HIGHLIGHTS

(000's except per share and per unit amounts)	Three months ended September 30,			Nine months ended September 30,		
	2018	**2017**	% Change	**2018**	**2017**	% Change
FINANCIAL						
Total revenue[(1), (5)]	**17,680**	15,087	**17**	**46,737**	52,251	**(11)**
Comprehensive income (loss)	**573**	(3,076)	**119**	**(5,897)**	(92,724)	**(94)**
Per share – basic and diluted [(6)]	**0.04**	(0.25)	**116**	**(0.45)**	(7.55)	**(94)**
Funds flow from operations [(2), (5)]	**5,589**	3,619	**54**	**11,016**	17,746	**(38)**
Per share, basic and diluted [(6), (7)]	**0.38**	0.29	**31**	**0.84**	1.45	**(42)**
Capital expenditures, before acquisitions (dispositions)	**1,119**	2,682	**(58)**	**10,403**	20,264	**(49)**
Capital expenditures, including acquisitions (dispositions)	**619**	2,682	**(77)**	**8,474**	20,264	**(58)**
Net debt [(3), (5)]	**61,675**	68,407	**(10)**	**61,675**	68,407	**(10)**
Weighted average shares outstanding – basic [(6)]	**14,545**	12,277	**18**	**13,041**	12,277	**6**
Weighted average shares outstanding – diluted [(6)]	**14,632**	12,277	**19**	**13,041**	12,277	**6**
Common shares outstanding – end of period	**24,553**	12,277	**100**	**24,553**	12,277	**100**
OPERATING						
Production volumes						
Natural gas (Mcf/d)	**29,376**	40,729	**(28)**	**30,924**	42,871	**(28)**
Crude oil (bbls/d)	**1,198**	388	**209**	**772**	364	**112**
Natural gas liquids (bbls/d)	**259**	250	**4**	**257**	253	**2**
Condensate (bbls/d)	**382**	841	**(55)**	**495**	858	**(42)**
Total (boe/d)	**6,734**	8,266	**(19)**	**6,679**	8,620	**(23)**
Sales prices						
Natural gas, including realized hedges ($/Mcf)	**2.20**	2.12	**4**	**2.37**	2.59	**(8)**
Crude oil and condensate, including realized hedges ($/bbl)	**73.57**	57.70	**28**	**69.36**	60.13	**15**
Natural gas liquids ($/bbl)	**43.51**	27.86	**56**	**39.02**	28.04	**39**
Total ($/boe)	**28.53**	19.84	**44**	**25.63**	22.20	**15**
Netback ($/boe)						
Price, including realized hedges	**28.53**	19.84	**44**	**25.63**	22.20	**15**
Royalties	**(2.35)**	(0.61)	**285**	**(1.77)**	(1.17)	**51**
Transportation	**(3.03)**	(2.09)	**45**	**(2.77)**	(1.93)	**44**
Operating costs	**(8.87)**	(9.21)	**(4)**	**(10.22)**	(8.33)	**23**
Operating netback [(5)]	**14.28**	7.93	**80**	**10.87**	10.77	**1**
General and administrative	**(2.24)**	(1.33)	**68**	**(2.26)**	(1.38)	**64**
Interest[(4)]	**(1.58)**	(1.97)	**(20)**	**(2.15)**	(1.97)	**9**
Cash netback [(5)]	**10.46**	4.63	**126**	**6.46**	7.42	**(13)**

(1) Total revenue is presented gross of royalties and includes realized gains (loss) on commodity contracts.
(2) Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures and net changes in non-cash working capital.
(3) Net debt is calculated as working capital deficiency (excluding commodity contracts) plus the principal value of the senior notes and term loan.
(4) Represents finance costs less refinancing expenses, amortization on transaction costs, accretion expense on senior notes and provisions.
(5) Refer to *"Non-GAAP Measures"*.
(6) On October 22, 2018, the Company's shareholders approved a share consolidation based on one new common share for every 20 pre-consolidation shares. This Management's Discussion and Analysis and all information relating to issued and common shares, stock options, warrants, restricted share units and per share amounts, have been restated to reflect the share consolidation for all periods presented.
(7) Funds flow per share calculated as if the ending 24,553,000 common shares at September 30, 2018 were outstanding for the entire period would be $0.23 per share and $0.45 per share for the three and nine month periods ended September 30, 2018 respectively.

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, 2018 as well with the audited consolidated financial statements (the "annual financial statements") and related notes for the years ended December 31, 2017 and 2016.

The consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which asserts that the Company has the ability to realize its assets and discharge its liabilities and commitments in the normal course of business.

Additional information relating to the Company, including its MD&A and Annual Information Form ("AIF") for the year ended December 31, 2017 are available under the Company's issuer profile on SEDAR at www.sedar.com.

This MD&A is dated November 8, 2018.

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") and certain information or footnote disclosure normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been condensed or omitted. The financial information presented reflects the consolidated financial statements of Cequence.

On October 22, 2018, the Company's shareholders approved a share consolidation based on one new common share for every 20 pre-consolidation common shares. This MD&A and all information relating to issued and common shares, stock options, warrants, restricted share units and per share amounts, have been restated to reflect the share consolidation for all periods presented.

The reporting and the measurement currency is the Canadian dollar, and all dollar amounts in this MD&A are stated in Canadian dollars unless otherwise indicated.

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 nine months ended September 30, 2018 the ratio between the average price of West Texas Intermediate ("WTI") crude oil at Cushing and NYMEX natural gas was approximately 23:1 ("Value Ratio"). The Value Ratio is obtained using the nine months of 2018 WTI average price of $66.70 (US$/bbl) for crude oil and the nine months of 2018 NYMEX average price of $2.95 (US$/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 MEASURES

Within the MD&A references are made to terms and financial measures commonly used in the oil and gas industry, including operating netback, cash netback, net debt, funds flow from (used in) operations and total revenue.

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

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

Net debt is a non-GAAP measure that is calculated as working capital deficiency (excluding commodity contracts) plus the principal value of the term loan (previously senior notes) which reflects the estimated amount that will be repaid upon maturity. Cequence uses net debt as it provides an estimate of the Company's assets and obligations expected to be settled in cash.

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

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

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

DESCRIPTION OF THE BUSINESS

Cequence is engaged in the exploration for and the development of oil and natural gas reserves. Cequence's primary focus is the development of its Simonette asset in the Alberta Deep Basin with other non-core 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.

All of the Company's 2018 exploration and development capital has been allocated to the Dunvegan oil prospect. The previously announced 3.0 gross (2.0 net) horizontal Dunvegan oil wells were completed and tied into permanent facilities in the first quarter of 2018 and Corporate liquids production has increased to approximately 26 percent of the Company's total production in the month of September 2018. Oil prices strengthened in the second quarter of 2018 to their highest levels since 2014 and held consistent in the third quarter of 2018 with WTI pricing averaging US$66.70/bbl and Edmonton City Gate averaging $77.14/bbl for the nine months ended September 30, 2018. Oil demand during 2018 has remained strong while international supply uncertainty and diminishing U.S. oil inventories has resulted in higher pricing. However, in Canada the price discount to WTI has increased to over $25 per barrel Canadian for light crude due to limited transportation options and no progress on pipeline projects.

Natural gas prices have continued to remain low and volatile throughout 2018 with AECO prices averaging $1.50 per Mcf for the nine months ended September 30, 2018. Concerns around oversupply in the Western Canadian Sedimentary Basin, egress constraints and planned pipeline outages have limited existing transportation access and placed downward pressure on pricing. The LNG Canada announcement is a positive for future gas demand however additional LNG export capacity beyond the two-train facility will be required for any significant and sustained price increase. Since April 1, 2018, the Company has been selling 10,850 GJ/d of gas in the Dawn, Ontario market. The Dawn marketing arrangement has provided the Company diversification away from the volatile AECO prices for approximately 1/3 of its gas production. For the nine months ended September 30, 2018, Dawn prices averaged

approximately $3.62/mcf compared to the AECO pricing of approximately $1.50/mcf. During 2017 and 2018 the Company has lowered natural gas capital spending to adjust for lower funds flow from operations and the reduced economics of the Company's natural gas weighted drilling inventory.

The Company has undertaken a number of initiatives over the past two years to manage its balance sheet through a prolonged weakness in natural gas prices. Capital expenditures have been restricted to cash flow or funded by equity. The Company continues to be committed to pursuing initiatives to improve its liquidity, long term sustainability and enhance shareholder value. Additional details are discussed in the *"Liquidity and Capital Resources"* section of this MD&A.

THIRD QUARTER AND SUBSEQUENT HIGHLIGHTS

The Company's recent 3.0 gross (2.0 net) Dunvegan oil wells continue their strong performance with the Company's third quarter 2018 crude oil production at 1,198 bbls/d up from 245 bbls/d reported in the first quarter of 2018. This resulted in an overall crude oil and liquids production percentage of 27% in the third quarter of 2018 up from 17% reported in the first quarter of 2018.

On July 27, 2018. Cequence announced a series of transactions to refinance the Company's balance sheet and provide greater flexibility and liquidity to execute the ongoing business plan of the Company. Cequence entered into a second lien secured loan agreement for a $60,000 term loan facility due October 3, 2022 to refinance the existing Senior Notes (as defined herein – see "*Liquidity and Capital Resources – Senior Notes and Term Loan*") which were due on October 3, 2018. At the same time Cequence launched a rights offering entitling holders of its common shares as of August 9, 2018 to subscribe for flow-through common shares of the Company at a price of $0.70 (pre-Share Consolidation price - $0.035) (the "Rights Offering"). The Rights Offering was fully subscribed for and closed on September 13, 2018 with 12,276,394 flow-through common shares being issued for gross proceeds of $8,593. Cequence also amended its Credit Facility (as defined herein – see "*Liquidity and Capital Resources – Senior Credit Facility*") and extended the maturity date until May 31, 2019. Additional details are discussed in *"Liquidity and Capital Resources"*.

The Company commenced its planned winter drilling program on October 13, 2018 to drill 2.0 gross oil wells (2.0 net) in the Dunvegan formation at Simonette. The proceeds of the Rights Offering are being used to fund this drilling program, as previously disclosed by the Company in its Rights Offering Circular dated July 27, 2018 and its press release dated September 13, 2018.

On October 22, 2018, the Company's shareholders approved a share consolidation on the basis of one new common share for every 20 pre-consolidation common shares (the "Share Consolidation"). The common shares began trading on a consolidated basis on October 29, 2018. The objective of the Share Consolidation was to improve the terms of trading for the Common Shares, including possible margin trading, and attract further institutional interest and investment from potential investors that may have policies in place that prohibit or discourage them from purchasing stocks trading below a certain minimum price.

FINANCIAL AND OPERATING RESULTS

PRODUCTION

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Natural gas (Mcf/d)	**29,376**	40,729	**30,924**	42,871
Crude oil (bbls/d)	**1,198**	388	**772**	364
Natural gas liquids (bbls/d)	**259**	250	**257**	253
Condensate (bbls/d)	**382**	841	**495**	858
Total (boe/d)	**6,734**	8,266	**6,679**	8,620
Crude oil and liquids production (%)	**27**	18	**23**	17
Total production (boe)	**619,554**	760,483	**1,823,322**	2,353,260

Production for the three and nine months ended September 30, 2018 averaged 6,734 boe/d and 6,679 boe/d compared to production of 8,266 boe/d and 8,620 boe/d, respectively in 2017.

For the three and nine months ended September 30, 2018, oil production increased by 209 per cent and 112 per cent, respectively, as compared to the same periods of the prior year. The increase reflects the Company's recent 3.0 gross (2.0 net) Dunvegan oil wells that were completed and tied into permanent facilities in the first quarter of 2018 and which have continued to deliver increasing production volumes through 2018. For the three and nine months ended September 30, 2018, natural gas production decreased 28 per cent and 28 per cent, respectively, as compared to the same periods of the prior year. Effective May 1, 2018 approximately 800 mcf/d of gas was sold in Gordondale for $1.5 million. Due to continued low AECO prices another 2,500 mcf/d of gas has been left shut-in until more stable pricing is available with the balance of the production decrease as a result of production declines.

PRODUCTION REVENUE

	Three months ended September 30,		Nine months ended September 30,	
$(000's)	**2018**	2017	**2018**	2017
Sales of natural gas	**5,953**	5,491	**18,673**	27,789
Sales of crude oil and condensate	**11,217**	6,181	**26,190**	19,495
Sales of natural gas liquids	**1,037**	640	**2,742**	1,936
Royalties	**(1,453)**	(465)	**(3,233)**	(2,747)
Production revenue	**16,754**	11,847	**44,372**	46,473

Production revenue was $16,754 in the three months ended September 2018 compared to $11,847 in 2017. The increase in production revenue is mainly due to increased crude oil volumes and improved pricing in 2018 for all products.

For the nine months ended September 30, 2018, production revenue was $44,372 compared to $46,473 in 2017. The decrease in production revenue in 2018 is directly related to lower natural gas production volumes and pricing in 2018 compared to 2017 offset by increasing crude oil volumes and pricing in 2018.

With increased oil production from the Dunvegan wells in 2018, Cequence's sales revenue contribution is more heavily weighted to crude oil and liquids production as shown by the table below even with a higher overall corporate per boe production weighted more to natural gas:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Natural gas production revenue (%)	**33**	45	**39**	56
Crude oil and liquids production revenue (%)	**67**	55	**61**	44
Total production revenue before royalties (%)	**100**	100	**100**	100

TOTAL REVENUE AND PRICING

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

	Three months ended September 30,				
$(000's)	Natural gas	Crude oil and condensate	Natural gas liquids	**2018 Total**	2017 Total
Sales of natural gas, oil and condensate	5,953	11,217	1,037	**18,207**	12,312
Realized gain (loss) on commodity contracts	-	(527)	-	**(527)**	2,775
Total revenue (1)	5,953	10,690	1,037	**17,680**	15,087

(1) Refer to *"Non-GAAP Measures"*

	Nine months ended September 30,				
$(000's)	Natural gas	Crude oil and condensate	Natural gas liquids	**2018 Total**	2017 Total
Sales of natural gas, oil and condensate	18,673	26,190	2,742	**47,605**	49,220
Realized gain (loss) on commodity contracts	1,324	(2,192)	-	**(868)**	3,031
Total revenue (1)	19,997	23,998	2,742	**46,737**	52,251

(1)Refer to *"Non-GAAP Measures"*

Total revenue was $17,680 in the third quarter of 2018 compared to $15,087 in 2017. The increase in revenue is attributable to a 44 percent increase in realized sales prices, increased crude oil volumes which more that offset lower natural gas volumes in 2018 compared to 2017.

For the nine months ended September 30, 2018, total revenue decreased 11 percent to $46,737 from $52,251 in the comparable period of 2017. The decrease in total revenue is attributable to a 23 percent decrease in production which more that offset the 15 percent increase in realized sales prices after hedging

	Three months ended September 30,		Nine months ended September 30,	
$(000's)	**2018**	2017	**2018**	2017
Average prices				
Natural gas ($/Mcf)	**2.20**	1.47	**2.21**	2.37
Realized natural gas hedges ($/Mcf)	**-**	0.65	**0.16**	0.22
Natural gas including hedges ($/Mcf)	**2.20**	2.12	**2.37**	2.59

Crude oil and condensate ($/bbl)	**77.20**	54.69	**75.69**	58.44
Realized crude oil hedges ($/bbl)	**(3.63)**	3.01	**(6.33)**	1.69
Crude oil and condensate including hedges ($/bbl)	**73.57**	57.70	**69.36**	60.13
Natural gas liquids ($/bbl)	**43.51**	27.86	**39.02**	28.04
Average sales price before hedges ($/boe)	**29.39**	16.19	**26.11**	20.92
Average sales price including hedges ($/boe)	**28.53**	19.84	**25.63**	22.20
Benchmark pricing				
AECO-C spot gas (CDN$/Mcf)	**1.28**	1.65	**1.50**	2.38
Ontario Dawn gas (CDN$/Mcf)	**3.46**	3.68	**3.62**	4.08
WTI crude oil (US$/bbl)	**69.76**	48.16	**66.70**	49.33
Edmonton City Gate oil (CDN$/bbl)	**80.64**	57.11	**77.14**	61.11
US$/CDN$ exchange rate	**0.78**	0.80	**0.78**	0.77

For the three and nine months ended September 30, 2018, benchmark AECO natural gas prices averaged $1.28/mcf and $1.50/mcf a decrease from $1.65/mcf and $2.38/mcf in 2017, respectively.

The Company realized natural gas prices before hedging for three and nine months ended September 30, 2018 of $2.20/mcf and $2.21/mcf compared to $1.47/mcf and $2.37/mcf in 2017, respectively. The Company's average natural gas price realization in the third quarter of 2018 was a 72 percent premium to AECO compared to a discount of 11 percent in 2017. This increase in pricing is a result from an improvement in the cost of the company's marketing and transportation contracts from prior year with less short term and interruptible service and a diversification away from AECO only pricing.

Beginning in December 2017, the Company increased its firm service with Nova Gas Transmission Ltd ("NGTL") to 35,000 GJ/d at its Simonette property. The first quarter of 2018 reflects all of the Simonette gas flowing under this direct transportation contract. Gas contracts in 2017 were primarily obtained through third parties with pricing at a discount to market or to acquire transportation at a premium to firm service.

On April 1, 2018 the Company began shipping 10,850 GJ/d from AECO to the Dawn, Ontario market providing the Company with some pricing diversification from the AECO hub. Based on current forward looking natural gas prices and currency, Dawn prices, net of transportation costs and fuel, represent a premium to AECO prices.

For the three and nine months ended September 30, 2018, benchmark Edmonton City Gate crude oil prices increased 41 percent and 26 percent from 2017. Benchmark condensate prices for the three and nine months ended September 30, 2018 were at a zero percent and six percent premium to Edmonton City Gate crude oil prices. Crude oil and condensate prices before hedges for the three and nine months ended September 30, 2018 were $77.20/bbl and $75.69/bbl up 41 percent and 30 percent from the same period in 2017. Natural gas liquids prices for the three and nine months ended September 30, 2018 were $43.51/bbl and $39.02/bbl up 56 percent and 39 percent from the same time period in 2017.

COMMODITY PRICE MANAGEMENT

	Three months ended September 30,		**Nine months ended September 30,**	
$(000's)	**2018**	2017	**2018**	2017
Realized gain (loss) on commodity contracts	**(527)**	2,775	**(868)**	3,031
Unrealized gain (loss) on commodity contracts	**425**	(641)	**(1,006)**	6,969
Total	**(102)**	2,134	**(1,874)**	10,000

Cequence has a commodity price risk management program which provides the Company flexibility to enter into derivative and physical commodity contracts to protect future cash flows for planned capital expenditures against an unpredictable commodity price environment.

The fair value of the commodity contracts outstanding at September 30, 2018 was a current liability of $740 and a non-current asset of $11 (December 31, 2017 - current asset of $1,274 and non-current liability of $998). Cequence has the following crude oil hedges as at the date of this MD&A:

Term	Product	Type	Average Volume (bbl/d)	Average Price (CDN$/bbl)	Basis
October 1, 2018 to December 31, 2018	Oil	Swap	300	$71.72	WTI
January 1, 2019 to December 31, 2019	Oil	Swap	200	$89.83	WTI

OPERATING NETBACK

($/boe)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Total revenue[(1)]	**28.53**	19.84	**25.63**	22.20
Royalty expense	**(2.35)**	(0.61)	**(1.77)**	(1.17)
Transportation expense	**(3.03)**	(2.09)	**(2.77)**	(1.93)
Operating costs	**(8.87)**	(9.21)	**(10.22)**	(8.33)
Operating netback [(2)], $/boe	**14.28**	7.93	**10.87**	10.77
Operating netback [(2)], excluding realized hedges , $/boe	**15.14**	4.28	**11.35**	9.49

(1) Total revenue is presented gross of royalties and includes realized gain (loss) on commodity contracts.
(2) See *"Non-GAAP Measures"* for definition of operating netback

Cequence's operating netback per boe, excluding realized hedging for the three and nine months ended September 30, 2018 was $15.14/boe and $11.35/boe compared to $4.28/boe and $9.49/boe in 2017. Including realized hedges, operating netbacks per boe increased by 80 percent and one percent, respectively. The increase in operating netbacks was driven by higher average sales prices more than offsetting higher year-to-date per unit royalty, operating and transportation expenses.

ROYALTY EXPENSE

$(000's)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Crown	**1,229**	185	**2,272**	1,427
Freehold / Overriding	**224**	280	**961**	1,320
Total royalties	**1,453**	465	**3,233**	2,747
Royalties as a percentage of revenue, before hedging	**8%**	4%	**7%**	6%
Per unit of production ($/boe)	**2.35**	0.61	**1.77**	1.17

Royalties as a percentage of revenue, before hedging for the nine months ended September 30, 2018 was higher by 1% from prior year. For the three months ended September 30, 2018 royalty expense increased to eight percent as a result of the expiry of drilling and completion cost allowance (C*) on the Dunvegan wells and lower credits against crown royalties for gas cost allowances . Crown royalties operate on a sliding scale and royalty rates increase when commodity prices increase.

OPERATING COSTS

$(000's)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Operating costs	**5,493**	7,004	**18,640**	19,612
Per unit of production ($/boe)	**8.87**	9.21	**10.22**	8.33

Operating costs for the three and nine months ended September 30, 2018, was $8.87/boe and $10.22/boe compared to $9.21/boe and $8.33/boe for the same period in 2017. Operating costs for the third quarter were $8.87/boe down 4% from the third quarter of 2017 with reduced expenses associated with water handling and associated long term field rentals. One time expenses earlier in the year with the start up of the 3.0 gross (2.0 net) oil wells during spring break up added $0.5 million while the removal of long term rental equipment was approximately $0.4 million. The increase in per unit operating costs year-to-date is also due to the decrease in production volumes year over year with natural gas production decreasing by 28 percent and 28 percent for the three and nine-month periods ended September 30, 2018. Subsequent to the third quarter 2018, Cequence successfully completed a second water disposal well which will continue to reduce trucking and water disposal costs in Simonette.

The Company will continue to monitor production in periods of low commodity and may shut in higher cost, uneconomic production. In such case, per unit operating costs are expected to increase in this case as fixed costs will be allocated to a smaller production base.

TRANSPORTATION EXPENSE

$(000's)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Transportation	**1,876**	1,590	**5,044**	4,548
Per unit of production ($/boe)	**3.03**	2.09	**2.77**	1.93

Transportation expense for the third quarter of 2018 was $3.03/boe, representing an increase of 45 percent from the comparative period in 2017. For the nine months ended September 30, 2018, transportation expense was $2.77/boe, representing an increase of 44 percent from $1.93/boe in 2017. The Company's new Simonette NGTL firm service of 35,000 GJ/d was recognized in the first quarter of 2018 as a transportation expense**.** On April 1, 2018, the Company's Empress to Dawn, Ontario gas contract began with 10,850 GJ/d of volumes contracted at a cost of $0.77 per GJ for a period of 10 years. In the comparable periods of 2017, a portion of the gas contracts obtained through third parties would have been secured as a commodity price offset instead of a transportation expense.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

$(000's)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
G&A expenses	**1,435**	1,054	**4,404**	3,511
Administrative and capital recovery	**(48)**	(39)	**(280)**	(264)
Total G&A expenses	**1,387**	1,015	**4,124**	3,247
Per unit of production ($/boe)	**2.24**	1.33	**2.26**	1.38

G&A costs have increased in 2018 with the Company incurring additional consulting, legal and advisor fees associated with the evaluation of strategic financial alternatives throughout the year. Unit costs have also increased as production volumes are lower in 2018 compared to 2017.

FINANCE COSTS

	Three months ended September 30,		**Nine months ended September 30,**	
$(000's)	**2018**	2017	**2018**	2017
Interest and standby fees expense on credit facilities	**30**	32	**94**	275
Interest expense and standby fees on senior notes and term loan	**948**	1,467	**3,835**	4,354
Refinancing expenses – warrants	**737**	-	**737**	-
Refinancing expense – legal, advisory and professional fees on term loan	**962**	-	**962**	-
Amortization of transaction costs	**134**	112	**371**	326
Accretion expense on senior notes	**105**	87	**288**	251
Accretion expense on provisions	**206**	231	**612**	659
Total finance costs	**3,122**	1,929	**6,899**	5,865
Per unit of production ($/boe)	**5.04**	2.54	**3.78**	2.49
Interest per unit of production ($/boe)	**1.58**	1.97	**2.15**	1.97

Finance costs for the three and nine months ended September 30, 2018 were $3,122 and $6,899 compared to $1,929 and $5,865 in 2017. Finance costs increased in 2018 with additional warrant fair value expense, legal and professional advisor fees associated with the negotiation and refinancing of the Senior Notes which were restructured and extended as announced on July 27, 2018. These expenditures have not been offset or netted against the new Term Loan (as such term is defined in "*Liquidity and Capital Resources – Senior Notes and Term Loan"*) given that it was not an issuance of new debt. Interest and standby fees on the demand credit facility were lower in 2018 as the facility size was reduced. The Company remains undrawn on its senior credit facility.

OTHER INCOME

	Three months ended September 30,		**Nine months ended September 30,**	
$(000's)	**2018**	2017	**2018**	2017
Gain (loss) on sale of property and equipment	**806**	(2)	**2,445**	118
Interest income	**14**	21	**71**	80
Other	**44**	84	**140**	198
Total other income	**864**	103	**2,656**	396

During the nine months ended September 30, 2018, the Company disposed of certain oil and properties and associated decommissioning liabilities for proceeds of $1,929 prior to closing adjustments. The sales resulted in a gain recognized in comprehensive loss of $2,445.

DEPLETION, DEPRECIATION AND IMPAIRMENT

	Three months ended September 30,		**Nine months ended September 30,**	
$(000's)	**2018**	2017	**2018**	2017
Depletion and depreciation expense	**5,019**	5,400	**16,158**	19,258

Impairment loss	**-**	-	**-**	96,200
Total depletion, depreciation and impairment	**5,019**	5,400	**16,158**	115,458
Per unit of production ($/boe)	**8.10**	7.10	**8.86**	49.06
Per unit of production, excluding impairment ($/boe)	**8.10**	7.10	**8.86**	8.18

Depletion and depreciation expense for the three and nine months ended September 30, 2018 was $5,019 ($8.10/boe) and $16,158 ($8.86/boe). Depletion and depreciation expense in 2018 is lower than prior year due to reductions in net book values resulting from the impairment charge in the second quarter of 2017. Unit costs have increased as production volumes are lower between the periods.

Impairment expense recognized for the nine months ended September 30, 2017 was $96,200. The impairment was a result of decreased commodity prices in 2017.

SHARE BASED PAYMENTS

Stock Options

As at September 30, 2018, the Company had 538,083 stock options outstanding with an average exercise price of $11.20. The options have a five-year term and vest evenly over a three-year period on the anniversary date of their grant. For the three and nine months ended September 30, 2018, Cequence recorded $84 and $231 (2017 – $225 and $782) in share based payment expense related to stock options with a corresponding increase to contributed surplus.

Restricted Share Units

The Company issues RSUs as part of its long term incentive program. The program is designed to offer cash compensation based on the underlying value of the RSU unit. RSUs are granted to directors, officers and employees of the Company and vest annually in equal amounts over a three year period. For the three and nine months ended September 30, 2018, Cequence recognized ($38) and ($45) (2017 – ($3) and $81) in share based payment expense related to RSUs with a corresponding increase / (decrease) to share based payment liability.

A summary of the status of the Company's stock option and RSU plans during the nine months ended September 30, 2018 and year ended December 31, 2017 is as follows:

	RSUs		**Stock Options**	
Number (000's) [1]	**2018**	2017	**2018**	2017
Outstanding, beginning of period	**133**	150	**661**	550
Granted	**-**	35	**-**	251
Cancelled/Forfeited	**(19)**	(1)	**(112)**	(5)
Expired	**-**	-	**(11)**	(135)
Settled	**(54)**	(51)	**-**	-
Outstanding, end of period	**60**	133	**538**	661

(1) On October 22, 2018, the Company's shareholders approved the Share Consolidation, which was completed on October 29, 2018 (see "*Third Quarter and Subsequent Highlights*". This MD&A and all information relating to issued and common shares, stock options, warrants, restricted share units and per share amounts, have been restated to reflect the share consolidation for all periods presented.

CAPITAL EXPENDITURES

	Three months ended September 30,		Nine months ended September 30,	
$(000's)	**2018**	2017	**2018**	2017
Land	**179**	198	**526**	625
Geological & geophysical and capitalized overhead	**511**	508	**831**	818
Drilling, completions and workovers	**90**	815	**6,783**	14,543
Equipment, facilities and tie-ins	**339**	1,161	**2,263**	4,275
Office furniture & equipment	**-**	-	**-**	3
Capital expenditures	**1,119**	2,682	**10,403**	20,264
Property dispositions [(1)]	**(500)**	-	**(1,929)**	-
Total capital expenditures	**619**	2,682	**8,474**	20,264

(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, 2018, capital expenditures were $10,403. Capital expenditures were focused at Simonette where the Company completed and tied in 3.0 gross (2.0 net) horizontal Dunvegan wells and drilled 1.0 gross (1.0 net) vertical Dunvegan well.

During the nine months ended September 30, 2018, the Company disposed of certain oil and properties and associated decommissioning liabilities for proceeds of $1,929 prior to closing adjustments. The sales resulted in a gain recognized in comprehensive loss of $2,445.

INCOME TAXES

As at September 30, 2018, the Company has tax pools and available losses of $609,770 (December 31, 2017 - $616,660). Due to the uncertainty of future realization, a deferred tax asset has not been recognized.

At September 30, 2018, Cequence has the following tax pools:

Classification	**Amount $(000's)**	**Annual Deductibility**
Canadian exploration expense	166,252	100%
Non-capital losses	313,796	100%
Undepreciated capital cost	38,053	Primarily 25%, declining balance
Canadian oil and gas property expense	8,048	10%, declining balance
Canadian development expense	56,350	30%, declining balance
Other	27,271	Various
	609,770	

The Company's non-capital losses expire in 2027 and thereafter. Based on the Company's expected cash flow and available tax pools, Cequence does not expect to be taxable for the next three years.

PROVISIONS – DECOMMISSIONING LIABILITIES

Decommissioning liabilities represent the estimated future cost of abandoning and reclaiming the company's oil and natural gas wells and related facilities. Total decommissioning liabilities at September 30, 2018 were $33,987 compared to $38,478 at December 31, 2017. Decommissioning obligations are adjusted periodically for revisions to the future liability costs and the estimated timing of costs to be incurred in future years. The Company estimates that it will incur $1,542 of decommissioning obligations in the twelve months ended September 30, 2019. The following table summarizes the changes in decommissioning liabilities for the respective periods:

	September 30, 2018	December 31, 2017
Balance, beginning of period	**38,478**	38,161
Property dispositions	**(1,637)**	(776)
Accretion expense	**612**	870
Liabilities incurred	**-**	371
Abandonment costs incurred	**(4,002)**	(1,079)
Revisions in estimated cash flows	**2,057**	(185)
Revisions due to change in discount rates	**(1,521)**	1,116
Balance, end of period	**33,987**	38,478

The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are $58,449 (December 31, 2017 - $63,742). These cash flows have been discounted using a risk-free interest rate of 2.42 percent (December 31, 2017 – 2.20 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, 2017 – 1 to 50 years).

LIQUIDITY AND CAPITAL RESOURCES

The Company's capital comprises shareholders' equity, the Credit Facilities (as defined below), the Term Loan (as defined below) and working capital. Cequence manages the capital structure and makes adjustments considering economic conditions and the risk characteristics of the underlying assets. The Company currently has a working capital deficiency as funds flow from operations is not sufficient to meet short-term liabilities. However, Cequence has and will continue to manage its working capital needs through its hedging program, issuing common shares, adjusting capital expenditures, and executing asset dispositions. The Dunvegan oil development and operating results achieved to-date in 2018 and the Company's cost-saving initiatives are anticipated to continue to have a positive impact on funds flow from operations and the working capital deficiency. The Company also has available a $7,000 on demand senior credit facility with no amounts drawn on as at September 30, 2018 (excluding letters of credit of $1,590).

$(000's)	**As at September 30, 2018**	As at December 31, 2017
Cash	**13,423**	10,971
Demand credit facility	**-**	-
Senior notes – principal	**-**	(60,000)
Term loan – principal	**(60,000)**	-
Accounts payable and accrued liabilities	**(26,806)**	(33,106)
Share-based payment liability	**(43)**	(153)
Provisions – current	**(1,542)**	(1,466)
Accounts receivable	**12,407**	14,739
Deposits and prepaid expenses	**886**	514
Net debt [(1)]	**(61,675)**	(68,501)
Funds flow from operations - trailing twelve months [(1)]	**12,599**	19,329
Net debt to funds flow from operations trailing twelve months[(1)]	**4.9:1**	3.5:1

[(1)] Refer to *"Non-GAAP Measures"*

At September 30, 2018, the Company's net debt to funds flow from operations of 4.9 is higher than the Company's long-term internal target of 2:1. The prolonged period of low commodity prices, in particular natural gas pricing in 2017 and 2018, has reduced the Company's funds flow from operations and limited the availability of new capital to repay debt or expand development activity. During this time period, the Company has lowered capital spending, announced a flow through share rights offering and reduced its G&A to manage its leverage and to limit borrowing on its senior credit facility. The Dunvegan oil development and operating results achieved in 2018 together with recent increases to oil pricing are both anticipated to have a positive impact on funds flow from operations.

The Company remains focused on developing the Dunvegan property, identifying and pursuing alternative financing arrangements, property dispositions, corporate mergers or other recapitalization opportunities to further reduce the net debt to funds flow from operations ratio. The Company continuously monitors changes in forecasted funds flow from operations as a result of changes to forward commodity prices and will make adjustments to planned capital expenditures as appropriate.

On July 27, 2018, Cequence announced a series of transactions to refinance the Company's balance sheet and provide greater flexibility and liquidity to execute the ongoing business plan of the Company. The Rights Offering, the extension on the Credit Facility and the restructuring of the Senior Notes are described in more detail below.

Senior Credit Facility

As at September 30, 2018, Cequence had a $7,000 (December 31, 2017 - $12,000) on demand credit facility available from a Canadian chartered bank (the "Credit Facility") and has drawn $nil (December 31, 2017 - $nil) under the facility except for letters of credit outstanding of $1,590 (December 31, 2017 - $1,540).

The Credit Facility has a term maturity date of May 31, 2019 and is secured by a first floating charge debenture, general assignment of book debts and Cequence's oil and natural gas properties and equipment. The Credit Facility may be extended beyond the initial term, if requested by the Company and accepted by the lenders. If the Credit Facility does not continue to revolve, amounts borrowed under the facility must be repaid on the term maturity date. The senior credit facility is reviewed on a semi-annual basis with the lender holding the right to request an additional review. The next scheduled review is expected to be completed in November 2018.

The Credit Facility has a covenant that requires Senior Debt to twelve-month trailing net income (loss) plus finance costs, share-based payment expense, income tax expense (recovery), unrealized loss (gain) on commodity contracts, loss (gain) on sale of property and equipment, depletion and depreciation less costs related to onerous contracts to be less than 3:0 to 1:0, respectively. Senior Debt is defined as the sum of Consolidated Debt less the period end balance of the senior notes. Consolidated Debt is defined as the sum of the Company's period end balance of the credit facility and senior notes. The Company was in compliance with the lender's covenant at September 30, 2018 with a ratio of 0.1 times (December 31, 2017 – 0.1 times).

Senior Notes and Term Loan

In October 2013, Cequence closed an investment with CPPIB Credit Investments Inc., ("CII"), a wholly-owned subsidiary of Canada Pension Plan Investment Board ("CPPIB"), for an initial investment by CII of $60,000 in unsecured five year senior notes (the "Senior Notes") with a further $60,000 of notes available at a future date, subject to the approval of both CII and Cequence on terms to be confirmed at the time of issuance. In addition, Cequence granted CII 3.0 million pre-consolidation warrants to purchase common shares. The initial investment of $60,000 of senior notes were issued at par and carried a 9% coupon rate per annum. A standby charge of 0.7% was applicable to the further $60,000 of notes available at a future date.

On July 27, 2018, Cequence entered into a second lien secured loan agreement with CII for a $60,000 loan facility due October 3, 2022 (the "Term Loan") to refinance the existing Senior Notes. Interest on the Term Loan will be paid quarterly at the rate of 5% per annum if the 12-month trailing Funds Flow from Operations is equal to or less than $40 million; and 10% per annum if the 12-month trailing Funds Flow from Operations is greater than $40 million. Funds Flow from Operations is defined as cash flow from operating activities before decommissioning liability expenditures and net change in non-cash working capital (see "*Non-GAAP Measures*").

Cequence has granted CII second lien security over all of the Company's assets (with the exception of its Simonette joint venture property) through a $100,000 demand debenture, which will rank junior in priority to the security securing the obligations under the Company's Credit Facility pursuant to an intercreditor agreement among the Company's lenders.

The Term Loan was conditional upon the Company raising proceeds of not less than $5 million under the Rights Offering which closed on September 13, 2018 and raised gross proceeds of $8,593.

Term Loan Covenants

The Term Loan is subject to a cross default clause and the same financial covenants as the Company's Credit Facility (described above) as well as certain other non-financial covenants and restrictive covenants, including restrictions over asset sales, restricted payments, the incurrence of additional indebtedness, a limit on the Credit Facility borrowing limit of $20 million, and other transactions outside of the ordinary course of business.

Contractual Obligations and Commitments

Cequence has assumed various contractual obligations and commitments in the normal course of operations and financing activities, which are summarized and discussed below:

	2018	2019	2020	2021	2022+	Total
Term Loan (1)	-	-	-	-	60,000	60,000
Interest payments (1)	750	3,000	3,000	3,000	2,250	12,000
Accounts payable and accrued liabilities	26,806	-	-	-	-	26,806
CDE flow-through share Expenditures (2)	8,593	-	-	-	-	8,593
Office leases	90	261	-	-	-	351
Pipeline transportation	1,536	6,117	6,117	6,117	32,136	52,023
Gas processing	1,047	4,154	4,166	4,154	34,625	48,146
Total	38,822	13,532	13,283	13,271	129,011	207,919

(1) On July 27, 2018, Cequence refinanced the existing Senior Notes with a second lien secured loan for $60 million due October 3, 2022 subject to the successful closing of the Rights Offering. The maturity date and the revised interest rate of 5% have been reflected in the above table.
(2) The Company has committed to fully spend the net proceeds raised under the Rights Offering to drill 2.0 oil wells in the Dunvegan oil formation at Simonette to incur CDE expenditures on a best efforts basis by December 31, 2018 and no later then December 31, 2019.

Cequence has a take or pay agreement for gas processing with the operator of the Simonette gas plant. The minimum commitment under the take or pay is 42 mmcf/d or approximately $4,154 per year concluding April 30, 2030.

In the third quarter of 2017, the Company advanced the start date of approximately 26 mmcf/d of natural gas transportation to December 17, 2017 from April 2018. The contract reduces the Company's reliance on short term and interruptible transportation contracts and is expected to improve netbacks by lowering the cost of transportation or improving sales prices. Beginning December 17, 2017, the Company obtained firm transportation to AECO on the NGLT pipeline system for approximately 35 mmcf/d with a term until March 2026.

In September 2017 the National Energy Board approved TransCanada Pipelines application for new transportation service from Empress, Alberta to Dawn, Ontario. The Company has contracted to ship 10,850 GJ/d of natural gas to the Dawn hub at a cost of $0.77/GJ for a period of 10 years beginning April 1, 2018. The transportation commitment provides market diversification for approximately 33 percent of its current natural gas production. Historically, pricing at the Dawn hub has been at a premium to AECO. As part of this commitment, the Company entered into a five-year contract to transport AECO gas to Empress at an annual cost of approximately $750.

OUTSTANDING SHARE DATA

	November 8, 2018	**September 30, 2018**	December 31, 2017
Common shares (1) (3)	**24,553**	**24,553**	12,277
Stock options (3)	**501**	**538**	661
Restricted share units (3)	**59**	**60**	133
Warrants (2) (3)	**1,841**	**1,991**	150

(1) Cequence is authorized to issue an unlimited number of common voting shares and common non-voting shares with no par value.
(2) 150 warrants have an exercise price of $40.60 to purchase common shares which expired on October 3, 2018. Under the new Term Loan 1,841,459 warrants were issued at an exercise price of $2.00 which expire September 13, 2022.
(3) On October 22, 2018, the Company's shareholders approved the Share Consolidation, which was completed on October 29, 2018 (see *"Third Quarter and Subsequent Highlights")* based on one new common share for every 20 pre-consolidation shares. This MD&A and all information relating to issued and common shares, stock options, warrants, restricted share units and per share amounts, have been restated to reflect the share consolidation for all periods presented.

On July 27, 2018, Cequence launched the Rights Offering, which entitled holders of its common shares as of August 9, 2018 to subscribe for up to 12,276,394 common shares (equivalent to 245,527,883 pre-Share Consolidation common shares) on a Canadian development expenses ("CDE") "flow-through" basis at a price of $0.70 per share (equivalent to a pre-Share Consolidation price of $0.035 per share). The Rights Offering closed on September 13, 2018 and 12,276,394 flow-through common shares were issued for gross proceeds of $8,593.

As part of the refinancing of the Senior Notes, Cequence issued 1,841,459 share purchase warrants (equivalent to 36,829,182 pre-Share Consolidation warrants) entitling CII to purchase common shares of the Company at a price of $2.00 per common share (equivalent to a pre-Share Consolidation $0.10 per common share) which are exercisable for four years from the date of issuance of September 13, 2018.

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,	
$(000's)	**2018**	2017	2016
Cash flow from operating activities	**6,557**	18,227	5,557
Decommissioning liabilities expenditures	**4,002**	539	1,593
Net change in non-cash working capital	**457**	(1,020)	(2,525)
Funds flow from operations (3)	**11,016**	17,746	4,625
Per share – basic and diluted ($)(1)	**0.84**	1.45	0.44
Total revenue (2)	**46,737**	52,251	41,821
Comprehensive loss	**(5,897)**	(92,724)	(18,980)
Per share – basic and diluted ($)(1)	**(0.45)**	(7.55)	1.80
Total assets	**277,616**	280,194	377,116
Demand credit facilities	**-**	-	-
Senior notes and Term Loan– principal	**60,000**	60,000	60,000

(1) On October 22, 2018, the Company's shareholders approved the Share Consolidation, which was completed on October 29, 2018 (see "*Third Quarter and Subsequent Highlights*"). This MD&A and all information relating to issued and common shares, stock options, warrants, restricted share units and per share amounts, have been restated to reflect the share consolidation for all periods presented.
(2) Total revenue is presented gross of royalties and includes realized gains (loss) on commodity contracts.
(3) Funds flow from (used in) operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures and net changes in non-cash working capital. See *"Non-GAAP Measures"*.

Funds flow from operations was $11,016 for the nine months ended September 30, 2018 compared to $17,746 in 2017. The decrease in funds flow from operations is mainly due to decreased production volumes in 2018.

Cequence recorded a comprehensive loss of $5,897 for the nine months ended September 30, 2018 compared to comprehensive loss of $92,724 in 2017. The decrease is mainly due to the impact of the impairment of $96 million recorded in 2017 and decreases in volumes year over year.

QUARTERLY INFORMATION

FINANCIAL

($ thousands except per share data)	**2018 Q3**	**2018 Q2**	**2018 Q1**	**2017 Q4**	**2017 Q3**	**2017 Q2**	**2017 Q1**	**2016 Q4**
Total revenue[1]	**17,680**	14,613	14,443	13,585	15,087	17,810	19,354	17,253
Royalties expense	**1,453**	1,043	737	391	465	927	1,355	467
Transportation expense	**1,876**	1,728	1,440	1,023	1,590	1,650	1,308	1,151
Operating costs	**5,493**	6,758	6,389	7,972	7,004	5,829	6,779	6,184
Comprehensive income (loss)	**573**	(2,745)	(3,725)	(6,638)	(3,076)	(94,899)	5,251	(9,077)
Per share – basic [4]	**0.04**	(0.22)	(0.30)	(0.54)	(0.25)	(7.73)	0.43	(0.77)
Per share – diluted [4]	**0.04**	(0.22)	(0.30)	(0.54)	(0.25)	(7.73)	0.42	(0.77)
Funds flow from operations [2]	**5,589**	2,191	3,236	1,583	3,619	6,781	7,346	6,625
Per share – basic [4]	**0.38**	0.18	0.26	0.13	0.29	0.55	0.60	0.56
Per share – diluted [4]	**0.38**	0.18	0.26	0.13	0.29	0.55	0.59	0.56
Capital expenditures	**1,119**	1,830	7,454	5,593	2,682	2,536	15,046	11,460
Net acquisitions (dispositions) [3]	**(500)**	(1,433)	4	(4,277)	-	-	-	(54)
Net capital expenditures	**619**	397	7,458	1,316	2,682	2,536	15,046	11,406

(1) Total revenue is presented gross of royalties and includes realized gains (loss) on commodity contracts.
(2) Funds flow from (used in) operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures and net changes in non-cash working capital. See *"Non-GAAP Measures"*.
(3) Represents the cash proceeds from the sale of assets and cash paid for the acquisition of assets, as applicable.
(4) On October 22, 2018, the Company's shareholders approved the Share Consolidation, which was completed on October 29, 2018 (see "*Third Quarter and Subsequent Highlights*"). This MD&A and all information relating to issued and common shares, stock options, warrants, restricted share units and per share amounts, have been restated to reflect the share consolidation for all periods presented.

OPERATIONAL

	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4
Production volumes								
Natural gas (Mcf/d)	**29,376**	28,628	34,828	33,331	40,729	42,719	45,214	45,005
Oil (bbls/d)	**1,198**	864	245	283	388	224	481	140
NGLs (bbls/d)	**259**	240	274	257	250	239	270	209
Condensate (bbls/d)	**382**	459	647	617	841	919	814	760
Total (boe/d)	**6,734**	6,334	6,970	6,713	8,266	8,502	9,101	8,609
Average selling price, including realized hedges								
Natural gas ($/Mcf)	**2.20**	2.14	2.70	2.33	2.12	2.83	2.79	2.92
Crude oil and condensate ($/bbl)	**73.57**	68.79	62.59	66.73	57.70	60.11	62.50	56.27
NGLs ($/bbl)	**43.51**	34.91	38.30	38.55	27.86	26.11	29.92	25.61
Total ($/boe)	**28.53**	25.35	23.02	22.00	19.84	23.02	23.63	21.78
Operating netback, including realized hedges ($/boe)								
Price	**28.53**	25.35	23.02	22.00	19.84	23.02	23.63	21.78
Royalties	**(2.35)**	(1.81)	(1.18)	(0.63)	(0.61)	(1.20)	(1.65)	(0.59)
Transportation	**(3.03)**	(3.00)	(2.30)	(1.66)	(2.09)	(2.13)	(1.60)	(1.45)
Operating costs	**(8.87)**	(11.72)	(10.18)	(12.91)	(9.21)	(7.53)	(8.28)	(7.81)
Operating netback	**14.28**	8.82	9.36	6.80	7.93	12.16	12.10	11.93

The company's funds flow from operations and comprehensive income (loss) has been negatively impacted by low commodity prices, in particular natural gas prices. AECO natural gas prices averaged $2.18/Mcf in 2016 and $2.23/Mcf in 2017, significantly lower than previous years. The Company has reduced capital expenditures on new wells during this time period due to lower funds flow from operations and restricted access to cost effective capital.

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 three months ended June 30, 2017, the Company recorded impairment expense of $96,200. During 2015, the Company recorded impairment expense of $230,400, including $144,000 in the fourth quarter. Impairments recognized were mainly the result of the impact of declining benchmark natural gas prices on the estimated future value of the Company's oil and gas reserves. These impairments cause significant reductions and increased volatility in the Company's net comprehensive income (loss).

Please refer to "*Financial and Operating Results*" and other sections of this MD&A and the Company's previously issued MD&A for detailed discussions on variances between reporting periods and changes in prior periods.

OUTLOOK INFORMATION

The Company's guidance for the year ended December 31, 2018 includes the results of the third quarter, the existing 3 gross (2.0 net) Dunvegan oil well results, the restructured $60 million Senior Notes (with its 5% interest rate), $8.59 million gross proceeds from the rights offering, and an additional planned 2 gross (2 net) Dunvegan oil wells drilled, completed, and tied in the fourth quarter. Production from the new wells will not commence until the first quarter of 2019 when oil differentials are expected to improve. With volatility in the oil price differentials and AECO gas prices, Cequence will not be providing 2019 guidance at this time. As Management has demonstrated in the past, continued operating cost improvement initiatives and maximizing netbacks in a volatile commodity cycle will be a focus.

(000's, except per share and per unit references)	Guidance year ended December 31, 2018
Average production, BOE/d [(1)]	**6,500**
Funds flow from operations ($)[(2)]	**13,700**
Funds flow from operations per share[(2) (4)]	**0.86**
Exploration and development expenditures ($)	**20,000**
Net wells	**4.0**
Operating and transportation costs ($/boe)	**14.00**
G&A costs ($/boe)	**2.75**
Royalties (% revenue)	**6**
Crude – WTI (US$/bbl)	**66.40**
Natural gas – AECO (CDN$/GJ)	**1.55**
Period end, net debt ($) [(3)]	**70,950**
Weighted average basic shares outstanding	**15,942**
Common shares outstanding end of period	**24,553**

(1) Average production estimates on a per BOE basis are comprised of 77% natural gas and 23% oil and natural gas liquids in 2018.
(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. See *"Non-GAAP Measures"*.
(3) Net debt is calculated as working capital deficiency (excluding commodity contracts) plus the aggregate principal amount of the term loan.
(4) Weighted fund flow per share calculated as if the ending 24,553,000 common shares at September 30, 2018 were outstanding for the entire period would be $0.56 per share for the year ended December 31, 2018.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer ("CEO") and Contract Interim Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's CEO and CFO have designed, or caused to be designed under their supervision, DC&P 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 applicable securities legislation and include controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

The Committee of Sponsoring Organizations ("COSO") framework provides the basis for management's design of ICFR. The Company's management and 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, 2018, the CEO and CFO have concluded, based on their evaluation of the design and operating effectiveness of the Company's DC&P and ICFR that the DC&P and ICFR are effective.

CHANGES IN ACCOUNTING POLICIES

IFRS 15 “Revenue from contracts with customers”

Cequence adopted IFRS 15 with a date of initial application of January 1, 2018. IFRS 15 replaces existing revenue recognition guidance and provides a single, principles-based five-step model to be applied to all contracts with customers. Cequence used the modified retrospective approach to adopt the new standard, applying the standard retrospectively only to contracts that were not completed contracts on January 1, 2018. Under the transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to deficit. As a result of applying the requirements of IFRS 15, including the application of certain practical expedients such as the right to invoice method of measuring the Company’s progress towards complete satisfaction of its performance obligations, there was no change or adjustments to the Company’s consolidated financial statements as a result of the adoption of IFRS 15. Additional disclosure requirements required by IFRS 15 are detailed in Notes 3 and 7 of the consolidated financial statements.

IFRS 9 “Financial Instruments”

On January 1, 2018, Cequence adopted IFRS 9 as issued by the IASB. IFRS 9 includes a new classification and measurement approach for financial assets and liabilities, and a new expected loss impairment model for financial assets including credit losses. The adoption of IFRS 9 did not have a material impact on Cequence’s consolidated financial statements. Additional disclosures related to Cequence’s financial assets are included in Note 3 and 14 of the consolidated financial statements.

FUTURE ACCOUNTING POLICIES

In January 2017, the IASB issued IFRS 16 “Leases”. For lessees applying IFRS 16, a single recognition and measurements model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 “Revenue from Contracts with Customers”. The Company is currently evaluating the impact of adoption of this standard and the effect on Cequence's consolidated financial statements has not yet been determined.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by Cequence are disclosed in the annual MD&A and consolidated financial statements for the year ended December 31, 2017. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimate amounts that differ materially from current estimates. There have been no significant changes to the critical accounting estimates used in applying accounting policies for the three and nine-month periods ended September 30, 2018.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments, including derivative financial instruments, recognized in the consolidated balance sheet consist of cash, accounts receivable, deposits, commodity contracts, demand credit facilities, senior notes, term loan and accounts payable and accrued liabilities. There have been no significant changes to the financial instruments and related risks that Cequence is exposed to for the three and nine-months periods ended September 30, 2018.

OFF BALANCE SHEET ARRANGEMENTS

The Company has certain lease agreements that are entered into in the normal course of operations, including operating leases for which no asset or liability value has been recorded on the consolidated balance sheet as at September 30, 2018.

The Company has not entered into any guarantee or off balance sheet arrangements that would materially impact the financial position or results of operations as at September 30, 2018.

RISK ASSESSMENT

The acquisition, exploration and development of oil and natural gas properties and the production, transportation and marketing of oil and natural gas involves many risks, which may influence the ultimate success of the Company.

While the management of Cequence realizes these risks cannot be eliminated, they are committed to monitoring and mitigating these risks. These risk include, but are not limited to:

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

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

FORWARD-LOOKING STATEMENTS

Certain statements contained within this MD&A constitute forward-looking statements or forward-looking information under applicable securities legislation. These statements relate to future events or the Company’s future performance and are provided for the purpose of providing information about management’s current expectations and plans relating to the future. Forward-looking statements or information typically contain statements with words such as “anticipate”, “believe”, “continue”, “could”, “estimate” "expect", “forecast”, “forward”, “future”, “may”, “plan”, “predict”, “potential”, "propose", “schedule”, “target”, “thereafter”, “will”, “would” or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this MD&A may include, but are not limited to, statements with respect to: the fact that the Company will continue as a going concern; future capital investments and the repayment of the Company’s debt; the Company’s plans to continue to seek opportunities to divest its British Columbia non-core assets and other property dispositions, and to pursue alternative financing arrangements, mergers or other recapitalization opportunities; the Company’s future cash flows, planned capital expenditures and the source of funding thereof; the Company’s guidance under the heading “Outlook Information”; projections with respect to the Company’s production; future performance expectations of the recently completed Dunvegan wells; drilling, completion and planned production of the new Dunvegan wells, the possible curtailing of gas production due to low AECO prices; the estimated number of oil locations remaining on the Company’s land, the impact of the completion of Cequence’s debt refinancing and the terms thereof; the Company’s lender’s support for the extension and the new borrowing base of the Company’s Credit Facility; the timing and spending of the flow-through CDE; the projection of future royalty, operating, transportation and G&A expenses; the projection of the Company’s future taxability; the projected impact of land access and regulatory issues; the amount of future decommissioning liabilities; projections relating to the volatility of crude oil and natural gas prices in 2018 and beyond; 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; and the impact of Western Canada pipeline constraints. 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.

Readers are cautioned not to place undue reliance on forward-looking statements or information, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. Forward-looking statements or information are based on a number of factors and 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 or information. These assumptions, risks and uncertainties include, among other things: the Company’s ability to realize its assets and discharge its liabilities and commitments in the normal course of business; the Company’s ability to enter into derivative and physical commodity contracts; future production volumes; the impact of increasing competition; the timely receipt of any required regulatory approvals; the Company’s lender’s support for the extension and the new borrowing base of the Credit Facility; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner; the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manner; field production and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development of exploration; forward commodity prices; the timing and costs of pipeline, storage and facility construction; the ability of the Company to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; changes in the regulatory framework regarding royalties, taxes and environmental matters; the ability of the Company to successfully market its oil and natural gas products; assumptions based upon Cequence’s current guidance; product supply and demand; 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 generate sufficient cash flow from operations to meet its current and future obligations; and other risks and uncertainties described from time

to time in the reports and filings made with securities regulatory authorities by Cequence. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which have been used. The material risk factors affecting the Company and its business are contained in the Company's Annual Information Form which is available on SEDAR at www.sedar.com.

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 may not be appropriate for other purposes, such as making investment decisions .

Although Cequence believes that the expectations represented by such forward-looking statements or information are reasonable, there can be no assurance that such expectations will prove to be correct. Furthermore, the forward-looking statements or information 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 or information, whether as a result of new information, future events or otherwise. The forward-looking statements or information contained in this MD&A are expressly qualified by this cautionary statement.