,882)	(51,692)
Accounts receivable	24,781	19,834
Deposits and prepaid expenses – current	2,068	3,188
Net debt and working capital (deficiency)	(71,354)	(111,433)

Liquidity and Capital Resources

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

The Company monitors net debt to funds flow as one measure of the Company's ability to manage its debt levels under current operating conditions and meet current obligations as they come due. Management targets a debt to funds flow ratio of less than two times. As at December 31, 2014, the Company's net debt to annualized funds flow ratio was calculated as 1.3:1 (December 31, 2013 – 1.9:1) based on annualized fourth quarter results. In a typical year due to seasonality, capital expenditures increase in the winter months and are lower in the spring and early summer. As a result, the Company's accounts payable and accrued liabilities often peak at the end of the first quarter.

The oil and gas business can involve significant capital expenditures as assets are explored for and developed. In order to fund capital expenditures Cequence may adjust the capital structure through the issue of new common shares, new debt or replace existing debt, adjust capital expenditures and acquire or dispose of assets. Historically, a significant portion of the Company's capital expenditures have been discretionary and can be adjusted in response

to fluctuations in commodity prices in order to manage the Company's debt levels. The Company has also hedged natural gas production to protect future cash flow.

Both crude oil and natural gas prices decreased significantly in the latter half of 2014 and in early 2015. Cequence has reacted to lower commodity prices by reducing its first quarter capital program by 50 percent to $22 million with a goal of maintaining a strong balance sheet. Capital expenditures for 2015 are budgeted to be $60 million, a significant decrease from 2014 capital expenditures of $180,215. The Company is budgeting 2015 funds flow of $60 million and December 31, 2015 net debt of approximately $90 million resulting in a net debt to funds flow ratio of 2.3 times. The debt to funds flow ratio is higher than the Company's target of 2:1 due to low forecasted commodity prices. Management believes the forecast leverage is manageable under the Company's existing debt capital structure and anticipates commodity prices to increase in 2016. Planned capital expenditures may be reduced if commodity prices decrease further or remain low for an extended period of time.

At December 31, 2014, the Company has $71 million in net debt comprised of $60 million of senior notes and an $11 million working capital deficiency. The Company has total available credit at December 31, 2015 of $195 million comprised of $60 million in senior notes and a senior credit facility of $135 million, which is undrawn at December 31, 2014. The Company's senior credit facility is with a syndicate of Canadian banks and was reviewed in November. The senior credit facility is reviewed on a semi-annual basis with the next review occurring in May 2015. The senior notes are due in October 2018 and diversify the Company's capital structure by providing longer term debt that is not reserve-based or subject to periodic redetermination.

Senior Notes

In October 2013, Cequence closed an investment with CPPIB Credit Investments Inc., ("CII"), a wholly-owned subsidiary of Canada Pension Plan Investment Board ("CPPIB"), for an initial investment by CII of $60 million in unsecured five year senior notes with a further $60 million of notes available at a future date, subject to the approval of both CII and Cequence on terms to be confirmed at the time of issuance. The initial investment of $60 million of senior notes were issued at par and carry a 9% coupon rate per annum. A standby charge of 0.7% is applied to the further $60 million of notes available at a future date. The notes have covenants regarding the incurrence of additional debt, the creation of liens in connection with indebtedness, dividends and other distributions, asset sales and other matters, and customary events of default. In addition, Cequence granted CII 3.0 million warrants to purchase common shares. The investment diversifies the capital structure of Cequence by adding longer term debt.

Senior Credit Facility

The Company's has a $135 million credit facility with a syndicate of Canadian chartered banks. Credit facility A is a $125,000 (December 31, 2013 - $110,000) extendible revolving term credit facility by way of prime loans, U.S. Base Rate Loans, Banker's Acceptances and Libor Loans and a $10,000 (December 31, 2013 - $10,000) operating facility by way of prime loans, U.S. Base Rate Loans, Banker's Acceptances and letters of credit. Prime loans and U.S. Base Rate Loans on these facilities bear interest at the bank prime rate or U.S. Base Rate, respectively, plus 1.0 percent to 2.5 percent on a sliding scale, depending on the Company's debt to adjusted EBITDA ratio (ranging from being less than or equal to 1.0:1.0 to greater than 2.5:1.0). Banker's Acceptances, Libor Loans and letters of credit on these facilities bear interest at the Banker's Acceptance rate, Libor rate or letter of credit rate, as applicable, plus 2.0 percent to 3.5 percent based on the same sliding scale as above. The credit facilities may be extended and revolve beyond the initial one-year period, if requested by the Company and accepted by the lenders. If the credit facilities do not continue to revolve, the facilities will convert to a 366-day non-revolving term loan facility.

The credit facility, and the amount available for draws, is subject to periodic review by the bank and are secured by a general assignment of book debts and a $250,000 demand debenture with a first floating charge over all assets of the Company. As at December 31, 2014, the Company has drawn $nil under the extendible revolving term credit facility and $nil under the operating facility (December 31, 2013 – $22,763 and $nil for the revolving and operating facilities, respectively). The Company has covenants that require Consolidated Debt and Senior Debt to twelve month trailing earnings before interest, taxes and depletion and depreciation to be less than 4:0 to 1:0 and 3:0 to 1:0, respectively. Consolidated Debt is defined as the sum of the Company's period end balance of the credit facility and senior notes. Senior Debt is defined as the sum of Consolidated Debt less the period end balance of the senior notes. The Company was in compliance with the lender's covenants at December 31, 2014 and December 31, 2013. The effective annualized interest rate, including standby fees and commitment fees, for the twelve months ended December 31, 2014 was 7.0 percent (2013 – 5.43 percent). The next scheduled credit facility review is to take place on May 2015.

Contractual Obligations

	2015	2016	2017	2018	2019+	Total
Office leases	1,051	864	639	-	-	2,554
Pipeline transportation	1,643	-	-	-	-	1,643
Total	2,694	864	639	-	-	4,197

The Company has an agreement allowing for up to 120 mmcf/d of natural gas deliverability to the Alliance pipeline and associated NGL processing from its Simonette property. The Company is currently reviewing several alternatives to market its natural gas and NGLs from its Simonette property following the conclusion of this agreement in November 2015.

In 2011, the Company entered into a drilling service agreement whereby the Company made a deposit of $3,500 to obtain a right of first refusal on the use of two drilling rigs over the five years following the date that use of the rigs commences. The deposit is to be applied as the Company incurs costs related to the use of the drilling rigs and $2,561 has been drawn down at December 31, 2014. Cequence expects to reduce the deposit by $228 in the year ended December 31, 2015, which amount is included with deposits and prepaid expenses at December 31, 2014. The portion of the outstanding deposit expected to be drawn down in the period subsequent to December 31, 2015 of $711 is carried as a non-current asset at December 31, 2014.

Disclosure Controls and Internal Controls over Financial Reporting

The President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's President and Chief Executive Officer and Vice President, Finance and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its President and Chief Executive Officer and Vice President, Finance and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

As at December 31, 2014, the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have concluded, based on their evaluation of the design and operating effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting ("ICFR") that disclosure controls and procedures and ICFR are effective.

Quarterly Information

FINANCIAL

($ thousands except per share data)	2014 Q4	2014 Q3	2014 Q2	2014 Q1	2013 Q4	2013 Q3	2013 Q2	2013 Q1
Production revenue [1]	25,566	29,013	41,219	41,095	28,483	25,325	29,803	22,005
Royalties expense	1,119	3,882	4,706	4,318	1,769	2,305	2,452	2,089
Transportation expense	1,324	1,284	1,700	1,587	1,550	1,558	1,590	1,259
Operating costs	5,961	6,826	9,911	7,731	7,007	7,852	7,867	5,746
Comprehensive income (loss)	(4,422)	74,402	8,876	512	(827)	(517)	4,170	(5,439)
Per share – basic & diluted	(0.02)	0.35	0.04	0.00	(0.00)	(0.00)	0.02	(0.03)
Funds flow from operations [2]	13,745	13,588	20,235	23,082	14,855	10,973	14,831	10,652
Per share – basic	0.07	0.06	0.10	0.11	0.07	0.05	0.07	0.05
Per share – diluted	0.06	0.06	0.09	0.11	0.07	0.05	0.07	0.05
Capital expenditures, net	56,472	49,239	15,957	58,547	51,578	17,949	4,723	43,659
Net acquisitions (dispositions) [3]	(2,381)	(142,034)	(3,138)	(3,229)	(47)	(5)	(2,641)	18
Total capital expenditures	54,091	(92,795)	12,819	55,318	51,531	17,944	2,082	43,677

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

(2) Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures, proceeds from the sale of commodity contracts and net changes in non-cash working capital.

(3) Represents the cash proceeds from the sale of assets and cash paid for the acquisition of assets, as applicable.

OPERATIONAL

	2014 Q4	2014 Q3	2014 Q2	2014 Q1	2013 Q4	2013 Q3	2013 Q2	2013 Q1
Production volumes								
Natural gas (Mcf/d)	49,265	49,515	64,810	59,898	53,433	52,848	58,153	46,306
Oil (bbls/d)	97	118	100	157	119	134	125	121
NGLs (bbls/d)	541	523	753	517	569	542	570	412
Condensate (bbls/d)	872	801	1,080	956	800	808	818	571
Total (boe/d)	9,720	9,694	12,735	11,613	10,394	10,292	11,205	8,822
Average selling price								
Natural gas ($/Mcf)	3.92	4.19	4.60	5.28	3.82	3.08	3.85	3.51
Oil ($/bbl)	73.15	90.77	97.59	94.47	78.56	97.54	88.01	80.27
NGLs ($/bbl)	29.67	38.34	42.28	54.44	44.46	38.69	32.18	44.94
Condensate ($/bbl)	70.59	96.02	104.76	101.95	88.44	97.09	90.74	94.32
Total ($/boe)	28.59	32.53	35.57	39.32	29.79	26.75	29.23	27.72
Operating netback ($/boe)								
Price	28.59	32.53	35.57	39.32	29.79	26.75	29.23	27.72
Royalties	(1.25)	(4.35)	(4.06)	(4.13)	(1.85)	(2.44)	(2.40)	(2.63)
Transportation	(1.48)	(1.44)	(1.47)	(1.52)	(1.62)	(1.65)	(1.56)	(1.59)
Operating costs	(6.67)	(7.65)	(8.55)	(7.40)	(7.33)	(8.29)	(7.71)	(7.24)
Operating netback	19.19	19.09	21.49	26.27	18.99	14.37	17.56	16.26

Funds flow from operations is impacted from quarter to quarter primarily due to changes in productions volumes, realized average selling prices, royalties, operating expenses, transportation costs and G&A expense. The Company's production volumes are 85 percent natural gas and fluctuations in natural gas prices have the greatest impact on the Company's revenue and funds flow from operations.

Production revenue and funds flow for operations steadily increased in the first two quarters of 2014 compared to prior years, mainly due to increased production volumes and higher natural gas prices. The decrease in production revenue and funds flow in the second half of 2014 is directly attributable to decreased production volumes from the Ansell disposition in July 2014 and declining benchmark natural gas prices. Canadian AECO natural gas prices have averaged $4.50 per mcf in 2014, an increase of 42% per cent from 2013.

The Company's quarterly net comprehensive income (loss) is affected by fluctuations in non-cash charges, in particular, depletion, depreciation and impairment expense, accretion of decommissioning obligations, gains/losses on derivative financial instruments, share based payments and other expense (income). During the twelve months ended December 31, 2014, the Company recorded impairment expense of $18,482 compared to $2,164 in the comparable period in 2013. Impairments recognized were mainly the result of declining benchmark natural gas prices and minimal capital expenditures being incurred in the Northeast British Columbia and Peace River Arch CGUs as substantially all of the Company's capital expenditures over the past two years have been allocated to the Deep Basin CGU. These impairments cause significant reductions and increased volatility in the Company's net comprehensive income (loss).

Please refer to the results of operations and other sections of this MD&A and the Company's previously issued MD&A for detailed discussions on variances between reporting periods and changes in prior periods.

ACCOUNTING POLICIES ADOPTED

On January 1, 2014, Cequence adopted the following standards and amendments, as issued by the IASB:

- IAS 36, "Impairment of Assets". The amendments reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarifies the disclosures required when an impairment loss has been recognized or reversed in the period. The adoption of these amendments resulted in incremental disclosures being included in Note 4 of the Company's consolidated financial statements.
- IFRS Interpretations Committee ("IFRIC") 21 "Levies". IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified in the relevant legislation, occurs. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

On May 28, 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", a new standard that specifies recognition requirements for revenue as well as requiring entities to provide the users of financial statements with more informative and relevant disclosures. The standard replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue" as well as a number of revenue-related interpretations. The Company will adopt the standard for reporting periods beginning January 1, 2017. The Company is currently evaluating the impact of adoption of this standard and the effect on Cequence's consolidated financial statements has not yet been determined.

Since November 2009, the IASB has been in the process of completing a three phase project to replace IAS 39, "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments", which includes requirements for hedge accounting, accounting for financial assets and liabilities and impairment of financial instruments. As of February 2014, the mandatory effective date of IFRS 9 has been tentatively set to January 1, 2018. The Company is assessing the effect of this future pronouncement on its financial statements.

Application of Critical Accounting Estimates

The significant accounting policies used by Cequence are disclosed in note 2 to the Financial Statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management

reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimate amounts that differ materially from current estimates. The following discussion identifies the critical accounting policies and practices of the Company and helps to assess the likelihood of materially different results being reported.

Reserves

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

Depletion

The net carrying value of development and production assets plus future development costs on proved plus probable reserves is depleted using the unit of production method based on proved and probable reserves, gross of royalties, as determined by independent engineers, on an area by area basis. An increase in estimated proved plus probable reserves would result in a reduction in depletion expense. A decrease in estimated future development costs would also result in a reduction in depletion expense.

Exploration and Evaluation Assets

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

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

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

Development and Production Costs

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

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

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

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

Impairment

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

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

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

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

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

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

Decommissioning Liabilities

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

Share Based Payments

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

The Company has a RSU plan and issues RSUs to directors, officers, employees and other service providers. Cequence has the option to settle the RSUs with cash or with Cequence common shares, however, management's intent is to settle the RSUs in cash and the amount settled is expected to be deductible for income tax purposes. The RSUs are accounted for in accordance with the requirements for cash-settled share-based payment transactions with the value of one RSU being notionally equivalent to one Cequence common share. Compensation costs attributable to RSU granted are measured at fair value at the date of grant and subsequently remeasured each period end date and are expensed over the vesting period, using a graded vesting schedule, with a corresponding adjustment to share based payment liability. The Company incorporates an estimated forfeiture rate for RSUs that will not vest, and subsequently adjusts for actual forfeitures as they occur.

Senior Notes

The Corporation uses estimates to allocate the proceeds from senior notes issuances between debt and the equity components, as appropriate.

Income Taxes

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

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

Acquisitions

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

Commodity Contracts

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

Other Estimates

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

Financial Instruments and Risk Management

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

The Company's cash, accounts receivable, demand credit facilities and accounts payable and accrued liabilities approximate their carrying values due to their short terms to maturity and the floating interest rate on the Company's debt. The senior notes bear interest at rates available to Cequence and accordingly the fair value approximates the carrying value excluding deferred financing costs.

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

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

COMMODITY PRICE AND EXCHANGE RATE VOLATILITY

Revenues and consequently cash flows fluctuate with commodity prices and the U.S. / Canadian dollar exchange rate. Commodity prices are determined on a global basis and circumstances that occur in various parts of the world are outside of the control of the Company. The Company protects itself from fluctuations in prices by maintaining an appropriate hedging strategy, diversifying its asset mix and strengthening its balance sheet in order to take advantage of low price environments by making strategic acquisitions. Cequence enters into commodity price contracts to actively manage the risks associated with price volatility and thereby protect the Company's cash flows used to fund its capital program. Comprehensive income for the year ended December 31, 2014 includes $8,786 of realized loss (2013 – $1,103 gain) and $11,140 (2013 - $3,713 loss) of unrealized gain on these transactions.

Cequence is also exposed to fluctuations in the exchange rate between the Canadian and U.S. dollar. Most commodity prices are based on U.S. dollar benchmarks that results in the Company's realized prices being influenced mainly by the U.S. / Canadian currency exchange rates. As at December 31, 2014, the Company has a pipeline commitment in U.S. dollars and sells certain quantities of natural gas in the U.S. dollar. There are no other forward contracts, foreign exchange contracts or other significant items denominated in foreign currencies.

INTEREST RATE RISK

The Company is exposed to interest rate risk to the extent that changes in market interest rates impact its borrowings under the floating rate credit facilities. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. The Company has no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2014.

As at December 31, 2014 a 1 percent change in interest rates on the Company's outstanding debt, with all other variables constant, would result in a change in comprehensive income of $nil ($nil after tax) (2013 - $228 ($171 after tax)).

CREDIT RISK

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

The Company's cash is held with a large established financial institution. The majority of the Company's accounts receivable are due from joint venture partners in the oil and gas industry and from marketers of the Company's petroleum and natural gas production. The Company mitigates its credit risk by entering into contracts with established counterparties that have strong credit ratings and reviewing its exposure to individual counterparties on a regular basis. At December 31, 2014, the Company has an allowance for doubtful accounts of $944 (2013 – $581).

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The nature of the oil and gas industry is capital intensive and the Company maintains and monitors a certain level of cash flow to finance operating and capital expenditures. The Company believes it has sufficient credit facilities to satisfy its financial obligations as they come due.

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

The expected timing of cash flows relating to financial liabilities as at December 31, 2014 is as follows:

	< 1 Year	1 – 2 Years	2 – 5 Years	Thereafter
Senior notes – principal	-	-	60,000	-
Accounts payable and accrued liabilities	65,882	-	-	-
	65,882	-	60,000	-

ACCESS TO CAPITAL RISK

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

ENVIRONMENTAL CONCERNS

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. A breach of such legislation may result in the imposition of fines or issuance of clean up orders in respect of Cequence or its working interests. Such legislation may be changed to impose higher standards and potentially more costly obligations on Cequence. Furthermore, management believes the federal political parties

appear to favor new programs for environmental laws and regulation, particularly in relation to the reduction of emissions, and there is no assurance that any such programs, laws or regulations, if proposed and enacted, will not contain emission reduction targets which Cequence cannot meet, and financial penalties or charges could be incurred as a result of the failure to meet such targets. In particular there is uncertainty regarding the Federal Government's future regulation of air emissions.

REGULATORY RISK

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

EXPLORATION, DEVELOPMENT AND PRODUCTION RISKS

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 addition of new reserves, the Company's reserves will decline over time as 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 but also on its ability to select and acquire suitable producing properties or prospects.

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. 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.

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. 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.

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. The Company employs prudent risk management practices and maintains suitable liability insurance but may become liable for damages arising from such events against which it cannot insure, elects not to insure or because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities will reduce the cash flow of the Company.

Outlook Information

On March 5, 2015 Cequence provided the following guidance:

	Revised 2015 (3 months)	Guidance 2015
Average production, BOE/d [(1)]	11,500	11,500
Funds flow from operations ($)[(2)]	$10,000	$40,000
Funds flow from operations per share[(2)]	$0.05	$0.19
Capital expenditures, prior to dispositions ($)	$22,000	$60,000
Operating and transportation costs ($ per boe)	$8.80	$8.80
G&A costs ($ per boe)	$2.50	$2.50
Royalties (% revenue)	10	10
Crude – WTI (US$/bbl)	$50.00	$50.00
Natural gas – AECO (Cdn$/GJ)	$2.65	$2.65
Period end, net debt and working capital deficiency ($) [(3)]	$85,000	$90,000
Basic shares outstanding	211,000	211,000

Notes:

(1) Average production estimates on a per BOE basis are comprised of 84% natural gas and 16% oil and natural gas liquids.

(2) Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures and net changes in non-cash working capital.

(3) Net debt and working capital (deficiency) is calculated as cash and net working capital less commodity contract assets and liabilities, demand credit facilities and the aggregate principal amount of the senior notes and excluding other liabilities.

Cequence has budgeted net capital expenditures of $60 million for the year ended December 31, 2015 and is expected to be focused on the development of the Company's Simonette assets. Annual production is budgeted to increase to 11,500 boepd, an increase of 5 percent from 2014. Capital expenditures for 2015 are expected to be funded from cash flow, borrowing from the Company's credit facility and potential asset sales. The Company continually monitors fluctuations in natural gas prices and may adjust budgeted discretionary capital spending upwards or downwards based on the Company's hedge position and short to medium term natural gas prices.

The Company has hedged approximately half of its 2015 natural gas production at an average price of $3.48 Cdn per GJ and will continue to actively hedge production to protect future capital spending programs. Based on AECO natural gas prices of $2.65/GJ, annual funds flow is forecast to be approximately $40 million resulting in debt levels of approximately $90 million at December 31, 2015.

Forward-Looking Statements

Certain statements contained within this MD&A constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", and similar expressions. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to: the potential impact of implementation of the Alberta Royalty Framework on Cequence's condition and projected 2015 capital investments; projections with respect to growth of natural gas production; the projected impact of land access and regulatory issues; projections relating to the volatility of crude oil and natural gas prices in 2015 and beyond and reasons therefore; the Company's projected capital investment levels for 2015 and the source of funding therefore; the effect of the Company's risk management program, including the impact of derivative

financial instruments; the Company's defence of lawsuits; the impact of the climate change initiatives on operating costs; the impact of Western Canada pipeline constraints. Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur.

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

The forward looking statements contained herein concerning production, sales prices, operating expenses and capital spending are based on Cequence's 2015 capital program. The material assumptions supporting the 2015 capital program are provided in the table above under the heading "Outlook Information".

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

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The accompanying financial statements and all information in the MD&A have been prepared by management and approved by the Board of Directors of Cequence Energy. The financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the MD&A with that in the financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that accounting records are reliable, transactions are properly authorized and assets are safeguarded from loss or unauthorized use. The Audit Committee is appointed by the Board of Directors, with all of its members being independent directors. The Audit Committee meets with management, as well as with the external auditors, to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the financial statements and the auditor's report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The financial statements have been audited independently by Deloitte LLP on behalf of the Company in accordance with generally accepted auditing standards. Their report outlines the nature of their audits and expresses their opinion on the financial statements.

"signed"

Paul Wanklyn
President and Chief Executive Officer
March 5, 2015

"signed"

Dave Gillis
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Cequence Energy Ltd.

We have audited the accompanying consolidated financial statements of Cequence Energy Ltd., which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cequence Energy Ltd. as at December 31, 2014 and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) "Deloitte & Touche Inc"

Chartered Accountants
March 5, 2015
Calgary, Alberta

CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of Canadian dollars)

	December 31, 2014	December 31, 2013
	$	$
ASSETS		
CURRENT		
Cash	27,679	-
Accounts receivable (Note 7)	24,781	19,834
Deposits and prepaid expenses (Note 18)	2,068	3,188
Commodity contracts (Note 19)	7,994	-
	62,522	23,022
Property and equipment (Note 4)	610,860	537,511
Deposits and prepaid expenses (Note 18)	711	1,047
Commodity contracts (Note 19)	190	-
Deferred income taxes (Note 14)	4,548	36,094
	678,831	597,674
LIABILITIES		
CURRENT		
Demand credit facilities (Note 5)	-	22,763
Accounts payable and accrued liabilities (Note 8)	65,882	51,692
Share based payment liability (Note 16)	177	111
Commodity contracts (Note 19)	-	2,880
Provisions (Note 13)	187	317
	66,246	77,763
Senior notes (Note 6)	57,212	56,637
Commodity contracts (Note 19)	-	76
Provisions (Note 13)	37,263	26,828
	160,721	161,304
CONTINGENCIES AND COMMITMENTS (Note 18)		
SHAREHOLDERS' EQUITY		
Share capital (Note 15)	624,619	624,332
Warrants (Note 15)	1,300	1,300
Contributed surplus	28,270	26,185
Deficit	(136,079)	(215,447)
	518,110	436,370
	678,831	597,674

APPROVED BY THE BOARD

[signed] "Donald Archibald"
Donald Archibald, Director

[signed] "Brian Felesky"
Brian Felesky, Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

	Year ended December 31,	
	2014	2013
	$	$
REVENUE		
Production revenue (Note 9)	131,654	95,899
Gain (loss) on derivative financial instruments (Note 19)	2,354	(2,610)
	134,008	93,289
EXPENSES		
Depletion, depreciation and impairment (Note 4)	67,059	43,096
General and administrative (Note 12)	8,830	7,266
Finance costs (Note 11)	8,900	4,403
Operating costs	30,429	28,472
Share based payment (Note 16)	2,530	3,744
Transportation	5,895	5,957
Other income (Note 10)	(100,549)	(857)
	23,094	92,081
INCOME BEFORE INCOME TAXES	110,914	1,208
INCOME TAXES (Note 14)	31,546	3,821
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	79,368	(2,613)
Income (loss) per share (Note 17)		
Basic	$0.38	$(0.01)
Diluted	$0.37	$(0.01)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in thousands of Canadian dollars)

	Year ended December 31,	
	2014	2013
	$	$
SHARE CAPITAL		
Common Shares (Note 15)		
Balance, beginning of year	624,332	606,703
Shares issued on property acquisition (Note 4)	-	17,510
Shares issued on exercise of stock options	287	15
Share issue costs, net of tax of $nil (2013 – ($35))	-	104
Balance, end of year	624,619	624,332
Warrants (Note 15)		
Balance, beginning of year	1,300	-
Warrants granted on issuance of senior notes, net of tax of $nil (2013 – $183)	-	1,339
Share issue costs, net of tax of $nil (2013 – $13)	-	(39)
Balance, end of year	1,300	1,300
CONTRIBUTED SURPLUS		
Balance, beginning of year	26,185	22,556
Share based payment expense (Note 16)	2,180	3,634
Exercise of stock options	(95)	(5)
Balance, end of year	28,270	26,185
DEFICIT		
Balance, beginning of year	(215,447)	(212,834)
Comprehensive income (loss)	79,368	(2,613)
Balance, end of year	(136,079)	(215,447)
TOTAL EQUITY	518,110	436,370

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of Canadian dollars)

	Year ended December 31, 2014	2013
	$	$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net income (loss)	79,368	(2,613)
Adjustments for non-cash items:		
Depletion, depreciation and impairment	67,059	43,096
Finance costs related to provisions (Note 11)	847	830
Share based payment (Note 16)	2,530	3,744
Amortization of transaction costs on senior notes (Note 11)	324	76
Accretion on senior notes (Note 11)	251	58
Unrealized loss (gain) on derivative financial instruments (Note 19)	(11,140)	3,713
Costs related to onerous contracts (Note 13)	(321)	(321)
Gain on sale of property and equipment (Note 10)	(99,814)	(1,092)
Deferred income tax expense (Note 14)	31,546	3,821
Decommissioning liabilities expenditures (Note 13)	(1,382)	(619)
Net change in non-cash working capital (Note 20)	(1,136)	(6,870)
	68,132	43,823
INVESTING		
Property and equipment and exploration and evaluation assets expenditures (Note 4)	(180,215)	(117,909)
Property acquisitions	(2,265)	(203)
Proceeds from sale of property and equipment (Note 4)	153,047	2,878
Net change in non-cash working capital (Note 20)	11,777	13,304
	(17,656)	(101,930)
FINANCING		
Proceeds from demand credit facilities (Note 5)	30,391	55,572
Repayment of demand credit facilities (Note 5)	(53,154)	(56,000)
Issue of senior notes, net of transaction costs (Note 6)	-	57,974
Cash settlement of share based payments (Note 16)	(284)	-
Issue of common shares (Note 15)	192	10
Share issue costs (Note 15)	-	139
Net change in non-cash working capital (Note 20)	58	412
	(22,797)	58,107
NET INCREASE IN CASH	27,679	-
CASH, BEGINNING OF YEAR	-	-
CASH, END OF YEAR	27,679	-
SUPPLEMENTARY INFORMATION		
Income taxes paid	-	-
Interest paid	7,421	2,784

1. Nature and Description of the Company

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

These consolidated financial statements ("consolidated financial statements") include all assets, liabilities, revenues and expenses of Cequence and its wholly-owned subsidiary, 1175043 Alberta Ltd.

2. Significant Accounting Policies

STATEMENT OF COMPLIANCE AND AUTHORIZATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Company's Board of Directors on March 5, 2015.

BASIS OF PRESENTATION

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

BASIS OF CONSOLIDATION

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

BUSINESS COMBINATIONS

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

FINANCIAL INSTRUMENTS

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

The Company has made the following classifications:

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

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

The Company's senior notes are classified as debt with a portion of proceeds allocated to equity representing the residual value allocated to the warrants issued to the lender. The debt component associated with the senior notes accretes over time to the amount owing on maturity and such increases in the debt component are reflected as non-cash interest expense in comprehensive income (loss). The issue costs are amortized to comprehensive income (loss) using the effective interest rate method. The senior notes are carried net of transaction costs on the statement of financial position.

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

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in comprehensive income (loss).

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

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

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

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

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

Impairment of financial assets

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

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

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

PROPERTY AND EQUIPMENT AND EXPLORATION AND EVALUATION ASSETS

Recognition and measurement

Exploration and evaluation expenditures

Pre-license costs, geological and geophysical costs are recognized in comprehensive income (loss) as incurred.

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

The Company enters into E&E farm-in arrangements to fund a portion of the partner's (farmor's) exploration and/or future development expenditures ("carried interests"), these expenditures are reflected in the consolidated financial statements when the exploration and development work progresses. For E&E farm-out arrangements where the farmee correspondingly undertakes to fund carried interests as part of the consideration no gain or loss is recognized by the Company.

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

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

Recognition and measurement

Development and production costs

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

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

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

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

Subsequent costs

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

Depletion and depreciation

The net carrying value of development and production assets plus future development costs on proved plus probable reserves is depleted using the unit of production method based on proved and probable reserves, gross of royalties, as determined by independent engineers, on an area by area basis. For the purpose of

this calculation, production and reserves of petroleum and natural gas are converted to a common unit of measurement on the basis of their relative energy content, where six thousand cubic feet of natural gas equates to one barrel of oil. Costs are only depleted once production in a given area begins.

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

Impairment

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

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

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

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

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

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

PROVISIONS

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

Decommissioning liabilities

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

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

Onerous contracts

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

JOINTLY CONTROLLED ASSETS

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

SHARE BASED PAYMENTS

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

The Company issues Restricted Share Units ("RSU") under the RSU Plan to directors, officers and other service providers. RSUs are accounted as cash-settled share based payments and are originally measured at the grant date fair value and subsequently remeasured each period end until the vesting date when the RSUs are settled in cash. Share based payment expense on the RSUs is charged to net earnings or loss in the period they vest with a corresponding adjustment to share based payment liability. The Company incorporates an estimated forfeiture rate for RSUs that will not vest, and subsequently adjusts for actual forfeitures as they occur.

REVENUE

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

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

FLOW-THROUGH SHARES

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

EARNINGS PER SHARE

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

TAXATION

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

Current tax

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

Deferred tax

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

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

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

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

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

Current and deferred tax for the period

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

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Note 4: Property and equipment and exploration and evaluation assets

Note 13: Provisions

Note 16: Share based payment plans

Note 18: Contingencies and commitments

Note 19: Financial instruments and risk management

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

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

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

Costs associated with acquiring oil and natural gas licenses and exploratory drilling are accumulated as E&E assets pending determination of technical feasibility and commercial viability. Establishment of technical feasibility and commercial viability is subject to judgement which management has determined to be based on the allocation of commercial reserves to the exploration area. Upon determination of commercial reserves, E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to development and production assets included in property and equipment.

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of E&E assets and development and production costs acquired generally require the most judgement and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets and liabilities in the purchase price allocation.

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

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

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

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

3. CHANGES IN ACCOUNTING AND FUTURE ACCOUNTING PRONOUNCEMENTS

On January 1, 2014, Cequence adopted the following standards and amendments, as issued by the IASB:

- IAS 36, "Impairment of Assets". The amendments reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarifies the disclosures required when an impairment loss has been recognized or reversed in the period. The adoption of these amendments resulted in incremental disclosures being included in Note 4 of the Company's consolidated financial statements.

- IFRS Interpretations Committee ("IFRIC") 21 "Levies". IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified in the relevant legislation, occurs. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

On May 28, 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", a new standard that specifies recognition requirements for revenue as well as requiring entities to provide the users of financial statements with more informative and relevant disclosures. The standard replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue" as well as a number of revenue-related interpretations. The Company will adopt the standard for reporting periods beginning January 1, 2017. The Company is currently evaluating the impact of adoption of this standard and the effect on Cequence's consolidated financial statements has not yet been determined.

Since November 2009, the IASB has been in the process of completing a three phase project to replace IAS 39, "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments", which includes requirements for hedge accounting, accounting for financial assets and liabilities and impairment of financial instruments. As of February 2014, the mandatory effective date of IFRS 9 has been tentatively set to January 1, 2018. The Company is assessing the effect of this future pronouncement on its financial statements.

4. Property and Equipment and Exploration and Evaluation Assets

	Property and equipment	E&E assets	Total
Cost:			
Balance at December 31, 2012	636,356	13,829	650,185
Additions	103,834	14,075	117,909
Transferred to property and equipment	27,904	(27,904)	-
Decommissioning obligation additions and change in estimates	(4,632)	-	(4,632)
Acquisitions	23,540	-	23,540
Disposals	(22,019)	-	(22,019)
Balance at December 31, 2013	764,983	-	764,983
Additions	**180,215**	**-**	**180,215**
Decommissioning obligation additions and change in estimates	**13,576**	**-**	**13,576**
Acquisitions	**2,265**	**-**	**2,265**
Disposals	**(77,201)**	**-**	**(77,201)**
Balance at December 31, 2014	**883,838**	**-**	**883,838**

	Property and equipment	E&E assets	Total
Depletion, depreciation and impairment:			
Balance at December 31, 2012	(197,297)	-	(197,297)
Depletion and depreciation	(40,932)	-	(40,932)
Impairment loss	(2,164)	-	(2,164)
Disposals	12,921	-	12,921
Balance at December 31, 2013	(227,472)	-	(227,472)
Depletion and depreciation	**(48,577)**	**-**	**(48,577)**
Impairment loss	**(18,482)**	**-**	**(18,482)**
Disposals	**21,553**	**-**	**21,553**
Balance at December 31, 2014	**(272,978)**	**-**	**(272,978)**
Carrying amounts:			
At December 31, 2013	537,511	-	537,511
At December 31, 2014	**610,860**	**-**	**610,860**

Costs subject to depletion include $849,135 of estimated future capital costs (2013 – $785,249).

The Company's credit facilities are secured by a demand debenture with a first floating charge over all assets of the Company (see note 5).

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

IMPAIRMENT

The Company reviewed each CGU comprising its property and equipment at December 31, 2014 for indicators of impairment and determined that indicators were present, related to decreases to future natural gas prices used to estimate the value in use and fair value less cost to sell of each of the Company's CGUs.

As a result, impairment tests were carried out at December 31, 2014. The recoverable amounts of each of the Company's CGUs at December 31, 2014 were estimated as their value in use, based on the net present value of discounted future cash flows from oil and gas reserves, as estimated by the Company's independent reserves evaluator. Consideration was also given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant CGU.

The benchmark escalated prices on which the December 31, 2014 impairment tests are based are as follows:

	Natural Gas AECO Spot ($/mmbtu)	Condensate Edmonton Pentanes Plus ($/bbl)	Crude Oil Edmonton Par ($/bbl)
2015	3.31	69.24	64.71
2016	3.77	85.60	80.00
2017	4.02	91.71	85.71
2018	4.27	97.83	91.43
2019	4.53	103.94	97.14
2020	4.78	110.06	102.86
2021	5.03	113.62	106.18
2022	5.28	115.89	108.31
2023	5.53	118.20	110.47
2024	5.71	120.56	112.67

Prices increase at a rate of approximately 2.0 percent per year for natural gas, condensate and crude oil after 2024. Adjustments were made to the benchmark prices, for purposes of the impairment tests, to reflect varied delivery points and quality differentials in the products delivered.

The Company used a 12% discount rate for the December 31, 2014 impairment tests which took into account the risks specific to the CGUs and current market assessment of the time value of money.

The estimated recoverable amounts used in the December 31, 2014 impairment tests were $21,648 for the Northeast British Columbia CGU and $16,535 for the Peace River Arch CGU.

Results of the Company's impairment tests for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Northeast British Columbia	10,396	-
Peace River Arch	8,086	-
Deep Basin disposition	-	2,164
Total	18,482	2,164

For the quarter ended December 31, 2014, a one percent increase in the discount rate applied to the Company's future estimated cash flows would result in an additional impairment of $1,690 (2013 - $nil), whereas a ten percent decrease in forward benchmark natural gas prices would result in additional impairment of $8,121 (2013 - $nil) recognized in comprehensive income for the year ended December 31, 2014.

During the three months ended June 30, 2013, the Company recorded an impairment of $2,164 on its Fir assets which reflected the difference between the carrying value and fair value of the assets included as consideration transferred in the Simonette property acquisition described below.

PROPERTY ACQUISITION

On April 15, 2013, the Company acquired oil and gas properties located in the Simonette area of Alberta. As consideration for the assets, Cequence transferred its interest in its non-operated oil and gas properties located in the Fir area, and issued an aggregate of 10,300,000 Cequence common shares to the Corporation. The Company recorded $353 of transaction costs related to this acquisition (see note 10). Cequence believes that this expansion and consolidation of its contiguous Montney land position at Simonette has significant present and future economic and strategic value.

A property acquisition is accounted for as a business combination when certain criteria are met, such as the acquisition of inputs and processes to convert those inputs into beneficial outputs. Cequence assessed the property acquisition and determined that it constitutes a business combination under IFRS. In a business combination, acquired assets and liabilities are recognized by the acquirer at their fair value at the time of purchase. Any difference between the determined fair value of the assets and liabilities and the purchase price is recognized as either a bargain purchase gain or goodwill in the period of acquisition.

The estimated fair value of the property and equipment acquired was determined using both internal and external estimates. Decommissioning liabilities assumed were determined using the timing and estimated costs associated with the abandonment, restoration and reclamation of the wells and facilities acquired. A summary of the acquired property is as follows:

Estimated fair value of acquisition:	
Property and equipment	23,336
Decommissioning liabilities	(239)
Deferred income tax liability	(3)
	23,094
Consideration:	
Common shares issued	17,510
Property and equipment transferred	6,004
Decommissioning liabilities transferred	(420)
	23,094

If the acquisition had been effective January 1, 2013, the impact on the Company's production revenue and loss before tax would have been immaterial.

SALE OF ASSETS

On July 7, 2014, the Company closed the disposition of all assets and associated liabilities presented as assets held for sale at June 30, 2014 for total cash consideration of approximately $139,956, prior to closing adjustments. The disposition consisted of all the Company's non-operated assets located in the Ansell area. The sale resulted in a gain recognized in comprehensive income of $91,847. The Company's lenders completed a borrowing base review in connection with the Ansell disposition and revised the Company's Credit facility from $155,000 to $135,000. Proceeds from the disposition were used to repay indebtedness under the credit facility.

During the twelve months ended December 31, 2014, the Company completed additional sales of certain oil and gas properties for total cash consideration of $13,091 (2013 - $2,878), subject to final adjustments. The sales resulted in a gain recognized in comprehensive income of $7,967 (2013 - $1,092).

5. Demand Credit Facilities

The Company has credit facilities totalling $135,000 with a syndicate of Canadian chartered banks. Credit facility A is a $125,000 (December 31, 2013 - $110,000) extendible revolving term credit facility by way of prime loans, U.S. Base Rate Loans, Banker's Acceptances and Libor Loans. Credit facility B is a $10,000 (December 31, 2013 - $10,000) operating facility by way of prime loans, U.S. Base Rate Loans, Banker's Acceptances and letters of credit. Prime loans and U.S. Base Rate Loans on these facilities bear interest at the bank prime rate or U.S. Base Rate, respectively, plus 1.0 percent to 2.5 percent on a sliding scale, depending on the Company's debt to adjusted EBITDA ratio (ranging from being less than or equal to 1.0:1.0 to greater than 2.5:1.0). Banker's Acceptances, Libor Loans and letters of credit on these facilities bear interest at the Banker's Acceptance rate, Libor rate or letter of credit rate, as applicable, plus 2.0 percent to 3.5 percent based on the same sliding scale as above. The credit facilities may be extended and revolve beyond the initial one-year period, if requested by the Company and accepted by the lenders. If the credit facilities do not continue to revolve, the facilities will convert to a 366-day non-revolving term loan facility.

Both credit facilities, and the amount available for draws under the facilities, are subject to periodic review by the bank and are secured by a general assignment of book debts and a $250,000 demand debenture with a first floating charge over all assets of the Company. The Company is permitted to hedge up to 67 percent of its production under the lending agreement. As at December 31, 2014, the Company has drawn $nil under the extendible revolving term credit facility and $nil under the operating facility (December 31, 2013 – $22,763 and $nil for the revolving and operating facilities, respectively). The Company has covenants that require Consolidated Debt and Senior Debt to twelve month trailing earnings before interest, taxes and depletion and depreciation to be less than 4:0 to 1:0 and 3:0 to 1:0, respectively. Consolidated Debt is defined as the sum of the Company's period end balance of the credit facility and senior notes. Senior Debt is defined as the sum of Consolidated Debt less the period end balance of the senior notes. The Company was in compliance with the lender's covenants at December 31, 2014. The effective annualized interest rate, including standby fees and commitment fees, for the year ended December 31, 2014 was 7.0 percent (2013 – 5.43 percent). The next scheduled review is to take place in May 2015.

6. Senior Notes

	December 31, 2014	December 31, 2013
Senior notes	58,477	58,477
Less transaction costs	(1,265)	(1,840)
Total senior notes	57,212	56,637

On October 3, 2013, Cequence issued $60,000 of unsecured five year term notes ("senior notes") at par with a 9% coupon per annum for gross proceeds net of transaction costs of $57,974. The senior notes are unsecured and are subordinate to Cequence's credit facilities. The senior notes were issued pursuant to a trust indenture with a Canadian trust company, which provides for an additional $60,000 of unsecured senior notes at a future date, subject to approval of both the lender and the Company on terms to be confirmed at the time of issuance. A standby charge of 0.7% is applied to the further $60,000 of senior notes available at a future date. The senior notes require quarterly interest payment of 2.25% of the outstanding balance of the senior notes and no principal payments are required prior to maturity on October 3, 2018. In addition, Cequence granted to the lender of the senior notes 3.0 million warrants at an exercise price of $2.03 to purchase common shares.

The senior notes are subject to the same financial covenants as the Company credit facilities as well as other non-financial covenants and restrictive covenants, including restrictions over asset sales, restricted payments and the incurrence of additional indebtedness. The Company was in compliance with the senior notes covenants at December 31, 2014.

At any time prior to the maturity of October 3, 2018, the Company has a prepayment option to redeem all or part of the principal amount plus accrued and unpaid interest on the senior notes in accordance with the provisions of the trust indenture. Prior to October 3, 2016 the Company can redeem all or part of the senior notes at 100% of the principal amount plus accrued and unpaid interest plus 75% of the present value of the remaining scheduled payments of interest from the redemption date until the maturity date. The Company can redeem all or part of the senior notes at 105% of the principal amount plus accrued and unpaid interest during the period October 3, 2016 to October 3, 2017 and at 100% of the principal amount plus accrued and unpaid interest during the period October 3, 2017 to October 3, 2018. The prepayment options within the senior notes are considered embedded derivatives. The value of these embedded derivatives at October 3, 2013 and at December 31, 2013 and 2014 is negligible. Upon specified change of control events or upon certain sales of assets, the Company must offer to repurchase the senior notes.

The senior notes have been classified as debt, net of transaction costs with the residual value related to the warrants allocated to equity. The transaction costs will be amortized over the life of senior notes and the debt portion of the senior notes will be accreted up to the principal value of $60,000 using an effective interest rate of 10.51%.

	December 31, 2014	December 31, 2013
Issuance	-	60,000
Less transaction costs	-	(2,026)
Net proceeds	-	57,974
Debt component		
Beginning balance	56,637	-
Issuance, net of allocated transaction costs	-	56,503
Amortization of transaction costs	324	76
Accretion	251	58
Total debt component	57,212	56,637
Equity component		
Warrant issuance, net of allocated transaction costs and deferred tax	1,300	1,300
Total equity component	1,300	1,300

7. Accounts Receivable

	December 31, 2014	December 31, 2013
Trade receivables	12,801	7,140
Allowance for doubtful accounts	(944)	(581)
Net trade receivables	11,857	6,559
Accrued revenue	12,061	12,591
Other receivables	863	684
Total accounts receivable	24,781	19,834

8. Accounts Payable and Accrued Liabilities

	December 31, 2014	December 31, 2013
Accounts payable	23,535	21,660
Accrued liabilities	42,347	30,032
Total accounts payable and accrued liabilities	65,882	51,692

9. Production Revenue

	Year ended December 31,	
	2014	2013
Sales of oil and natural gas	145,679	104,514
Royalties	(14,025)	(8,615)
Total production revenue	131,654	95,899

10. Other Income

	Year ended December 31, 2014	2013
Gain on sale of property and equipment (Note 4)	(99,814)	(1,092)
Interest income	(646)	(41)
Transaction costs	-	353
Other	(89)	(77)
Total other income	(100,549)	(857)

11. Finance Costs

	Year ended December 31, 2014	2013
Interest expense on demand credit facilities (including stand-by fees and commitment fees of $504 (2013 - $548))	2,069	2,105
Interest expense on senior notes (including stand-by fees of $522 (2013 - $104))	5,409	1,334
Amortization of transaction costs	324	76
Accretion expense on senior notes	251	58
Accretion expense on provisions	847	830
Total finance costs	8,900	4,403

12. Compensation Costs and Key Management Personnel Expenses

Total wages, salaries, benefits and other personnel costs included in comprehensive income for the year ended December 31, 2014 were $5,452 (2013 - $4,261).

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

	Year ended December 31, 2014	2013
Wages, salaries, benefits and other personnel costs	1,483	1,121
Share based payments (i)	735	757
Total remuneration	2,218	1,878

(i) Represents the total fair value of share based payment awards granted to officers and directors in the year of grant, as determined using a Black-Scholes option pricing model (see note 16).

13. Provisions

DECOMMISSIONING LIABILITIES

The following table summarizes the changes in decommissioning liabilities for the years ended December 31, 2014 and 2013:

	2014	2013
Balance, beginning of year	26,643	32,564
Acquisitions	-	285
Property dispositions (Note 4)	(2,414)	(1,729)
Accretion expense	840	819
Liabilities incurred	3,147	1,120
Abandonment costs incurred	(1,382)	(619)
Revisions in estimated cash flows	4,881	(973)
Revisions due to change in discount rates	5,548	(4,824)
Balance, end of year	37,263	26,643

The Company's decommissioning liabilities result from its ownership in oil and natural gas assets including well sites, facilities and gathering systems. The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are $67,840 (2013 - $55,632). These cash flows have been discounted using a risk-free interest rate of 2.33 percent (2013 – 3.20 percent) based on Government of Canada long-term benchmark bonds. The Company expects these obligations to be settled in approximately 1 to 50 years (2013 – 1 to 50 years). As at December 31, 2014, no funds have been set aside to settle these liabilities.

ONEROUS CONTRACTS

As at December 31, 2014, the Company recognized a provision related to an onerous lease contract of $187 (2013 - $502). The provision for onerous lease contract represents the future lease obligations that the Company is presently obligated to make under a non-cancellable onerous operating lease contract, less revenue expected to be earned on the lease, including estimated future sub-lease revenue.

Cequence expects to reduce the provision by $187 in the year ended December 31, 2014, which amount is included with other liabilities in the consolidated balance sheet. The estimate may vary as a result of changes in the utilization of the lease premises and the sub-lease arrangements, where applicable. The unexpired term of the leases at December 31, 2014 is 7 months.

14. Income Taxes

The following table sets forth the components of the Company's deferred income tax asset :

	December 31, 2014	December 31, 2013
Excess of net book value of assets and liabilities over related tax pools	(48,527)	(8,412)
Non-capital loss carry-forwards	43,791	34,500
Scientific research and development expenses and investment tax credits	8,602	8,602
Other tax assets	682	1,404
Total net deferred income tax asset	4,548	36,094

At December 31, 2014, Cequence has total tax pools of $611,388 (2013 - $663,237) including non-capital loss carry-forwards, investment tax credit carry-forwards and Scientific Research and Experimental Development ("SRED") expenses available to reduce future years' income for tax purposes. Deferred income tax assets have been recognized to the extent that estimated future taxable profits are sufficient to realize the deferred income tax assets in the allowable timeframes. As at December 31, 2014, a deferred income tax asset has not been recognized on $18,600 (2013 – $18,600) of deductible temporary differences in respect of certain successored resource properties; the deductible temporary differences do not expire. The Scientific Research and Development expenses of approximately $22,704 available for carry-forward do not expire (2013 - $22,704). The non-capital loss carry-forwards expire in 11 to 20 years and the investment tax credit carry-forwards expire in 6 to 10 years.

Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial tax rates of 25 percent (2013 – 25 percent) to income before income taxes as follows:

	Year ended December 31,	
	2014	2013
Expected income tax expense	**27,728**	302
Effect of share based payments	**632**	936
Change in previously estimated tax pools	**3,101**	(370)
Effect of renunciation of flow-through shares	**-**	3,000
Other	**85**	(47)
Deferred income tax expense	**31,546**	3,821
Current income tax	**-**	-
Income tax expense	**31,546**	3,821

Movements in deferred income tax balances are as follows:

	Balance, Dec. 31, 2013	Recognized in comprehensive income	Recognized in liabilities	Recognized in equity	**Balance, Dec. 31, 2014**
Property and equipment and provisions	(8,962)	**(37,270)**	-	-	**(46,232)**
Unrealized (gain) loss on financial instruments	739	**(2,785)**	-	-	**(2,046)**
Senior notes	(189)	**(60)**	-	-	**(249)**
Non-capital losses	34,500	**9,291**	-	-	**43,791**
SRED expenses and investment tax credits	8,602	**-**	-	-	**8,602**
Other	1,404	**(722)**	-	-	**682**
Total	36,094	**(31,546)**	-	-	**4,548**

	Balance, Dec. 31, 2012	Recognized in comprehensive loss	Recognized in liabilities	Recognized in equity	Balance, Dec. 31, 2013
Property and equipment and provisions	(3,475)	1,656	(7,143)	-	(8,962)
Unrealized (gain) loss on financial instruments	(189)	928	-	-	739
Senior notes	-	(6)	-	(183)	(189)
Non-capital losses	36,969	(2,469)	-	-	34,500
SRED expenses and investment tax credits	8,602	-	-	-	8,602
Other	2,359	(933)	-	(22)	1,404
Total	44,266	(824)	(7,143)	(205)	36,094

15. Share Capital

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

	Year ended December 31, 2014		Year ended December 31, 2013	
Issued common voting shares	Number	Stated Value	Number	Stated Value
	(000s)	$	(000s)	$
Balance, beginning of year	210,918	624,332	200,610	606,703
Common shares	110	287	8	15
Common shares issued on property acquisition (Note 4)	-	-	10,300	17,510
	211,028	624,619	210,918	624,228
Share issue costs, net of taxes of $nil (2013 – ($35))	-	-	-	104
Balance, end of year	211,028	624,619	210,918	624,332
Warrants				
Balance, beginning of year	3,000	1,300	-	-
Granted on issuance of senior notes, net of tax of $ nil (2013 – $183) (Note 6)	-	-	3,000	1,339
Transaction costs, net of tax of $ nil (2013 – $13)	-	-	-	(39)
Balance, end of year	3,000	1,300	3,000	1,300

On October 3, 2013, the Company granted to the lender of the senior notes 3.0 million warrants at an exercise price of $2.03 to purchase Cequence common shares (see note 6).

16. Share Based Payment Plans

STOCK OPTIONS

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

During the year ended December 31, 2014, the Company issued 650 stock options at prices ranging from $1.04 to $2.22 to employees and an officer. The options have a five year life and one third vest annually commencing one year following the grant date.

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

	2014	2013
Risk-free interest rate	1.3% - 1.5%	1.5% - 1.9%
Expected life of options	5 years	5 years
Expected volatility	60%	60%
Expected dividend rate	0%	0%
Expected forfeiture rate	15%	15%
Weighted average fair value	$1.12	$0.89

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

A summary of the status of the Company's stock option plan and changes during the year ended December 31, 2014 and 2013 is as follows:

	2014		2013	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
	(000s)	$	(000s)	$
Outstanding, beginning of year	18,617	2.15	17,289	2.19
Granted	650	2.15	1,780	1.70
Forfeited	(905)	2.88	(444)	1.92
Exercised	(110)	1.73	(8)	1.34
Outstanding, end of year	18,252	2.11	18,617	2.15

The following table summarizes information about stock options outstanding at December 31, 2014:

		Options Outstanding		Options Exercisable	
Range of Exercise Price	Weighted Average Exercise Price	Number of Options Outstanding	Weighted Average Contractual Life Remaining	Number of Options	Weighted Average Exercise Price
$	$	(000s)	(years)	(000s)	$
1.04 – 1.99	1.73	14,241	1.70	11,540	1.79
2.00 – 3.81	3.48	4,011	1.98	3,411	3.70
	2.11	18,252	1.75	14,951	2.22

During the year ended December 31, 2014, $2,180 (2013 - $3,633) in share based payment expense related to equity-settled stock options has been recognized in comprehensive income.

RESTRICTED SHARE UNITS

The Company has a RSU plan for directors, officers, employees and consultants of the Company and its subsidiaries. An RSU is a conditional grant to receive a Cequence common share, or the cash equivalent, as determined by the Company, upon vesting of the RSUs and in accordance with the terms of the RSU plan and grant agreement. The value of one RSU is notionally equivalent to one Cequence common share. RSUs vest over a three year period and management plans to settle the RSUs in cash on the respective vesting date.

A summary of the status of the Company's RSU plan and changes for the year ended December 31, 2014 and 2013 is as follows:

Number of RSUs (000s)	2014	2013
Outstanding, beginning of year	561	-
Granted	473	561
Forfeited	(33)	-
Exercised	(187)	-
Outstanding, end of year	814	561

During the twelve months ended December 31, 2014, the Company recognized $350 (2013 - $111) in share based payment expense related to the cash-settled RSUs in comprehensive income.

17. Income (Loss) Per Share

Income (loss) per share has been calculated based on the weighted average number of common shares outstanding during the year. For the year ended December 31, 2014, the Company has excluded 4,031,000 stock options in the calculation of diluted shares outstanding (2013 – 18,617,000 stock options, 561,000 RSUs and 3,000,000 warrants) as their inclusion would be anti-dilutive. The following table reconciles the denominators used for the basic and diluted income (loss) per share calculations.

	Year ended December 31,	
	2014	2013
Basic weighted average shares	210,990	207,950
Effect of dilutive instruments	3,102	-
Diluted weighted average shares	214,092	207,950

18. Contingencies and Commitments

	2015	2016	2017	2018	2019+	Total
Office leases	1,051	864	639	-	-	2,554
Pipeline transportation	1,643	-	-	-	-	1,643
Total	2,694	864	639	-	-	4,197

The pipeline transportation contract expires on November 30, 2015.

In 2011, the Company entered into a drilling service agreement whereby the Company made a deposit of $3,500 to obtain a right of first refusal on the use of two drilling rigs over the five years following the date that use of the rigs commences. The deposit is to be applied as the Company incurs costs related to the use of the drilling rigs and $2,561 has been drawn down at December 31, 2014. Cequence expects to reduce the deposit by $228 in the year ended December 31, 2015, which amount is included with deposits and prepaid expenses at December 31, 2014. The portion of the outstanding deposit expected to be drawn down in the period subsequent to December 31, 2015 of $711 is carried as a non-current asset at December 31, 2014.

During the year ended December 31, 2014, the Company recognized $1,503 (2013 – $1,366) of expense related to office leases, included with general and administrative expense.

19. Financial Instruments and Risk Management

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

The Company's cash, accounts receivable, deposits, demand credit facilities and accounts payable and accrued liabilities approximate their carrying values due to their short terms to maturity and the floating interest rate on the Company's debt. The senior notes bear interest at rates available to Cequence and accordingly the fair value approximates the carrying value excluding deferred financing costs.

The Company's fair value hierarchy for those assets and liabilities measured at fair value comprises commodity contracts which are measured at level 2 under the Company's fair value hierarchy as of December 31, 2014. The fair value of commodity contracts is determined by discounting the remaining contracted petroleum and natural gas volumes by the difference between the contracted price and published forward price curves as at the balance sheet date.

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

MARKET RISK

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

Commodity price risk

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

During the year ended December 31, 2014, the Company entered into several commodity derivative financial instrument contracts. The following information presents all outstanding positions for commodity derivative financial instruments at December 31, 2014:

Term	Product	Type	Volume	Price	Basis
January 1, 2015 to March 31, 2015	Gas	Swap	2,500 gj/day	$3.70	AECO
January 1, 2015 to March 31, 2015	Gas	Swap	2,500 gj/day	$4.23	AECO
January 1, 2015 to March 31, 2015	Gas	Swap	5,000 gj/day	$3.76	AECO
January 1, 2015 to December 31, 2015	Gas	Swap	2,500 gj/day	$3.58	AECO
January 1, 2015 to December 31, 2015	Gas	Swap	5,000 gj/day	$3.69	AECO
January 1, 2015 to December 31, 2015	Gas	Swap	2,500 gj/day	$3.95	AECO
January 1, 2015 to December 31, 2015	Gas	Swap	2,500 gj/day	$3.73	AECO
January 1, 2015 to December 31, 2015	Gas	Swap	2,500 gj/day	$3.57	AECO
April 1, 2015 to December 31, 2015	Gas	Swap	5,000 gj/day	$3.57	AECO

For the year ended December 31, 2014, realized loss from commodity derivative contracts recognized in comprehensive income were $8,786 (2013 - $1,103 gain).

The fair value of the commodity contracts outstanding at December 31, 2014 was a current asset of $7,994 and non-current asset of $190 (2013 – current liability $2,880 and non-current liability of $76).

For the year ended December 31, 2014 the Company recorded an unrealized gain of $11,140 from derivative commodity contracts (2013 - $3,713 unrealized loss).

As at December 31, 2014, an increase in gas price of $0.50/gj results in a decrease in the fair value of the commodity contracts of $4,103 ($3,077 after tax) and a commensurate decrease to comprehensive income.

Foreign exchange risk

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices are referenced to U.S. dollar denominated prices. As at December 31, 2014 the Company had no forward, foreign exchange contracts in place, nor any significant working capital items denominated in foreign currencies (2013 – nil).

Interest rate risk

The Company is exposed to interest rate risk to the extent that changes in market interest rates impact its borrowings under the floating rate credit facilities. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. The Company has no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2014 (2013 - nil).

As at December 31, 2013, a 1 percent change in interest rates on the Company's outstanding credit facilities, with all other variables constant, would result in a change in comprehensive income of $nil ($nil after tax) (2013 - $228 ($171 after tax)).

CREDIT RISK

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

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

As at December 31, 2014, the accounts receivable balance was $24,781 of which $2,053 was past due. The Company considers all amounts greater than 90 days past due. These past due accounts are considered to be collectible, except as provided in the allowance for doubtful accounts. When determining whether past due accounts are uncollectible, the Company factors in the past credit history of the counterparties. The following table provides an aging analysis of the Company's accounts receivables:

Current	30-60 days	60-90 days	90+days	Total
18,136	1,714	2,878	2,053	24,781

At December 31, 2014, the Company has an allowance for doubtful accounts of $944 (2013 – $581). As at December 31, 2014, 31.2 percent (2013 – 54.0) of the total receivables balance is due from marketers of the Company's oil and natural gas production. A reconciliation of the Company's allowance for doubtful accounts is as follows:

	Year ended December 31, 2014	2013
Balance, beginning of year	**581**	515
Amounts collected	**(53)**	(140)
Amounts written off to accounts receivable	**(26)**	(1)
Additional provision	**442**	207
Balance, end of year	**944**	581

As at December 31, 2014, the maximum exposure to credit risk was $60,644 (2013 - $19,834) being the carrying value of the Company's, cash, accounts receivable and commodity contract assets.

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The nature of the oil and gas industry is capital intensive and the Company maintains and monitors a certain level of cash flow to finance operating and capital expenditures. Refer to note 21 for disclosure related to the management of capital.

The expected timing of cash flows relating to financial liabilities as at December 31, 2014 is as follows:

	< 1 Year	1 – 2 Years	2 – 5 Years	Thereafter
Senior notes – principal	-	-	60,000	-
Accounts payable and accrued liabilities	65,882	-	-	-
	65,882	-	60,000	-

20. Changes in Non-Cash Working Capital

	Year ended December 31, 2014	2013
Accounts receivable	**(4,947)**	(3,750)
Deposits and prepaid expenses	**1,456**	1,094
Accounts payable and accrued liabilities	**14,190**	9,502
Net change in non-cash working capital	**10,699**	6,846
Allocated to:		
Operating activities	**(1,136)**	(6,870)
Investing activities	**11,777**	13,304
Financing activities	**58**	412
	10,699	6,846

21. Capital Management

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

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

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

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

At December 31, 2014, Cequence has $60,000 in senior notes due in 2018 and a $135,000 senior credit facility which is undrawn.

It is the Company's objective to maintain a net debt to annualized cash flow ratio of less than 2:1. As at December 31, 2014, the ratio was calculated as 1.3:1 (2013 – 1.9:1) based on annualized fourth quarter results.

The Company's senior credit facility is based on the lenders' semi-annual review of the Company's oil and natural gas reserves. The Company is also subject to various lenders' restrictions and covenants under the terms of the credit facilities and senior notes. Compliance with these restrictions and covenants is monitored on a regular basis and Cequence was in compliance at December 31, 2014.

CORPORATE INFORMATION

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President & CEO

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COO

David Gillis, CA
Vice President, Finance & CFO

James R. Jackson, P.Eng, CFA
Vice President, Engineering

David P. Robinson
Vice President, Geology

Christopher C. Soby
Vice President, Land

Stephen R. Stretch
Vice President, Geophysics

Mike Stewart
Vice President, Operations

Erin Thorson, CMA
Controller

Directors

Don Archibald
Chairman

Peter Bannister
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