cequence energy ltd

FIRST QUARTER REPORT

Three months ended March 31, 2015

Q1

HIGHLIGHTS

(000's except per share and per unit amounts)	Three months ended March 31, 2015	2014	% Change
Financial ($)			
Production revenue [1]	**23,594**	41,095	(43)
Comprehensive income (loss)	**(4,662)**	512	(1,011)
Per share – basic and diluted	**(0.02)**	0.00	n/a
Funds flow from operations [2]	**8,283**	23,082	(64)
Per share, basic and diluted	**0.04**	0.11	(64)
Production volumes			
Natural gas (Mcf/d)	**56,105**	59,898	(6)
Crude oil (bbls/d)	**115**	157	(27)
Natural gas liquids (bbls/d)	**554**	517	7
Condensate (bbls/d)	**1,197**	956	25
Total (boe/d)	**11,217**	11,613	(3)
Sales prices			
Natural gas, including realized hedges ($/Mcf)	**3.33**	5.28	(37)
Crude oil ($/bbl)	**44.03**	94.47	(53)
Natural gas liquids ($/bbl)	**17.10**	54.44	(69)
Condensate ($/bbl)	**50.72**	101.95	(50)
Total ($/boe)	**23.37**	39.32	(41)
Netback ($/boe)			
Price, including realized hedges	**23.37**	39.32	(41)
Royalties	**(2.00)**	(4.13)	(52)
Transportation	**(1.88)**	(1.52)	24
Operating costs	**(7.74)**	(7.40)	5
Operating netback	**11.75**	26.27	(55)
General and administrative	**(1.97)**	(2.34)	(16)
Interest [5]	**(1.60)**	(1.79)	(11)
Cash netback	**8.18**	22.14	(63)
Capital expenditures ($)			
Capital expenditures	**22,582**	58,547	(61)
Net acquisitions (dispositions) [4]	**(2,935)**	(3,229)	(9)
Total capital expenditures	**19,647**	55,318	(64)
Net debt and working capital (deficiency) [3]	**(82,667)**	(143,536)	(42)
Weighted average shares outstanding			
Basic	**211,028**	210,918	1
Diluted	**211,028**	212,964	(1)

(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 unaudited condensed consolidated financial statements (the "consolidated financial statements") and related notes for the three months ended March 31, 2015 as well with the audited consolidated financial statements (the "annual 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 May 14th, 2015.

Basis of Presentation

The consolidated financial statements and comparative information have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", 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 three months ended March 31, 2015, the ratio between the average price of West Texas Intermediate ("WTI") crude oil at Cushing and NYMEX natural gas was approximately 17:1 ("Value Ratio"). The Value Ratio is obtained using the first quarter 2015 WTI average price of $48.49 (US$/Bbl) for crude oil and the first quarter 2015 NYMEX average price of $2.81 (US$/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.

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

Financial and Operating Results

PRODUCTION

	Three months ended March 31,	
	2015	2014
Natural gas (Mcf/d)	56,105	59,898
Crude oil (bbls/d)	115	157
Natural gas liquids (bbls/d)	554	517
Condensate (bbls/d)	1,197	956
Total (boe/d)	11,217	11,613
Total production (boe)	1,009,530	1,045,170

Average production for the three months ended March 31, 2015 decreased by three percent from the prior year to 11,217 boe/d. Sequentially, production increased 15 percent compared to the fourth quarter of 2015 as the Company brought a number of new wells on production at its Simonette property. However, production growth was less than expected as the Company had approximately 1,700 boepd of unplanned shut-ins related to commissioning its plant expansion, pipeline restrictions and voluntary shut ins related to high price differentials.

Cequence restricted its first quarter natural gas production from its Simonette property due to high price differentials that resulted from pipeline maintenance on the main NGTL system in Alberta. Cequence has managed weekly production to reduce its production levels during periods of low prices. This restriction reduced first quarter production volumes but is expected to smooth the Company's production decline profile throughout the remainder of 2015. Should pricing differentials persist, Cequence may continue to curtail production volumes from Simonette.

REVENUE AND PRICING

$(000's)	Three months ended March 31, 2015	2014
Revenue		
Natural gas	14,168	33,655
Realized gain (loss) on natural gas hedges	2,653	(5,198)
Total natural gas	16,821	28,457
Crude oil	457	1,333
Natural gas liquids	853	2,534
Condensate	5,463	8,771
Total production revenue, gross of royalties	23,594	41,095
Average prices		
Natural gas ($/Mcf)	2.81	6.24
Realized natural gas hedge ($/Mcf)	0.52	(0.96)
Natural gas including hedge ($/Mcf)	3.33	5.28
Crude oil ($/bbl)	44.03	94.47
Natural gas liquids ($/bbl)	17.10	54.44
Condensate ($/bbl)	50.72	101.95
Average sales price before hedge ($/boe)	20.74	44.29
Average sales price including hedge ($/boe)	23.37	39.32
Benchmark pricing		
AECO-C spot (CDN$/Mcf)	2.75	5.59
WTI crude oil (US$/bbl)	48.49	98.65
Edmonton par price (CDN$/bbl)	52.75	99.85
US$/CDN$ exchange rate	0.81	0.91

Total production revenue, gross of royalties, was $23,594 in the first quarter of 2015 compared to $41,095 in 2014. The decrease in revenue is attributable to the 41 percent decrease in realized sales prices and three percent decrease in production.

Cequence's production is approximately 83 percent natural gas and fluctuations in natural gas prices have the most significant impact on the Company's revenue and funds flow. Canadian benchmark natural gas prices averaged $2.75 per Mcf in the first quarter of 2015, a decrease of 51 per cent from 2014 when AECO natural gas prices averaged $5.59 per Mcf as a result of a cold winter and low inventory levels. In the latter part of 2014 and the first quarter of 2015, North American natural gas production was sustained at record levels and has resulted in a significant decline in AECO natural gas prices. Realized natural gas prices for the three months ended March 31, 2015 were $2.81 per Mcf compared to $6.24 in the comparable period of 2014.

Crude oil prices also declined in the second half of 2014 and early 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 first quarter of 2015 were $44.03 per barrel, down 53 percent from the same time period in 2014. Condensate prices generally trend with oil prices and for the three months ended March 31, 2015 were $50.72 per barrel down 50 percent from the same time period in 2014.

Natural gas liquids prices for the three months ended March 31, 2015 were $17.10 per barrel, down 69 percent from the same time period in 2014.

COMMODITY PRICE MANAGEMENT

$(000's)	Three months ended March 31, 2015	2014
Realized gain (loss) on commodity contracts	2,653	(5,198)
Unrealized loss on commodity contracts	(1,634)	(6,621)
Total	1,019	(11,819)

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.

In anticipation of weak natural gas prices expected in the summer of 2015, Cequence increased its 2015 natural gas hedges during the first quarter of 2015. Net of estimated royalties of 10 percent, approximately 65 percent of natural gas production is hedged in the second and third quarters of 2015 at an average price of $3.36 per GJ or $3.95 per Mcf.

The fair value of the commodity contracts outstanding at March 31, 2015 was a current asset of $6,309 and a non-current asset of $241 (December 31, 2014 - current asset of $7,994 and a non-current asset of $190). Cequence has the following natural gas hedges as at the date of this MD&A:

Term	Product	Type	Average Volume	Average Price ($/GJ)	Average Price[1] ($/Mcf)	Basis
April 1, 2015 to September 30, 2015	Gas	Swap	30,000 gj/day	$3.36	$3.95	AECO-5A
October 1, 2015 to December 31, 2015	Gas	Swap	28,342 gj/day	$3.40	$4.00	AECO-5A
January 1, 2016 to March 31, 2016	Gas	Swap	10,000 gj/day	$3.30	$3.88	AECO-5A
April 1, 2016 to December 31, 2016	Gas	Swap	5,000 gj/day	$3.04	$3.58	AECO-5A

(1) The conversion from GJ to Mcf is based on estimated average natural gas heat content of 41.77 MJ/m^3

OPERATING NETBACK

($/boe)	Three months ended March 31, 2015	2014
Production revenue [1]	23.37	39.32
Royalty expense	(2.00)	(4.13)
Transportation expense	(1.88)	(1.52)
Operating costs	(7.74)	(7.40)
Operating netback, $/boe	11.75	26.27
Operating netback, excluding realized hedges, $/boe	9.12	31.25

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

Cequence's netback for the three months ended March 31, 2015 decreased 55 percent to $11.75 per boe from $26.27 per boe in 2014. The decrease in 2015 operating netbacks is mainly due to decreased production revenue due to lower commodity prices in 2015 compared to 2014.

ROYALTY EXPENSE

$(000's)	Three months ended March 31, 2015	2014
Crown	943	2,385
Freehold / Overriding	1,080	1,933
Total royalties	2,023	4,318
Royalties as a percentage of revenue, before hedging	10%	9%
Per unit of production	2.00	4.13

Royalty expense for the three months ended March 31, 2015 was $2,023 or 10 percent of revenue compared to $4,318 or 9 percent of revenue in 2014. Royalties as a percentage of revenue are consistent with the Company's guidance of approximately 10 percent of production revenue for the year ended December 31, 2015.

OPERATING COSTS

$(000's)	Three months ended March 31, 2015	2014
Operating costs	7,811	7,731
Per unit of production ($/boe)	7.74	7.40

Operating costs for the three months ended March 31, 2015 were $7.74 per boe compared with $7.40 per boe in 2014. Operating costs per boe are slightly higher than the comparative period due to increased compression and water handling costs and lower production volumes.

TRANSPORTATION EXPENSE

$(000's)	Three months ended March 31, 2015	2014
Transportation	1,903	1,587
Per unit of production ($/boe)	1.88	1.52

Transportation expense for the three months ended March 31, 2015 was $1.88 per boe, an increase of 24 percent from the comparative period in 2014. The increase is due to higher condensate trucking expenses in the quarter.

GENERAL AND ADMINISTRATIVE EXPENSES

$(000's)	Three months ended March 31, 2015	2014
G&A expenses	2,326	2,844
Administrative and capital recovery	(339)	(393)
Total G&A expenses	1,987	2,451
Per unit of production ($/boe)	1.97	2.34

Total G&A expense decreased by 19 percent in the first quarter of 2015 compared to the prior year due primarily to a 17 percent reduction in personnel expenses, lower regulatory and legal costs and a reduction in the allowance for doubtful accounts due to collections in the first quarter. The cost reductions reduced the Company's G&A expenses per boe for the three months ended March 31, 2015 below expectations of approximately $2.50 per boe. Gross G&A expenses for the remainder of 2015 are expected to decline year over year by approximately 10 percent; however, administrative and capital recoveries are expected to decrease in subsequent quarters as the Company's capital program is expected to lower than in the prior year.

FINANCE COSTS

$(000's)	2015	2014
	Three months ended March 31,	
Interest expense on credit facilities	177	544
Interest expense on senior notes	1,435	1,332
Amortization of transaction costs	86	77
Accretion expense on senior notes	66	60
Accretion expense on provisions	207	203
Total finance costs	1,971	2,216
Per unit of production ($/boe)	1.95	2.12
Interest per unit of production ($/boe)	1.60	1.79

Finance costs for the three months ended March 31, 2015 were $1,971 compared to $2,216 for the comparative period in 2014. The decrease is directly attributable to lower interest expense on the Company's credit facility which was undrawn during the first quarter of 2015.

OTHER INCOME

$(000's)	2015	2014
	Three months ended March 31,	
Gain on sale of property and equipment	–	(2,061)
Interest income	(71)	(10)
Other	(35)	(20)
Total other income	(106)	(2,091)

During the three months ended March 31, 2015, the Company completed the sales of certain oil and gas properties for total cash consideration of $2,948 (2014 - $5,634), subject to final adjustments. The sales resulted in no gain or loss recognized in comprehensive income (loss) (2014 - $2,061 gain).

DEPLETION, DEPRECIATION AND IMPAIRMENT

$(000's)	2015	2014
	Three months ended March 31,	
Depletion and depreciation expense	11,959	12,442
Impairment loss	–	–
Total depletion, depreciation and impairment	11,959	12,442
Per unit of production ($/boe)	11.85	11.90
Per unit of production, excluding impairment ($/boe)	11.85	11.90

Depletion and depreciation expense for the three months ended March 31, 2015 and 2014, was $11,959 ($11.85 per boe) and $12,442 ($11.90 per boe), respectively. Depletion and depreciation rates are similar to the comparable period in 2014.

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. For the three months ended March 31, 2015, Cequence recorded $304 (2014 – $599) in share based payment expense related to stock options with a corresponding increase to contributed surplus. For the three months ended March 31, 2015, Cequence recognized $74 (2014 – $242) in share based payment expense related to RSUs with a corresponding increase to share based payment liability. There were no RSUs or options issued in the quarter.

CAPITAL EXPENDITURES

$(000's)	Three months ended March 31, 2015	2014
Property acquisitions [1]	13	2,405
Property dispositions [1]	(2,948)	(5,634)
Land	280	278
Geological & geophysical and capitalized overhead	382	546
Drilling, completions and workovers	11,102	35,166
Equipment, facilities and tie-ins	10,786	22,500
Office furniture & equipment	32	57
Total capital expenditures	19,647	55,318

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

For the three months ended March 31, 2015, capital expenditures, excluding acquisitions and dispositions, decreased to $22,582 from $58,547 in 2014. Drilling, completion and workover expenditures totalled $11,102 which included the completion of the company's winter drilling program at Simonette.

Equipment, facility and tie-in expenditures in the three months ended March 31, 2015 of $10,786 were mainly directed towards a facility expansion at Simonette, surface equipment and the tie-in of new wells. Equipment and facility expenditures in the three months ended March 31, 2014 of $22,500 were mainly directed towards the construction of a gathering system and compression facility at Ansell and additional compression at Simonette.

During the three months ended March 31, 2015, the Company completed the sales of certain non-producing oil and gas properties for total cash consideration of $2,948 (2014 - $5,634), subject to final adjustments. The sales resulted in no gain or loss recognized in comprehensive income (loss) (2014 - $2,061).

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.

INCOME TAXES

At March 31, 2015, a deferred income tax asset of $5,853 (December 31, 2014 - $4,548) has been recognized as the Company believes, based on estimated cash flows, its realization is probable. The future income tax expense (recovery) for the three months ended March 31, 2015 was ($4,662) compared to $512 in the comparable period in 2014.

At March 31, 2015, Cequence has the following tax pools:

Classification	Amount ($000s)	Annual Deductibility
Canadian exploration expense	193,033	100%
Non-capital losses	183,125	100%
Undepreciated capital cost	104,386	Primarily 25% declining balance
Canadian oil and gas property expense	10,089	10%, declining balance
Canadian development expense	103,442	30%, declining balance
Other	28,835	Various
	622,910	

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.

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 March 31, 2015 were $42,893 compared to $37,263 at December 31, 2014. 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:

(000's)	March 31, 2015	December 31, 2014
Balance, beginning of period	37,263	26,643
Property dispositions	(303)	(2,414)
Accretion expense	207	840
Liabilities incurred	1,384	3,147
Abandonment costs incurred	(305)	(1,382)
Revisions in estimated cash flows	1,564	4,881
Revisions due to change in discount rates	3,083	5,548
Balance, end of period	42,893	37,263

The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are $72,002 (December 31, 2014 - $67,840). These cash flows have been discounted using a risk-free interest rate of 1.99 percent (December 31, 2014 – 2.33 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, 2014 – 1 to 50 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:

($000's)	As at March 31, 2015	As at December 31, 2014
Cash	1,818	27,679
Demand credit facilities	–	–
Senior notes – principal	(60,000)	(60,000)
Accounts payable and accrued liabilities	(52,777)	(65,882)
Accounts receivable	25,732	24,781
Deposits and prepaid expenses – current	2,560	2,068
Net debt and working capital (deficiency)	(82,667)	(71,354)

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 March 31, 2015, the Company's net debt to annualized funds flow ratio was calculated as 2.5:1 (December 31, 2014 – 1.3:1) 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.

The debt to cash flow ratio is higher than the Company's target due to the significant decline in oil and natural gas prices that reduced cash flow in the quarter. In response, Cequence reduced its first quarter capital expenditure guidance on January 1, 2015 to $22 million from $45 million. The Company does not expect significant capital expenditures in the second quarter and does not expect to recommence drilling operations until July 2015.

Capital expenditures for 2015 are budgeted to be $60 million, a significant decrease from 2014 capital expenditures of $180.2 million. The Company is budgeting 2015 funds flow of $40 million and December 31, 2015 net debt of approximately $90 million resulting in a net debt to funds flow ratio of 2.3 times. 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 current or future commodity prices decrease further or remain low for an extended period of time.

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.

At March 31, 2015, the Company has $82.7 million in net debt comprised of $60 million of senior notes and a $22.7 million working capital deficiency. The Company has total available credit at March 31, 2015 of $195 million comprised of $60 million in senior notes and a senior credit facility of $135 million, which is undrawn at March 31, 2015. The Company's senior credit facility is with a syndicate of Canadian banks and was reviewed in November 2014. 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. 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 March 31, 2015, the Company is undrawn under the credit facility (December 31, 2014 – $nil). 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 March 31, 2015 and December 31, 2014.

CONTRACTUAL OBLIGATIONS

	2015	2016	2017	2018	2019+	Total
Office leases	755	864	639	–	–	2,258
Pipeline transportation	1,248	–	–	–	–	1,248
Total	2,003	864	639	–	–	3,506

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.

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, 2013	210,918	$624,332
Common shares issued on exercise of stock options	110	287
Balance, December 31, 2014 and March 31, 2015	211,028	$624,619

Issued warrants (000's)	Number	Stated Value
Balance, December 31, 2014 and March 31, 2015	3,000	$1,300

As of the date of this MD&A, Cequence had the following securities outstanding: 211,027,883 common voting shares, 3,000,000 warrants to purchase common shares, 18,252,375 stock options and 808,664 RSUs.

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,		
$(000's)	2015	2014	2013
Cash flow from operating activities	8,129	28,805	15,110
Decommissioning liabilities expenditures	305	208	74
Net change in non-cash working capital	(151)	(5,931)	(4,532)
Funds flow from operations	8,283	23,082	10,652
Per share – basic and diluted ($)	0.04	0.11	0.05
Production revenue	23,594	41,095	22,005
Comprehensive income (loss)	(4,662)	512	(5,439)
Per share – basic and diluted ($)	(0.02)	0.00	(0.03)
Total assets	667,143	641,577	544,106
Demand credit facilities	–	26,747	41,033
Senior notes – principal	60,000	60,000	–

Funds flow from operations was $8,283 for the three months ended March 31, 2015 compared to $23,082 in 2014. Cequence recorded a comprehensive loss of $4,662 for the three months ended March 31, 2015 compared to income of $512 in 2014. The decrease in income and funds flow is mainly due to a decrease in commodity prices from the comparable period.

Quarterly Information

FINANCIAL

($ thousands except per share data)	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1	2013 Q4	2013 Q3	2013 Q2
Production revenue [1]	23,594	25,566	29,013	41,219	41,095	28,483	25,325	29,803
Royalties expense	2,023	1,119	3,882	4,706	4,318	1,769	2,305	2,452
Transportation expense	1,903	1,324	1,284	1,700	1,587	1,550	1,558	1,590
Operating costs	7,811	5,961	6,826	9,911	7,731	7,007	7,852	7,867
Comprehensive income (loss)	(4,662)	(4,422)	74,402	8,876	512	(827)	(517)	4,170
Per share – basic & diluted	(0.02)	(0.02)	0.35	0.04	0.00	(0.00)	(0.00)	0.02
Funds flow from operations [2]	8,283	13,745	13,588	20,235	23,082	14,855	10,973	14,831
Per share – basic	0.04	0.07	0.06	0.10	0.11	0.07	0.05	0.07
Per share – diluted	0.04	0.06	0.06	0.09	0.11	0.07	0.05	0.07
Capital expenditures, net	22,582	56,472	49,239	15,957	58,547	51,578	17,949	4,723
Net acquisitions (dispositions) [3]	(2,935)	(2,381)	(142,034)	(3,138)	(3,229)	(47)	(5)	(2,641)
Total capital expenditures	19,647	54,091	(92,795)	12,819	55,318	51,531	17,944	2,082

(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

	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1	2013 Q4	2013 Q3	2013 Q2
Production volumes								
Natural gas (Mcf/d)	56,105	49,265	49,515	64,810	59,898	53,433	52,848	58,153
Oil (bbls/d)	115	97	118	100	157	119	134	125
NGLs (bbls/d)	554	541	523	753	517	569	542	570
Condensate (bbls/d)	1,197	872	801	1,080	956	800	808	818
Total (boe/d)	11,217	9,720	9,694	12,735	11,613	10,394	10,292	11,205
Average selling price								
Natural gas ($/Mcf)	3.33	3.92	4.19	4.60	5.28	3.82	3.08	3.85
Oil ($/bbl)	44.03	73.15	90.77	97.59	94.47	78.56	97.54	88.01
NGLs ($/bbl)	17.10	29.67	38.34	42.28	54.44	44.46	38.69	32.18
Condensate ($/bbl)	50.72	70.59	96.02	104.76	101.95	88.44	97.09	90.74
Total ($/boe)	23.37	28.59	32.53	35.57	39.32	29.79	26.75	29.23
Operating netback, including realized hedges ($/boe)								
Price	23.37	28.59	32.53	35.57	39.32	29.79	26.75	29.23
Royalties	(2.00)	(1.25)	(4.35)	(4.06)	(4.13)	(1.85)	(2.44)	(2.40)
Transportation	(1.88)	(1.48)	(1.44)	(1.47)	(1.52)	(1.62)	(1.65)	(1.56)
Operating costs	(7.74)	(6.67)	(7.65)	(8.55)	(7.40)	(7.33)	(8.29)	(7.71)
Operating netback	11.75	19.19	19.09	21.49	26.27	18.99	14.37	17.56

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 83 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 from 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.

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, 2015, 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.

Future Accounting Policies

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, 2018. 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.

Outlook Information

On March 5, 2015 Cequence provided the following guidance:

	2015 (3 months)	2015 Guidance
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. In the first quarter, Cequence restricted its natural gas production due to high price differentials that resulted from pipeline maintenance on the main NGTL system in Alberta. Should this situation persist, Cequence may continue to curtail production volumes which could negatively impact annual average production volumes.

Total transportation and operating expense was $9.62 per boe for the three months ended March 31, 2015, slightly higher than corporate guidance of $8.80 per boe. The Company's total capital expenditures for the three months ended March 31, 2015 were $19,647 compared to the Company's guidance of $22,000. Capital expenditures were funded from cash flow and working capital. First quarter funds flow was slightly below budget due to lower production volumes and higher operating and transportation costs.

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.

For the remainder of 2015, the Company has hedged approximately 29,400 GJ/d of natural gas production at an average price of $3.37 Cdn per GJ or $3.97 Cdn per Mcf 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.

CONSOLIDATED BALANCE SHEETS

(Unaudited) (Expressed in thousands of Canadian dollars)

	March 31, 2015	December 31, 2014
	$	$
ASSETS		
CURRENT		
Cash	1,818	27,679
Accounts receivable (Note 7)	25,732	24,781
Deposits and prepaid expenses	2,560	2,068
Commodity contracts (Note 17)	6,309	7,994
	36,419	62,522
Property and equipment (Note 4)	624,275	610,860
Deposits and prepaid expenses	355	711
Commodity contracts (Note 17)	241	190
Deferred income taxes	5,853	4,548
	667,143	678,831
LIABILITIES		
CURRENT		
Demand credit facilities (Note 5)	–	–
Accounts payable and accrued liabilities (Note 8)	52,777	65,882
Share based payment liability (Note 14)	250	177
Provisions	107	187
	53,134	66,246
Senior notes (Note 6)	57,364	57,212
Provisions (Note 12)	42,893	37,263
	153,391	160,721
COMMITMENTS (Note 16)		
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	624,619	624,619
Warrants (Note 13)	1,300	1,300
Contributed surplus	28,574	28,270
Deficit	(140,741)	(136,079)
	513,752	518,110
	667,143	678,831

APPROVED BY THE BOARD

[signed] "Donald Archibald"
Donald Archibald, Director

[signed] "Brian Felesky"
Brian Felesky, Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

	Three months ended March 31,	
	2015	**2014**
	$	**$**
REVENUE		
Production revenue (Note 9)	18,917	41,975
Gain (loss) on derivative financial instruments (Note 17)	1,019	(11,819)
	19,936	30,156
EXPENSES		
Depletion and depreciation (Note 4)	11,959	12,442
General and administrative	1,987	2,451
Finance costs (Note 11)	1,971	2,216
Operating costs	7,811	7,731
Share based payment (Note 14)	378	841
Transportation	1,903	1,587
Other income (Note 10)	(106)	(2,091)
	25,903	25,177
INCOME (LOSS) BEFORE INCOME TAXES	(5,967)	4,979
INCOME TAXES	(1,305)	4,467
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	(4,662)	512
Income (loss) per share (Note 15)		
Basic	$(0.02)	$0.00
Diluted	$(0.02)	$0.00

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended March 31,	
	2015	2014
	$	$
SHARE CAPITAL		
Common Shares (Note 13)		
Balance, beginning of period	624,619	624,332
Balance, end of period	624,619	624,332
Warrants (Note 13)		
Balance, beginning of period	1,300	1,300
Balance, end of period	1,300	1,300
CONTRIBUTED SURPLUS		
Balance, beginning of period	28,270	26,185
Share based payment expense (Note 14)	304	599
Balance, end of period	28,574	26,784
DEFICIT		
Balance, beginning of period	(136,079)	(215,447)
Comprehensive income (loss)	(4,662)	512
Balance, end of period	(140,741)	(214,935)
TOTAL EQUITY	513,752	437,481

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended March 31,	
	2015	2014
	$	$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net income (loss)	(4,662)	512
Adjustments for non-cash items:		
Depletion and depreciation expense	11,959	12,442
Finance costs related to provisions (Note 11)	207	203
Share based payment expense (Note 14)	378	841
Amortization of transaction costs on senior notes (Note 11)	86	77
Accretion on senior notes (Note 11)	66	60
Unrealized loss on derivative financial instruments (Note 17)	1,634	6,621
Costs related to onerous contracts	(80)	(80)
Gain on sale of property and equipment (Note 10)	–	(2,061)
Deferred income tax expense (recovery)	(1,305)	4,467
Decommissioning liabilities expenditures (Note 12)	(305)	(208)
Net change in non-cash working capital (Note 18)	151	5,931
	8,129	28,805
INVESTING		
Property and equipment expenditures (Note 4)	(22,582)	(58,547)
Property acquisitions	(13)	(2,405)
Proceeds from sale of property and equipment (Note 4)	2,948	5,634
Net change in non-cash working capital (Note 18)	(14,225)	22,631
	(33,872)	(32,687)
FINANCING		
Proceeds from demand credit facilities (Note 5)	–	3,984
Net change in non-cash working capital (Note 18)	(118)	(102)
	(118)	3,882
NET DECREASE IN CASH	(25,861)	–
CASH, BEGINNING OF PERIOD	27,679	–
CASH, END OF PERIOD	1,818	–
SUPPLEMENTARY INFORMATION		
Income taxes paid	–	–
Interest paid	1,730	1,978

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2015 and 2014
(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 International Accounting Standard ("IAS") 34, "Interim Financial Reporting", 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") 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, 2014.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on May 14, 2015.

BASIS OF PRESENTATION

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, 2014. 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.

3. Future Accounting Pronouncements

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, 2018. 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

Cost:	
Balance at December 31, 2013	764,983
Additions	180,215
Decommissioning obligation additions and change in estimates	13,576
Acquisitions	2,265
Disposals	(77,201)
Balance at December 31, 2014	883,838
Additions	**22,582**
Decommissioning obligation additions and change in estimates	**6,031**
Acquisitions	**13**
Disposals	**(4,803)**
Balance at March 31, 2015	**907,661**
Depletion, depreciation and impairment:	
Balance at December 31, 2013	(227,472)
Depletion and depreciation	(48,577)
Impairment loss	(18,482)
Disposals	21,553
Balance at December 31, 2014	(272,978)
Depletion and depreciation	**(11,959)**
Disposals	**1,551**
Balance at March 31, 2015	**(283,386)**
Carrying amounts:	
At December 31, 2014	610,860
At March 31, 2015	**624,275**

Costs subject to depletion include $827,890 of estimated future capital costs (December 31, 2014 – $849,135).

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).

SALE OF ASSETS

During the three months ended March 31, 2015, the Company completed sales of certain oil and gas properties for total cash consideration of $2,948 (2014 - $5,634), subject to final adjustments. The sales resulted in no gain or loss recognized in comprehensive income (loss) (2014 - $2,061 gain).

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, 2014 - $125,000) 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, 2014 - $10,000) operating facility by way of prime loans, U.S. Base Rate Loans, Banker's Acceptances and letters of credit. As at March 31, 2015, the Company has drawn $nil under the extendible revolving term credit facility and $nil under the operating facility (December 31, 2014 – $nil 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 March 31, 2015 and December 31, 2014. The next scheduled review is to take place in May 2015.

6. Senior Notes

	March 31, 2015	December 31, 2014
Senior notes	58,477	58,477
Less transaction costs	(1,113)	(1,265)
Total senior notes	57,364	57,212

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.

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 March 31, 2015 and December 31, 2014.

7. Accounts Receivable

	March 31, 2015	December 31, 2014
Trade receivables	15,032	12,801
Allowance for doubtful accounts	(812)	(944)
Net trade receivables	14,220	11,857
Accrued revenue	10,896	12,061
Other receivables	616	863
Total accounts receivable	25,732	24,781

8. Accounts Payable and Accrued Liabilities

	March 31, 2015	December 31, 2014
Accounts payable	26,116	23,535
Accrued liabilities	26,661	42,347
Total accounts payable and accrued liabilities	52,777	65,882

9. Production Revenue

	Three months ended March 31,	
	2015	2014
Sales of oil and natural gas	20,940	46,293
Royalties	(2,023)	(4,318)
Total production revenue	18,917	41,975

10. Other Income

	Three months ended March 31,	
	2015	2014
Gain on sale of property and equipment (Note 4)	–	(2,061)
Interest income	(71)	(10)
Other	(35)	(20)
Total other income	(106)	(2,091)

11. Finance Costs

	Three months ended March 31,	
	2015	2014
Interest expense on demand credit facilities (including stand-by fees and commitment fees of $166 (2014 - $123))	177	544
Interest expense on senior notes (including stand-by fees of $104 (2014 - $102))	1,435	1,332
Amortization of transaction costs	86	77
Accretion expense on senior notes	66	60
Accretion expense on provisions	207	203
Total finance costs	1,971	2,216

12. Provisions

DECOMMISSIONING LIABILITIES

The following table summarizes the changes in decommissioning liabilities for the three months ended March 31, 2015 and year ended December 31, 2014:

	2015	2014
Balance, beginning of period	37,263	26,643
Property dispositions (Note 4)	(303)	(2,414)
Accretion expense	207	840
Liabilities incurred	1,384	3,147
Abandonment costs incurred	(305)	(1,382)
Revisions in estimated cash flows	1,564	4,881
Revisions due to change in discount rates	3,083	5,548
Balance, end of period	42,893	37,263

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 $72,002 (December 31, 2014 - $67,840). These cash flows have been discounted using a risk-free interest rate of 1.99 percent (December 31, 2014 – 2.33 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, 2014 – 1 to 50 years). As at March 31, 2015, no funds have been set aside to settle these liabilities.

13. 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, 2015		Year ended December 31, 2014	
Issued common voting shares	**Number**	**Stated Value**	**Number**	**Stated Value**
	(000's)	$	(000's)	$
Balance, beginning of period	211,028	624,619	210,918	624,332
Common shares	–	–	110	287
Balance, end of period	211,028	624,619	211,028	624,619
Warrants				
Balance, beginning of period	3,000	1,300	3,000	1,300
Balance, end of period	3,000	1,300	3,000	1,300

14. 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, 2015 and year ended December 31, 2014 is as follows:

	2015		2014	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
	(000s)	$	(000s)	$
Outstanding, beginning of period	18,252	2.11	18,617	2.15
Granted	–	–	650	2.15
Forfeited	–	–	(905)	2.88
Exercised	–	–	(110)	1.73
Outstanding, end of period	18,252	2.11	18,252	2.11

The following table summarizes information about stock options outstanding at March 31, 2015:

		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	1.43	11,661	1.79
2.00 – 3.81	3.48	4,011	1.74	3,411	3.70
	2.11	18,252	1.50	15,072	2.22

During the three months ended March 31, 2015, $304 (2014 - $599) in share based payment expense related to equity-settled stock options has been recognized in comprehensive income (loss).

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 three months ended March 31, 2015 and year ended December 31, 2014 is as follows:

Number of RSUs (000's)	2015	2014
Outstanding, beginning of period	814	561
Granted	–	473
Forfeited	(5)	(33)
Exercised	–	(187)
Outstanding, end of period	809	814

During the three months ended March 31, 2015, the Company recognized $74 (2014 - $242) in share based payment expense related to the cash-settled RSUs in comprehensive income (loss).

15. 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 three months ended March 31, 2015, the Company has excluded all dilutive instruments as their inclusion would be anti-dilutive (2014 – 11,987,000 stock options and 3,000,000 warrants). The following table reconciles the denominators used for the basic and diluted income (loss) per share calculations:

	Three months ended March 31,	
	2015	2014
Basic weighted average shares	211,028	210,918
Effect of dilutive instruments	–	2,046
Diluted weighted average shares	211,028	212,964

16. Commitments

	2015	2016	2017	2018	2019+	Total
Office leases	755	864	639	–	–	2,258
Pipeline transportation	1,248	–	–	–	–	1,248
Total	2,003	864	639	–	–	3,506

17. 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 March 31, 2015. 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.

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).

The following information presents all outstanding positions for commodity derivative financial instruments at March 31, 2015:

Term	Product	Type	Volume	Price	Basis
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
March 1, 2015 to December 31, 2015	Gas	Swap	2,500 gj/day	$2.66	AECO
March 1, 2015 to December 31, 2015	Gas	Swap	2,500 gj/day	$2.74	AECO
March 1, 2015 to December 31, 2015	Gas	Swap	2,500 gj/day	$2.92	AECO
April 1, 2015 to October 31, 2015	Gas	Swap	2,500 gj/day	$2.64	AECO
April 1, 2015 to December 31, 2015	Gas	Swap	5,000 gj/day	$3.57	AECO
January 1, 2016 to March 31, 2016	Gas	Swap	5,000 gj/day	$3.57	AECO
January 1, 2016 to December 31, 2016	Gas	Swap	2,500 gj/day	$3.03	AECO
January 1, 2016 to December 31, 2016	Gas	Swap	2,500 gj/day	$3.05	AECO

For the three months ended March 31, 2015, realized gain from commodity derivative contracts recognized in comprehensive income (loss) were $2,653 (2014 - $5,198 loss).

The fair value of the commodity contracts outstanding at March 31, 2015 was a current asset of $6,309 and non-current asset of $241 (December 31, 2014 – current asset $7,994 and non-current asset of $190).

For the three months ended March 31, 2015, the Company recorded an unrealized loss of $1,634 from derivative commodity contracts (2014 - $6,621 unrealized loss).

As at March 31, 2015, an increase in gas price of $0.50/gj results in a decrease in the fair value of the commodity contracts of $5,191 ($3,893 after tax) and a commensurate increase to comprehensive loss.

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 March 31, 2015, the accounts receivable balance was $25,732 of which $1,868 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
22,666	180	1,018	1,868	25,732

18. Changes In Non-Cash Working Capital

	Three months ended March 31, 2015	2014
Accounts receivable	(951)	(2,948)
Deposits and prepaid expenses	(136)	104
Accounts payable and accrued liabilities	(13,105)	31,304
Net change in non-cash working capital	(14,192)	28,460
Allocated to:		
Operating activities	151	5,931
Investing activities	(14,225)	22,631
Financing activities	(118)	(102)
	(14,192)	28,460

CORPORATE INFORMATION

MANAGEMENT

Paul Wanklyn
President & CEO

Todd Brown, P.Eng
Vice President & 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
Robert C. Cook
Howard Crone
Brian Felesky
James K. Gray [1]
Francesco Mele
Paul Wanklyn
Daryl Gilbert

[1] Director Emeritus

TRANSFER AGENT AND REGISTRAR

Valiant Trust Company
Calgary, Alberta

HEAD OFFICE

Suite 3100, 525 8th Avenue SW
Calgary, Alberta T2P 1G1
T: 403-229-3050
F: 403-229-0603
E: info@cequence-energy.com
W: www.cequence-energy.com

AUDITORS

Deloitte LLP
Calgary, Alberta

BANKERS

Canadian Imperial Bank of Commerce
Calgary, Alberta

National Bank of Canada
Calgary, Alberta

Bank of Montreal
Calgary, Alberta

LEGAL COUNSEL

Norton Rose Canada LLP
Calgary, Alberta

EVALUATION ENGINEERS

GLJ Petroleum Consultants
Calgary, Alberta

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Symbol: CQE

Suite 3100, 525 - 8th Avenue S.W.
Calgary, Alberta T2P 1G1

www.cequence-energy.com