HIGHLIGHTS

(000's except per share and per unit amounts)	Three months ended March 31,		
	2013	2012	% Change
Financial ($)			
Production revenue [1]	**22,005**	19,864	11
Comprehensive loss	**(5,439)**	(7,936)	(31)
Per share, basic and diluted	**(0.03)**	(0.05)	(40)
Funds flow from operations [2]	**10,652**	6,755	58
Per share, basic and diluted	**0.05**	0.04	25
Production volumes			
Natural gas (Mcf/d)	**46,306**	49,924	(7)
Crude oil (bbls/d)	**608**	684	(11)
Natural gas liquids (bbls/d)	**496**	459	8
Total (boe/d)	**8,822**	9,464	(7)
Sales prices			
Natural gas, including realized hedges ($/Mcf)	**3.51**	2.44	44
Crude oil ($/bbl)	**91.90**	89.58	3
Natural gas liquids ($/bbl)	**52.84**	76.63	(31)
Total ($/boe)	**27.72**	23.07	20
Operating Netback ($/boe)			
Price	**27.72**	23.07	20
Royalties	**(2.63)**	(2.53)	4
Transportation	**(1.59)**	(2.08)	(24)
Operating costs	**(7.24)**	(7.97)	(9)
Operating netback	**16.26**	10.49	55
Capital Expenditures ($)			
Capital expenditures	**43,659**	40,934	7
Net acquisitions (dispositions) [4]	**18**	(10,942)	(100)
Total capital expenditures	**43,677**	29,992	46
Net debt and working capital (deficiency) [3]	**(78,365)**	(75,132)	4
Weighted average shares outstanding (basic and diluted)	**200,610**	161,856	24
Undeveloped land (net acres)	**204,572**	238,600	(14)

(1) Production revenue is presented gross of royalties and realized gains 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 and demand credit facilities and excluding other liabilities.

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

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 unaudited condensed consolidated financial statements (the "consolidated financial statements") and related notes for the three months ended March 31, 2013 as well as with the audited consolidated financial statements (the "annual financial statements") and related notes for the years ended December 31, 2012 and 2011.

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 May 13, 2013.

Basis of Presentation

The consolidated financial statements and comparative information have been prepared in accordance with IAS 34, "Interim Financial Reporting" ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"). The financial information presented reflects the consolidated financial statements of Cequence.

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

For the first quarter of 2013, the ratio between the average price of West Texas Intermediate ("WTI") crude oil at Cushing and NYMEX natural gas was approximately 26:1 ("Value Ratio"). The Value Ratio is obtained using the first quarter 2013 WTI average price of $94.30 (US$/Bbl) for crude oil and the first quarter 2013 NYMEX average price of $3.48 (US$/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 netback, net debt and working capital (deficiency) and funds flow from operations.

Netback is not defined by IFRS in Canada and is referred to as a non-GAAP measure. Netback equals total revenue less royalties, operating costs and transportation costs. Management utilizes this measure 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 and demand credit facilities 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.

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 March 31,	
$(000's)	**2013**	2012
Cash flow from operating activities	**15,110**	8,443
Decommissioning liabilities expenditures	**74**	530
Net change in non-cash working capital	**(4,532)**	(2,218)
Funds flow from operations	**10,652**	6,755
Per share, basic and diluted ($)	**0.05**	0.04
Production revenue	**22,005**	19,864
Comprehensive loss	**(5,439)**	(7,936)
Per share, basic and diluted ($)	**(0.03)**	(0.05)
Total assets	**544,106**	511,600
Demand credit facilities	**41,033**	53,139

Cequence recorded a comprehensive loss of $5,439 for the three months ended March 31, 2013 compared to $7,936 in 2012. The decrease in the Company's comprehensive loss was mainly attributable to higher operating netbacks during the three months ended March 31, 2013, which more than offset $3,233 of unrealized natural gas hedging losses. In addition, the Company's 2012 net loss was negatively impacted by lower natural gas prices and impairments recognized on the Company's property and equipment, offset by gains realized on the sale of certain undeveloped land.

Funds flow from operations was $10,652 for the three months ended March 31, 2013, compared to $6,755 in 2012. The increase in funds flow from operations was achieved through higher natural gas prices in 2013 and reductions in royalties, transportation, and operating costs from the comparative period.

Results of Operations

Production

Average production volumes, revenue and prices for the three months ended March 31, 2013 and 2012 are outlined below:

	Three months ended March 31,	
	2013	2012
Natural gas (Mcf/d)	**46,306**	49,924
Crude oil (bbls/d)	**608**	684
Natural gas liquids (bbls/d)	**496**	459
Total (boe/d)	**8,822**	9,464
Total production (boe)	**793,966**	861,190

Production for the three months ended March 31, 2013 averaged 8,822 boe/d compared to production of 9,464 boe/d in 2012. Lower average production resulted from reduced drilling activity in second half of 2012 due to low natural gas prices and production in Simonette awaiting pipeline and facility completion that was completed in April 2013. Cequence's average production is forecast to average between 10,000 and 10,500 boe/d for the year ended December 31, 2013 with production volumes increasing from current levels beginning in the second quarter.

Revenue

	Three month ended March 31,	
$(000's)	**2013**	2012
Revenue		
Natural gas	**14,520**	11,087
Realized gains on natural gas hedges	**95**	–
Total natural gas	**14,615**	11,087
Crude oil	**5,032**	5,579
Natural gas liquids	**2,358**	3,198
Total production revenue, gross of royalties	**22,005**	19,864
Average prices		
Natural gas ($/Mcf)	**3.48**	2.44
Realized natural gas hedge ($/Mcf)	**0.03**	–
Natural gas including hedge ($/Mcf)	**3.51**	2.44
Crude oil ($/bbl)	**91.90**	89.58
Natural gas liquids ($/bbl)	**52.84**	76.63
Average sales price before hedge ($/boe)	**27.60**	23.07
Average sales price including hedge ($/boe)	**27.72**	23.07
Benchmark pricing		
AECO-C spot (CDN$/Mcf)	**3.20**	2.13
WTI crude oil (US$/bbl)	**94.30**	102.99
Edmonton par price (CDN$/bbl)	**88.55**	92.87
US$/CDN$ exchange rate	**0.99**	1.00

Total production revenue, gross of royalties, was $22,005 for the three months ended March 31, 2013 compared to $19,864 for the comparable period in 2012. The change in revenue is mainly attributable to a 20 percent increase in realized prices.

Pricing

Cequence's production is approximately 87 percent natural gas and consequently, fluctuations in natural gas prices have a significant impact on the Company's revenue and funds flow. Canadian natural gas prices averaged $3.20 per mcf during the three months ended March 31, 2013, an increase of 50 per cent from $2.13 per mcf in 2012.

Realized natural gas prices for the three months ended March 31, 2013 were $3.48 per mcf, up 43 percent from the comparable period in 2012. Cequence realized a natural gas price including hedging gains for the three months ended March 31, 2013 of $3.51 per mcf, an increase of 44 percent from the comparable period in 2012. Realized natural gas prices for the three months ended March 31, 2013 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.

Oil prices for the three months ended March 31, 2013 were $91.90 per barrel, up 3 percent from the same time period in 2012.

Natural gas liquids prices for the three months ended March 31, 2013 were $52.84 per barrel, down 31 percent from the same time period in 2012. The decline in realized natural gas liquids prices was consistent with declines to benchmark NGL prices in 2013 compared to the first quarter of 2012. In addition, the commencement of the Aux Sable arrangement resulted in additional ethane and propane volumes which reduced the average realized NGL price. Under the Aux Sable Arrangement, Cequence has the option to ship unprocessed rich natural gas to the Aux Sable NGL extraction and fractionation plant in Channahon, IL. Cequence sells unprocessed rich natural gas at AECO and participates in the revenue from the natural gas liquids extracted at the Aux Sable facility and sold in the US market.

Commodity Price Management

	Three months ended March 31,	
$(000's)	**2013**	2012
Realized gains on commodity contracts	**95**	–
Unrealized loss on commodity contracts	**(3,328)**	–
Total	**(3,233)**	–

Cequence has a commodity price risk management program which provides the Company flexibility to enter into derivative and physical commodity contracts to protect future cash flows for planned capital expenditures. The Company has the following outstanding positions for commodity derivative financial instruments:

Term	Product	Type	Volume	Price	Basis
January 1, 2013 to December 31, 2013	Gas	Swap	2,000 gj/day	$2.84	AECO
January 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.09	AECO
January 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.00	AECO
January 1, 2013 to December 31, 2013	Gas	Swap	5,000 gj/day	$3.10	AECO
January 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.24	AECO
January 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.40	AECO
March 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.03	AECO
March 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.17	AECO
May 1, 2013 to October 31, 2013	Gas	Swap	2,500 gj/day	$3.49	AECO
January 1, 2014 to September 30, 2014	Gas	Swap	2,500 gj/day	$3.51	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.42	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.53	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.70	AECO
January 1, 2013 to December 31, 2013	Oil	Sold Call	200 bbls/day	$110.00 USD	WTI

For the remainder of 2013, Cequence has hedged approximately 45 percent (24,500 GJ/d) of its forecasted natural gas production volumes at an average AECO price of $3.15 per GJ or approximately $3.65 per mcf. Cequence has hedged approximately 10,000 GJ/d of estimated 2014 natural gas production volumes at an average price of $3.54 per GJ or approximately $4.11 per mcf.

The fair value of the commodity contracts outstanding at March 31, 2013 was a current liability of $2,418 and a non-current liability of $153 (December 31, 2012 – current asset of $694 and a non-current asset of $63 nil).

Royalty Expense

	Three months ended March 31,	
$(000's)	**2013**	2012
Crown	**1,337**	1,850
Freehold / Overriding	**752**	326
	2,089	2,176
As a % of Revenue, Before Hedging Activity		
Crown	**6%**	9%
Freehold / Overriding	**4%**	2%
	10%	11%
Per Unit of Production ($/boe)		
Crown	**1.68**	2.15
Freehold / Overriding	**0.95**	0.38
	2.63	2.53

Royalty expense for the three months ended March 31, 2013 was $2,089 or 10 percent of revenue and is comparable to $2,176 or 11 percent of revenue in 2012. Crown royalties as a percentage of revenue remain low due to low natural gas prices and royalty rates of 5 percent on initial production from new horizontal wells. The Company estimates that royalties as percentage of revenue will be approximately 9 percent for the year ended December 31, 2013.

Transportation Expense

	Three months ended March 31,	
$(000's)	**2013**	2012
Transportation ($)	**1,259**	1,791
Per unit of production ($/boe)	**1.59**	2.08

Transportation expense for the three months ended March 31, 2013 was $1.59 per boe, a decrease of 24 percent from the comparative period in 2012. The decrease is due to lower transportation rates on marketing contracts which were renewed in late 2012. Cequence expects transportation expense to average approximately $1.50 to $1.75 per boe for the year ended December 31, 2013.

Operating Costs

	Three months ended March 31,	
$(000's)	**2013**	2012
Operating costs ($)	**5,746**	6,862
Per unit of production ($/boe)	**7.24**	7.97

For the three months ended March 31, 2013, operating costs decreased to $7.24 per boe from $7.97 per boe in the comparative period in 2012. Operating costs per boe decreased in the three months ended March 31, 2013 primarily due the commencement of the Aux Sable arrangement in the second quarter of 2012.

The third quarter of 2012 was the first full quarter with significant production volumes being sold under the Aux Sable Arrangement. Cequence realized slightly higher NGL volumes at Simonette and higher operating netbacks, through a reduction of processing fees of approximately $0.50 per mcf on volumes sold under this arrangement when compared to the previous processing arrangements. The Company's operating costs per boe are expected to be approximately $6.75 per boe for the year ended December 31, 2013.

Operating Netback

	Three months ended March 31,	
($/boe)	**2013**	2012
Production revenue [1]	**27.72**	23.07
Royalty expense	**(2.63)**	(2.53)
Transportation expense	**(1.59)**	(2.08)
Operating costs	**(7.24)**	(7.97)
Operating netback, $/boe	**16.26**	10.49
Operating netback, excluding realized hedges , $/boe	**16.14**	10.49

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

Cequence's netback for the three months ended March 31, 2013 increased to $16.26 per boe from $10.49 per boe in 2012. The increase in operating netback for the three months ended December 31, 2012 is mainly due to increase production revenue per boe combined with a 9 percent decrease in associated expenses.

General and Administrative Expenses

	Three months ended March 31,	
$(000's)	**2013**	2012
G&A expenses ($)	**1,600**	1,774
Per unit of production ($/boe)	**2.02**	2.06

Total general and administrative ("G&A") costs for the three months ended March 31, 2013 were consistent with the prior year as the size and nature of the business have not changed significantly. The Company's G&A expenses per boe for the year ended December 31, 2013 is expected to average approximately $2.00 to $2.25 per boe.

Finance Costs

	Three months ended March 31,	
$(000's)	**2013**	2012
Interest expense	**384**	406
Accretion expense on provisions	**198**	151
Total finance costs	**582**	557
Per unit of production ($/boe)	**0.73**	0.65
Interest per unit of production, ($/boe)	**0.48**	0.47

Finance costs for the three months ended March 31, 2013 were $582 compared to $557 for the comparative period in 2012.

Other Expense (Income)

	Three months ended March 31,	
$(000's)	**2013**	2012
Gain on sale of property and equipment	**–**	(17,497)
Transaction costs	**225**	–
Other	**(30)**	20
Total other expense (income)	**195**	(17,477)

During the three months ended March 31, 2013, the Company recorded $225 of transactions costs related to the acquisition of oil and gas properties located in the Simonette and Resthaven areas of Alberta which closed on April 15, 2013.

During the three months ended March 31, 2012, the Company completed the sales of certain undeveloped land and gas-weighted properties located in Northwest Alberta for total cash consideration of $17,682, subject to final adjustments. The sales resulted in a gain recognized in comprehensive loss of $17,497.

Depletion, Depreciation and Impairment

	Three months ended March 31,	
$(000's)	**2013**	2012
Depletion and depreciation expense	**8,930**	10,567
Impairment	–	18,081
Total depletion, depreciation and impairment	**8,930**	28,648
Per unit of production ($/boe)	**11.25**	33.27
Per unit of production, excluding impairment ($/boe)	**11.25**	12.27

Depletion, depreciation and impairment expense for the three months ended March 31, 2013 was $8,930 ($11.25 per boe) compared to $28,648 ($33.27 per boe), respectively. Depletion and depreciation rates excluding impairment are similar to the comparable period in 2012.

Impairment expense for the three months ended March 31, 2013 was $nil compared to $18,081 for the comparable period in 2012. The 2012 impairment resulted largely from declining natural gas prices. Substantially all of the Company's capital expenditures in the past two years have been on the Deep Basin cash generating unit ("CGU"). The following represents impairment recognized per CGU in the three months ended March 31, 2013 and 2012:

	Three months ended March 31,	
$(000's)	**2013**	2012
Northeast British Columbia	–	13,194
Peace River Arch	–	4,887
Deep Basin	–	–
Total	–	18,081

Provisions

Decommissioning liabilities

Total decommissioning liabilities at March 31, 2013 were $31,411 compared to $32,564 at December 31, 2012. The following table summarizes the changes in decommissioning liabilities for the respective periods:

(000's)	**March 31, 2013**	December 31, 2012
Balance, beginning of year	**32,564**	28,135
Acquisitions	–	417
Property dispositions	–	(533)
Accretion expense	**196**	730
Liabilities incurred	**188**	1,775
Abandonment costs incurred	**(74)**	(904)
Revisions in estimated cash flows	**(668)**	2,078
Revisions due to change in discount rates	**(795)**	866
Balance, end of period	**31,411**	32,564

Onerous contracts

As at March 31, 2013, the Company recognized a provision related to an onerous lease contract of $734 (December 31, 2012 – $812). The provision for onerous lease contract represents the present value of the future lease obligations that the Company is presently obligated to make under a non-cancellable onerous operating lease contract, less revenue expected to be earned on the lease, including estimated future sub-lease revenue.

Share Based Payments

The Company recognizes share based payment expense for stock options. For the three months ended March 31, 2013, Cequence recorded $1,134 (2012 – $1,626) in share based payment expense related to stock options with a corresponding increase to contributed surplus.

	March 31, 2013		December 31, 2012	
	Number of Options (000's)	**Weighted Average Exercise Price $**	Number of Options (000's)	Weighted Average Exercise Price $
Outstanding, beginning of year	**17,289**	**2.19**	13,094	2.54
Granted	**125**	**1.35**	5,118	1.30
Forfeited	**(165)**	**1.91**	(923)	2.20
Outstanding, end of period	**17,249**	**2.18**	17,289	2.19

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 (000's)	Number	Stated Value
Balance, December 31, 2011	161,856	$ 559,371
Common shares	21,269	25,523
Flow-through common shares	17,485	24,429
Share issue costs, net of taxes of $874	–	(2,620)
Balance, December 31, 2012	200,610	$ 606,703
Share issue costs, net of taxes of ($23)	–	64
Balance, March 31, 2013	200,610	$ 606,767

As of the date of this MD&A, Cequence had the following securities outstanding: 210,910 common voting shares and 17,214 stock options.

Capital Expenditures

	Three months ended March 31,	
$(000's)	**2013**	2012
Property acquisitions [(1)]	**18**	6,740
Property dispositions [(1)]	**–**	(17,682)
Land	**651**	263
Geological & geophysical and capitalized overhead	**455**	2,224
Drilling, completions and workovers	**30,542**	25,702
Equipment and facilities	**11,956**	12,733
Office furniture & equipment	**55**	12
Total capital expenditures	**43,677**	29,992

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

Net capital expenditures for the three months ended March 31, 2013 increased to $43.7 million from $30.0 million in 2012. The decrease is mainly due the impact of $17,682 of property dispositions and $6,740 of acquisitions in 2012 compared to 2013.

For the three months ended March 31, 2013, drilling, completion and workover expenditures totalled $30,542 which included the completion of 6.0 gross (4.8 net) horizontal wells. Two of the wells drilled in the first quarter were farm in wells whereby Cequence incurred 100 percent of the capital costs to earn a 65 percent working interest in the wells and a 65 percent working interest in 3 sections of prospective land.

Equipment and facility expenditures in the three months ended March 31, 2013 of $11,956 were mainly directed towards a facility expansion for the Simonette compression and dehydration facility, along with additional pipelines.

On April 15, 2013, the Company closed the acquisition of oil and gas properties located in the Simonette and Resthaven areas 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. During the three months ended March 31, 2013, the Company recorded $225 of transactions costs related to this acquisition.

On January 13, 2012, the Company closed the acquisition of properties, composed primarily of undeveloped land, located in the Deep Basin for total cash consideration of $6,800, subject to adjustments.

During the three months ended March 31, 2012, the Company closed the sale of certain undeveloped land and gas-weighted properties located in the Deep Basin and Northwest Alberta for total cash consideration of $17,682, subject to final adjustments. The sale resulted in a gain recognized in comprehensive loss of $17,497.

Cequence has budgeted net capital expenditures of $95,000 for the year ended December 31, 2013 and is expected to be focused on the development of the Company's Simonette assets. Capital expenditures will be funded out of cash flow, proceeds equity financing, existing credit lines and potential asset sales. The Company continually monitors fluctuations in natural gas prices and will adjust budgeted discretionary capital spending based on short to medium term natural gas prices.

Income Taxes

At March 31, 2013, a deferred income tax asset of $37,521 (December 31, 2012 – $44,266) has been recognized as the Company believes, based on estimated cash flows, its realization is probable. At March 31, 2013, Cequence has the following tax pools:

Classification	Amount $(000's)
Canadian exploration expense	209,784
Non-capital losses	149,476
Undepreciated capital cost	102,188
Canadian oil and gas property expense	70,359
Canadian development expense	45,701
Scientific research and experimental development tax credit	22,704
Share issue costs	8,501
Investment tax credits	3,981
	612,694

The Company's non-capital losses expire $4,512 in 2013 and $144,964 in 2019 and thereafter.

In accordance with the terms of the related agreements and pursuant to certain provisions of the Income Tax Act (Canada), the Company renounced, for income tax purposes, development expenditures of $5,016 and exploration expenditures of $23,555 to the holders of flow-through common shares effective December 31, 2012. Deferred tax of approximately $7,143 associated with renouncing the expenditures was recorded on the date of renunciation in the first quarter of 2013, the related obligation on flow-through shares of $4,142 was drawn down and the difference was recognized as deferred income tax expense. As at March 31, 2013, the Company has estimated that it has incurred all of the qualifying expenditures.

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

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 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 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 fluctuation 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.

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 cash flow ratio of less than two times. As at March 31, 2013, the Company's net debt to annualized funds flow ratio was calculated as 1.8:1 (December 31, 2012 – 1:0) based on annualized first 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.

Cequence expects to finance its budgeted 2013 capital expenditures through cash flow, bank debt and proceeds from the December 2012 flow through share offering. Budgeted capital expenditures for 2013 are $97,000 resulting in estimated net debt of approximately $88,000 at December 31, 2013. Using forecasted 2013 cash flow of $55 million this represents a debt to cash flow ratio of 1.6.

As disclosed in the annual financial statements, Cequence has periodically issued common shares and flow through common shares to fund a capital program that has been greater than the Company's cash flow. For the three months ended March 31, 2013, Cequence used funds flow of $10,652 million and bank debt to finance its capital expenditures of $43,677.

The Company has two credit facilities with a syndicate of Canadian chartered banks. Credit facility A is a $90,000 (December 31, 2012 – $90,000) 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, 2012 – $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. As at March 31, 2013, the Company has drawn $41,033 under the extendible revolving term credit facility and $nil under the operating facility (December 31, 2012 – $23,191 and $nil for the revolving and operating facilities, respectively) and is in compliance with all covenants. The effective annualized interest rate, including standby fees and commitment fees, for the three months ended March 31, 2013 was 4.16 percent (2012 – 4.28 percent). The next scheduled credit facility review is to take place on May 31, 2013.

Net Debt and Working Capital (Deficiency)

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

$(000's)	As at March 31, 2013	As at December 31, 2012
Demand credit facilities	**(41,033)**	(23,191)
Accounts payable and accrued liabilities	**(56,173)**	(42,190)
Accounts receivable	**14,837**	16,084
Deposits and prepaid expenses – current	**4,004**	3,428
Net debt and working capital (deficiency)	**(78,365)**	(45,869)

Contractual Obligations

	2013	2014	2015	2016	2017+	Total
Office leases	850	922	187	–	–	1,959
Drilling services	1,345	–	–	–	–	1,345
Pipeline transportation	1,279	1,698	1,554	–	–	4,531
Total	3,474	2,620	1,741	–	–	7,835

The pipeline transportation contract expires on November 30, 2015.

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

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 $1,251 has been drawn down at March 31, 2013. Cequence expects to reduce the deposit by $865 in the twelve months ended March 31, 2014, which amount is included with deposits and prepaid expenses at March 31, 2013. The portion of the outstanding deposit expected to be drawn down in the period subsequent to March 31, 2014 of $1,384 is carried as a non-current asset at March 31, 2013.

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 March 31, 2013, the Chief Executive Officer and the Chief Financial Officer have concluded, based on their evaluation of the design and operating effectiveness of the Company's disclosure controls and internal controls over financial reporting ("ICFR") that disclosure controls and ICFR are effective.

Quarterly Information

Financial

($ thousands except per share data)	**2013 Q1**	2012 Q4	2012 Q3	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2
Production revenue [1]	**22,005**	21,939	17,814	16,032	19,864	23,527	27,144	27,293
Royalties expense	**2,089**	1,546	992	118	2,176	3,063	3,872	3,565
Transportation expense	**1,259**	1,449	1,801	1,661	1,791	1,580	1,861	1,883
Operating costs	**5,746**	5,397	5,627	6,554	6,862	7,022	8,471	7,439
Comprehensive income (loss)	**(5,439)**	666	(3,824)	(6,579)	(7,936)	(15,598)	(1,884)	(701)
Per share – basic & diluted	**(0.03)**	(0.00)	(0.02)	(0.04)	(0.05)	(0.10)	(0.01)	(0.00)
Funds flow from operations [2]	**10,652**	11,603	10,803	4,563	6,755	10,002	10,438	12,042
Per share – basic & diluted	**0.05**	0.06	0.06	0.03	0.04	0.06	0.07	0.08
Capital expenditures, net	**43,659**	23,997	16,818	9,909	40,934	56,335	31,222	16,470
Net acquisitions (dispositions) [3]	**18**	644	20	(2,980)	(10,942)	–	(15,513)	14,134
Total capital expenditures	**43,677**	24,641	16,838	6,929	29,992	56,335	15,709	30,604

(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, 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

	2013 Q1	2012 Q4	2012 Q3	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2
Production volumes								
Natural gas (Mcf/d)	**46,306**	47,125	46,641	45,042	49,924	47,203	52,694	48,785
Oil (bbls/d)	**608**	583	606	618	684	503	514	599
NGLs (bbls/d)	**496**	515	516	535	459	509	536	396
Total (boe/d)	**8,822**	8,951	8,895	8,660	9,464	8,879	9,833	9,125
Average selling price								
Natural gas ($/Mcf)	**3.51**	3.49	2.61	2.11	2.44	3.59	4.04	4.30
Oil ($/bbl)	**91.90**	86.78	83.38	79.92	89.58	97.15	87.65	97.80
NGLs ($/bbl)	**52.84**	45.83	41.89	59.54	76.63	73.19	69.34	80.15
Total ($/boe)	**27.72**	26.64	21.77	20.34	23.07	28.80	30.00	32.87
Operating Netback ($/boe)								
Price	**27.72**	26.64	21.77	20.34	23.07	28.80	30.00	32.87
Royalties	**(2.63)**	(1.88)	(1.13)	(0.15)	(2.53)	(3.75)	(4.28)	(4.29)
Transportation	**(1.59)**	(1.76)	(2.20)	(2.11)	(2.08)	(1.93)	(2.06)	(2.27)
Operating costs	**(7.24)**	(6.55)	(6.88)	(8.32)	(7.97)	(8.60)	(9.36)	(8.96)
Operating netback	**16.26**	16.45	11.56	9.76	10.49	14.52	14.30	17.35

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 87 percent natural gas and fluctuations in natural gas prices have the greatest impact on the Company's revenue and funds flow from operations

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, 2012, the Company recorded impairment expense of $26,894 compared to $18,332 in the comparable period in 2011. The impairments were incurred on the Company's Northeast British Columbia and Peace River Arch CGUs. Impairments recognized are 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, 2013, Cequence adopted the following standards and amendments, as issued by the IASB:

- IFRS 10, "Consolidated Financial Statements", which is the result of the IASB's project to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

- IFRS 11, "Joint Arrangements", which is the result of the IASB's project to replace IAS 31, "Interest in Joint Ventures". The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.
- IFRS 12, "Disclosure of Interests in Other Entities", which outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.
- IFRS 13, "Fair Value Measurement", which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements. The adoption of this standard required the Company to provide additional disclosures in the notes to the consolidated financial statements.

Outlook Information

On May 13, 2013 Cequence provided the following guidance for the year ended December 31, 2013.

	2013
Average production, BOE/d [(1)]	10,000-10,500
Exit rate production, BOE/d	11,500
Capital expenditures ($)	97 million
Operating costs ($ per boe)	6.75
Royalties (% revenue)	9
Crude – WTI (US$/bbl)	95.00
Natural gas – AECO (Cdn$/GJ)	3.35
Funds flow from operations ($) [(2)]	55 million
December 31, 2013 net debt and working capital deficiency ($) [(3)]	88 million
December 31, 2013 net debt to Q4 2013 annualized cash flow	1.3
Basic shares outstanding [(4)]	210.9 million

(1) Comprised of 53.1 mmcf/d of natural gas and 1,350 boe/d of 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 and demand credit facilities and excluding other liabilities.

(4) Includes the 10.3 million shares issued April 15, 2013 on the acquisitions of the Montney assets

Capital expenditures for 2013 are expected to be funded from funds flow from operations, available bank lines and proceeds from 2012 equity raises. The Company closely monitors fluctuations in natural gas prices and will adjust the 2013 budget if facts and circumstances require.

Cequence provided guidance for the six months ended June 30, 2013 on February 4, 2013 and included the significant assumptions in the annual MD&A dated March 7, 2013. As of the date of this MD&A Cequence does not anticipate material changes to the six month guidance as previously released.

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 2013 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 2013 and beyond and reasons therefore; the Company's projected capital investment levels for 2013 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 2013 capital program. The material assumptions supporting the 2013 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.

Consolidated Balance Sheets

(Unaudited) (Expressed in thousands of Canadian dollars)

	March 31, 2013	December 31, 2012
	$	$
ASSETS		
CURRENT		
Accounts receivable (Note 5)	**14,837**	16,084
Deposits and prepaid expenses (Note 14)	**4,004**	3,428
Commodity contracts (Note 15)	**–**	694
	18,841	20,206
Exploration and evaluation assets (Note 3)	**14,824**	13,829
Property and equipment (Note 3)	**471,536**	439,059
Deposits and prepaid expenses (Note 14)	**1,384**	1,901
Commodity contracts (Note 15)	**–**	63
Deferred income taxes	**37,521**	44,266
	544,106	519,324
LIABILITIES		
CURRENT		
Demand credit facilities (Note 4)	**41,033**	23,191
Accounts payable and accrued liabilities (Note 6)	**56,173**	42,190
Other liabilities (Note 7)	**317**	4,459
Commodity contracts (Note 15)	**2,418**	–
	99,941	69,840
Commodity contracts (Note 15)	**153**	–
Provisions (Note 11)	**31,828**	33,059
	131,922	102,899
CONTINGENCIES AND COMMITMENTS (Note 14)		
SUBSEQUENT EVENT (Note 17)		
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	**606,767**	606,703
Contributed surplus	**23,690**	22,556
Deficit	**(218,273)**	(212,834)
	412,184	416,425
	544,106	519,324

APPROVED BY THE BOARD

"Donald Archibald"
Donald Archibald, Director

"Brian Felesky"
Brian Felesky, Director

Consolidated Statements of Comprehensive Loss

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

	Three months ended March 31,	
	2013	2012
	$	$
REVENUE		
Production revenue (Note 8)	**19,821**	17,688
Loss on derivative financial instruments (Note 15)	**(3,233)**	–
	16,588	17,688
EXPENSES		
Depletion, depreciation and impairment (Note 3)	**8,930**	28,648
General and administrative	**1,600**	1,774
Finance costs	**582**	557
Operating costs	**5,746**	6,862
Share based payment (Note 13)	**1,134**	1,626
Transportation	**1,259**	1,791
Other expense (income) (Note 9)	**195**	(17,477)
	19,446	23,781
LOSS BEFORE INCOME TAXES	**(2,858)**	(6,093)
INCOME TAXES	**2,581**	1,843
NET LOSS AND COMPREHENSIVE LOSS	**(5,439)**	(7,936)
Loss per share, basic and diluted	**$ (0.03)**	$ (0.05)
Weighted average shares, basic and diluted	**200,610**	161,856

Consolidated Statements of Changes in Equity

(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended March 31,	
	2013	2012
	$	$
SHARE CAPITAL		
Common Shares (Note 12)		
Balance, beginning of period	**606,703**	559,371
Share issue costs, net of tax of ($23) (2012 – $nil)	**64**	–
Balance, end of period	**606,767**	559,371
CONTRIBUTED SURPLUS		
Balance, beginning of period	**22,556**	16,839
Share based payment expense (Note 13)	**1,134**	1,626
Balance, end of period	**23,690**	18,465
DEFICIT		
Balance, beginning of period	**(212,834)**	(195,161)
Comprehensive loss	**(5,439)**	(7,936)
Balance, end of period	**(218,273)**	(203,097)
TOTAL EQUITY	**412,184**	374,739

Consolidated Statements of Cash Flows

(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended March 31, 2013	2012
	$	$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net loss	**(5,439)**	(7,936)
Adjustments for non-cash items:		
Depletion, depreciation and impairment	**8,930**	28,648
Finance costs related to provisions (Note 10)	**198**	151
Share based payments (Note 13)	**1,134**	1,626
Unrealized loss on derivative financial instruments (Note 15)	**3,328**	–
Costs related to onerous contracts (Note 11)	**(80)**	(80)
Gain on sale of assets (Note 3)	**–**	(17,497)
Deferred income tax expense	**2,581**	1,843
Decommissioning liabilities expenditures (Note 11)	**(74)**	(530)
Net change in non-cash working capital (Note 16)	**4,532**	2,218
	15,110	8,443
INVESTING		
Property and equipment and exploration and evaluation assets expenditures	**(43,659)**	(40,934)
Acquisitions	**(18)**	(6,740)
Proceeds from sale of assets (Note 3)	**–**	17,682
Net change in non-cash working capital (Note 16)	**10,638**	(20,007)
	(33,039)	(49,999)
FINANCING		
Proceeds from demand credit facilities (Note 4)	**17,842**	41,521
Share issue costs (Note 12)	**87**	–
	17,929	41,521
NET DECREASE IN CASH	**–**	(35)
CASH, BEGINNING OF PERIOD	**–**	380
CASH, END OF PERIOD	**–**	345
SUPPLEMENTARY INFORMATION		
Income taxes paid	**–**	–
Interest paid	**388**	462

Notes to the Consolidated Financial Statements

Three months ended March 31, 2013 with 2012 comparatives
(All figures expressed in thousands except per share amounts unless otherwise noted)

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 interim condensed 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 IAS 34, "Interim Financial Reporting" ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information or footnote disclosure normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been condensed or omitted.

These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2012.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on May 13, 2013.

Basis of presentation

Except as noted below, the consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2012. The consolidated financial statements have been presented in Canadian dollars, which is also the Company's functional currency, rounded to the nearest thousand, unless otherwise indicated.

Accounting policies adopted

On January 1, 2013, Cequence adopted the following standards and amendments, as issued by the IASB:

- IFRS 10, "Consolidated Financial Statements", which is the result of the IASB's project to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

- IFRS 11, "Joint Arrangements", which is the result of the IASB's project to replace IAS 31, "Interest in Joint Ventures". The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.
- IFRS 12, "Disclosure of Interests in Other Entities", which outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.
- IFRS 13, "Fair Value Measurement", which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements. The adoption of this standard required the Company to provide additional disclosures in the notes to the consolidated financial statements (see Note 15).

3. Property and Equipment and Exploration and Evalutation Assets

	Property and equipment	E&E assets	Total
Cost:			
Balance at December 31, 2011	541,204	6,221	547,425
Additions	91,231	427	91,658
Change in decommissioning obligation estimates	4,720	–	4,720
Acquisitions	641	7,181	7,822
Disposals	(1,440)	–	(1,440)
Balance at December 31, 2012	636,356	13,829	650,185
Additions	**42,664**	**995**	**43,659**
Change in decommissioning obligation estimates	**(1,275)**	**–**	**(1,275)**
Acquisitions	**18**	**–**	**18**
Balance at March 31, 2013	**677,763**	**14,824**	**692,587**
Depletion, depreciation and impairment:			
Balance at December 31, 2011	(131,475)	–	(131,475)
Depletion and depreciation	(39,564)	–	(39,564)
Impairment loss	(26,894)	–	(26,894)
Disposals	636	–	636
Balance at December 31, 2012	(197,297)	–	(197,297)
Depletion and depreciation	**(8,930)**	**–**	**(8,930)**
Balance at March 31, 2013	**(206,227)**	**–**	**(206,227)**
Carrying amounts:			
At December 31, 2012	439,059	13,829	452,888
At March 31, 2013	**471,536**	**14,824**	**486,360**

Costs subject to depletion include $624,754 of estimated future capital costs (December 31, 2012 – $631,687).

The Company's credit facilities are secured by a demand debenture with a first floating charge over all assets of the Company (see note 4).

Impairment

The Company reviewed each CGU comprising its property and equipment at March 31, 2013 for indicators of impairment and determined that there were none.

During the three months ended March 31, 2012, the Company recorded impairments of $13,194 for the Northeast British Columbia CGU and $4,887 for the Peace River Arch CGU.

Sale of Assets

During the three months ended March 31, 2012, the Company completed the sales of certain undeveloped land and gas-weighted properties located in Northwest Alberta for total cash consideration of $17,682, subject to final adjustments. The sales resulted in a gain recognized in comprehensive loss of $17,497.

4. Demand Credit Facilities

The Company has two credit facilities with a syndicate of Canadian chartered banks. Credit facility A is a $90,000 (December 31, 2012 – $90,000) 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, 2012 – $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 March 2013, the Company has drawn $41,033 under the extendible revolving term credit facility and $nil under the operating facility (December 31, 2012 – $23,191 and $nil for the revolving and operating facilities, respectively) and is in compliance with all covenants. The effective annualized interest rate, including standby fees and commitment fees, for the quarter ended March 31, 2012 was 4.16 percent (2012 – 4.28 percent). The next scheduled review is to take place on May 31, 2013.

5. Accounts Receivable

	March 31, 2013	December 31, 2012
Trade receivables	**5,288**	7,852
Allowance for doubtful accounts	**(474)**	(515)
Net trade receivables	**4,814**	7,337
Accrued revenue	**9,215**	7,627
Other receivables	**808**	1,120
Total accounts receivable	**14,837**	16,084

6. Accounts Payable and Accrued Liabilities

	March 31, 2013	December 31, 2012
Accounts payable	**22,840**	17,657
Accrued liabilities	**33,333**	24,533
Total accounts payable and accrued liabilities	**56,173**	42,190

7. Other Liabilities

	March 31, 2013	December 31, 2012
Obligations related to onerous contracts – current (Note 11)	**317**	317
Obligations related to flow-through shares	–	4,142
Total other liabilities	**317**	4,459

8. Production Revenue

	Three months ended March 31,	
	2013	2012
Sales of oil and natural gas	**21,910**	19,864
Royalties	**(2,089)**	(2,176)
Total production revenue	**19,821**	17,688

9. Other Expense (Income)

	Three months ended March 31,	
	2013	2012
Gain on sale of property and equipment (Note 3)	–	(17,497)
Transaction costs (Note 17)	**225**	–
Other	**(30)**	20
Total other expense (income)	**195**	(17,477)

10. Finance Costs

	Three months ended March 31,	
	2013	2012
Interest expense on demand credit facilities (including stand-by fees and commitment fees of $80 (2012 – $89))	**384**	406
Accretion expense on provisions	**198**	151
Total finance costs	**582**	557

11. Provisions

Decommissioning liabilities

The following table summarizes the changes in decommissioning liabilities for the three months ended March 31, 2013 and the year ended December 31, 2012:

	2013	2012
Balance, beginning of period	**32,564**	28,135
Acquisitions	**–**	417
Property dispositions (Note 3)	**–**	(533)
Accretion expense	**196**	730
Liabilities incurred	**188**	1,775
Abandonment costs incurred	**(74)**	(904)
Revisions in estimated cash flows	**(668)**	2,078
Revisions due to change in discount rates	**(795)**	866
Balance, end of period	**31,411**	32,564

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 $55,953 (December 31, 2012 – $47,549). These cash flows have been discounted using a risk-free interest rate of 2.49 percent (December 31, 2012 – 2.37 percent) based on Government of Canada long-term benchmark bonds. The Company expects these obligations to be settled in approximately 1 to 50 years (December 31, 2012 – 1 to 50 years). As at March 31, 2013, no funds have been set aside to settle these liabilities (December 31, 2012 – nil).

Onerous contracts

As at March 31, 2013, the Company recognized a provision related to an onerous lease contract of $734 (December 31, 2012 – $812). The provision for onerous lease contract represents the present value of the future lease obligations that the Company is presently obligated to make under a non-cancellable onerous operating lease contract, less revenue expected to be earned on the lease, including estimated future sub-lease revenue. The total estimated, undiscounted cash flows, required to settle the obligations are $750 (December 31, 2012 – $830). These cash flows have been discounted using a risk-free interest rate of 1.10 percent (December 31, 2012 – 1.20 percent) based on Government of Canada three year benchmark bonds.

Cequence expects to reduce the provision by $317 in the twelve months ended March 31, 2014, which amount is included with other liabilities in the consolidated balance sheet (see note 7). The portion of the provision expected to be realized in the period subsequent to March 31, 2014 of $417 is carried with provisions as a non-current liability in the consolidated balance sheet as at March 31, 2013. During the three months ended March 31, 2013, the Company recognized an expense to finance costs of $2 (2012 – $21) to account for accretion and changes in estimates and rates related to onerous contracts. 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 March 31, 2013 is 28 months.

12. Share Capital

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

	Three months ended March 31, 2013		Year ended December 31, 2012	
	Number	**Stated Value**	Number	Stated Value
	(000's)	**$**	(000's)	$
Issued common voting shares				
Balance, beginning of period	**200,610**	**606,703**	161,856	559,371
Common shares	–	–	21,269	25,523
Flow-through common shares	–	–	17,485	24,429
	200,610	**606,703**	200,610	609,323
Share issue costs, net of taxes of ($23) (2012 – $874)	–	**64**	–	(2,620)
Balance, end of period	**200,610**	**606,767**	200,610	606,703

13. 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.

A summary of the status of the Company's stock option plan and changes during the three months ended March 31, 2013 and year ended December 31, 2012 is as follows:

	March 31, 2013		December 31, 2012	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
	(000's)	**$**	(000's)	$
Outstanding, beginning of period	**17,289**	**2.19**	13,094	2.54
Granted	**125**	**1.35**	5,118	1.30
Forfeited	**(165)**	**1.91**	(923)	2.20
Outstanding, end of period	**17,249**	**2.18**	17,289	2.19

The following table summarizes information about stock options outstanding at March 31, 2013:

	Options Outstanding			Options Exercisable	
	Weighted Average Exercise Price	Number of Options Outstanding	Weighted Average Contractual Life Remaining	Number of Options	Weighted Average Exercise Price
Range of Exercise Price,	$	(000's)	(years)	(000's)	$
1.24 – 1.99	1.72	13,200	3.2	5,511	1.98
2.96 – 3.94	3.69	4,049	3.3	1,353	3.69
	2.18	17,249	3.2	6,864	2.32

During the three months ended March 31, 2013, $1,134 (2012 – $1,626) in share based payment expense related to equity-settled stock options has been recognized in comprehensive loss.

14. Contingencies and Commitments

	2013	2014	2015	2016	2017+	Total
Office leases	**850**	922	187	–	–	1,959
Drilling services	**1,345**	–	–	–	–	1,345
Pipeline transportation	**1,279**	1,698	1,554	–	–	4,531
Total	**3,474**	2,620	1,741	–	–	7,835

The pipeline transportation contract expires on November 30, 2015.

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

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 $1,251 has been drawn down at March 31, 2013. Cequence expects to reduce the deposit by $865 in the twelve months ended March 31, 2014, which amount is included with deposits and prepaid expenses at March 31, 2013. The portion of the outstanding deposit expected to be drawn down in the period subsequent to March 31, 2014 of $1,384 is carried as a non-current asset at March 31, 2013.

15. Financial Instruments and Risk Management

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

The Company's accounts receivable, demand credit facilities and accounts payable and accrued liabilities approximate their carrying values due to their short terms to maturity and the floating interest rate on the Company's debt. As at March 31, 2013 the accounts receivable balance was $14,837 of which $2,365 was past due. The past due accounts are considered collectible, except as provided for in the allowance for doubtful accounts.

The Company's fair value hierarchy for those assets and liabilities measured at fair value as of March 31, 2013 comprises cash, which is considered a level 1 financial instrument and commodity contracts. Cequence's commodity contracts are measured at level 2 under the Company's fair value hierarchy as of March 31, 2013. 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. There have not been any changes to the Company's exposure to risks, or the objectives, policies and processes to manage these risks from December 31, 2012.

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 three months ended March 31, 2013, the Company entered into several commodity derivative financial instrument contracts. The following information presents all outstanding positions for commodity derivative financial instruments at March 31, 2013:

Term	Product	Type	Volume	Price	Basis
January 1, 2013 to December 31, 2013	Gas	Swap	2,000 gj/day	$2.84	AECO
January 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.09	AECO
January 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.00	AECO
January 1, 2013 to December 31, 2013	Gas	Swap	5,000 gj/day	$3.10	AECO
January 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.24	AECO
January 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.40	AECO
March 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.03	AECO
March 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.17	AECO
January 1, 2014 to September 30, 2014	Gas	Swap	2,500 gj/day	$3.51	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.42	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.53	AECO
January 1, 2013 to December 31, 2013	Oil	Sold Call	200 bbls/day	$110.00 USD	WTI

For the three months ended March 31, 2013, realized gains from commodity derivative contracts recognized in comprehensive loss were $95 (2012 – $nil).

The fair value of the commodity contracts outstanding at March 31, 2013 was a current liability of $2,418 and non-current liability of $153 (December 31, 2012 – current asset of $694 and non-current asset of $63).

For the three months ended March 31, 2013, the Company recorded an unrealized loss of $3,328 from derivative commodity contracts (2012 – $nil).

As at March 31, 2013, an increase in gas price of $0.50/gj results in an increase in the fair value of the commodity contracts of $4,256 ($3,192 after tax) and a commensurate increase to comprehensive loss.

16. Changes in Non-Cash Working Capital

	Three months ended March 31, 2013	2012
Accounts receivable	**1,247**	(7,556)
Deposits and prepaid expenses	**(60)**	(127)
Accounts payable and accrued liabilities	**13,983**	(10,106)
Net change in non-cash working capital	**15,170**	(17,789)
Allocated to:		
Operating activities	**4,532**	2,218
Investing activities	**10,638**	(20,007)
	15,170	(17,789

17. Subsequent Event

On April 15, 2013, the Company acquired oil and gas properties located in the Simonette and Resthaven areas 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. During the three months ended March 31, 2013, the Company recorded $225 of transactions costs related to this acquisition (see note 9). The Company is currently evaluating the initial accounting for this acquisition and the effect on Cequence's consolidated financial statements has not yet been determined.