HIGHLIGHTS

(000's except per share and per unit amounts)	Three months ended September 30			Nine months ended September 30		
	2012	2011	**% Change**	**2012**	2011	**% Change**
Financial ($)						
Production revenue [1]	**$ 17,814**	$ 27,144	**(34)**	**$ 53,711**	$ 78,469	**(32)**
Comprehensive loss	**(3,824)**	(1,884)	**103**	**(18,339)**	(4,560)	**302**
Per share, basic and diluted	**(0.02)**	(0.01)	**100**	**(0.11)**	(0.03)	**267**
Funds flow from operations [2]	**10,803**	10,438	**3**	**22,121**	32,260	**(31)**
Per share, basic and diluted	**0.06**	0.07	**(14)**	**0.13**	0.23	**(43)**
Production volumes						
Natural gas (Mcf/d)	**46,641**	52,694	**(11)**	**47,200**	48,035	**(2)**
Crude oil (bbls/d)	**606**	514	**18**	**636**	599	**6**
Natural gas liquids (bbls/d)	**516**	536	**(4)**	**503**	449	**12**
Total (boe/d)	**8,895**	9,833	**(10)**	**9,006**	9,054	**(1)**
Sales prices						
Natural gas, including realized hedges ($/Mcf)	**$ 2.61**	$ 4.04	**(35)**	**$ 2.39**	$ 4.18	**(43)**
Crude oil ($/bbl)	**83.38**	87.65	**(5)**	**84.48**	91.31	**(7)**
Natural gas liquids ($/bbl)	**41.89**	69.34	**(40)**	**58.64**	71.54	**(18)**
Total ($/boe)	**$ 21.77**	$ 30.00	**(27)**	**$ 21.77**	$ 31.75	**(31)**
Operating Netback ($/boe)						
Price	**$ 21.77**	$ 30.00	**(27)**	**$ 21.77**	$ 31.75	**(31)**
Royalties	**(1.13)**	(4.28)	**(74)**	**(1.30)**	(4.32)	**(70)**
Transportation	**(2.20)**	(2.06)	**7**	**(2.13)**	(2.25)	**(5)**
Operating costs	**(6.88)**	(9.36)	**(26)**	**(7.72)**	(9.16)	**(16)**
Operating netback	**$ 11.56**	$ 14.30	**(19)**	**$ 10.62**	$ 16.02	**(34)**
Capital Expenditures ($)						
Capital expenditures	**$ 16,818**	$ 31,222	**(46)**	**$ 67,661**	$ 93,266	**(27)**
Net acquisitions (dispositions) [4]	**20**	(15,513)	**(100)**	**(13,902)**	(23,023)	**(40)**
Total capital expenditures	**$ 16,838**	$ 15,709	**7**	**$ 53,759**	$ 70,243	**(23)**
Net debt and working capital (deficiency) ($) [3]	**(48,291)**	(7,745)	**524**	**(48,291)**	(7,745)	**524**
Weighted average shares outstanding (basic and diluted)	**191,612**	152,549	**26**	**172,832**	142,420	**21**
Undeveloped land (net acres)	**218,292**	262,000	**(17)**	**218,292**	262,000	**(17)**

(1) Production revenue is presented gross of royalties and includes realized gains on commodity contracts.
(2) Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures and net changes in non-cash working capital. For the three and nine months ended September 30, 2012, funds flow from operations included a $3,308 termination fee (net of transaction costs) related to an unsuccessful acquisition.
(3) Net debt and working capital (deficiency) is calculated as cash and net working capital less commodity contract assets and liabilities and demand credit facilities and excluding other liabilities.
(4) Represents the cash proceeds from the sale of assets and cash paid for the acquisition of assets, as applicable.

MANAGEMENT’S DISCUSSION AND ANALYSIS

This Management’s Discussion and Analysis (“MD&A”) of the financial and operating results of Cequence Energy Ltd. (“Cequence” or the “Company”) should be read in conjunction with the Company’s unaudited condensed consolidated financial statements (the “Financial Statements”) and related notes for the three and nine months ended September 30, 2012 as well as with the audited consolidated financial statements (the “Annual Financial Statements”) and related notes for the year ended December 31, 2011.

Additional information relating to the Company, including its MD&A for the prior year and the annual information form (“AIF”) is available on SEDAR at www.sedar.com.

This MD&A is dated November 13, 2012.

BASIS OF PRESENTATION

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

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

For the first nine months of 2012, the ratio between the average price of West Texas Intermediate (“WTI”) crude oil at Cushing and NYMEX natural gas was approximately 37:1 (“Value Ratio”). The Value Ratio is obtained using the first nine months 2012 WTI average price of $96.15 (US$/Bbl) for crude oil and the NYMEX average price of $2.58 (US$/Mcf) for natural gas. This Value Ratio is significantly different from the energy equivalency ratio of 6:1 and using a 6:1 ratio would be misleading as an indication of value.

Unless otherwise stated and other than per unit items, all figures are presented in thousands.

NON-GAAP MEASUREMENTS

Within the MD&A references are made to terms commonly used in the oil and gas industry, including netback, net debt and working capital (deficiency) and funds flow from operations.

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

Net debt and working capital (deficiency) is a non-GAAP term that is calculated as cash and net working capital less commodity contract assets and liabilities and demand credit facilities and excluding other liabilities.

Funds flow from operations is a non-GAAP term that represents cash flow from operating activities before adjustments for decommissioning liabilities expenditures and net changes in non-cash working capital. The Company evaluates its performance based on earnings and funds flow from operations. The Company considers funds flow from operations a key measure as it demonstrates the Company’s ability to generate the cash flow necessary to fund future growth through capital investment and to repay debt. The Company’s calculation of funds flow from operations may not be comparable to that reported by other companies. Funds flow from operations per share is calculated using the same weighted average number of shares outstanding used in the calculation of comprehensive income (loss) per share.

Non-GAAP financial measures do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

SELECTED FINANCIAL INFORMATION

A reconciliation of cash flow from operating activities to funds flow from operations is as follows:

	Three months ended September 30		Nine months ended September 30	
$(000's)	**2012**	2011	**2012**	2011
Cash flow from operating activities	**$ 13,897**	$ 10,543	**$ 24,475**	$ 29,957
Decommissioning liabilities expenditures	**100**	385	**824**	500
Net change in non-cash working capital	**(3,194)**	(490)	**(3,178)**	1,803
Funds flow from operations	**$ 10,803**	$ 10,438	**$ 22,121**	$ 32,260

Cequence recorded a comprehensive loss of $3,824 and $18,339 for the three and nine months ended September 30, 2012, respectively. The Company's comprehensive loss for the nine months ended September 30, 2012 was negatively impacted by low natural gas prices and impairments recognized on the Company's property and equipment, offset by gains realized on the sale of certain undeveloped land and natural gas weighted properties and the receipt of a $3,308 termination fee (net of transaction costs) related to an unsuccessful acquisition.

Funds flow from operations was $10,803 and $22,121 for the three and nine months ended September 30, 2012, respectively, compared to funds flow from operations of $10,438 and $32,260 for the three and nine months ended September 30, 2011, respectively. The decrease in funds flow from operations is due largely to a decrease in revenue resulting from lower realized natural gas prices, offset by cash cost reductions and the receipt of a $3,308 termination fee (net of transaction costs) related to an unsuccessful acquisition.

RESULTS OF OPERATIONS

Average production volumes, revenue and prices for the three and nine month periods ended September 30, 2012 and 2011 are outlined below:

	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Production				
Natural gas (Mcf/d)	**46,641**	52,694	**47,200**	48,035
Crude oil (bbls/d)	**606**	514	**636**	599
Natural gas liquids (bbls/d)	**516**	536	**503**	449
Total (boe/d)	**8,895**	9,833	**9,006**	9,054
Total production (boe)	**818,340**	904,645	**2,467,644**	2,471,691
$(000's)				
Revenue				
Natural gas	**$ 11,083**	$ 19,287	**$ 30,735**	$ 54,305
Realized gains on natural gas hedges	**98**	287	**174**	463
Total natural gas	**11,181**	19,574	**30,909**	54,768
Crude oil	**4,645**	4,148	**14,716**	14,937
Natural gas liquids	**1,988**	3,422	**8,086**	8,764
Total production revenue, gross of royalties	**$ 17,814**	$ 27,144	**$ 53,711**	$ 78,469
Average prices				
Natural gas ($/Mcf)	**$ 2.58**	$ 3.98	**$ 2.38**	$ 4.14
Realized natural gas hedge ($/Mcf)	**0.03**	0.06	**0.01**	0.04
Natural gas including hedge ($/Mcf)	**2.61**	4.04	**2.39**	4.18
Crude oil ($/bbl)	**83.38**	87.65	**84.48**	91.31
Natural gas liquids ($/bbl)	**41.89**	69.34	**58.64**	71.54
Average sales price before hedging ($/boe)	**$ 21.65**	$ 29.69	**$ 21.70**	$ 31.56
Average sales price including hedging ($/boe)	**$ 21.77**	$ 30.00	**$ 21.77**	$ 31.75

PRODUCTION

Production for the three and nine months ended September 30, 2012 averaged 8,895 boe/d and 9,006 boe/d, respectively, compared to production of 9,833 boe/d and 9,054 boe/d, respectively, in the comparable periods of 2011. The decrease in production in the third quarter of 2012 is due to a reduced capital program in 2012 and shut in production in response to low natural gas prices. In the third quarter, the Company had approximately 500 boe/d of shut in or curtailed production.

REVENUE

Total production revenue, gross of royalties, was $17,814 in the third quarter of 2012 compared to $27,144 in 2011. The decrease in revenue is mainly attributable to the 35 percent decrease in realized sales prices and 10 percent decrease in production. For the nine months ended September 30, 2012, production revenue, gross of royalties, decreased 32 percent to $53,711 from $78,469 in the comparable period of 2011. The decrease is a result of a 31 decrease in realized sales prices and a 1 percent decrease in production volumes.

PRICING

Cequence realized a natural gas price including hedging gains for the third quarter of 2012 of $2.61 per Mcf, a decrease of 35 percent from the comparable period in 2011. Realized natural gas prices for the nine months ended September 30, 2012 were $2.39 per Mcf, down 43 percent from the comparable period in 2011.

The realized natural gas prices for the three and nine months ended September 30, 2012 are above prevailing market prices as much of the Company's natural gas sells at a premium to AECO due to the heat content of the gas. Cequence's production is approximately 87 percent natural gas and consequently, fluctuations in natural gas prices have a significant impact on the Company's revenue.

Oil prices for the third quarter of 2012 were $83.38 per barrel, down 5 percent from the same time period in 2011. Oil prices for the nine months ended September 30, 2012 were $84.48 per barrel, down 7 percent from the comparable period in 2011.

Natural gas liquids prices for the third quarter of 2012 were $41.89 per barrel, down 40 percent from the same time period in 2011. Natural gas liquids prices for the nine months ended September 30, 2012 were $58.64 per barrel, down 18 percent from the comparable period in 2011. The decline in realized natural gas liquids prices was consistent with declines to benchmark NGL prices in the third quarter of 2012. In addition, the commencement of the Aux Sable arrangement resulted in additional ethane volumes in the third quarter which reduced the average realized NGL price. Under the Aux Sable Arrangement, Cequence has the option to ship unprocessed rich natural gas to the Aux Sable NGL extraction and fractionation plant in Channahon, IL. Cequence sells unprocessed rich natural gas at AECO and participates in the revenue from the natural gas liquids extracted at the Aux Sable facility and sold in the US market.

Benchmark natural gas, crude oil and natural gas liquids prices were lower than the three and nine month comparative periods in 2011. The following table details the Company's benchmark indices:

	Three months ended September 30		Nine months ended September 30	
Benchmark Pricing	**2012**	2011	**2012**	2011
AECO-C spot (CDN$/Mcf)	**$ 2.30**	$ 3.67	**$ 2.11**	$ 3.78
WTI crude oil (US$/bbl)	**92.20**	89.51	**96.15**	95.40
Edmonton par price (CDN$/bbl)	**84.87**	92.35	**87.56**	94.88
US$/CDN$ exchange rate	**0.99**	0.98	**0.99**	1.01

COMMODITY PRICE MANAGEMENT

	Three months ended September 30		Nine months ended September 30	
$(000's)	**2012**	2011	**2012**	2011
Realized gain on commodity contracts	**$ 98**	$ 287	**$ 174**	$ 463
Unrealized gain (loss) on commodity contracts	**(614)**	28	**(733)**	168
Total	**$ (516)**	$ 315	**$ (559)**	$ 631

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

Term	Product	Type	Volume	Price	Basis
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	Gas	Swap	2,500 gj/day	$3.24	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.51	AECO
January 1, 2013 to December 31, 2013	Oil	Sold Call	200 bbls/day	$110.00 USD	WTI

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).

ROYALTY EXPENSE

	Three months ended September 30		Nine months ended September 30	
$(000's)	**2012**	2011	**2012**	2011
Crown	**$ 399**	$ 3,276	**$ 1,911**	$ 8,327
Freehold / Overriding	**523**	596	**1,305**	2,353
	$ 922	$ 3,872	**$ 3,216**	$ 10,680
As a % of Revenue, Before Hedging Activity				
Crown	**2%**	12%	**4%**	11%
Freehold / Overriding	**3%**	2%	**2%**	3%
	5%	14%	**6%**	14%
Per Unit of Production ($/boe)				
Crown	**$ 0.49**	$ 3.62	**$ 0.77**	$ 3.37
Freehold / Overriding	**0.64**	0.66	**0.53**	0.95
	$ 1.13	$ 4.28	**$ 1.30**	$ 4.32

Royalty expense in the third quarter of 2012 was $992 or 5 percent of revenue compared to $3,872 or 14 percent of revenue in the third quarter of 2011. For the nine months ended September 30, 2012, royalties as a percentage of revenue were 6 percent compared to 14 percent in the comparative period of 2011. The overall royalty rate has decreased in the three and nine months ended September 30, 2012 as compared to the same periods in 2011 mainly due to lower natural gas prices and prior period adjustments related to gas cost allowance. The adjustments related to gas cost allowance are not recurring. The Company expects royalties as percentage of revenue to be approximately 7 to 9 percent for the year ended December 31, 2012.

TRANSPORTATION EXPENSE

	Three months ended September 30		**Nine months ended September 30**	
$(000's)	**2012**	2011	**2012**	2011
Transportation ($)	**$ 1,801**	$ 1,861	**$ 5,253**	$ 5,573
Per unit of production ($/boe)	**$ 2.20**	$ 2.06	**$ 2.13**	$ 2.25

Transportation expense for the nine months ended September 30, 2012 was $2.13 per boe, a decrease of 5 percent from the comparative period in 2011. In the third quarter of 2012, transportation expense increased to $2.20 per boe from $2.06 per boe in the comparative period in 2011. Approximately 3,070 Mcf/d of natural gas is being shipped on the Alliance pipeline at a cost of $1.50 per Mcf for sale at Chicago. The Company expects transportation costs per boe to be approximately $1.50 to $2.00 per boe for the year ended December 31, 2012.

OPERATING COSTS

	Three months ended September 30		**Nine months ended September 30**	
$(000's)	**2012**	2011	**2012**	2011
Operating costs ($)	**$ 5,627**	$ 8,471	**$ 19,043**	$ 22,651
Per unit of production ($/boe)	**$ 6.88**	$ 9.36	**$ 7.72**	$ 9.16

For the nine months ended September 30, 2012, operating costs decreased to $7.72 per boe from $9.16 per boe in the comparative period in 2011. Operating costs for the third quarter of 2012 were $5,627 or $6.88 per boe compared to $8,471 or $9.36 per boe for the same period in 2011. Operating costs per boe decreased in the three and nine months ended September 30, 2012 compared to the same periods in 2011 mainly due to lower costs on new wells drilled and recompleted in 2011 and 2012, the sale of higher cost properties in 2011 and the commencement of the Aux Sable arrangement in the second quarter of 2012.

The third quarter of 2012 was the first full quarter with significant production volumes being sold under the Aux Sable Arrangement. Cequence realized slightly higher NGL volumes at Simonette and higher operating netbacks, through a reduction of processing fees of approximately $0.50 per mcf on volumes sold under this arrangement when compared to the previous processing arrangements.

The Company expects operating costs per boe to be approximately $7.00 to $8.00 per boe for the year ended December 31, 2012.

OPERATING NETBACK

($/boe)	Three months ended September 30 2012	2011	Nine months ended September 30 2012	2011
Production revenue [1]	**$ 21.77**	$ 30.00	**$ 21.77**	$ 31.75
Royalty expense	**(1.13)**	(4.28)	**(1.30)**	(4.32)
Transportation expense	**(2.20)**	(2.06)	**(2.13)**	(2.25)
Operating costs	**(6.88)**	(9.36)	**(7.72)**	(9.16)
Operating netback	**$ 11.56**	$ 14.30	**$ 10.62**	$ 16.02
Operating netback, excluding realized hedge gains	**$ 11.44**	$ 13.99	**$ 10.55**	$ 15.83

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

Cequence's netback for the third quarter of 2012 decreased to $11.56 per boe from $14.30 per boe in 2011. For the nine months ended September 30, 2012, the netback decreased to $10.62 per boe from $16.02 per boe in the comparative period in 2011. The decrease in operating netback for the three and nine month periods ended September 30, 2012 is primarily due to decreases in benchmark natural gas prices from 2011 to 2012. The decreases above were partially offset by improvements to royalty expense and operating costs.

GENERAL AND ADMINISTRATIVE EXPENSES

$(000's)	Three months ended September 30 2012	2011	Nine months ended September 30 2012	2011
G&A expenses ($)	**$ 1,796**	$ 1,902	**$ 5,586**	$ 5,660
Per unit of production ($/boe)	**$ 2.19**	$ 2.10	**$ 2.26**	$ 2.29

For the nine months ended September 30, 2012, general and administrative ("G&A") expenses decreased to $5,586 from $5,660 in the comparable period in 2011. On a per barrel basis, G&A costs decreased to $2.26 per boe compared to $2.29 per boe in 2011.

G&A expenses were $1,796 or $2.19 per boe for the three months ended September 30, 2012. On a per barrel basis, G&A expenses increased 4 percent from the same period in 2011 mainly due to decreased sales volumes. The Company expects G&A expenses per boe to be approximately $2.00 to $2.50 per boe for the year ended December 31, 2012.

FINANCE COSTS

$(000's)	Three months ended September 30 2012	2011	Nine months ended September 30 2012	2011
Interest expense	**$ 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
Per unit of production ($/boe)	**$ 0.83**	$ 0.82	**$ 0.86**	$ 0.87
Per unit of production, excluding accretion expense and amortization of transaction costs ($/boe)	**$ 0.60**	$ 0.69	**$ 0.65**	$ 0.69

Finance costs for the three months ended September 30, 2012 were $679 compared to $967 for the comparative period in 2011. Finance costs for the nine months ended September 30, 2012 were $2,119 compared to $2,878 for the comparative period in 2011.

DEPLETION, DEPRECIATION AND IMPAIRMENT

$(000's)	Three months ended September 30 2012	2011	Nine months ended September 30 2012	2011
Depletion and depreciation expense	**$ 10,018**	$ 11,385	**$ 30,219**	$ 31,042
Impairment	**3,284**	-	**25,781**	-
Total depletion, depreciation and impairment	**$ 13,302**	$ 11,385	**$ 56,000**	$ 31,042
Per unit of production ($/boe)	**$ 16.25**	$ 12.58	**$ 22.69**	$ 12.56
Per unit of production, excluding impairment ($/boe)	**$ 12.24**	$ 12.58	**$ 12.25**	$ 12.56

Depletion and depreciation expense for the three and nine month periods ended September 30, 2012 was $10,018 ($12.24 per boe) and $30,219 ($12.25 per boe), respectively. Depletion and depreciation rates are similar to the comparable period in 2011 as there have not been significant changes to Cequence's resource base during this time.

Impairment expense for the three and nine months ended September 30, 2012 was $3,284 and $25,781, respectively, compared to $nil for the three and nine months ended September 30, 2011. Impairments recognized in 2012 are mainly the results of declining benchmark natural gas prices and minimal capital expenditures in the Northeast British Columbia and Peace River Arch cash generating units ("CGU"). Substantially all of the Company's actual capital expenditures in the past two years have been focused on Deep Basin CGU. The following represents impairment recognized per CGU in the three and nine months ended September 30, 2012 and 2011:

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

PROVISIONS

Decommissioning liabilities

Total decommissioning liabilities at September 30, 2012 were $32,460 compared to $28,135 at December 31, 2011. The increase in decommissioning liabilities is mainly due to additions for new well and facilities expenditures, accretion expense, revisions in estimated cash flows and risk-free interest rates.

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.

SHARE BASED PAYMENTS

The Company recognizes share based payment expense for stock options. For the nine months ended September 30, 2012, Cequence recorded $4,530 (2011 – $5,219) in share based payment expense related to stock options with a corresponding increase to contributed surplus.

During nine months ended September 30, 2012, 5,018 stock options were issued and 739 forfeited. Total share based payment expense of $2,731 was determined using the Black-Scholes option pricing model and will be expensed over the three year vesting period of the options.

COMMON SHARES OUTSTANDING

Issued common voting shares (000's)	Number	Stated Value
Balance, December 31, 2011	161,856	$ 559,371
Common shares	21,269	25,523
Flow-through shares	8,650	10,380
Share issue costs, net of taxes of $615	-	(1,853)
Balance, September 30, 2012	191,775	$ 593,421
Warrants, December 31, 2011	2,250	$ -
Warrants cancelled	(2,250)	-
Warrants, September 30, 2012	-	$ -

On March 8, 2012, the 2012 Warrants (see the 'Annual Financial Statements') 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.

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).

As of the date of this MD&A, Cequence had the following securities outstanding: 191,775 common voting shares and 17,472 stock options.

CAPITAL EXPENDITURES

	Three months ended September 30		**Nine months ended September 30**	
$(000's)	**2012**	2011	**2012**	2011
Property acquisitions [(1)]	**$ 20**	$ 450	**$ 6,760**	$ 22,150
Property dispositions [(1)]	**-**	(15,963)	**(20,662)**	(45,173)
Land	**313**	6,567	**866**	12,228
Geological & geophysical and capitalized overhead	**1,011**	354	**3,628**	1,296
Drilling, completions and workovers	**11,625**	21,128	**41,099**	55,507
Equipment and facilities	**3,859**	3,126	**21,954**	24,121
Office furniture & equipment	**10**	47	**114**	114
Total capital expenditures	**$ 16,838**	$ 15,709	**$ 53,759**	$ 70,243

(1) Represents 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, 2012, drilling, completion and workover expenditures totalled $41,099 which included the drilling of 7 gross (4.7 net) horizontal wells as well as the completion of 8 gross (4.7 net) horizontal wells. For the nine months ended September 30, 2011, drilling, completion and workover expenditures included the drilling of 5.5 net horizontal wells and 2.3 net vertical wells as well as the completion of 6.3 net horizontal wells and 4.6 net vertical wells. Facility expenditures in the nine months ended September 30, 2012 of $21,954 were directed towards completion of the meter station and tie in to the Alliance pipeline related to the Aux Sable arrangement discussed above as well as to compression and gathering facilities in the Deep Basin.

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

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

Cequence has budgeted net capital expenditures of $69,000 for 2012, including acquisitions and dispositions, which will be directed towards the drilling of an expected 9 (6.7) net horizontal wells as well as a meter station, compression and gathering facilities at Simonette. Capital expenditures will be funded out of cash flow, proceeds of the June 2012 financing, existing credit lines, and the sale of properties and equity financings completed in the first half of 2012, as discussed above. The Company continually monitors fluctuations in natural gas prices and will adjust budgeted discretionary capital spending based on short to medium term natural gas prices.

INCOME TAXES

At September 30, 2012, a deferred income tax asset of $44,669 (December 31, 2011 - $48,316) has been recognized as the Company believes, based on estimated cash flows, its realization is probable. At September 30, 2012, Cequence has the following tax pools:

Classification	**Amount $(000's)**
Canadian exploration expense	$182,103
Non-capital losses	145,563
Undepreciated capital cost	98,205
Canadian oil and gas property expense	72,128
Canadian development expense	59,881
Scientific research and experimental development tax credit	22,704
Share issue costs	9,624
Investment tax credits	3,981
	$594,189

The Company's non-capital losses expire $6,812 in 2012, $4,512 in 2013 and $134,239 in 2024 and thereafter. The Company expects to use the non-capital losses in the required timeframes.

In accordance with the terms of the related agreements and pursuant to certain provisions of the Income Tax Act (Canada), the Company renounced, for income tax purposes, development expenditures of $14,301 and exploration expenditures of $17,373 to the holders of flow-through common shares effective December 31, 2011. Deferred tax of approximately $7,919 associated with renouncing the expenditures was recorded on the date of renunciation in the first quarter of 2012, the related obligation on flow-through shares of $4,958 was drawn down and the difference was recognized as deferred income tax expense (recovery) in comprehensive income (loss). As at December 31, 2011, the Company had incurred all of the qualifying expenditures.

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

LIQUIDITY AND CAPITAL RESOURCES

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. Credit facility A is a $90,000 extendible revolving term credit facility by way of prime loans, U.S. Base Rate Loans, Banker's Acceptances and Libor Loans. Credit facility B is a $10,000 operating facility by way of prime loans, U.S. Base Rate Loans, Banker's Acceptances and letters of credit. Prime loans and U.S. Base Rate Loans on these facilities bear interest at the bank prime rate or U.S. Base Rate, respectively, plus 1.0 percent to 2.5 percent on a sliding scale, depending on the Company's debt to adjusted EBITDA ratio (ranging from being less than or equal to 1.0:1.0 to greater than 2.5:1.0). Banker's Acceptances, Libor Loans and letters of credit on these facilities bear interest at the Banker's Acceptance rate, Libor rate or letter of credit rate, as applicable, plus 2.0 percent to 3.5 percent based on the same sliding scale as above. The credit facilities may be extended and revolve beyond the initial one-year period, if requested by the Company and accepted by the lenders. If the credit facilities do not continue to revolve, the facilities will convert to a 366-day non-revolving term loan facility.

Both credit facilities, and the amount available for draws under the facilities, are subject to periodic review by the bank and are secured by a general assignment of book debts and a $250,000 demand debenture with a first floating charge over all assets of the Company. The Company is permitted to hedge up to 67 percent of its production under the lending agreement. As at September 30, 2012, the Company has drawn $30,199 under the extendible revolving term credit facility and $nil under the 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).

NET DEBT AND WORKING CAPITAL (DEFICIENCY)

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

$(000's)	**As at September 30, 2012**	As at December 31, 2011	As at September 30, 2011
Demand credit facilities	**$ (30,199)**	$ (11,618)	$ -
Accounts payable and accrued liabilities	**(36,288)**	(64,467)	(49,611)
Cash	**284**	380	20,324
Accounts receivable	**14,009**	21,032	17,701
Deposits and prepaid expenses – current	**3,903**	3,231	3,841
Net debt and working capital (deficiency)	**$ (48,291)**	$ (51,442)	$ (7,745)

CONTRACTUAL OBLIGATIONS

	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.

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.

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 Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared; and (ii) 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 period specified in securities legislation.

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, 2012, the Chief Executive Officer and the Chief Financial Officer have concluded, based on their evaluation of the design and operating effectiveness of the Company’s disclosure controls and internal controls over financial reporting (“ICFR”) that disclosure controls and ICFR are effective.

QUARTERLY INFORMATION

FINANCIAL

($ thousands except per share data)	**2012 Q3**	**2012 Q2**	**2012 Q1**	**2011 Q4**	**2011 Q3**	**2011 Q2**	**2011 Q1**	**2010 Q4**
Production revenue [1]	$17,814	$16,032	$19,864	$23,527	$27,144	$27,293	$24,032	$22,352
Royalties expense	992	118	2,176	3,063	3,872	3,565	3,243	2,616
Transportation expense	1,801	1,661	1,791	1,580	1,861	1,883	1,829	1,551
Operating costs	5,627	6,554	6,862	7,022	8,471	7,439	6,741	7,023
Comprehensive loss	(3,824)	(6,579)	(7,936)	(15,598)	(1,884)	(701)	(1,975)	(23,205)
Per share – basic & diluted	(0.02)	(0.04)	(0.05)	(0.10)	(0.01)	(0.00)	(0.02)	(0.18)
Funds flow from operations [2]	10,803	4,563	6,755	10,002	10,438	12,042	9,780	7,629
Per share – basic & diluted	0.06	0.03	0.04	0.06	0.07	0.08	0.07	0.06
Capital expenditures, net	16,818	9,909	40,934	56,335	31,222	16,470	45,574	24,392
Net acquisitions (dispositions) [3]	20	(2,980)	(10,942)	-	(15,513)	14,134	(21,644)	(4,707)
Total capital expenditures	$16,838	$ 6,929	$29,992	$56,335	$15,709	$30,604	$23,930	$19,685

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

OPERATIONS

	2012 Q3	**2012 Q2**	**2012 Q1**	**2011 Q4**	**2011 Q3**	**2011 Q2**	**2011 Q1**	**2010 Q4**
Production volumes								
Natural gas (Mcf/d)	46,641	45,042	49,924	47,203	52,694	48,785	42,514	38,702
Oil (bbls/d)	606	618	684	503	514	599	686	478
NGLs (bbls/d)	516	535	459	509	536	396	413	557
Total (boe/d)	8,895	8,660	9,464	8,879	9,833	9,125	8,185	7,485
Average selling price								
Natural gas ($/Mcf)	2.61	2.11	2.44	3.59	4.04	4.30	4.21	4.40
Oil ($/bbl)	83.38	79.92	89.58	97.15	87.65	97.80	88.38	77.24
NGLs ($/bbl)	41.89	59.54	76.63	73.19	69.34	80.15	66.12	64.13
Total ($/boe)	21.77	20.34	23.07	28.80	30.00	32.87	32.62	32.46
Operating Netback ($/boe)								
Price	21.77	20.34	23.07	28.80	30.00	32.87	32.62	32.46
Royalties	(1.13)	(0.15)	(2.53)	(3.75)	(4.28)	(4.29)	(4.40)	(3.80)
Transportation	(2.20)	(2.11)	(2.08)	(1.93)	(2.06)	(2.27)	(2.48)	(2.25)
Operating costs	(6.88)	(8.32)	(7.97)	(8.60)	(9.36)	(8.96)	(9.15)	(10.20)
Operating netback	11.56	9.76	10.49	14.52	14.30	17.35	16.59	16.21

CURRENT ECONOMIC CONDITIONS

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions persisted throughout 2011 and 2012, causing a loss of confidence in the global credit and financial markets and resulted in the collapse of, and government intervention in, major banks, financial institutions and insurers and created a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward. Petroleum and natural gas prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, the intensification and broadening of North African and Middle East protest movements, OPEC actions and the ongoing global credit and liquidity concerns.

OUTLOOK INFORMATION

On November 13, 2012, Cequence provided guidance for the six months ending June 30, 2013. Capital expenditures for 2013 are expected to be funded from funds flow from operations and available bank lines:

	2013
Average production, BOE/d [(1)]	9,600
Capital expenditures ($)	$42 million
Operating costs ($ per boe)	$6.75
Royalties (% revenue)	11
Crude – WTI (US$/bbl)	$91.00
Natural gas – AECO (Cdn$/GJ)	$3.30
Funds flow from operations ($) [(2)]	$25 million
Annualized funds flow from operations ($)	$50 million
June 30, 2013 net debt and working capital deficiency ($) [(3)]	$75 million
Basic shares outstanding	191.8 million

(1) Comprised of 49.8 mmcf/d of natural gas and 1,300 boe/d of oil and liquids
(2) Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures and net changes in non-cash working capital.
(3) Net debt and working capital (deficiency) is calculated as cash and net working capital less commodity contract assets and liabilities and demand credit facilities and excluding other liabilities.

The Company closely monitors fluctuations in natural gas prices and will adjust the 2013 budget if facts and circumstances require.

In addition, Cequence provided and update to previously disclosed 2012 guidance. Cequence expects to exceed its 2012 guidance with exit production increasing from 8,400 boe/d to 9,000 boe/d. Average production is expected to increase to approximately 8,800 boe/d compared to the previous estimate of 8,700 boe/d. The revised production estimates are a result of higher productivity than originally forecasted.

Capital spending for 2012 has been increased by $6 million to $75 million as Cequence expects to accelerate the drilling of the winter program that was previously scheduled for 2013. Net debt is expected to be $58 million at year end. Forecasted 2012 funds flow is expected to increase to $32 million as a result of higher production levels.

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 growth of natural gas production; the projected impact of land access and regulatory issues; projections relating to the volatility of crude oil and natural gas prices in 2012 and beyond and reasons therefore; the Company's projected capital investment levels for 2012 and the source of funding therefore; the effect of the Company's risk management program, including the impact of derivative financial instruments; the Company's defence of lawsuits; the impact of the climate change initiatives on operating costs; the impact of the Aux Sable arrangement on the Company's production volumes, realized prices and netbacks; 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 funds 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, funds flow, sales prices, royalty rates, operating expenses and general and administrative expenses are based on Cequence's 2012 and 2013 capital program as disclosed in the MD&A.

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.