Condensed Consolidated Financial Statements of

CEQUENCE ENERGY LTD.

September 30, 2012

CEQUENCE ENERGY LTD.

Condensed Consolidated Balance Sheets
(Unaudited) (Expressed in thousands of Canadian dollars)

	September 30, 2012 $	December 31, 2011 $
ASSETS		
CURRENT		
Cash	**284**	380
Accounts receivable (Note 5)	**14,009**	21,032
Deposits and prepaid expenses (Note 15)	**3,903**	3,231
	18,196	24,643
Exploration and evaluation assets (Note 3)	**13,573**	6,221
Property and equipment (Note 3)	**425,136**	409,729
Deposits and prepaid expenses (Note 15)	**1,947**	2,456
Deferred income taxes	**44,669**	48,316
	503,521	491,365
LIABILITIES		
CURRENT		
Demand credit facilities (Note 4)	**30,199**	11,618
Accounts payable and accrued liabilities (Note 6)	**36,288**	64,467
Other liabilities (Note 7)	**1,984**	5,289
Commodity contracts (Note 16)	**408**	-
	68,879	81,374
Commodity contracts (Note 16)	**325**	-
Provisions (Note 11)	**33,027**	28,942
	102,231	110,316
CONTINGENCIES AND COMMITMENTS (Note 15)		
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	**593,421**	559,371
Contributed surplus	**21,369**	16,839
Deficit	**(213,500)**	(195,161)
	401,290	381,049
	503,521	491,365

APPROVED BY THE BOARD

"Donald Archibald" Donald Archibald, Director

"Brian Felesky" Brian Felesky, Director

The accompanying notes are an integral part of these condensed consolidated financial statements.

CEQUENCE ENERGY LTD.

Condensed Consolidated Statements of Comprehensive Loss
(Unaudited) (Expressed in thousands of Canadian dollars except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	**2012**	2011
	$	$	**$**	$
REVENUE				
Production revenue (Note 8)	**16,795**	22,985	**50,321**	67,326
Gain (loss) on derivative financial instruments (Note 16)	**(516)**	315	**(559)**	631
	16,279	23,300	**49,762**	67,957
EXPENSES				
Depletion, depreciation and impairment (Note 3)	**13,302**	11,385	**56,000**	31,042
General and administrative	**1,796**	1,902	**5,586**	5,660
Finance costs (Note 10)	**679**	967	**2,119**	2,878
Operating costs	**5,627**	8,471	**19,043**	22,651
Share based payment (Note 13)	**1,454**	1,738	**4,530**	5,219
Transportation	**1,801**	1,861	**5,253**	5,573
Other expense (income) (Note 9)	**(3,707)**	(1,147)	**(23,735)**	(5,129)
	20,952	25,177	**68,796**	67,894
INCOME (LOSS) BEFORE INCOME TAXES	**(4,673)**	(1,877)	**(19,034)**	63
INCOME TAXES	**(849)**	7	**(695)**	4,623
NET LOSS AND COMPREHENSIVE LOSS	**(3,824)**	(1,884)	**(18,339)**	(4,560)
Loss per share, basic and diluted (Note 14)	**$ (0.02)**	$ (0.01)	**$ (0.11)**	$ (0.03)

The accompanying notes are an integral part of these condensed consolidated financial statements.

CEQUENCE ENERGY LTD.

Condensed Consolidated Statements of Changes in Equity
(Unaudited) (Expressed in thousands of Canadian dollars)

	Nine months ended September 30, 2012 $	2011 $
SHARE CAPITAL		
Common Shares		
Balance, beginning of period	**559,371**	452,526
Deemed proceeds from shares issued in public offerings	**25,903**	98,338
Proceeds from shares issued in private placements	**10,000**	-
Shares issued on exercise of stock options	**-**	1,794
Shares issued on exercise of CDE “flow-through” warrants		8,663
Share issue costs, net of tax of $615 (2011 - $1,551)	**(1,853)**	(4,523)
Balance, end of period	**593,421**	556,798
CONTRIBUTED SURPLUS		
Balance, beginning of period	**16,839**	10,681
Share based payment expense (Note 13)	**4,530**	5,219
Exercise of stock options	**-**	(600)
Balance, end of period	**21,369**	15,300
DEFICIT		
Balance, beginning of period	**(195,161)**	(175,003)
Comprehensive loss	**(18,339)**	(4,560)
Balance, end of period	**(213,500)**	(179,563)
TOTAL EQUITY	**401,290**	392,535

The accompanying notes are an integral part of these condensed consolidated financial statements.

CEQUENCE ENERGY LTD.

Condensed Consolidated Statements of Cash Flows
(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended September 30, 2012 $	Three months ended September 30, 2011 $	Nine months ended September 30, 2012 $	Nine months ended September 30, 2011 $
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net loss	**(3,824)**	(1,884)	**(18,339)**	(4,560)
Adjustments for non-cash items:				
Depletion, depreciation and impairment	**13,302**	11,385	**56,000**	31,042
Finance costs related to provisions (Note 10)	**187**	223	**523**	731
Share based payments (Note 13)	**1,454**	1,738	**4,530**	5,219
Amortization of transaction costs on financial instruments (Note 10)	**-**	123	**-**	443
Unrealized loss (gain) on derivative financial instruments	**614**	(28)	**733**	(168)
Costs related to onerous contracts (Note 11)	**(81)**	-	**(241)**	-
Gain on sale of assets (Note 9)	**-**	(1,126)	**(20,390)**	(5,077)
Deferred income tax (recovery)	**(849)**	7	**(695)**	4,630
	10,803	10,438	**22,121**	32,260
Decommissioning liabilities expenditures (Note 11)	**(100)**	(385)	**(824)**	(500)
Net change in non-cash working capital (Note 17)	**3,194**	490	**3,178**	(1,803)
	13,897	10,543	**24,475**	29,957
INVESTING				
Property and equipment and exploration and evaluation assets expenditures	**(16,818)**	(31,222)	**(67,661)**	(93,266)
Acquisitions	**(20)**	(450)	**(6,760)**	(22,150)
Proceeds from sale of assets	**-**	15,963	**20,662**	45,173
Net change in non-cash working capital (Note 17)	**11,877**	11,994	**(24,697)**	9,850
	(4,961)	(3,715)	**(78,456)**	(60,393)
FINANCING				
Proceeds from demand credit facilities (Note 4)	**-**	-	**41,521**	46,305
Repayment of demand credit facilities (Note 4)	**(10,037)**	(50,912)	**(22,940)**	(103,430)
Transaction costs on financial instruments (Note 4)	**-**	-	**-**	(57)
Issue of common shares (Note 12)	**1,503**	65,870	**37,572**	112,597
Share issue costs (Note 12)	**(189)**	(3,232)	**(2,468)**	(6,074)
Net change in non-cash working capital (Note 17)	**(240)**	98	**200**	98
	(8,963)	11,824	**53,885**	49,439
NET INCREASE (DECREASE) IN CASH	**(27)**	18,652	**(96)**	19,003
CASH, BEGINNING OF PERIOD	**311**	1,672	**380**	1,321
CASH, END OF PERIOD	**284**	20,324	**284**	20,324
SUPPLEMENTARY INFORMATION				
Income taxes paid	**-**	-	**-**	-
Interest paid	**434**	665	**1,651**	1,654

The accompanying notes are an integral part of these condensed consolidated financial statements.

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 ("TSX"). Cequence is engaged in the acquisition, exploration and production of petroleum and natural gas reserves in Western Canada. The registered office of the Company is located at Suite 3100, 525 - 8th Ave. SW, Calgary, Alberta, T2P 1G1.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance and authorization

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

These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2011.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on November 13, 2012.

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, 2011. 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.

(All figures expressed in thousands except per share amounts unless otherwise noted)

3. PROPERTY AND EQUIPMENT AND EXPLORATION AND EVALUATION ASSETS

	Property and equipment	Exploration and evaluation assets	Total
Cost:			
Balance at December 31, 2010	420,368	-	420,368
Additions	152,569	6,221	158,790
Acquisitions	25,540	-	25,540
Disposals	(57,273)	-	(57,273)
Balance at December 31, 2011	541,204	6,221	547,425
Additions	72,191	194	72,385
Acquisitions	20	7,158	7,178
Disposals	(1,440)	-	(1,440)
Balance at September 30, 2012	611,975	13,573	625,548
Depletion, depreciation and impairment:			
Balance at December 31, 2010	(78,567)	-	(78,567)
Depletion and depreciation	(41,228)	-	(41,228)
Impairment loss	(18,332)	-	(18,332)
Disposals	6,652	-	6,652
Balance at December 31, 2011	(131,475)	-	(131,475)
Depletion and depreciation	(30,219)	-	(30,219)
Impairment loss	(25,781)	-	(25,781)
Disposals	636	-	636
Balance at September 30, 2012	(186,839)	-	(186,839)
Carrying amounts:			
At December 31, 2011	409,729	6,221	415,950
At September 30, 2012	425,136	13,573	438,709

Costs subject to depletion include $404,549 of estimated future capital costs (December 31, 2011 – $426,485).

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).

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

Impairment

The Company reviewed each CGU comprising its property and equipment at September 30, 2012 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.

(All figures expressed in thousands except per share amounts unless otherwise noted)

As a result, impairment tests were carried out at September 30, 2012. The recoverable amounts of each of the Company's CGUs at September 30, 2012 were estimated as their fair value less cost to sell, based on the net present value of discounted future cash flows from oil and gas reserves, as estimated by the Company's independent reserves evaluator, and adjusted for changes to forward prices since the Company's reserves were evaluated at December 31, 2011. 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, 2012 impairment tests are based are as follows:

	Natural Gas	**Condensate**	**Crude Oil**
	AECO Spot ($/mmbtu)	Edmonton Pentanes Plus ($/bbl)	Edmonton Par ($/bbl)
2012	2.92	99.55	90.50
2013	3.44	98.81	92.35
2014	3.90	99.76	95.92
2015	4.36	102.41	98.47
2016	4.82	105.06	101.02
2017	5.05	105.06	101.02
2018	5.43	106.49	102.40
2019	5.54	108.65	104.47
2020	5.65	110.84	106.58
2021	5.76	113.08	108.73

Prices increase at a rate of approximately 2.0 percent per year for natural gas, condensate and crude oil after 2021. 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.

Results of the Company's impairment tests for the three and nine months ended September 30, 2012 and 2011 are as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
	2012	2011	**2012**	2011
Northeast British Columbia	**$ 1,000**	$ -	**$ 14,931**	$ -
Peace River Arch	**2,284**	-	**10,850**	-
Deep Basin	**-**	-	**-**	-
Total	**$ 3,284**	$ -	**$ 25,781**	$ -

Sale of Assets

During the nine months ended September 30, 2012, the Company completed the sale of certain undeveloped land and gas-weighted properties located in Northwest Alberta for total cash consideration of $20,662, subject to final adjustments. The sales resulted in a gain recognized in comprehensive loss of $20,390.

(All figures expressed in thousands except per share amounts unless otherwise noted)

4. DEMAND CREDIT FACILITIES

On May 10, 2012, the Company renewed its credit facilities with a syndicate of Canadian chartered banks. The renewed facilities are on the same terms and at the same interest rates as the previous facilities and consist of a $90,000 extendible revolving term credit facility and a $10,000 revolving operating facility. As at September 30, 2012, the Company has drawn $30,199 under the extendible revolving term credit facility and $nil under the revolving operating facility (December 31, 2011 – $11,618 and $nil for the revolving and operating facilities, respectively) and is in compliance with all covenants. The next scheduled review is to take place in November, 2012. During the nine months ended September 30, 2012 the Company capitalized transaction costs related to its credit facilities of $nil (September 30, 2011 – $57).

5. ACCOUNTS RECEIVABLE

	September 30, 2012	December 31, 2011
Trade receivables	**8,169**	13,015
Less: allowance for doubtful accounts	**(498)**	(551)
Net trade receivables	**7,671**	12,464
Accrued revenue	**6,015**	6,332
Other receivables	**323**	2,236
Total accounts receivable	**14,009**	21,032

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2012	December 31, 2011
Accounts payable	**7,767**	36,267
Accrued liabilities	**28,521**	28,200
Total accounts payable and accrued liabilities	**36,288**	64,467

7. OTHER LIABILITIES

	September 30, 2012	December 31, 2011
Obligations related to onerous contracts – current (Note 11)	**315**	331
Obligations related to flow-through shares	**1,669**	4,958
Total other liabilities	**1,984**	5,289

(All figures expressed in thousands except per share amounts unless otherwise noted)

8. PRODUCTION REVENUE

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	**2012**	2011
Sales of oil and natural gas	**17,717**	26,857	**53,537**	78,006
Less: royalties	**(922)**	(3,872)	**(3,216)**	(10,680)
Total production revenue	**16,795**	22,985	**50,321**	67,326

9. OTHER EXPENSE (INCOME)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	**2012**	2011
Gain on sale of property and equipment	**-**	(1,126)	**(20,390)**	(5,077)
Termination fee net of transaction costs	**(3,668)**	-	**(3,308)**	-
Other	**(39)**	(21)	**(37)**	(52)
Total other expense (income)	**(3,707)**	(1,147)	**(23,735)**	(5,129)

In June 2012, Cequence and Open Range Energy Corp. ("Open Range") entered into an arrangement agreement whereby Cequence agreed to acquire all of the outstanding common shares of Open Range. In July 2012, Open Range accepted a superior proposal from another publicly traded Canadian oil and gas company and in accordance with the terms of the arrangement agreement, Open Range paid to Cequence a termination fee of $4,600. Transaction costs of $1,292 were incurred by the Company with respect to this arrangement agreement during 2012. The net amount of $3,308 has been included in other expense (income) for the nine months ended September 30, 2012.

10. FINANCE COSTS

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	**2012**	2011
Interest expense on demand credit facilities (including stand-by fees and commitment fees of $223 (2011 - $398))	**492**	621	**1,596**	1,704
Accretion expense on provisions	**187**	223	**523**	731
Amortization of transaction costs on financial instruments	**-**	123	**-**	443
Total finance costs	**679**	967	**2,119**	2,878

(All figures expressed in thousands except per share amounts unless otherwise noted)

11. PROVISIONS

Decommissioning liabilities

The following table summarizes the changes in decommissioning liabilities for the nine months ended September 30, 2012 and the year ended December 31, 2011:

	September 30, 2012	December 31, 2011
Balance - beginning of period	**28,135**	26,130
Acquisitions	**418**	1,539
Property dispositions (Note 3)	**(533)**	(7,135)
Accretion expense	**538**	905
Liabilities incurred	**1,540**	3,217
Abandonment costs incurred	**(824)**	(955)
Revisions in estimated cash flows	**2,120**	(21)
Revisions due to change in discount rates	**1,066**	4,455
Balance - end of period	**32,460**	28,135

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 at September 30, 2012 are $47,207 (December 31, 2011 - $42,659). These cash flows have been discounted using a risk-free interest rate of 2.33 percent (December 31, 2011 – 2.50 percent) based on Government of Canada long-term benchmark bonds. The Company expects these obligations to be settled in approximately 2 to 30 years. As at September 30, 2012, no funds have been set aside to settle these liabilities.

Onerous contracts

As at September 30, 2012, the Company recognized a provision related to an onerous lease contract of $882 (December 31, 2011 - $1,138). The provision for onerous lease contract represents the present value of the future lease obligations that the Company is presently obligated to make under a non-cancellable onerous operating lease contract, less revenue expected to be earned on the lease, including estimated future sub-lease revenue. The total estimated, undiscounted cash flows, required to settle the obligations are $910 (December 31, 2011 - $1,164). These cash flows have been discounted using a risk-free interest rate of 1.16 percent (December 31, 2011 – 0.99 perecent) based on Government of Canada three year benchmark bonds.

Cequence expects to reduce the provision by $315 in the twelve months ended September 30, 2013, which amount is included with other liabilities in the condensed consolidated balance sheet at September 30, 2012 (see note 7). The portion of the provision expected to be realized in the period subsequent to September 30, 2013 of $567 is carried with provisions as a non-current liability in the condensed consolidated balance sheet as at September 30, 2012. During the nine months ended September 30, 2012, the Company recognized a reduction to finance costs of $15 (September 30, 2011 - $nil) to account for accretion and changes in estimates and rates related to onerous contracts. The estimates may vary as a result of changes in the utilization of the lease premises and the sub-lease arrangements, where applicable. The unexpired term of the leases at September 30, 2012 is 34 months.

(All figures expressed in thousands except per share amounts unless otherwise noted)

12. SHARE CAPITAL

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

	Nine months ended September 30, 2012		Year ended December 31, 2011	
Issued common voting shares	**Number (000's)**	**Stated Value $**	Number (000's)	Stated Value $
Balance, beginning of period	**161,856**	**559,371**	128,750	452,526
Common shares	**21,269**	**25,523**	25,358	84,229
Flow-through shares	**8,650**	**10,380**	4,898	16,758
Common shares on exercise of stock options	**-**	**-**	600	1,794
Common shares on exercise of the 2011 Warrants	**-**	**-**	2,250	8,663
	191,775	**595,274**	161,856	563,970
Share issue costs, net of taxes of $615 (2011 - $1,531)	**-**	**(1,853)**	-	(4,599)
Balance, end of period	**191,775**	**593,421**	161,856	559,371
Warrants, beginning of period	**2,250**	**-**	4,500	-
Warrants cancelled	**(2,250)**	**-**	-	-
Warrants exercised	**-**	**-**	(2,250)	-
Warrants, end of period	**-**	**-**	2,250	-

On March 8, 2012, the Company's 2012 Warrants were cancelled at no cost to Cequence and no redress to the shareholder.

On June 20, 2012, the Company completed the sale of 11,684 common voting shares at a price of $1.20 per share for gross proceeds of $14,020. On July 12, 2012, the Company further completed the sale of 1,252 common voting shares at a price of $1.20 per share for gross proceeds of $1,503 related to the exercise of an over-allotment option on the above issuance.

On June 20, 2012, the Company completed the sale of 4,850 common voting shares on a CEE "flow-through" basis at $1.45 per share for gross proceeds of $7,033 as well as 3,800 common voting shares on a CDE "flow-through" basis at $1.32 per share for gross proceeds of $5,016, resulting in a total issuance of 8,650 common voting shares for total gross proceeds of $12,049. The above transaction resulted in an increase to share capital of $10,380 and the recognition of an obligation related to flow-through shares of $1,669 included with other liabilities in the condensed consolidated balance sheet at September 30, 2012. In accordance with the terms of the related agreements and pursuant to certain provisions of the Income Tax Act (Canada), the Company is required to renounce, for income tax purposes, exploration expenditures of $7,033 and development expenditures of $5,016 to the holders of the flow-through common shares effective December 31, 2012. As at September 30, 2012, the Company has incurred $6,650 of the qualifying CEE expenditures and $4,760 of the qualifying CDE expenditures.

(All figures expressed in thousands except per share amounts unless otherwise noted)

On June 22, 2012, the Company completed the sale, on a private placement basis, of 8,333 common voting shares at a price of $1.20 per share for gross proceeds of $10,000.

As at September 30, 2012, there were no issued or outstanding non-voting shares (December 31, 2011 – none).

13. SHARE BASED PAYMENT PLANS

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

During the nine months ended September 30, 2012, the Company issued 5,018 stock options at prices ranging from $1.24 to $1.95 to employees and directors. The options have a five year life and one third vest annually commencing one year following the grant date. The Company utilized a Black-Scholes option pricing model to price the options. During the nine months ended September 30, 2012, 739 options were forfeited (2011 – 240).

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

	September 30, 2012 **$**	December 31, 2011 $
Risk-free interest rate	**1.3% - 1.6%**	1.3% - 2.8%
Expected life of options	**5 years**	5 years
Expected volatility	**60%**	60%
Expected dividend rate	**0%**	0%
Expected forfeiture rate	**15%**	15%
Weighted average fair value	**$0.64**	$1.91

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

A summary of the status of the Company's stock option plan and changes during the nine months ended September 30, 2012 and the year ended December 31, 2011 is as follows:

	September 30, 2012		December 31, 2011	
	Number of Options (000's)	**Weighted Average Exercise Price, $**	Number of Options (000's)	Weighted Average Exercise Price, $
Outstanding, beginning of period	**13,094**	**2.54**	9,713	1.99
Granted	**5,018**	**1.29**	4,221	3.69
Forfeited	**(739)**	**2.22**	(240)	1.99
Exercised (Note 12)	**-**	**-**	(600)	1.99
Outstanding, end of period	**17,373**	**2.19**	13,094	2.54

(All figures expressed in thousands except per share amounts unless otherwise noted)

The following table summarizes information about stock options outstanding at September 30, 2012:

	Options Outstanding			**Options Exercisable**	
Range of Exercise Price, $	Weighted Average Exercise Price, $	Number of Options Outstanding (000's)	Weighted Average Contractual Life Remaining (years)	Number of Options (000's)	Weighted Average Exercise Price, $
1.24 – 1.99	1.73	13,297	3.6	5,483	1.99
2.96 – 3.94	3.69	4,076	3.8	1,090	3.72
	2.19	17,373	3.7	6,573	2.27

During the nine months ended September 30, 2012, $4,530 (2011 - $5,219) in share based payment expense related to equity-settled stock options has been recognized in comprehensive loss.

14. LOSS PER SHARE

Loss per share has been calculated based on the weighted average number of common shares outstanding during the period. The following table reconciles the denominators used for the basic and diluted loss per share calculations. No stock options or warrants have been included in the calculation of diluted shares outstanding for the three or nine months ended September 30, 2012 (2011 – none) as their inclusion would be anti-dilutive.

	Three months ended September 30,		**Nine months ended September 30,**	
	2012	2011	**2012**	2011
Basic weighted average shares	**191,612**	152,549	**172,832**	142,420
Effect of dilutive stock options and warrants	**-**	-	**-**	-
Diluted weighted average shares	**191,612**	152,549	**172,832**	142,420

15. CONTINGENCIES AND COMMITMENTS

	2012	**2013**	**2014**	**2015**	**2016+**	**Total**
Office leases	$ 283	1,133	922	187	-	$ 2,525
Drilling services	665	1,547	-	-	-	2,212
Pipeline transportation	422	1,676	1,676	1,534	-	5,308
Total	$ 1,370	4,356	2,598	1,721	-	$ 10,045

The Company has a pipeline transportation contract that expires on November 30, 2015.

During the year ended December 31, 2011, the Company entered into a drilling service agreement whereby the Company has committed to use a drilling rig for 360 days over the two years following commencement of use of the drilling rig at current market rates. The commitment is drawn down when the rig is in use, whether by Cequence or third parties. Cequence expects to meet the commitment in the required time.

(All figures expressed in thousands except per share amounts unless otherwise noted)

During the year ended December 31, 2011, the Company entered into a drilling service agreement whereby the Company made a deposit of $3,500 to obtain a right of first refusal on the use of two drilling rigs over the five years following the date that use of the rigs commences. The deposit is to be drawn down as the Company incurs costs related to the use of the drilling rigs and $813 has been drawn down at September 30, 2012. Cequence expects to reduce the deposit by $739 in the twelve months ended September 30, 2013, which amount is included with deposits and prepaid expenses in the condensed consolidated balance sheet as at September 30, 2012. The portion of the outstanding deposit expected to be drawn down in the period subsequent to September 30, 2013 of $1,947 is carried as a non-current asset in the condensed consolidated balance sheet as at September 30, 2012.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The Company's accounts receivable, demand credit facilities and accounts payable and accrued liabilities approximate their carrying values due to their short terms to maturity and the floating interest rate on the Company's debt.

The Company's fair value hierarchy for those assets and liabilities measured at fair value as of September 30, 2012 comprises cash, which is considered a level 1 financial instrument and commodity contracts. Cequence's commodity contracts are measured at level 2 under the Company's fair value hierarchy as of September 30, 2012. The fair value of commodity contracts is determined by discounting the difference between the contracted price and published forward price curves as at the balance sheet date, using the remaining contracted petroleum and natural gas volumes, at a credit-adjusted risk-free rate of 6 percent.

The Company has exposure to market risk, credit risk and liquidity risk from its use of financial instruments. There have not been any changes to the Company's exposure to risks, or the objectives, policies and processes to manage these risks from December 31, 2011 other than as noted below:

During the nine months ended September 30, 2012, the Company entered into several commodity derivative financial instrument contracts. The following information presents all outstanding positions for commodity derivative financial instruments at September 30, 2012:

Term	Product	Type	Volume	Price	Basis
May 1, 2012 to October 31, 2012	Gas	Swap	5,000 gj/day	$1.82	AECO
June 1, 2012 to October 31, 2012	Gas	Swap	2,500 gj/day	$2.26	AECO
June 1, 2012 to December 31, 2012	Gas	Swap	2,000 gj/day	$3.14	AECO
August 1, 2012 to December 31, 2012	Gas	Swap	2,500 gj/day	$2.50	AECO
January 1, 2013 to December 31, 2013	Gas	Swap	2,000 gj/day	$2.84	AECO
January 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.09	AECO
January 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.00	AECO
January 1, 2013 to December 31, 2013	Gas	Swap	5,000 gj/day	$3.10	AECO
January 1, 2013 to December 31, 2013	Oil	Sold Call	200 bbls/day	$110.00 USD	WTI

For the nine months ended September 30, 2012, realized gains from commodity derivative contracts recognized in comprehensive loss were $174 compared to a gain of $463 in the nine months ended September 30, 2011.

The fair value of the commodity contracts outstanding at September 30, 2012 was a current liability of $408 and a non-current liability of $325 (December 31, 2011 - $nil).

(All figures expressed in thousands except per share amounts unless otherwise noted)

For the nine months ended September 30, 2012 the Company recorded an unrealized loss of $733 from derivative commodity contracts compared to a gain of $168 for the nine months ended September 30, 2011. An estimate of credit risk has been made in the valuation of all derivative commodity contracts.

As at September 30, 2012, an increase in gas price of $0.50/gj results in a decrease in the fair value of the commodity contracts of $2,409 ($1,807 after tax) and a commensurate decrease to comprehensive loss.

17. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	**2012**	2011
Accounts receivable	**3,610**	(413)	**7,023**	(1,262)
Deposits and prepaid expenses	**443**	187	**(163)**	(3,965)
Accounts payable and accrued liabilities	**10,778**	12,808	**(28,179)**	13,372
Net change in non-cash working capital	**14,831**	12,582	**(21,319)**	8,145
Allocated to:				
Operating activities	**3,194**	490	**3,178**	(1,803)
Investing activities	**11,877**	11,994	**(24,697)**	9,850
Financing activities	**(240)**	98	**200**	98
	14,831	12,582	**(21,319)**	8,145