FINANCIAL HIGHLIGHTS

(000's except per share and per unit amounts)	Three months ended March 31, 2017	2016	% Change
FINANCIAL			
Total revenue [1]	**19,354**	15,772	23
Comprehensive income (loss)	**5,251**	(5,888)	189
Per share – basic and diluted	**0.02**	(0.03)	167
Funds flow from operations [2] [5]	**7,346**	(314)	2,439
Per share, basic and diluted	**0.03**	(0.00)	–
Capital expenditures, before acquisitions (dispositions)	**15,046**	7,362	104
Capital expenditures, including acquisitions (dispositions)	**15,046**	7,151	110
Net debt [3] [6]	**(71,943)**	(73,674)	(2)
Weighted average shares outstanding - basic	**245,528**	211,028	16
Weighted average shares outstanding - diluted	**248,889**	211,028	18
OPERATING			
Production volumes			
Natural gas (Mcf/d)	**45,214**	52,253	(13)
Crude oil (bbls/d)	**481**	218	121
Natural gas liquids (bbls/d)	**270**	235	15
Condensate (bbls/d)	**814**	1,061	(23)
Total (boe/d)	**9,101**	10,223	(11)
Sales prices			
Natural gas, including realized hedges ($/Mcf)	**2.79**	2.10	33
Crude oil and condensate, including realized hedges ($/bbl)	**62.50**	46.69	34
Natural gas liquids ($/bbl)	**29.92**	16.68	79
Total ($/boe)	**23.63**	16.95	39
Netback ($/boe)			
Price, including realized hedges	**23.63**	16.95	39
Royalties	**(1.65)**	(0.61)	170
Transportation	**(1.60)**	(1.17)	37
Operating costs	**(8.28)**	(9.90)	(16)
Operating netback	**12.10**	5.27	130
General and administrative [5]	**(1.28)**	(4.03)	(68)
Interest [4]	**(1.95)**	(1.69)	15
Cash netback	**8.87**	(0.45)	2,071

(1) Total 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 is calculated as working capital (deficiency) less the principal value of senior notes.

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

(5) For the three months ended March 31, 2016, general and administrative expenses and funds flow from operations includes $1,730 in restructuring charges (2017 - $nil).

(6) Prior period amounts have been adjusted to confirm to current period presentation.

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, 2017 as well with the audited consolidated financial statements (the "annual financial statements ") and related notes for the years ended December 31, 2016 and 2015.

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 11, 2017.

BASIS OF PRESENTATION

The consolidated financial statements and comparative information have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". 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 three months ended March 31, 2017 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 three months of 2017 WTI average price of $51.70 (US$/Bbl) for crude oil and the first three months of 2017 NYMEX average price of $3.06 (US$/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, funds flow from (used in) operations and total revenue.

Operating netback is not defined by IFRS in Canada and is referred to as a non-GAAP measure. Operating netback equals per boe revenue less royalties, operating costs and transportation costs. Management utilizes this measure to analyze operating performance of its assets and operating areas, compare results to peers and to evaluate drilling prospects.

Cash netback is not defined by IFRS in Canada and is referred to as a non-GAAP measure. Cash netback equals operating netback less per boe general and administrative expenses and interest expense. Management utilizes this measure to analyze the Company's per boe profitability for future capital investment or repayment of debt after considering cash costs not specifically attributable to its assets or operating areas.

Net debt is a non-GAAP measure that is calculated as working capital (deficiency) less the principal value of senior notes. For this calculation, Cequence uses the principal value of the senior notes rather than the carrying value on the statement of financial position as it reflects the amount that will be repaid upon maturity. Cequence uses net debt as it provides an estimate of the Company's assets and obligations expected to be settled in cash.

Funds flow from (used in) 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 (used in) operations. The Company considers funds flow from (used in) 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 (used in) operations may not be comparable to that reported by other companies. Funds flow from (used in) operations per share is calculated using the same weighted average number of shares outstanding used in the calculation of comprehensive income (loss) per share.

Total revenue equals production revenue gross of royalties and including realized gain (loss) on commodity contracts. Management utilizes this measure to analyze revenue and commodity pricing and its impact on operating performance.

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 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.

Commodity prices in the first quarter of 2017 continued a modest recovery that began in the last half of 2016. The Company's average sales prices before hedging in the first quarter of 2017 were 74 percent higher than prior year. For most of 2016 the Company postponed development drilling and focused on cost reduction efforts and balance sheet preservation. As commodity prices improved in the last half of 2016, the Company initiated a drilling program consisting of 4.0 gross (3.0) net wells. First quarter production increased 6 percent as 2.0 (1.0) Dunvegan wells from the drilling program came on production in January 2017. The 2.0 net Montney wells began producing late in the first quarter and did not add significantly to quarterly production. With the expected second half drilling program of approximately $11,500, 2017 production is expected to average 9,200 boe/d, representing a 4 percent increase from 2016.

The Company is planning a 2017 capital program of $29,000 which is expected to be funded with internally generated funds flow from operations. 2017 funds flow from operations is forecasted to be $28,000 to $29,000 or approximately 150 percent higher than 2016 due to both higher commodity prices, stabilized production levels and the Company's improved cost structure.

December 31, 2017 net debt is forecast to be approximately $64,000 to $65,000 (December 31, 2016 - $64,031). Financial leverage has significantly improved over recent quarters as the Company prudently managed total debt levels, capital spending and costs through 2016 as commodity prices remained low. The forecasted December 2017 debt to trailing funds flow from operations ratio is 2.2 times.

FINANCIAL AND OPERATING RESULTS

PRODUCTION

	Three months ended March 31, 2017	2016
Natural gas (Mcf/d)	**45,214**	52,253
Crude oil (bbls/d)	**481**	218
Natural gas liquids (bbls/d)	**270**	235
Condensate (bbls/d)	**814**	1,061
Total (boe/d)	**9,101**	10,223
Total production (boe)	**819,112**	930,273

Production for the three months ended March 31, 2017 averaged 9,101 boe/d compared to production of 10,223 boe/d in 2016. Average production declined as the Company's reduced 2016 drilling program was insufficient to offset natural production declines.

Sequentially, first quarter production increased six percent from the fourth quarter of 2016. The Company added 630 boe/d of production (60% liquids) from 1 net new Dunvegan well in the first quarter of 2017. Two additional net wells were added to production just prior to the end of March and did not add significant production volumes to the quarter. With the Company's expected drilling program in the second half of 2017 annual production is forecast to be between 9,000 to 9,200 boe/d.

PRODUCTION REVENUE

$(000's)	Three months ended March 31, 2017	2016
Sales of natural gas, oil and condensate	**19,600**	12,806
Royalties	**(1,355)**	(565)
Production revenue	**18,245**	12,241

Production revenue was $18,245 in the first quarter of 2017 compared to $12,241 in 2016. The increase in production revenue is attributable to a 74 percent increase in realized sales prices before hedging offset by an 11 percent decrease in production and increased royalty expense in 2017.

TOTAL REVENUE AND PRICING

The following tables present total revenue which is a non-GAAP financial measure, with no standardized meaning under the Company's GAAP and therefore may not be comparable to similar measures presented by other issuers:

				Three months ended March 31,	
$(000's)	Natural gas	Crude oil and condensate	Natural gas liquids	**2017 Total**	2016 Total
Sales of natural gas, oil and condensate	11,639	7,233	728	**19,600**	12,806
Realized gain (loss) on commodity contracts	(298)	52	–	**(246)**	2,966
Total revenue [1]	11,341	7,285	728	**19,354**	15,772

[1] Refer to non-GAAP measurements.

Total revenue was $19,354 in the first quarter of 2017 compared to $15,772 in 2016. The increase in revenue is attributable to a 11 percent decrease in production and a 39 percent increase in realized sales prices including hedging.

$(000's)	Three months ended March 31, 2017	2016
Average prices		
Natural gas ($/Mcf)	**2.86**	1.62
Realized natural gas hedges ($/Mcf)	**(0.07)**	0.48
Natural gas including hedges ($/Mcf)	**2.79**	2.10
Crude oil and condensate ($/bbl)	**62.05**	40.61
Realized crude oil hedges ($/bbl)	**0.45**	6.08
Crude oil and condensate including hedges ($/bbl)	**62.50**	46.69
Natural gas liquids ($/bbl)	**29.92**	16.68
Average sales price before hedges ($/boe)	**23.93**	13.77
Average sales price including hedges ($/boe)	**23.63**	16.95
Benchmark pricing		
AECO-C spot (CDN$/Mcf)	**2.69**	1.83
WTI crude oil (US$/bbl)	**51.70**	33.41
Edmonton par price (CDN$/bbl)	**64.71**	41.39
US$/CDN$ exchange rate	**0.76**	0.73

For the quarter ended March 31, 2017, benchmark AECO natural gas prices averaged $2.69/mcf an increase from $1.83/mcf in 2016. North America experienced unseasonably warm winters in 2016 and 2017 resulting in lower natural gas demand for heating, increased natural gas in storage and downward pressure on natural gas prices. Despite a warm winter in 2017, year to date benchmark prices are 47 percent higher than 2016 due to lower North American natural gas production levels, increased U.S. natural gas exports and increased natural gas usage for power generation during periods of low prices.

The Company realized natural gas prices before hedging for three months ended March 31, 2017 of $2.86/mcf compared to $1.62/mcf in 2016. The Company's average natural gas price realization in the first quarter of 2017 was a six percent premium to AECO compared to a discount of 11 percent in 2016 reflecting an improvement in the cost of the company's marketing contracts from prior year.

The Company has a contracted firm transportation or sales contracts through the month of May 2017 for all of its expected natural gas sales volumes. The Company has approximately 27,500 GJ/d of firm service for the period between June 1, 2017 and October 31, 2017 and 10,000 GJ/d for the period between November 1, 2017 and March 31, 2018. Beginning, April 1, 2018 the Company will have 35,000 GJ/d of firm service. The Company will be relying on interruptible service on both the Alliance and TCPL pipeline systems to deliver incremental production volumes to market. Interruptible transportation service is expected to be more volatile than firm service which may result in higher transportation charges or inconsistent production times until additional firm service is contracted.

For the first quarter of 2017, benchmark Edmonton par crude oil prices increased 56 percent from 2016 and benchmark condensate prices sold at a 7 percent premium to Edmonton par. Crude oil and condensate prices before hedges for the first quarter of 2017 were $62.05/bbl up 53 percent from the same period in 2016. Natural gas liquids prices for the three months ended March 31, 2017 were $29.92/bbl up 79 percent from the same time period in 2016.

COMMODITY PRICE MANAGEMENT

	Three months ended March 31,	
$(000's)	**2017**	2016
Realized gain (loss) on commodity contracts	**(246)**	2,966
Unrealized gain on commodity contracts	**5,458**	3,190
Total	**5,212**	6,156

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.

The fair value of the commodity contracts outstanding at March 31, 2017 was a current asset of $808 (December 31, 2016 - current liability of $4,491 and non-current liability of $159). Cequence has the following natural gas and crude oil hedges as at the date of this MD&A:

Term	Product	Type	Average Volume (GJ/d)	Average Price ($/GJ)	Average Price ($/mcf)[1]	Basis
April 1, 2017 to June 30, 2017	Gas	Swap	24,176	$2.78	$2.98	AECO
July 1, 2017 to September 30, 2017	Gas	Swap	25,000	$2.78	$2.98	AECO
October 1, 2017 to December 31, 2017	Gas	Swap	20,027	$2.76	$2.96	AECO
January 1, 2018 to March 31, 2018	Gas	Swap	12,500	$3.01	$3.23	AECO

(1) The conversion from GJ to Mcf is based on estimated average natural gas heat content of 37.8 MJ/m^3

Term	Product	Type	Average Volume (bbl/d)	Average Price (Cdn$/bbl)	Basis
April 1, 2017 to December 31, 2017	Oil	Swap	400	$69.58	WTI
January 1, 2018 to March 31, 2018	Oil	Swap	200	$70.00	WTI

OPERATING NETBACK

	Three months ended March 31,	
($/boe)	**2017**	2016
Total revenue [1]	**23.63**	16.95
Royalty expense	**(1.65)**	(0.61)
Transportation expense	**(1.60)**	(1.17)
Operating costs	**(8.28)**	(9.90)
Operating netback, $/boe	**12.10**	5.27
Operating netback, excluding realized hedges , $/boe	**12.40**	2.09

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

See Non-GAAP measures for definition of operating netback.

Cequence's operating netback per boe, excluding realized hedging for the three months ended March 31, 2017 increased 493 percent. Including realized hedges, operating netbacks per boe increased by 130 percent. The increase in operating netbacks was driven by higher commodity prices and lower operating costs. Total costs remained similar to prior year.

ROYALTY EXPENSE

$(000's)	Three months ended March 31, **2017**	2016
Crown	**747**	106
Freehold / Overriding	**608**	459
Total royalties	**1,355**	565
Royalties as a percentage of revenue, before hedging	**7%**	4%
Per unit of production ($/boe)	**1.65**	0.61

Royalties as a percentage of revenue, before hedging for the three months ended March 31, 2017 was higher than prior year at seven percent. The average crown royalty rate as a percentage of revenue increased due to credits against crown royalties for gas cost allowance remaining at similar amounts to 2016 despite higher crown royalties. Crown royalties operate on a sliding scale and royalty rates increase when commodity prices increase.

In 2017, the Modernized Royalty Framework ("MRF") came into effect in Alberta. The royalty structure for wells drilled prior to January 1, 2017 will not change for a 10 year period from the royalty program's implementation date. The MRF will utilize a revenue minus cost framework with different royalty rates pre and post payout based on commodity prices and with a reduction in royalty rates for mature wells. Ninety percent of the Company's production is in Alberta and will be subject to the MRF. The economics of drilling wells at its Simonette property within expected price ranges, are estimated to improve modestly under the MRF.

OPERATING COSTS

$(000's)	Three months ended March 31, **2017**	2016
Operating costs	**6,779**	9,212
Per unit of production ($/boe)	**8.28**	9.90

In 2016, the Company focused on reducing field operating costs which resulted in improvements to chemical usage, trucking costs, field rentals and water handling. Operating costs for the three months ended March 31, 2017 improved by 16 percent to $8.28/boe. The Company estimates annual operating costs to be approximately $8.40/boe.

TRANSPORTATION EXPENSE

$(000's)	Three months ended March 31, **2017**	2016
Transportation	**1,308**	1,092
Per unit of production ($/boe)	**1.60**	1.17

Transportation expense for the three months ended March 31, 2017 was $1.60/boe an increase of 37 percent from the comparative period in 2016. The increase relates to a natural gas transportation contract that commenced in July 2016.

GENERAL AND ADMINISTRATIVE EXPENSES

$(000's)	Three months ended March 31, 2017	2016
G&A expenses, prior to restructuring charges	**1,234**	2,113
Restructuring charges	**–**	1,730
G&A expenses	**1,234**	3,843
Administrative and capital recovery	**(184)**	(95)
Total G&A expenses	**1,050**	3,748
Per unit of production, excluding restructuring charges ($/boe)	**1.28**	2.17
Per unit of production ($/boe)	**1.28**	4.03

In 2016, the Company made several improvements to its G&A cost structure including a significant staff reduction and relocation of the Company's office after its lease expired. G&A expenses, prior to restructuring charges decreased by $879 or 42 percent from 2016. G&A expenses are forecast to be approximately $5,500 in 2017.

FINANCE COSTS

	Three months ended March 31, 2017	2016
Interest and standby fees expense on credit facilities	**162**	122
Interest expense and standby fees on senior notes	**1,434**	1,448
Amortization of transaction costs	**106**	95
Accretion expense on senior notes	**81**	74
Accretion expense on provisions	**220**	209
Total finance costs	**2,003**	1,948
Per unit of production ($/boe)	**2.44**	2.09
Interest per unit of production ($/boe)	**1.95**	1.69

Finance costs for the three months ended March 31, 2017 were $2,003 compared to $1,948 in 2016. The Company remains undrawn on its senior credit facility but saw an increase to interest and standby fees expenses due to increases in letters of credit and higher interest rates charged by the lenders under the credit facility's pricing grid.

OTHER INCOME

$(000's)	Three months ended March 31, 2017	2016
Gain on sale of property and equipment	**(60)**	–
Interest income	**(39)**	(27)
Other	**(41)**	(74)
Total other income	**(140)**	(101)

DEPLETION AND DEPRECIATION

$(000's)	Three months ended March 31, 2017	2016
Depletion and depreciation expense	**6,931**	8,097
Per unit of production ($/boe)	**8.46**	8.70

Depletion and depreciation expense for the three months ended March 31, 2017 was $6,931 ($8.46/boe) compared to $8,097 ($8.70/boe). Depletion and depreciation rates for the three months ended March 31, 2017 have decreased from prior year due to reduced book values on certain non-core areas.

SHARE BASED PAYMENTS

Stock Options

The Company has 15,771 stock options outstanding with an average exercise price of $0.68. The options have a five year life and vest evenly over a three year period on the anniversary date of their grant. For the three months ended March 31, 2017, Cequence recorded $257 (2016 – $246) in share based payment expense related to stock options with a corresponding increase to contributed surplus.

Restricted Share Units

The Company issues RSUs as part of its long term incentive program. The program is designed to offer cash compensation based on the underlying value of the RSU unit. RSUs are granted to directors, officers and employees of the Company and vest annually in equal amounts over a three year period. For the three months ended March 31, 2017, Cequence recognized $18 (2016 – $43) in share based payment expense related to RSUs with a corresponding increase to share based payment liability.

	RSUs		Stock Options	
Number (000's)	**2017**	2016	**2017**	2016
Outstanding, beginning of period	**3,010**	1,707	**11,003**	11,395
Granted	**700**	–	**5,025**	–
Cancelled/Forfeited	**–**	(250)	**(107)**	(445)
Expired	**–**	–	**(150)**	(10)
Outstanding, end of period	**3,710**	1,457	**15,771**	10,940

CAPITAL EXPENDITURES

	Three months ended March 31,	
$(000's)	**2017**	2016
Land	**168**	188
Geological & geophysical and capitalized overhead	**164**	291
Drilling, completions and workovers	**12,640**	2,217
Equipment, facilities and tie-ins	**2,074**	4,665
Office furniture & equipment	**–**	1
Capital expenditures	**15,046**	7,362
Property acquisitions (1)	**–**	–
Property dispositions (1)	**–**	(211)
Total capital expenditures	**15,046**	7,151

(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, 2017, capital expenditures, excluding acquisitions and dispositions, increased to $15,046 from $7,362 in 2016. After postponing drilling activity for most of 2016 as commodity prices remained low, the Company commenced a drilling program in the fourth quarter of 2016 that included 2 gross (1 net) Dunvegan wells and 2 gross (2 net) Montney wells. All four wells were spud in the fourth quarter of 2016 with the Duvengan wells completed and on production in the first quarter of 2017 and the Montney wells on production late in March 2017.

Total capital expenditures for 2017 are budgeted to be approximately $29 million.

INCOME TAXES

As at March 31, 2017, the Company has tax pools and available losses of $619,754 (December 31, 2016 - $613,777). Due to the uncertainty of future realization, a deferred tax asset has not been recognized.

At March 31, 2017, Cequence has the following tax pools:

Classification	Amount $(000's)	Annual Deductibility
Canadian exploration expense	153,846	100%
Non-capital losses	301,839	100%
Undepreciated capital cost	53,390	Primarily 25%, declining balance
Canadian oil and gas property expense	9,126	10%, declining balance
Canadian development expense	74,297	30%, declining balance
Other	27,256	Various
	619,754	

The Company's non-capital losses expire in 2027 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, 2017 were $38,717 compared to $38,161 at December 31, 2016. 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 Company estimates that it will incur $334 of decommissioning obligations in the twelve months ended March 31, 2018. The following table summarizes the changes in decommissioning liabilities for the respective periods:

	March 31, 2017	December 31, 2016
Balance, beginning of period	**38,161**	40,708
Property dispositions	**(60)**	(364)
Accretion expense	**220**	803
Liabilities incurred	**181**	286
Abandonment costs incurred	**(224)**	(1,852)
Revisions in estimated cash flows	**(39)**	(126)
Revisions due to change in discount rates	**478**	(1,294)
Balance, end of period	**38,717**	38,161

The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are $66,133 (December 31, 2016 - $66,240). These cash flows have been discounted using a risk-free interest rate of 2.28 percent (December 31, 2016 – 2.34 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, 2016 – 1 to 50 years).

LIQUIDITY AND CAPITAL RESOURCES

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.

$(000's)	**As at March 31, 2017**	As at December 31, 2016
Cash	**12,223**	17,778
Demand credit facility	**-**	–
Senior notes – principal	**(60,000)**	(60,000)
Accounts payable and accrued liabilities	**(35,738)**	(36,124)
Share based payment liability	**(359)**	(341)
Provisions - current	**(334)**	(366)
Accounts receivable	**11,307**	14,145
Deposits and prepaid expenses	**958**	877
Net debt [(1)(2)]	**(71,943)**	(64,031)
Funds flow from operations[(1)] - trailing twelve months	**18,910**	11,250
Net debt to funds flow from operations trailing twelve months [(2)]	**3.8:1**	5.7:1

(1) Refer to non-GAAP measurements

(2) Prior period amounts have been adjusted to conform to current period presentation.

Cequence's objective is to maintain a flexible capital structure in order to meet its financial obligations and to execute its business plan throughout the commodity cycle. The oil and gas business involves a number of factors, including the timing of capital expenditures and volatile commodity prices that may cause the Company's net debt to funds flow from operations ratio to fluctuate on a quarterly basis. Historically, the Company has managed its debt levels and working capital through its hedging program, issuing common shares, adjusting capital expenditures, and executing asset dispositions. The Company typically carries a working capital deficiency as cash balances are used to repay short term borrowings. Based on current projections, the Company expects to be able to fund its working capital deficiency and 2017 capital expenditure program with funds flow from operations.

At March 31, 2017, the Company's net debt to funds flow from operations of 3.8:1 is higher than the Company's long term target of 2:1 due to the prolonged period of low commodity prices beginning in 2015. To manage its leverage and limit borrowing on its senior credit facility, the Company significantly reduced capital expenditures in 2016, lowered its operating and G&A expense and partly financed its 2016/17 winter drilling program with an equity financing. AECO prices improved in the latter half of 2016 and early 2017 and the Company began to realize the benefits of its costs saving initiatives. To illustrate the impact of these changes, the Company analyzed its March 31, 2017 net debt compared to first quarter 2017 annualized funds flow from operations which resulted in an improved net debt to funds flow from operations ratio of 2.5:1.

On October 28, 2016, Cequence completed the sale of 34,500 common voting shares on a Canadian development expenses "flow-through" basis at $0.29 per share for gross proceeds of $10,005. Proceeds of the offering allowed the Company to commence a winter drilling program in the fourth quarter without incurring additional bank debt in 2016. Based on the Company's anticipated funds flow from operations, the winter drilling program will be financed by the proceeds of the financing, funds flow from operations and bank debt.

SENIOR CREDIT FACILITY

As at March 31, 2017, Cequence had a $20,000 (December 31, 2016 - $20,000) term credit facility available from a syndicate of Canadian chartered banks. The senior credit facility is secured by a first floating charge debenture, general assignment of book debts and Cequence's oil and natural gas properties and equipment. The senior credit facility has a term date of May 31, 2017 and may be extended beyond the initial term, if requested by the Company and accepted by the lenders. If the credit facility does not continue to revolve, amounts borrowed under the facility must be repaid on the term date. The senior credit facility is reviewed on a semi-annual basis with the lender holding the right to request an additional review.

As at March 31, 2017 and December 31, 2016, the senior credit facility is undrawn. The company has letters of credit outstanding of $4,128 (December 31, 2016 - $3,307). The senior credit facility has a covenant that requires Senior Debt to twelve month trailing net income (loss) plus finance costs, share based payment expense, income tax expense (recovery), unrealized loss (gain) on commodity contracts, loss (gain) on sale of property and equipment, depletion and depreciation less costs related to onerous contracts to be less than 3:0 to 1:0, respectively. Senior Debt is defined as the sum of Consolidated Debt less the period end balance of the senior notes. Consolidated Debt is defined as the sum of the Company's period end balance of the credit facility and senior notes. The Company was in compliance with the lender's covenant at March 31, 2017 with a ratio of 0.2 times (December 31, 2016 – 0.2 times). At March 31, 2017, there are no restrictions on the Company's ability to draw on its credit facility.

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 $60,000 in unsecured five year senior notes with a further $60,000 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. In addition, Cequence granted CII 3.0 million warrants to purchase common shares. The senior notes diversify the Company's capital structure by providing longer term debt that is not reserve-based or subject to periodic redetermination. The initial investment of $60,000 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 $60,000 of notes available at a future date. The Company has engaged in a preliminary review of financing alternatives to modify or replace the senior notes that mature in October 2018.

The senior notes contain incurrence covenants that use a Debt to Cashflow test of 2.5 times to limit the incurrence of certain indebtedness and restricted payments without debtholder approval. The incurrence covenants do not contain provisions that make the notes callable. For this purpose, Debt is defined as the Company's period end balance of the credit facility and senior notes. Cashflow is equivalent to the Company's calculation of funds flow from operations for the trailing twelve months. At March 31, 2017, the Company's Debt to Cashflow ratio was more than 2.5 times. If current commodity prices persist, the Company expects that its Debt to Cashflow ratio will remain in excess of 2.5 times until the third quarter of 2017.

The incurrence covenants limit the incurrence of additional debt, unless permitted by the debtholder, as follows:

- Senior secured debt is restricted to the maximum of $125,000; the current borrowing base; 30 percent of Adjusted Consolidated Net Tangible Assets ("ACTNA") and 75 percent of the NPV 10% of the Company's PDP reserves as determined by GLJ Petroleum;
- Capital lease obligations exceeding $6,250 or 1.25% of ACTNA;
- Non-recourse debt exceeding $10,000;
- Other indebtedness exceeding $12,500;

- Debt subordinated to the senior notes; and
- Certain liens in connection with indebtedness.

The Company's ACTNA is defined as the value of the Company's total proved reserves before taxes, plus the value of tangible assets less working capital. At March 31, 2017 ACTNA is $233,835. The Company does not currently expect the incurrence covenants in the senior note indenture to restrict its planned activities.

Generally, the incurrence covenants also restrict payments as follows:

- dividends and other distributions;
- stock repurchases;
- subordinated debt prepayment; and
- certain investments outside of the oil and gas business.

Certain restricted payments are excluded from the general restrictions or are permitted, including a general lifetime exclusion of $12,500. A full detail of the Trust Indenture dated October 3, 2013 is filed at sedar.com. The Company does not currently anticipate initiating a payment that would be restricted by the trust indenture.

COMMITMENTS

Cequence has assumed various commitments in the normal course of operations and financing activities.

	2017	2018	2019	2020	2021+	Total
Office leases	**271**	350	262	–	–	883
Pipeline transportation	**443**	1,915	2,350	2,350	12,328	19,386
Gas processing	**3,130**	4,154	4,154	4,166	38,780	54,384
Total	**3,844**	6,419	6,766	6,516	51,108	74,653

Cequence has a take or pay agreement for gas processing with the operator of the Simonette gas plant. The minimum commitment under the take or pay of 42 mmcf/d or approximately $4,154 per year concluding April 30, 2030. In addition, The Company has firm transportation on a major pipeline system for 9 mmcf/d for the period January 1, 2016 to March 31, 2018 and 35 mmcf/d for the period April 1, 2018 to March 30, 2026.

In addition to the commitments listed above, the Company has entered into binding contracts to ship natural gas to the Empress receipt point in Alberta and to the Dawn hub in Ontario. The Company has committed to ship 11,250 GJ/d of natural gas on the Nova system from its field to empress for an approximate cost of $0.20/GJ for a five year term. In addition, the Company has entered into a binding contract to ship 10,850 GJ/d of natural gas on the TransCanada mainline system from the Empress receipt point to the Dawn hub in Ontario for a cost of $0.77/GJ. The term of the contract is 10 years and has early termination rights that can be exercised following the initial five years of service. The contracts are conditional to final regulatory approval with the National Energy Board. The Company currently expects to begin shipping gas under these arrangements on April 1, 2018. The contracts provides Cequence with pricing diversification for approximately 20 percent of its natural gas production.

OUTSTANDING SHARE DATA

Details of share capital and share awards outstanding are as follows:

	March 31, 2017	December 31, 2016
Common shares	**245,528**	245,528
Stock options	**15,771**	11,003
Restricted share units	**3,710**	3,010
Warrants	**3,000**	3,000

Cequence has an unlimited number of common voting shares and common non-voting shares with no par value.
Warrants have an exercise price of $2.03 to purchase common shares.

On October 28, 2016, the Company completed the sale, on a private placement basis, of 34,500 common voting shares on a Canadian development expenses "flow-through" basis at $0.29 per share for gross proceeds of $10,005. The financing allowed the Company to resume drilling operations in the fourth quarter.

As of the date of this MD&A, Cequence had the following securities outstanding: 245,528 common voting shares, 3,000 warrants to purchase common shares, 15,092 stock options and 3,710 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,		
$(000's)	**2017**	2016	2015
Cash flow from operating activities	**7,432**	4,893	8,129
Decommissioning liabilities expenditures	**224**	1,024	305
Net change in non-cash working capital	**(310)**	(6,231)	(151)
Funds flow from operations	**7,346**	(314)	8,283
Per share, basic and diluted ($)	**0.03**	0.00	0.04
Total revenue	**19,354**	15,772	23,594
Comprehensive income (loss)	**5,251**	(5,888)	(4,662)
Per share – basic and diluted ($)	**0.02**	(0.03)	(0.02)
Total assets	**390,089**	399,729	667,143
Demand credit facilities	**–**	–	–
Senior notes – principal	**60,000**	60,000	60,000

Funds flow from operations was $7,346 for the three months ended March 31, 2017 compared to ($314) in 2016. The quarterly increase in funds flow from operations is due to increased realized prices combined with lower operating and G&A expenses.

Cequence recorded comprehensive income of $5,251 for the three months ended March 31, 2017 compared to a loss of $5,888 in 2016. The increase is due to increased realized prices combined with lower operating, G&A and depletion and depreciation expenses.

QUARTERLY INFORMATION

FINANCIAL

($ thousands except per share data)	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2
Total revenue [1]	**19,354**	17,253	14,707	11,343	15,772	16,112	19,383	21,802
Royalties expense	**1,355**	467	636	(125)	565	(507)	368	1,016
Transportation expense	**1,308**	1,151	1,001	774	1,092	1,339	1,323	1,757
Operating costs	**6,779**	6,184	6,228	5,812	9,212	7,031	8,951	7,954
Comprehensive income (loss)	**5,251**	(9,077)	(880)	(12,212)	(5,888)	(146,585)	(99,070)	246
Per share – basic & diluted	**0.02**	(0.04)	(0.00)	(0.06)	(0.03)	(0.69)	(0.47)	0.00
Funds flow from (used in) operations [2]	**7,346**	6,625	3,385	1,554	(314)	4,874	5,139	7,283
Per share – basic	**0.03**	0.03	0.02	0.01	(0.00)	0.02	0.02	0.03
Per share – diluted	**0.03**	0.03	0.02	0.01	(0.00)	0.02	0.02	0.03
Capital expenditures, net	**15,046**	11,460	2,810	958	7,362	15,175	4,656	19,848
Net acquisitions (dispositions) [3]	**–**	(54)	(5,167)	138	(211)	1,176	1,136	(43,078)
Total capital expenditures	**15,046**	11,406	(2,357)	1,096	7,151	16,351	5,792	(23,230)

(1) Total revenue is presented gross of royalties and includes realized gains (loss) on commodity contracts.
(2) Funds flow from (used in) operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures 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

	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2
Production volumes								
Natural gas (Mcf/d)	**45,214**	45,005	44,320	40,127	52,253	41,794	43,987	48,665
Oil (bbls/d)	**481**	140	175	178	218	225	199	100
NGLs (bbls/d)	**270**	209	261	244	235	300	485	562
Condensate (bbls/d)	**814**	760	798	748	1,061	723	807	953
Total (boe/d)	**9,101**	8,609	8,621	7,857	10,223	8,213	8,822	9,726
Average selling price, including realized hedges								
Natural gas ($/Mcf)	**2.79**	2.92	2.28	1.73	2.10	2.89	3.46	3.35
Crude oil and condensate ($/bbl)	**62.50**	56.27	53.78	54.01	46.69	52.32	50.08	63.18
NGLs ($/bbl)	**29.92**	25.61	24.09	21.50	16.68	16.45	16.80	17.49
Total ($/boe)	**23.63**	21.78	18.54	15.86	16.95	21.32	23.88	24.63
Operating netback, including realized hedges ($/boe)								
Price	**23.63**	21.78	18.54	15.86	16.95	21.32	23.88	24.63
Royalties	**(1.65)**	(0.59)	(0.80)	0.17	(0.61)	0.67	(0.45)	(1.15)
Transportation	**(1.60)**	(1.45)	(1.26)	(1.08)	(1.17)	(1.77)	(1.63)	(1.99)
Operating costs	**(8.28)**	(7.81)	(7.85)	(8.13)	(9.90)	(9.30)	(11.03)	(8.99)
Operating netback	**12.10**	11.93	8.63	6.82	5.27	10.92	10.77	12.50

The decline in production revenue, funds flow from operations and comprehensive incomes (loss) in the last half of 2015 and 2016 can be attributed to low commodity prices and declining production volumes. Canadian AECO natural gas prices averaged $2.18/mcf in 2016, significantly lower than previous years. Production volumes decreased in the both 2015 and 2016 as the Company reduced capital expenditures on new wells due to the extended period of low gas prices. In both the fourth quarter of 2016 and first quarter of 2017 commodity prices increased from recent levels and the Company's production revenue, funds flow from operations and comprehensive income has improved.

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 2015, the Company recorded impairment expense of $230,400, including $144,000 in the fourth quarter. Impairments recognized were mainly the result of declining benchmark natural gas prices. 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.

OUTLOOK INFORMATION

On May 11, 2017, the Company updated its first half 2017 guidance and provided guidance for the remainder of the year as follows:

(000's, except per share and per unit references)	**Revised Six Months Ended June 30, 2017**	Year Ended December 31, 2017
Average production, BOE/d [1]	**9,000**	9,000 - 9,200
Funds flow from operations ($)[2]	**13,000**	28,000 - 29,000
Funds flow from operations per share [2]	**0.05**	0.12
Capital expenditures, ($)	**17,500**	29,000
Operating and transportation costs ($/boe)	**10.20**	10.00
G&A costs ($/boe)	**1.72**	1.65
Royalties (% revenue)	**8**	8
Crude – WTI (US$/bbl)	**51.00**	50.00
Natural gas – AECO (CDN$/GJ)	**2.65**	2.75
Period end, net debt ($) [3]	**68,500**	64,000 - 65,000
Weighted average basic shares outstanding	**245,500**	245,500

(1) Average production estimates on a per BOE basis are comprised of 85% natural gas and 15% 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 is calculated as working capital (deficiency) less the aggregate principal amount of the senior notes.

The Company provided guidance for the first half of 2017 in November 2016 which has been revised to include the results of the first quarter and of the winter drilling program that consisted of two Montney wells and one net Dunvegan well at Simonette. The revised guidance is within the expectations set out in the November guidance, including for production, funds flow from operations and net debt. Capital expenditures are $2,000 higher due to some additional minor projects in the quarter and some operations that were completed in break up conditions.

The annual capital expenditure program of $29,000 has been planned to approximate expected annual funds flow from operations. While spending within cash flow, production volumes are expected to increase approximately

4 percent from 2016 to 9,000 to 9,200 boe/d. The Company may adjust its capital expenditure program should commodity prices increase or decrease significantly.

The Company expects recent improvement to operating and general and administrative costs to continue throughout 2017. Based on forecasted commodity prices of US$ 50/bbl WTI and CDN$ 2.75/GJ natural gas, Cequence expects funds flow from operations of $28,000 to $29,000.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer ("CEO") and Executive Vice President, Finance and Chief Financial Officer ("CFO") 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 CEO and CFO 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 CEO and CFO, 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, 2017, CEO and CFO 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

In April 2016, the IASB issued its final amendments to IFRS 15 "Revenue from Contracts with Customers", which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by Cequence on 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 currently evaluating the impact of adoption of this standard and the effect on Cequence's consolidated financial statements has not yet been determined.

In January 2016, the IASB issued IFRS 16 "Leases". For lessees applying IFRS 16, a single recognition and measurements model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers". 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.

RISK ASSESSMENT

The acquisition, exploration and development of oil and natural gas properties and the production, transportation and marketing of oil and natural gas involves many risks, which may influence the ultimate success of the Company. While the management of Cequence realizes these risks cannot be eliminated, they are committed to monitoring and mitigating these risks. These risk include, but are not limited to:

- Volatility in market prices and demand for oil, NGLs and natural gas and hedging activities related thereto;
- Variance of the Company's actual capital costs, operating costs and economic returns from those anticipated;
- The ability to find, develop or acquire additional reserves and the availability of the capital or financing necessary to do so on satisfactory terms;
- Risks related to the exploration, development and production of oil and natural gas reserves and resources;
- Negative public perception of oil sands development, oil and natural gas development and transportation, hydraulic fracturing and fossil fuels;
- Actions by governmental authorities, including changes in government regulation, royalties, taxation, and wildlife management including the Caribou Action and Range Planning that may impact the Company's Simonette area;
- Actions by governmental authorities, including changes in government regulation, royalties and taxation;
- The availability, cost or shortage of service equipment, raw materials, supplies or qualified personnel;
- Dependence upon oil and gas infrastructure, certain of which the Company does not control;
- The ability to satisfy obligations under the Company's firm commitment transportation and gas processing arrangements;
- The possibility that the Company's drilling activities may encounter sour gas;
- The concentration of the Company's assets in the Simonette area;
- First Nations claims;
- Limited intellectual property protection for operating practices and dependence on employees and contractors;
- Environmental, health and safety requirements;
- Extensive competition in the Company's industry;
- Third party credit risk including dependence on limited customers and counter-parties;
- Variations in foreign exchange rates and interest rates;
- Litigation.

For additional information regarding the risks that the Company is exposed to, see the disclosure provided under the heading "Risk Factors" in the AIF, which is available on the SEDAR website at www.sedar.com

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: projections with respect to natural gas production; the projection of future royalty, operating, transportation and G&A expenses; the projected impact of land access and regulatory issues; projections relating to the volatility of crude oil and natural gas prices in 2017 and beyond ; the Company's projected capital investment levels for 2017 and the source of funding therefore; the effect of the Company's risk management program, including the impact of derivative financial instruments; 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 2017 capital program. The material assumptions supporting the 2017 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.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited) (Expressed in thousands of Canadian dollars)

	March 31, 2017	December 31, 2016
	$	$
ASSETS		
CURRENT		
Cash	**12,223**	17,778
Accounts receivable	**11,307**	14,145
Deposits and prepaid expenses	**958**	877
Commodity contracts (Note 10)	**808**	–
	25,296	32,800
Property and equipment (Note 3)	**364,793**	356,058
	390,089	388,858
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**35,738**	36,124
Commodity contracts (Note 10)	**–**	4,491
Share based payment liability (Note 8)	**359**	341
Provisions (Note 7)	**334**	366
	36,431	41,322
Commodity contracts (Note 10)	**–**	159
Senior notes (Note 5)	**58,744**	58,557
Provisions (Note 7)	**38,383**	37,795
	133,558	137,833
SHAREHOLDERS' EQUITY		
Share capital	**633,846**	633,848
Warrants	**1,300**	1,300
Contributed surplus	**30,342**	30,085
Deficit	**(408,957)**	(414,208)
	256,531	251,025
	390,089	388,858

APPROVED BY THE BOARD

[signed] "Donald Archibald"
Donald Archibald, Director

[signed] "Brian Felesky"
Brian Felesky, Director

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

	Three months ended March 31,	
	2017	2016
REVENUE		
Production revenue	**18,245**	12,241
Gain on derivative financial instruments (Note 10)	**5,212**	6,156
	23,457	18,397
EXPENSES		
Depletion and depreciation (Note 3)	**6,931**	8,097
General and administrative	**1,050**	3,748
Finance costs (Note 6)	**2,003**	1,948
Operating costs	**6,779**	9,212
Share based payment (Note 8)	**275**	289
Transportation	**1,308**	1,092
Other income	**(140)**	(101)
	18,206	24,285
INCOME (LOSS) BEFORE INCOME TAXES	**5,251**	(5,888)
INCOME TAXES	**-**	-
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**5,251**	(5,888)
Income (Loss) per share (Note 9)		
Basic and diluted	**$0.02**	($0.03)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended March 31,	
	2017	2016
	$	$
SHARE CAPITAL		
Common Shares		
Balance, beginning of period	**633,848**	624,619
Share issue costs	**(2)**	–
Balance, end of period	**633,846**	624,619
Warrants		
Balance, beginning of period	**1,300**	1,300
Balance, end of period	**1,300**	1,300
CONTRIBUTED SURPLUS		
Balance, beginning of period	**30,085**	29,377
Share based payment expense (Note 8)	**257**	246
Balance, end of period	**30,342**	29,623
DEFICIT		
Balance, beginning of period	**(414,208)**	(386,151)
Comprehensive income (loss)	**5,251**	(5,888)
Balance, end of period	**(408,957)**	(392,039)
TOTAL EQUITY	**256,531**	263,503

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended March 31,	
	2017	2016
	$	$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net income (loss)	**5,251**	(5,888)
Adjustments for non-cash items:		
Depletion and depreciation expense (Note 3)	**6,931**	8,097
Finance costs related to provisions (Note 6)	**220**	209
Share based payment expense (Note 8)	**275**	289
Amortization of transaction costs on senior notes (Note 6)	**106**	95
Accretion on senior notes (Note 6)	**81**	74
Unrealized gain on derivative financial instruments (Note 10)	**(5,458)**	(3,190)
Gain on sale of property and equipment	**(60)**	–
Decommissioning liabilities expenditures (Note 7)	**(224)**	(1,024)
Net change in non-cash working capital (Note 11)	**310**	6,231
	7,432	4,893
INVESTING		
Property and equipment expenditures (Note 3)	**(15,046)**	(7,362)
Proceeds from sale of property and equipment	**–**	211
Net change in non-cash working capital (Note 11)	**2,064**	(5,210)
	(12,982)	(12,361)
FINANCING		
Share issue costs	**(2)**	–
Net change in non-cash working capital (Note 11)	**(3)**	(69)
	(5)	(69)
NET DECREASE IN CASH	**(5,555)**	(7,537)
CASH, BEGINNING OF PERIOD	**17,778**	13,246
CASH, END OF PERIOD	**12,223**	5,709
SUPPLEMENTARY INFORMATION		
Income taxes paid	**–**	–
Interest paid	**1,596**	1,638

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2017 and 2016
(Unaudited) (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 1400, 215 – 9th Avenue. SW, Calgary, Alberta, T2P 1K3.

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, 2016.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on May 11, 2017.

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, 2016. 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. PROPERTY AND EQUIPMENT

Cost:	
Balance at December 31, 2015	906,545
Additions	22,590
Decommissioning obligation additions and change in estimates	(1,134)
Acquisitions	(60)
Disposals	(2,847)
Balance at December 31, 2016	925,094
Additions	**15,046**
Decommissioning obligation additions and change in estimates	**620**
Balance at March 31, 2017	**940,760**
Depletion, depreciation and impairment:	
Balance at December 31, 2015	(537,866)
Depletion and depreciation	(31,622)
Disposals	452
Balance at December 31, 2016	(569,036)
Depletion and depreciation	**(6,931)**
Balance at March 31, 2017	**(575,967)**
Carrying amounts:	
At December 31, 2016	356,058
At March 31, 2017	**364,793**

Costs subject to depletion include $911,873 of estimated future capital costs (December 31, 2016 – $921,573).

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).

4. DEMAND CREDIT FACILITY

As at March 31, 2017, the Company has an extendible revolving term credit facility ("senior credit facility") of $20,000 (December 31, 2016 - $20,000) with a syndicate of Canadian chartered banks and has drawn $nil (December 31, 2016 - $nil) under the facility. The company has letters of credit outstanding of $4,128 (December 31, 2016 - $3,307). The senior credit facility has a term date of May 31, 2017 and may be extended beyond the initial term, if requested by the Company and accepted by the lenders. If the senior credit facility does not continue to revolve, amounts borrowed under the facility must be repaid on the term date. Prime loans and U.S. Base Rate Loans on the facility bear interest at the bank prime rate or U.S. Base Rate, respectively, plus 1.0 percent to 3.5 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 3.5:1.0). Banker's Acceptances, Libor Loans and letters of credit on the facility bear interest at the Banker's Acceptance rate, Libor rate or letter of credit rate, as applicable, plus 2.0 percent to 4.5 percent based on the same sliding scale as above. The credit facility is 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. The Company has a covenant that requires Senior Debt to EBITDA, as defined in the bank agreement, to be less than 3:0 to 1:0. Senior Debt is defined as the sum of Consolidated Debt less the period end balance of the senior notes. Consolidated Debt is defined as the sum of the Company's period end balance of the senior credit facility and senior notes. The Company was in compliance with the lender's covenants at March 31, 2017 and December 31, 2016. The senior credit facility is reviewed on a semi-annual basis with the lender holding the right to request an additional review. The next scheduled review is to take place in May 2017.

5. SENIOR NOTES

	March 31, 2017	December 31, 2016
Senior notes	**56,503**	56,503
Add transaction costs	**2,241**	2,054
	58,744	58,557

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 have a term of five years, are unsecured and are subordinate to Cequence's senior credit facility. 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's senior credit facility as well as other non-financial covenants and restrictive covenants, including restrictions over asset sales, restricted payments and the incurrence of additional indebtedness (see note 12).

6. FINANCE COSTS

	Three months ended March 31,	
	2017	2016
Interest expense on demand credit facilities	**162**	122
Interest expense on senior notes	**1,434**	1,448
Amortization of transaction costs	**106**	95
Accretion expense on senior notes	**81**	74
Accretion expense on provisions	**220**	209
	2,003	1,948

7. PROVISIONS

Decommissioning liabilities

The following table summarizes the changes in decommissioning liabilities for the three months ended March 31, 2017 and year ended December 31, 2016:

	2017	2016
Balance, beginning of period	**38,161**	40,708
Property dispositions	**(60)**	(364)
Accretion expense	**220**	803
Liabilities incurred	**181**	286
Abandonment costs incurred	**(224)**	(1,852)
Revisions in estimated cash flows	**(39)**	(126)
Revisions due to change in discount rates	**478**	(1,294)
Balance, end of period	**38,717**	38,161
Current	**334**	366
Non-current	**38,383**	37,795
	38,717	38,161

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 $66,133 (December 31, 2016 - $66,240). These cash flows have been discounted using a risk-free interest rate of 2.28 percent (December 31, 2016 – 2.34 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, 2016 – 1 to 50 years). As at March 31, 2017, no funds have been set aside to settle these liabilities.

8. SHARE BASED PAYMENT PLANS

The Company has a stock option and RSU plan for directors, officers, employees and consultants of the Company and its subsidiaries. During the three months ended March 31, 2017, Cequence recognized share based payment expense on equity-settled stock options of $257 (2016 - $246) and RSUs of $18 (2016 - $43).

A summary of the status of the Company's stock option and RSU plans during the three months ended March 31, 2017 and year ended December 31, 2016 is as follows:

Number of Options (000's)	**2017**	2016
Outstanding, beginning of period	**11,003**	11,395
Granted [1]	**5,025**	6,295
Cancelled/Forfeited	**(107)**	(3,900)
Expired	**(150)**	(2,787)
Outstanding, end of period	**15,771**	11,003

[1] The company issued 5,025,000 stock options (2016 – 6,295,000) at a weighted average exercise price of $0.32 (2016 - $0.33) to employees, officers and directors.

Number of RSUs (000's)	**2017**	2016
Outstanding, beginning of period	**3,010**	1,707
Granted	**700**	2,622
Cancelled/Forfeited	**–**	(677)
Exercised	**–**	(642)
Outstanding, end of period	**3,710**	3,010

9. INCOME (LOSS) PER SHARE

Income (loss) per share has been calculated based on the weighted average number of common shares outstanding during the period. For the three months ended March 31, 2017, the Company excluded 15,771 stock options and 3,000 warrants as their inclusion would be anti-dilutive (2016 – all dilutive instruments). The following table reconciles the denominators used for the basic and diluted income (loss) per share calculations:

	Three months ended March 31,	
	2017	2016
Basic weighted average shares	**245,528**	211,028
Effect of dilutive instruments	**3,361**	–
Diluted weighted average shares	**248,889**	211,028

10. RISK MANAGEMENT

There have been no changes to the Company's exposure to risks, or the objectives, policies and processes to manage these risks from December 31, 2016.

Market risk

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

Commodity price risk

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

The following information presents all outstanding positions for commodity derivative financial instruments at March 31, 2017:

Term	Product	Type	Volume	Price	Basis
April 1, 2017 to September 30, 2017	Gas	Swap	22,500 gj/day	$2.78	AECO
October 1, 2017 to December 31, 2017	Gas	Swap	19,185 gj/day	$2.76	AECO
January 1, 2018 to March 31, 2018	Gas	Swap	12,500 gj/day	$3.01	AECO
April 1, 2017 to December 31, 2017	Oil	Swap	400 bbl/day	$69.58	WTI

For the three months ended March 31, 2017, realized losses from commodity derivative contracts recognized in comprehensive income were $246 (2016 - $2,966 gain).

The fair value of the commodity contracts outstanding at March 31, 2017 was a current asset of $808 (December 31, 2016 – current liability of $4,491 and non-current liability of $159).

For the three months ended March 31, 2017, the Company recorded an unrealized gain of $5,458 from derivative commodity contracts (2016 - $3,190 unrealized gain).

As at March 31, 2017, an increase in gas price of $0.50/gj and oil price of $1.00/bbl results in a decrease in the fair value of the commodity contracts of $3,504 ($2,558 after tax) and $110 ($80 after tax) respectively and a commensurate decrease to comprehensive income.

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 cash, accounts receivable and commodity contract assets.

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, 2017, the accounts receivable balance was $11,307 of which $784 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
10,077	223	223	784	11,307

At March 31, 2017, the Company has an allowance for doubtful accounts of $645 (December 31, 2016 - $647).

11. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended March 31, **2017**	2016
Accounts receivable	**2,838**	6,258
Deposits and prepaid expenses	**(81)**	95
Accounts payable and accrued liabilities	**(386)**	(5,401)
Net change in non-cash working capital	**2,371**	952
Allocated to:		
Operating activities	**310**	6,231
Investing activities	**2,064**	(5,210)
Financing activities	**(3)**	(69)
	2,371	952

12. CAPITAL MANAGEMENT

There have been no changes to the Company's objectives, policies and processes to manage capital from December 31, 2016.

At March 31, 2017, Cequence has $60,000 in senior notes due in 2018 and a $20,000 senior credit facility which the Company had drawn $nil. The Company's senior credit facility is based on the lenders' review of the Company's oil and natural gas reserves with the next scheduled review expected to be completed in May 2017. On October 28, 2016, the Company completed the sale, on a private placement basis, of 34,500 common voting shares on a CDE "flow-through" basis at $0.29 per share for gross proceeds of $10,005. Over the next twelve months, the Company believes that it has the ability to manage its cash flow and net capital expenditures within its available credit and will be in compliance with its financial covenants.

The senior credit facility has a covenant that requires Senior Debt to twelve month trailing EBITDA, as defined in the bank agreement, to be less than 3:0 to 1:0. The Company was in compliance with the lender's covenant at March 31, 2017 with a ratio of 0.2 times (December 31, 2016 – 0.2 times).

The senior notes contain incurrence covenants that use a Debt to Cashflow test that is in excess of 2.5 times for the preceding four quarters to limit 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. At March 31, 2017 the Company's Debt to Cashflow ratio was in excess of 2.5 times. If low commodity prices persist, the Company expects the Debt to Cashflow ratio to remain in excess of 2.5 times. The Company does not currently anticipate initiating an action that would be restricted by the incurrence covenants.

The Company continues to review its options to improve its financial leverage including the sale of assets, further adjustments to the capital program, hedging or the issuance of equity. The Company has engaged in a preliminary review of financing alternatives to modify or replace the senior notes that mature in October 2018.

CORPORATE INFORMATION

MANAGEMENT

Todd Brown, P.Eng
Chief Executive Officer

David Gillis, CA
Executive Vice President, Finance & CFO

David P. Robinson
Vice President, Geology

Christopher C. Soby
Vice President, Land

Erin Thorson, CMA
Controller

DIRECTORS

Don Archibald
Chairman

Peter Bannister
Howard Crone
Brian Felesky
Daryl Gilbert
James K. Gray (1)
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