cequence energy ltd

Q3

THIRD QUARTER REPORT

Three and nine months ended September 30, 2015

HIGHLIGHTS

(000's except per share and per unit amounts)	Three months ended September 30, 2015	2014	% Change	Nine months ended September 30, 2015	2014	% Change
FINANCIAL						
Production revenue [(1)]	**19,383**	29,013	(33)	**64,779**	111,327	(42)
Comprehensive income (loss)	**(99,070)**	74,402	(233)	**(103,487)**	83,790	(224)
Per share – basic	**(0.47)**	0.35	(234)	**(0.49)**	0.40	(223)
Per share - diluted	**(0.47)**	0.35	(234)	**(0.49)**	0.39	(226)
Funds flow from operations [(2)]	**5,139**	13,588	(62)	**20,704**	56,905	(64)
Per share, basic	**0.02**	0.06	(67)	**0.10**	0.27	(63)
Per share, diluted	**0.02**	0.06	(67)	**0.10**	0.26	(62)
Capital expenditures, before acquisitions (dispositions)	**4,656**	49,239	(91)	**47,086**	123,743	(62)
Capital expenditures, including acquisitions (dispositions)	**5,792**	(92,795)	106	**2,208**	(24,658)	109
Net debt and working capital deficiency [(3)]	**(52,492)**	(29,911)	75	**(52,492)**	(29,911)	75
Weighted average shares outstanding – basic	**211,028**	211,028	–	**211,028**	210,978	–
Weighted average shares outstanding - diluted	**211,028**	214,569	(2)	**211,028**	215,339	(2)
OPERATING						
Production volumes						
Natural gas (Mcf/d)	**43,987**	49,515	(11)	**49,541**	58,036	(15)
Crude oil (bbls/d)	**199**	118	69	**138**	125	10
Natural gas liquids (bbls/d)	**485**	523	(7)	**534**	598	(11)
Condensate (bbls/d)	**807**	801	1	**984**	945	4
Total (boe/d)	**8,822**	9,694	(9)	**9,913**	11,340	(13)
Sales prices						
Natural gas, including realized hedges ($/Mcf)	**3.46**	4.19	(17)	**3.38**	4.71	(28)
Crude oil ($/bbl)	**47.01**	90.77	(48)	**49.58**	94.09	(47)
Natural gas liquids ($/bbl)	**16.80**	38.34	(56)	**17.15**	44.59	(62)
Condensate ($/bbl)	**50.83**	96.02	(47)	**54.85**	101.33	(46)
Total ($/boe)	**23.88**	32.53	(27)	**23.94**	35.96	(33)
Netback ($/boe)						
Price, including realized hedges	**23.88**	32.53	(27)	**23.94**	35.96	(33)
Royalties	**(0.45)**	(4.35)	(90)	**(1.26)**	(4.17)	(70)
Transportation	**(1.63)**	(1.44)	13	**(1.84)**	(1.48)	24
Operating costs	**(11.03)**	(7.65)	44	**(9.13)**	(7.90)	16
Operating netback	**10.77**	19.09	(44)	**11.71**	22.41	(48)
General and administrative	**(2.53)**	(2.12)	19	**(2.20)**	(2.20)	–
Interest [(4)]	**(2.06)**	(1.99)	4	**(1.91)**	(1.87)	2
Cash netback	**6.18**	14.98	(59)	**7.60**	18.34	(59)

(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 share based payment liability and provisions.
(4) 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 and nine months ended September 30, 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 November 12, 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 nine 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 nine months ended September 30, 2015, the ratio between the average price of West Texas Intermediate ("WTI") crude oil at Cushing and NYMEX natural gas was approximately 20:1 ("Value Ratio"). The Value Ratio is obtained using the first nine months of 2015 WTI average price of $50.94 (US$/Bbl) for crude oil and the first nine months 2015 NYMEX average price of $2.56 (US$/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 share based payment liability and provisions. 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 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.

On June 17, 2015, the Company sold 50 percent of its compression and gathering facility at Simonette including related pipelines and gathering systems. Proceeds of the disposition, subject to closing adjustments, were $43,013. The disposition allows Cequence to maintain its balance sheet strength during a challenging commodity price environment while completing a plant upgrade at Simonette that is expected to be completed in Q1 2016. The gas plant is expected to provide Cequence with greater long term flexibility for marketing natural gas and liquids from its Simonette property.

Crude oil and natural gas prices have decreased significantly from the prior year and the Company has seen a decrease in operating netbacks and funds flow. The Company has reduced capital expenditures and production expectations as a result. The Company's balance sheet remains strong with net debt at September 30, 2015 of $52,492 comprised of $60,000 of senior notes and positive working capital of $7,508. The Company's senior credit facility remains undrawn at September 30, 2015 providing the company adequate liquidity for its planned capital expenditures for the remainder of 2015.

Financial and Operating Results

PRODUCTION

	Three months ended September 30,		Nine months ended September 30,	
	2015	**2014**	**2015**	**2014**
Natural gas (Mcf/d)	**43,987**	49,515	**49,541**	58,036
Crude oil (bbls/d)	**199**	118	**138**	125
Natural gas liquids (bbls/d)	**485**	523	**534**	598
Condensate (bbls/d)	**807**	801	**984**	945
Total (boe/d)	**8,822**	9,694	**9,913**	11,340
Total production (boe)	**811,591**	891,882	**2,706,216**	3,095,895

Production for the three and nine months ended September 30 2015 averaged 8,822 boe/d and 9,913 boe/d, respectively, compared to production of 9,694 boe/d and 11,340 boe/d in 2014. For the three and nine months ended September 30, 2015, the Company had approximately 3,220 boe/d and 2,700 boep/d of production curtailed

due to voluntary shut-ins and third party pipeline restrictions. In the third quarter, production outages related to pipeline and facility restrictions totalled 945 boe/d and included 325 boe/d from ongoing TCPL maintenance, 475 boe/d from a six day operational disruption on Alliance and 145 boe/d from Station 2.

Cequence is exposed to both AECO pricing and APC CREC natural gas prices. For the three and nine months ended September 30, 2015, the APC CREC pricing has traded at a discount to AECO of $3.00/GJ and $1.60/GJ, respectively. Cequence has managed production levels to reduce its exposure to CREC resulting in voluntary production curtailments of 2,275 boe/d in the third quarter and 1,800 boe/d year to date. CREC differentials have increased in 2015 as ongoing major pipeline maintenance in Alberta has created bottlenecks and increased the amount natural gas flowing on interruptible service.

The Company expects that pipeline maintenance will be ongoing until November of 2015 and that CREC prices may experience continued weakness. In anticipation of continued price uncertainty in November the Company has planned downtime for its refrigeration installation at Simonette. The Company expects 2015 average production to be approximately 9,500 boe/d.

REVENUE AND PRICING

	Three months ended September 30,		Nine months ended September 30,	
$(000's)	**2015**	**2014**	**2015**	**2014**
Revenue				
Natural gas	12,329	20,135	39,051	83,683
Realized gain (loss) on natural gas hedges	1,673	(1,028)	6,624	(8,982)
Total natural gas	14,002	19,107	45,675	74,701
Crude oil	859	986	1,873	3,209
Natural gas liquids	750	1,843	2,498	7,275
Condensate	3,772	7,077	14,733	26,142
Total production revenue, gross of royalties	19,383	29,013	64,779	111,327
Average prices				
Natural gas ($/Mcf)	3.05	4.42	2.89	5.28
Realized natural gas hedge ($/Mcf)	0.41	(0.23)	0.49	(0.57)
Natural gas including hedge ($/Mcf)	3.46	4.19	3.38	4.71
Crude oil ($/bbl)	47.01	90.77	49.58	94.09
Natural gas liquids ($/bbl)	16.80	38.34	17.15	44.59
Condensate ($/bbl)	50.83	96.02	54.85	101.33
Average sales price before hedge ($/boe)	21.82	33.68	21.49	38.86
Average sales price including hedge ($/boe)	23.88	32.53	23.94	35.96
Benchmark pricing				
AECO-C spot (CDN$/Mcf)	2.91	4.03	2.78	4.77
WTI crude oil (US$/bbl)	46.48	97.60	50.94	99.77
Edmonton par price (CDN$/bbl)	55.37	97.11	59.18	100.50
US$/CDN$ exchange rate	0.76	0.92	0.79	0.91

Total production revenue, gross of royalties, was $19,383 in the third quarter of 2015 compared to $29,013 in 2014. The decrease in revenue is attributable to the 27 percent decrease in realized sales prices and 9 percent decrease in production. For the nine months ended September 30, 2015, production revenue, gross of royalties, decreased 42 percent to $64,779 from $111,327 in the comparable period of 2014. The decrease in revenue is attributable to the 33 percent decrease in realized sales prices and 13 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. Natural gas prices continued to be weak in the third quarter as North American production has been sustained at high levels and storage inventories are approaching record levels. Canadian benchmark natural gas prices averaged $2.91 per mcf and $2.78 per mcf for the three and nine months ended September 30, 2015, respectively, down 28 percent and 42 percent from the same time period in 2014. Realized natural gas prices before hedging for the three and nine months ended September 30, 2015 were $3.05 per mcf and $2.89 per mcf compared to $4.42 per mcf and $5.28 per mcf in the comparable periods of 2014.

Crude oil prices have also declined significantly in 2015. Oil prices for the third quarter of 2015 and nine months ended September 30, 2015 were $47.01 per barrel and $49.58 per barrel, respectively, down 48 percent and 47 percent from the same time period in 2014. Condensate prices generally trend with oil prices and for the three and nine months ended September 30, 2015 were $50.83 per barrel and $54.85 per barrel, respectively, down 47 percent and 46 percent from the same time period in 2014.

Natural gas liquids prices for the three and nine months ended September 30, 2015 were $16.80 per barrel and $17.15 per barrel, respectively, down 56 percent and 62 percent from the same time period in 2014.

COMMODITY PRICE MANAGEMENT

	Three months ended September 30,		Nine months ended September 30,	
$(000's)	2015	2014	2015	2014
Realized gain (loss) on commodity contracts	1,673	(1,028)	6,624	(8,982)
Unrealized gain (loss) on commodity contracts	(1,303)	2,958	(4,937)	535
Total	370	1,930	1,687	(8,447)

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. Cequence has hedged approximately 68 percent of expected fourth quarter 2015 natural gas production net of royalties at an average price of $3.40/GJ or $4.00/mcf.

The fair value of the commodity contracts outstanding at September 30, 2015 was a current asset of $3,141 and a non-current asset of $107 (December 31, 2014 - current asset of $7,994 and a non-current asset of $190). 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
October 1, 2015 to December 31, 2015	Gas	Swap	28,342	$3.40	$4.00	AECO
January 1, 2016 to March 31, 2016	Gas	Swap	15,000	$3.20	$3.79	AECO
April 1, 2016 to December 31, 2016	Gas	Swap	7,500	$3.02	$3.58	AECO

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

Term	Product	Type	Average Volume (bbl/d)	Average Price ($/bbl)	Basis
January 1, 2016 to December 31, 2016	Oil	Swap	200	$68.40	WTI

OPERATING NETBACK

	Three months ended September 30,		Nine months ended September 30,	
($/boe)	2015	2014	2015	2014
Production revenue [(1)]	23.88	32.53	23.94	35.96
Royalty expense	(0.45)	(4.35)	(1.26)	(4.17)
Transportation expense	(1.63)	(1.44)	(1.84)	(1.48)
Operating costs	(11.03)	(7.65)	(9.13)	(7.90)
Operating netback, $/boe	10.77	19.09	11.71	22.41
Operating netback, excluding realized hedges , $/boe	8.71	20.24	9.26	25.31

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

Cequence's netback for the three months ended September 30, 2015 decreased 44 percent to $10.77 per boe from $19.09 per boe in 2014. For the nine months ended September 30, 2015, the netback decreased to $11.71 per boe from $22.41 per boe in the comparative period in 2014. The decrease in 2015 operating netbacks is mainly due to decreased production revenue and increased operating costs that were only partially offset by lower royalty expenses.

ROYALTY EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
$(000's)	2015	2014	2015	2014
Crown	(220)	2,656	1,217	7,906
Freehold / Overriding	588	1,226	2,190	5,000
Total royalties	368	3,882	3,407	12,906
Royalties as a percentage of revenue, before hedging	2%	13%	6%	11%
Per unit of production	0.45	4.35	1.26	4.17

Royalty expense for the three months ended September 30, 2015 was $368 or 2 percent of revenue compared to $3,882 or 13 percent of revenue in 2014. Royalty expense for the nine months ended September 30, 2015 was $3,407 or 6 percent of revenue compared to $12,906 or 11 percent of revenue in 2014. The average crown royalty rate decreased partly due to lower commodity prices in 2015. Crown royalties operate on a sliding scale and royalty rates decrease when commodity prices decrease. In addition, the effective crown royalty rate decreased in 2015 as royalty credits for gas cost allowance, capital cost allowance and custom processing fees increased from 2014 including credits received from prior period's royalty calculations. The Company is forecasting a royalty rate of approximately six to eight percent for 2015.

OPERATING COSTS

	Three months ended September 30,		Nine months ended September 30,	
$(000's)	2015	2014	2015	2014
Operating costs	8,951	6,826	24,716	24,468
Per unit of production ($/boe)	11.03	7.65	9.13	7.90

Operating costs for the three and nine months ended September 30, 2015 were $11.03 per boe and $9.13 per boe, respectively, compared to $7.65 per boe and $7.90 in 2014. Operating cost have increased due to increased water handling and storage costs, higher chemical expenses and additional midstream fees beginning in June 2015. The Company completed a midstream transaction late in June 2015 for gas handling and processing at Simonette resulting in increased capital and processing fees in the third quarter of $521 or $0.64/boe for the third quarter. In addition, production curtailments in the quarter have contributed to higher per barrel costs as the Company's fixed costs are allocated to fewer volumes. The Company estimates 2015 operating costs to be approximately $9.50 per boe.

TRANSPORTATION EXPENSE

$(000's)	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
Transportation	**1,323**	1,284	**4,984**	4,571
Per unit of production ($/boe)	**1.63**	1.44	**1.84**	1.48

Transportation expense for the three and nine months ended September 30, 2015 was $1.63 per boe and $1.84 per boe, respectively, an increase of 13 percent and 24 percent from the comparative period in 2014. For the nine months ended September 30, 2015, the increase is due to higher condensate trucking expenses during winter and through break up due to road bans and wait times and an increase in gas transportation charges due to the Company's exposure to CREC pricing. The Company expects annual transportation costs to be $1.70 per boe.

GENERAL AND ADMINISTRATIVE EXPENSES

$(000's)	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
Gross G&A expenses	**2,130**	2,472	**6,620**	7,889
Administrative and capital recovery	**(80)**	(584)	**(665)**	(1,091)
Total G&A expenses	**2,050**	1,888	**5,955**	6,798
Per unit of production ($/boe)	**2.53**	2.12	**2.20**	2.20

Gross G&A expenses decreased by 14 percent and 16 percent in the third quarter of 2015 and nine months ended September 30, 2015, respectively, compared to the prior year. The Company has undertaken measures to reduce all variable G&A expenses in the current low commodity price environment including personnel and consulting costs which have decreased by $1,038 for the nine months ended September 30, 2015. The decrease in gross G&A expenses has been partially offset by the decrease in administrative and capital recoveries resulting from a reduced capital program.

As a result of lower administrative and capital recoveries and lower production, G&A expense per boe increased to $2.53/boe in the third quarter despite lower gross G&A costs. Likewise, for the nine months ended September 30, 2015, G&A per boe is consistent with prior year despite a reduction in gross G&A expenses of $1,269. The Company expects G&A per boe to average $2.35 per boe for the year ended December 31, 2015.

FINANCE COSTS

	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2015
Interest expense on credit facilities	**206**	129	**811**	1,477
Interest expense on senior notes	**1,467**	1,648	**4,354**	4,326
Amortization of transaction costs	**91**	82	**265**	237
Accretion expense on senior notes	**70**	64	**203**	186
Accretion expense on provisions	**212**	225	**636**	630
Total finance costs	**2,046**	2,148	**6,269**	6,856
Per unit of production ($/boe)	**2.52**	2.41	**2.32**	2.21
Interest per unit of production ($/boe)	**2.06**	1.99	**1.91**	1.87

Finance costs for the three and nine months ended September 30, 2015 were $2,046 and $6,269 compared to $2,148 and $6,856 for the comparative period in 2014. The decrease is directly attributable to lower interest expense on the Company's credit facility which was undrawn for the majority of first nine months of 2015.

OTHER INCOME

$(000's)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Gain on sale of property and equipment	(144)	(94,510)	(5,279)	(99,770)
Interest income	(79)	(286)	(174)	(299)
Other	(69)	(25)	(165)	(64)
Total other income	(292)	(94,821)	(5,618)	(100,133)

During the nine months ended September 30, 2015, the Company completed sales of certain oil and gas properties, including the disposition of a 50 percent interest of existing Simonette facilities and related infrastructure, for total cash consideration of $45,939 (2014 - $150,808), subject to final adjustments. The sales resulted in a gain recognized in comprehensive income (loss) of $5,279 (2014 - $99,770 gain).

DEPLETION, DEPRECIATION AND IMPAIRMENT

$(000's)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Depletion and depreciation expense	9,567	10,830	31,635	37,399
Impairment loss	86,400	–	86,400	–
Total depletion, depreciation and impairment	95,967	10,830	118,035	37,399
Per unit of production ($/boe)	118.25	12.14	43.62	12.08
Per unit of production, excluding impairment ($/boe)	11.78	12.14	11.69	12.08

Depletion and depreciation expense for the three and nine months ended September 30, 2015, was $9,567 ($11.78 per boe) and $31,635 ($11.69 per boe), respectively. Depletion and depreciation rates are similar to the comparable period in 2014.

At September 30, 2015, Cequence considered the prolonged period of low crude oil and natural gas prices to be an indicator of potential impairment and impairment tests were conducted. Impairment is recognized when the carrying value of an asset or cash generating units ("CGU") exceeds its recoverable amount which is determined as the higher of its value in use or fair value less cost to sell. Aggregate impairment expense recognized for the nine months ended September 30, 2015 was $86,400. The impairments are largely a result of the decrease in commodity prices partially offset by the positive impact of capital cost reductions.

Estimates of impairment are sensitive to changes in any of the key judgments, such as a revision in reserves or resources, a change in forecast commodity prices, expected royalties, required future development expenditures or expected future production costs, which could decrease or increase the recoverable amounts of assets and result in additional impairment charges or recovery of impairment charges.

$(000's)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Northeast British Columbia	10,000	–	10,000	–
Peace River Arch	5,500	–	5,500	–
Deep Basin	70,900	–	70,900	–
Total	86,400	–	86,400	–

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 nine months ended September 30, 2015, Cequence recorded $931 (2014 – $1,799) in share based payment expense related to stock options with a corresponding increase to contributed surplus. For the nine months ended September 30, 2015, Cequence recognized $102 (2014 – $429) in share based payment expense related to RSUs with a corresponding increase to share based payment liability. During the nine months ended September 30, 2015, the Company granted 1,085,000 stock options and 967,000 RSUs.

CAPITAL EXPENDITURES

	Three months ended September 30,		Nine months ended September 30,	
$(000's)	**2015**	**2014**	**2015**	**2014**
Property acquisitions [1]	**1,061**	–	**1,062**	2,407
Property dispositions [1]	**75**	(142,034)	**(45,939)**	(150,808)
Land	**451**	178	**1,013**	844
Geological & geophysical and capitalized overhead	**226**	870	**947**	1,662
Drilling, completions and workovers	**1,630**	38,026	**13,536**	81,691
Equipment, facilities and tie-ins	**2,331**	10,146	**31,533**	39,406
Office furniture & equipment	**18**	19	**57**	140
Total capital expenditures	**5,792**	(92,795)	**2,209**	(24,658)

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

For the nine months ended September 30, 2015, capital expenditures, excluding acquisitions and dispositions, decreased to $47,086 from $123,743 in 2014. Drilling, completion and workover expenditures of $13,536 related primarily to the completion of the company's winter drilling program at Simonette in the first quarter. The Company completed one well (50% working interest) in the third quarter.

Equipment, facility and tie-in expenditures of $31,533 were directed towards facility expansion and gas plant construction at Simonette. On June 17, 2015, Cequence sold a 50% interest in its existing Simonette facilities and related infrastructure, including the facilities constructed in 2015. Total cash consideration was approximately $43,013 million, including estimated purchase price adjustments and resulted in a gain recognized in comprehensive income (loss) of $5,083. Cequence will continue to fund its 50 percent working interest in the gas plant expansion which is expected to be completed in the first quarter of 2016.

During the nine months ended September 30, 2015, the Company completed additional sales of certain non-producing oil and gas properties for total cash consideration of $2,926 (2014 - $150,808), subject to final adjustments. The sales resulted in a gain recognized in comprehensive income (loss) of $196 (2014 - $99,770 gain).

Cequence has budgeted net capital expenditures of $22 million for the year ended December 31, 2015. Activity in the second half of 2015 is expected to include the construction of the Company's gas plant and the drilling of 3.0 gross (2.5 net) wells at Simonette. Capital expenditures for 2015 are expected to be funded from cash flow, borrowing from the Company's credit facility and proceeds from the Simonette facility disposition. 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 September 30, 2015, the Company has tax pools and available losses of $604,225. The ongoing period of low commodity prices has created uncertainty regarding the future realization of the Company's deferred tax assets. As a result, a deferred tax asset has not been recognized resulting in deferred income tax expense of $6,468 and $4,548 in the three and nine months ended September 30, 2015. In 2014, the Company recognized deferred income tax expense of $32,980 for nine months ended as the Company had higher pre-tax income mainly due to $99,770 in gains from the sale of property and equipment.

At September 30, 2015, Cequence has the following tax pools:

Classification	Amount $(000's)	Annual Deductibility
Canadian exploration expense	168,721	100%
Non-capital losses	232,934	100%
Undepreciated capital cost	71,245	Primarily 25%, declining balance
Canadian oil and gas property expense	11,375	10%, declining balance
Canadian development expense	90,887	30%, declining balance
Other	29,063	Various
	604,225	

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 September 30, 2015 were $38,318 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:

	September 30, 2015	December 31, 2014
Balance, beginning of period	37,263	26,643
Property dispositions	(3,034)	(2,414)
Accretion expense	636	840
Liabilities incurred	1,441	3,147
Abandonment costs incurred	(344)	(1,382)
Revisions in estimated cash flows	1,209	4,881
Revisions due to change in discount rates	1,147	5,548
Balance, end of period	38,318	37,263

The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are $64,857 (December 31, 2014 - $67,840). These cash flows have been discounted using a risk-free interest rate of 2.21 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).

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 September 30, 2015	As at December 31, 2014
Cash	21,697	27,679
Demand credit facilities	–	–
Senior notes – principal	(60,000)	(60,000)
Accounts payable and accrued liabilities	(39,558)	(65,882)
Accounts receivable	23,085	24,781
Deposits and prepaid expenses – current	2,284	2,068
Net debt and working capital (deficiency)	(52,492)	(71,354)
Annualized current quarter funds from operations	20,556	54,980
Net debt to annualized current quarter funds from operations	2.6:1	1.3:1

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 debt to funds flow ratio to fluctuate on a quarterly basis. The Company has a long term strategy to maintain a debt to funds flow ratio of less than two times. At September 30, 2015, net debt was $52,492, resulting in a net debt to annualized current quarter funds from operations ratio of 2.6. Debt to funds flow is higher that the Company's long term stated target due to the prolonged period of low commodity prices. The Company has managed its debt levels in the current low commodity price environment through its hedging program, reducing capital expenditures and by entering into a midstream partnership to help fund a gas plant expansion in the Company's main operating field. Planned capital expenditures may be reduced if current or future commodity prices decrease further or remain low for an extended period of time.

The Company's 2015 capital expenditure guidance is $22,000 net of dispositions and is expected to be funded from funds flow from operations and proceeds from the disposition in the second quarter. The Company expects an annual debt to funds flow ratio of 2.6 times at December 31, 2015 based on a 2015 AECO realized natural gas price of $2.60 /GJ.

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 production to protect future cash flow.

SENIOR CREDIT FACILITY

At September 30, 2015, Cequence had a $135,000 (December 31, 2014 - $135,000) extendible revolving term credit facility available from a syndicate of Canadian chartered banks, subject to unanimous lender consent for amounts borrowed in excess of $120,000. Borrowing under the credit facility may be made by prime loans, bankers' acceptances and/or US libor advances. These advances bear interest at the bank's prime rate and/or at money market rates plus a borrowing margin depending on the Company's debt to adjusted EBITDA ratio. The credit facility is secured by a first floating charge debenture, general assignment of bookdebts and Cequence's oil and natural gas properties and equipment. . 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 senior credit facility is reviewed on a semi-annual basis with the next review occurring in November 2015.

As at September 30, 2015, the Company is not drawn under the credit facility (December 31, 2014 – $nil). The company has letters of credit outstanding of $3,207 (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 September 30, 2015 and December 31, 2014.

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 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 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.

CONTRACTUAL OBLIGATIONS

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

	2015	2016	2017	2018	2019+	Total
Office leases	216	656	17	–	–	889
Pipeline transportation	320	–	–	1,954	18,793	21,067
Gas processing	589	3,857	3,986	3,986	45,187	57,605
Capital	3,850	2,100	–	–	–	5,950
Total	4,975	6,613	4,003	5,940	63,980	85,511

On September 17, 2015, in conjunction with the Simonette disposition Cequence entered into a 15 year take or pay agreement for natural gas processing with the operator of the Simonette facility. The minimum volume commitment under the take or pay for the period from 2015 to January 2016 is 40 mmcf/d and increases to 42 mmcf/d in February 2016 upon the estimated completion of the refrigeration functional unit expansion. In addition, Cequence committed to approximately $5,950 of capital expenditures for the Simonette facility for the refrigeration functional unit expansion which is expected to be completed during the first quarter of 2016.

The Company has firm transportation on a major pipeline system for 35 mmcf/d commencing April 1, 2018 to March 30, 2026.

OUTSTANDING SHARE DATA

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

Issued common voting shares (000's)	September 30,2015	December 31, 2014
Common shares	211,028	211,028
Stock options	11,782	18,252
Restricted share awards	1,764	814
Warrants	3,000	3,000

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

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, 11,782,500 stock options and 1,764,331 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:

	Nine months ended September 30,		
$(000's)	2015	2014	2013
Cash flow from operating activities	28,618	57,633	34,506
Decommissioning liabilities expenditures	344	956	482
Net change in non-cash working capital	(8,258)	(1,684)	1,469
Funds flow from operations	20,704	56,905	36,457
Per share, basic ($)	0.10	0.27	0.18
Per share, diluted ($)	0.10	0.26	0.18
Production revenue	64,779	111,327	77,134
Comprehensive income (loss)	(103,487)	83,790	(1,786)
Per share – basic ($)	(0.49)	0.40	(0.01)
Per share – diluted ($)	(0.49)	0.39	(0.01)
Total assets	551,390	686,052	551,993
Demand credit facilities	–	–	49,218
Senior notes – principal	60,000	60,000	–

Funds flow from operations was $20,704 for the nine months ended September 30, 2015 compared to $56,905 in 2014. Cequence recorded a comprehensive loss of $103,487 for the nine months ended September 30, 2015 compared to income of $83,790 in 2014. The decrease in funds flow is mainly due to a decrease in commodity prices and production volumes from the comparable period. The decrease in income is mainly due to impairments recorded in 2015 and decreased revenues due to lower commodity prices and production volumes.

Quarterly Information

FINANCIAL

($ thousands except per share data)	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1	2013 Q4
Production revenue [(1)]	19,383	21,802	23,594	25,566	29,013	41,219	41,095	28,483
Royalties expense	368	1,016	2,023	1,119	3,882	4,706	4,318	1,769
Transportation expense	1,323	1,757	1,903	1,324	1,284	1,700	1,587	1,550
Operating costs	8,951	7,954	7,811	5,961	6,826	9,911	7,731	7,007
Comprehensive income (loss)	(99,070)	246	(4,662)	(4,422)	74,402	8,876	512	(827)
Per share – basic & diluted	(0.47)	0.00	(0.02)	(0.02)	0.35	0.04	0.00	(0.00)
Funds flow from operations [(2)]	5,139	7,283	8,283	13,745	13,588	20,235	23,082	14,855
Per share – basic	0.02	0.03	0.04	0.07	0.06	0.10	0.11	0.07
Per share – diluted	0.02	0.03	0.04	0.06	0.06	0.09	0.11	0.07
Capital expenditures, net	4,656	19,848	22,582	56,472	49,239	15,957	58,547	51,578
Net acquisitions (dispositions) [(3)]	1,136	(43,078)	(2,935)	(2,381)	(142,034)	(3,138)	(3,229)	(47)
Total capital expenditures	5,792	(23,230)	19,647	54,091	(92,795)	12,819	55,318	51,531

(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 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1	2013 Q4
Production volumes								
Natural gas (Mcf/d)	43,987	48,665	56,105	49,265	49,515	64,810	59,898	53,433
Oil (bbls/d)	199	100	115	97	118	100	157	119
NGLs (bbls/d)	485	562	554	541	523	753	517	569
Condensate (bbls/d)	807	953	1,197	872	801	1,080	956	800
Total (boe/d)	8,822	9,726	11,217	9,720	9,694	12,735	11,613	10,394
Average selling price								
Natural gas ($/Mcf)	3.46	3.35	3.33	3.92	4.19	4.60	5.28	3.82
Oil ($/bbl)	47.01	61.06	44.03	73.15	90.77	97.59	94.47	78.56
NGLs ($/bbl)	16.80	17.49	17.10	29.67	38.34	42.28	54.44	44.46
Condensate ($/bbl)	50.83	63.41	50.72	70.59	96.02	104.76	101.95	88.44
Total ($/boe)	23.88	24.63	23.37	28.59	32.53	35.57	39.32	29.79
Operating netback, including realized hedges ($/boe)								
Price	23.88	24.63	23.37	28.59	32.53	35.57	39.32	29.79
Royalties	(0.45)	(1.15)	(2.00)	(1.25)	(4.35)	(4.06)	(4.13)	(1.85)
Transportation	(1.63)	(1.99)	(1.88)	(1.48)	(1.44)	(1.47)	(1.52)	(1.62)
Operating costs	(11.03)	(8.99)	(7.74)	(6.67)	(7.65)	(8.55)	(7.40)	(7.33)
Operating netback	10.77	12.50	11.75	19.19	19.09	21.49	26.27	18.99

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 and first nine months of 2015 is directly attributable to curtailed production volumes in 2015, the Ansell disposition in July 2014, and declining benchmark natural gas prices. Canadian AECO natural gas prices averaged $4.50 per mcf in 2014, an increase of 42% per cent from 2013. In the first nine months of 2015 natural gas prices have decreased significantly to average $2.78 per mcf.

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 third quarter of 2015, the Company recorded impairment expense of $86,400. In twelve months ended December 31, 2014, the Company recorded impairment expense of $18,482 and $2,164 in the comparable period in 2013. 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.

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 September 30, 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 November 12, 2015 Cequence provided the following revised guidance:

	August 13,2015 Guidance	Revised 2015 Guidance
Average production, BOE/d [(1)]	10,200	9,500
Funds flow from operations ($) [(2)]	30,000	26,000
Funds flow from operations per share ($) [(2)]	0.14	0.12
Capital expenditures, prior to dispositions ($)	69,000	67,000
Capital expenditures, net of dispositions ($)	23,000	22,000
Operating and transportation costs ($ per boe)	10.20	11.20
G&A costs ($ per boe)	2.50	2.35
Royalties (% revenue)	8	6-8
Crude – WTI (US$/bbl)	51.00	51.00
Natural gas – AECO (Cdn$/GJ)	2.70	2.60
Period end, net debt and working capital deficiency ($) [(3)]	65,000	68,000
Basic shares outstanding	211,000	211,000

Notes:

[(1)] Average production estimates on a per BOE basis are comprised of 83% natural gas and 17% 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 share based payment liability and provisions.

Ongoing major pipeline maintenance in Alberta has caused high price differentials on the Company's gas that is sold on CREC pricing. Rather than produce into low realized prices, the Company has shut in volumes and expects the situation to persist into the fourth quarter of 2015. In anticipation of continued low prices, the Company has accelerated installation of its refrigeration plant at Simonette and extended its planned plant shut down by a week in November 2015. The shutdown was originally scheduled for Q1 2016. As a result, the Company expects 2015 production to average 9,500 boe/d.

Planned capital expenditures are $22,000, net of dispositions. Second half capital expenditures will be focused on the Simonette gas plant construction and the drilling of 3.0 (2.5 net) wells at Simonette. Funds flow is expected to be $26,000, reflecting lower production volumes that previously expected and higher operating and transportation costs. Operating costs have increased on a per unit basis due to lower production volumes and higher first half transportation charges due to increased trucking expenses.

Capital expenditures for 2015 are expected to be funded from cash flow, borrowing from the Company's credit facility, the 50% Simonette facility disposition 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. Net debt at December 31, 2015 is forecast to be $68,000 comprised of $60,000 in senior notes and $8,000 of total working capital and bank debt. The Company expects to exit the year with significant liquidity on its senior credit facility.

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 and taxation;

· The availability, cost or shortage of rigs, equipment, raw materials, supplies or qualified personnel;

· Dependence upon compressors, gathering lines, pipelines and other facilities, certain of which the Company does not control;

· The ability to satisfy obligations under the Company's firm commitment transportation arrangements;

· The possibility that the Company's drilling activities may encounter sour gas;

· Execution of the Company's business plan;

· 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;

· Dependence upon a limited number of customers;

· Variations in foreign exchange rates and interest rates;

· Litigation; and

· General economic, business and industry conditions.

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 2015 and beyond ; 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 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)

	September 30, 2015	December 31, 2014
	$	$
ASSETS		
CURRENT		
Cash	21,697	27,679
Accounts receivable (Note 7)	23,085	24,781
Deposits and prepaid expenses	2,284	2,068
Commodity contracts (Note 17)	3,141	7,994
	50,207	62,522
Property and equipment (Note 4)	501,076	610,860
Deposits and prepaid expenses	–	711
Commodity contracts (Note 17)	107	190
Deferred income taxes (Note 19)	–	4,548
	551,390	678,831
LIABILITIES		
CURRENT		
Demand credit facilities (Note 5)	–	–
Accounts payable and accrued liabilities (Note 8)	39,558	65,882
Share based payment liability (Note 14)	279	177
Provisions (Note 12)	862	187
	40,699	66,246
Senior notes (Note 6)	57,681	57,212
Provisions (Note 12)	37,456	37,263
	135,836	160,721
COMMITMENTS (Note 16)		
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	624,619	624,619
Warrants (Note 13)	1,300	1,300
Contributed surplus	29,201	28,270
Deficit	(239,566)	(136,079)
	415,554	518,110
	551,390	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 September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	$	$	$	$
REVENUE				
Production revenue (Note 9)	17,342	26,160	54,748	107,404
Gain (loss) on derivative financial instruments (Note 17)	370	1,930	1,687	(8,447)
	17,712	28,090	56,435	98,957
EXPENSES				
Depletion, depreciation and impairment (Note 4)	95,967	10,830	118,035	37,399
General and administrative	2,050	1,888	5,955	6,798
Finance costs (Note 11)	2,046	2,148	6,269	6,856
Operating costs	8,951	6,826	24,716	24,468
Share based payment (Note 14)	269	512	1,033	2,228
Transportation	1,323	1,284	4,984	4,571
Other income (Note 10)	(292)	(94,821)	(5,618)	(100,133)
	110,314	(71,333)	155,374	(17,813)
INCOME (LOSS) BEFORE INCOME TAXES	(92,602)	99,423	(98,939)	116,770
INCOME TAXES (Note 19)	6,468	25,021	4,548	32,980
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	(99,070)	74,402	(103,487)	83,790
Income (loss) per share (Note 15)				
Basic	($0.47)	$0.35	($0.49)	$0.40
Diluted	($0.47)	$0.35	($0.49)	$0.39

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited) (Expressed in thousands of Canadian dollars)

	Nine months ended September 30,	
	2015	2014
	$	$
SHARE CAPITAL		
Common Shares (Note 13)		
Balance, beginning of period	624,619	624,332
Shares issued on exercise of stock options	–	287
Balance, end of period	624,619	624,619
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)	931	1,799
Exercise of stock options	–	(95)
Balance, end of period	29,201	27,889
DEFICIT		
Balance, beginning of period	(136,079)	(215,447)
Comprehensive income (loss)	(103,487)	83,790
Balance, end of period	(239,566)	(131,657)
TOTAL EQUITY	415,554	522,151

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	$	$	$	$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net income (loss)	(99,070)	74,402	(103,487)	83,790
Adjustments for non-cash items:				
Depletion, depreciation and impairment expense	95,967	10,830	118,035	37,399
Finance costs related to provisions (Note 11)	212	225	636	630
Share based payment expense (Note 14)	269	512	1,033	2,228
Amortization of transaction costs on senior notes (Note 11)	91	82	265	237
Accretion on senior notes (Note 11)	70	64	203	186
Unrealized (gain) loss on derivative financial instruments (Note 17)	1,303	(2,958)	4,937	(535)
Costs related to onerous contracts	(27)	(80)	(187)	(240)
Gain on sale of property and equipment (Note 10)	(144)	(94,510)	(5,279)	(99,770)
Deferred income tax expense (Note 19)	6,468	25,021	4,548	32,980
Decommissioning liabilities expenditures (Note 12)	49	(539)	(344)	(956)
Net change in non-cash working capital (Note 18)	11,408	(4,955)	8,258	1,684
	16,596	8,094	28,618	57,633
INVESTING				
Property and equipment expenditures (Note 4)	(4,656)	(49,239)	(47,086)	(123,743)
Property acquisitions	(1,061)	–	(1,062)	(2,407)
Proceeds from sale of property and equipment (Note 4)	(75)	142,034	45,939	150,808
Net change in non-cash working capital (Note 18)	(10,682)	30,153	(32,268)	18,282
	(16,474)	122,948	(34,477)	42,940
FINANCING				
Proceeds from demand credit facilities (Note 5)	–	–	5,000	30,391
Repayment of demand credit facilities	(5,000)	(53,154)	(5,000)	(53,154)
Issue of common shares (Note 11)	–	–	–	192
Net change in non-cash working capital (Note 18)	28	53	(123)	(61)
	(4,972)	(53,101)	(123)	(22,632)
NET INCREASE (DECREASE) IN CASH	(4,850)	77,941	(5,982)	77,941
CASH, BEGINNING OF PERIOD	26,547	–	27,679	–
CASH, END OF PERIOD	21,697	77,941	21,697	77,941
SUPPLEMENTARY INFORMATION				
Income taxes paid	–	–	–	–
Interest paid	1,492	1,725	5,135	5,865

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 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 November 12, 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	**47,086**
Decommissioning obligation additions and change in estimates	**3,797**
Acquisitions	**1,062**
Disposals	**(48,397)**
Balance at September 30, 2015	**887,386**
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	**(31,635)**
Impairment loss	**(86,400)**
Disposals	**4,703**
Balance at September 30, 2015	**(386,310)**
Carrying amounts:	
At December 31, 2014	610,860
At September 30, 2015	**501,076**

Costs subject to depletion include $773,375 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

On June 17, 2015, Cequence sold a 50% interest in its existing Simonette facilities and related infrastructure for total cash consideration of approximately $43,013, including estimated purchase price adjustments. The sale resulted in a gain recognized in comprehensive income (loss) of $5,083.

During the nine months ended September 30, 2015, the Company completed additional sales of certain oil and gas properties for total cash consideration of $2,926 (2014 - $150,808), subject to final adjustments. The sales resulted in a gain recognized in comprehensive income (loss) of $196 (2014 - $99,770 gain).

IMPAIRMENT

The Company reviewed each CGU comprising its property and equipment at September 30, 2015 for indicators of impairment and determined that indicators were present, related to decreases to future natural gas prices used to estimate the value in use and fair value less cost to sell of each of the Company's CGUs.

As a result, impairment tests were carried out at September 30, 2015. The recoverable amounts of each of the Company's CGUs at September 30, 2015 were estimated as their value in use, based on the pre-tax net present value of discounted future cash flows from oil and gas reserves, as estimated by the Company's independent reserves evaluator at December 31, 2014 updated for current price forecasts. Future development capital was reduced by 19 percent based on recent service costs reductions. The Company also included the fair value of undeveloped land based on an internal evaluation. Consideration was also given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant CGU.

The benchmark escalated prices on which the September 30, 2015 impairment tests are based are as follows:

	Natural Gas	Condensate	Crude Oil
	AECO Spot ($/mmbtu)	Edmonton Pentanes Plus ($/bbl)	Edmonton Par ($/bbl)
2015	2.83	61.35	57.91
2016	3.43	65.63	61.33
2017	3.62	69.03	64.52
2018	3.72	73.56	68.75
2019	3.81	77.82	72.73
2020	3.90	81.82	76.47
2021	4.10	88.12	82.35
2022	4.30	94.41	88.24
2023	4.50	100.71	94.12
2024	4.78	105.30	98.41

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

The Company used a pre-tax 15% discount rate for the September 30, 2015 impairment tests which took into account the risks specific to the CGUs and current market assessment of the time value of money.

The estimated recoverable amounts used in the September 30, 2015 impairment tests were $11,527 for the Northeast British Columbia CGU, $9,120 for the Peace River Arch CGU and $480,445 for the Deep Basin CGU.

Results of the Company's impairment tests for the nine months ended September 30, 2015 and 2014 are as follows:

	2015	2014
Northeast British Columbia	10,000	-
Peace River Arch	5,500	-
Deep Basin	70,900	-
Total	86,400	-

For the quarter ended September 30, 2015, a one percent increase in the discount rate applied to the Company's future estimated cash flows would result in an additional impairment of $19,642 (2014 - $nil), whereas a ten percent decrease in forward benchmark commodity prices would result in additional impairment of $98,276 (2014 - $nil) recognized in comprehensive income (loss) for the nine months ended September 30, 2015.

5. Demand Credit Facilities

The Company has credit facilities totalling $135,000 with a syndicate of Canadian chartered banks, subject to unanimous lender consent for amounts borrowed in excess of $120,000. 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 September 30, 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 letters of credit outstanding of $3,207 (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 September 30, 2015 and December 31, 2014. The next scheduled review is to take place in November 2015.

6. Senior Notes

	September 30, 2015	December 31, 2014
Senior notes	58,477	58,477
Less transaction costs	(796)	(1,265)
Total senior notes	57,681	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 September 30, 2015 and December 31, 2014.

7. Accounts Receivable

	September 30, 2015	December 31, 2014
Trade receivables	9,003	12,801
Allowance for doubtful accounts	(763)	(944)
Net trade receivables	8,240	11,857
Accrued revenue	14,681	12,061
Other receivables	164	863
Total accounts receivable	23,085	24,781

8. Accounts Payable and Accrued Liabilities

	September 30, 2015	December 31, 2014
Accounts payable	9,661	23,535
Accrued liabilities	29,897	42,347
Total accounts payable and accrued liabilities	39,558	65,882

9. Production Revenue

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Sales of oil and natural gas	17,710	30,042	58,155	120,310
Royalties	(368)	(3,882)	(3,407)	(12,906)
Total production revenue	17,342	26,160	54,748	107,404

10. Other Income

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Gain on sale of property and equipment (Note 4)	(144)	(94,510)	(5,279)	(99,770)
Interest income	(79)	(286)	(174)	(299)
Other	(69)	(25)	(165)	(64)
Total other income	(292)	(94,821)	(5,618)	(100,133)

11. Finance Costs

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Interest expense on demand credit facilities (including stand-by fees and commitment fees of $489 (2014 - $393))	206	129	811	1,477
Interest expense on senior notes (including stand-by fees of $313 (2014 - $348))	1,467	1,648	4,354	4,326
Amortization of transaction costs	91	82	265	237
Accretion expense on senior notes	70	64	203	186
Accretion expense on provisions	212	225	636	630
Total finance costs	2,046	2,148	6,269	6,856

12. Provisions

DECOMMISSIONING LIABILITIES

The following table summarizes the changes in decommissioning liabilities for the nine months ended September 30, 2015 and year ended December 31, 2014:

	2015	2014
Balance, beginning of period	37,263	26,643
Property dispositions (Note 4)	(3,034)	(2,414)
Accretion expense	636	840
Liabilities incurred	1,441	3,147
Abandonment costs incurred	(344)	(1,382)
Revisions in estimated cash flows	1,209	4,881
Revisions due to change in discount rates	1,147	5,548
Balance, end of period	38,318	37,263
Current	862	–
Non-current	37,456	37,263
	38,318	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 $64,857 (December 31, 2014 - $67,840). These cash flows have been discounted using a risk-free interest rate of 2.21 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 September 30, 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.

	Nine months ended September 30, 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 nine months ended September 30, 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
	(000's)	$	(000's)	$
Outstanding, beginning of period	18,252	2.11	18,617	2.15
Granted	1,085	0.81	650	2.15
Forfeited	(12)	1.93	(905)	2.88
Expired	(7,543)	1.99	–	–
Exercised	–	–	(110)	1.73
Outstanding, end of period	11,782	2.07	18,252	2.11

The following table summarizes information about stock options outstanding at September 30, 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
$	$	(000's)	(years)	(000's)	$
0.81 – 0.99	0.81	1,085	4.69	–	–
1.00 – 1.99	1.43	6,690	2.03	5,526	1.37
2.00 – 2.99	2.23	610	3.84	210	2.56
3.00 – 3.81	3.70	3,397	0.77	3,397	3.70
	2.07	11,782	2.00	9,133	2.26

During the nine months ended September 30, 2015, $931 (2014 - $1,799) 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 nine months ended September 30, 2015 and year ended December 31, 2014 is as follows:

Number of RSUs (000's)	2015	2014
Outstanding, beginning of period	814	561
Granted	967	473
Forfeited	(17)	(33)
Exercised	–	(187)
Outstanding, end of period	1,764	814

During the nine months ended September 30, 2015, the Company recognized $102 (2014 - $429) 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 and nine months ended September 30, 2015, the Company has excluded all dilutive instruments as their inclusion would be anti-dilutive (2014 – 4,386 and 4,406 stock options, respectively). The following table reconciles the denominators used for the basic and diluted income (loss) per share calculations:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Basic weighted average shares	211,028	211,028	211,028	210,978
Effect of dilutive instruments	–	3,541	–	4,361
Diluted weighted average shares	211,028	214,569	211,028	215,339

16. Commitments

	2015	2016	2017	2018	2019+	Total
Office leases	216	656	17	–	–	889
Pipeline transportation	320	–	–	1,954	18,793	21,067
Gas processing	589	3,857	3,986	3,986	45,187	57,605
Capital	3,850	2,100	–	–	–	5,950
Total	4,975	6,613	4,003	5,940	63,980	85,511

On June 17, 2015, in conjunction with the Simonette disposition Cequence entered into a 15 year take or pay agreement with the operator of the Simonette facility. The minimum volume commitment under the take or pay for the period from 2015 to January 2016 is 40 mmcf/d and increases to 42 mmcf/d in February 2016 upon the estimated completion of the refrigeration functional unit expansion. In addition, Cequence committed to approximately $5,950 of capital expenditures for the Simonette facility refrigeration functional unit expansion which is expected to be completed during the first quarter of 2016.

The Company has firm transportation on a major pipeline system for 35 mmcf/d commencing April 1, 2018 to March 30, 2026.

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 September 30, 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 September 30, 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 March 31, 2016	Gas	Swap	2,500 gj/day	$2.99	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
January 1, 2016 to December 31, 2016	Gas	Swap	2,500 gj/day	$2.98	AECO

For the nine months ended September 30, 2015, realized gain from commodity derivative contracts recognized in comprehensive income (loss) were $6,624 (2014 - $8,982 loss).

The fair value of the commodity contracts outstanding at September 30, 2015 was a current asset of $3,141 and non-current asset of $107 (December 31, 2014 – current asset $7,994 and non-current asset of $190).

For the nine months ended September 30, 2015, the Company recorded an unrealized loss of $4,937 from derivative commodity contracts (2014 - $535 unrealized gain).

As at September 30, 2015, an increase in gas price of $0.50/gj results in a decrease in the fair value of the commodity contracts of $3,018 ($2,264 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 September 30, 2015, the accounts receivable balance was $23,085 of which $1,552 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
20,146	932	455	1,552	23,085

18. Changes In Non-Cash Working Capital

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
Accounts receivable	(606)	833	1,696	(111)
Deposits and prepaid expenses	932	592	495	564
Accounts payable and accrued liabilities	428	23,826	(26,324)	19,452
Net change in non-cash working capital	754	25,251	(24,133)	19,905
Allocated to:				
Operating activities	11,408	(4,955)	8,258	1,684
Investing activities	(10,682)	30,153	(32,268)	18,282
Financing activities	28	53	(123)	(61)
	754	25,251	(24,133)	19,905

19. Deferred Income Taxes

As at September 30, 2015, the Company has tax pools and available losses of $604,225. The ongoing period of low commodity prices has created uncertainty regarding the future realization of the Company's deferred tax assets. As a result, a deferred tax asset has not been recognized resulting in deferred income tax expense of $6,468 and $4,548 in the three and nine months ended September 30, 2015.

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

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AUDITORS

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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

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