cequence energy ltd

www.cequence-energy.com

HIGHLIGHTS

	Three months ended September 30,			Nine months ended September 30,		
(000's except per share and per unit amounts)	**2013**	2012	% Change	**2013**	2012	% Change
Financial ($)						
Production revenue [1]	**25,325**	17,814	42	**77,134**	53,711	44
Comprehensive loss	**(517)**	(3,824)	(86)	**(1,786)**	(18,339)	(90)
Per share, basic and diluted	**(0.00)**	(0.02)	(100)	**(0.01)**	(0.11)	(91)
Funds flow from operations, excluding termination fee [2]	**10,973**	7,135	54	**36,457**	18,813	94
Funds flow from operations [2]	**10,973**	10,803	2	**36,457**	22,121	65
Per share, basic and diluted	**0.06**	0.06	–	**0.18**	0.13	38
Production volumes						
Natural gas (Mcf/d)	**52,848**	46,641	13	**52,459**	47,200	11
Crude oil (bbls/d)	**844**	606	39	**776**	636	22
Natural gas liquids (bbls/d)	**640**	516	24	**592**	503	18
Total (boe/d)	**10,292**	8,895	16	**10,112**	9,006	12
Sales prices						
Natural gas, including realized hedges ($/Mcf)	**3.08**	2.61	18	**3.49**	2.39	46
Crude oil ($/bbl)	**97.42**	83.38	17	**93.42**	84.48	11
Natural gas liquids ($/bbl)	**47.26**	41.89	13	**45.55**	58.64	(22)
Total ($/boe)	**26.75**	21.77	23	**27.94**	21.77	28
Netback ($/boe)						
Price	**26.75**	21.77	23	**27.94**	21.77	28
Royalties	**(2.44)**	(1.13)	116	**(2.48)**	(1.30)	91
Transportation	**(1.65)**	(2.20)	(25)	**(1.60)**	(2.13)	(25)
Operating costs	**(8.29)**	(6.88)	20	**(7.78)**	(7.72)	1
Operating netback	**14.37**	11.56	24	**16.08**	10.62	51
General and administrative	**(2.02)**	(2.19)	(8)	**(2.06)**	(2.26)	(9)
Interest [5]	**(0.69)**	(0.60)	15	**(0.63)**	(0.65)	(3)
Cash netback	**11.66**	8.77	33	**13.39**	7.71	74
Capital Expenditures ($)						
Capital expenditures	**17,949**	16,818	7	**66,331**	67,661	(2)
Net acquisitions (dispositions) [4]	**(5)**	20	(125)	**(2,628)**	(13,902)	(81)
Total capital expenditures	**17,944**	16,838	7	**63,703**	53,759	18
Net debt and working capital (deficiency) [3]	**(72,984)**	(48,291)	51	**(72,984)**	(48,291)	51
Weighted average shares outstanding						
Basic and diluted	**210,918**	191,612	10	**206,951**	172,832	20

(1) Production revenue is presented gross of royalties and includes realized gains (loss) on commodity contracts.
(2) Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures and net changes in non-cash working capital. For the three and nine months ended September 30, 2012, funds flow from operations included a $3,668 and $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.
(5) Represents finance costs less accretion expense on provisions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial and operating results of Cequence Energy Ltd. ("Cequence" or the "Company") should be read in conjunction with the Company's unaudited condensed consolidated financial statements (the "consolidated financial statements") and related notes for the three and nine months ended September 30, 2013 as well as with the audited consolidated financial statements (the "annual financial statements") and related notes for the years ended December 31, 2012 and 2011.

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

This MD&A is dated November 12th, 2013.

Basis of Presentation

The consolidated 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 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 2013, the ratio between the average price of West Texas Intermediate ("WTI") crude oil at Cushing and NYMEX natural gas was approximately 27:1 ("Value Ratio").The Value Ratio is obtained using the first nine months 2013 WTI average price of $98.09 (US$/Bbl) for crude oil and the first nine months 2013 NYMEX average price of $3.69 (US$/MMbtu) for natural gas.This Value Ratio is significantly different from the energy equivalency ratio of 6:1 and using a 6:1 ratio would be misleading as an indication of value.

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

Non-GAAP Measurements

Within the MD&A references are made to terms commonly used in the oil and gas industry, including 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. Cequence uses net debt and working capital deficiency as it provides an estimate of the Company's assets and obligations expected to be settled in cash.

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

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

Selected Financial Information

A reconciliation of cash flow from operating activities to funds flow from operations and other selected financial information is as follows:

	Three months ended September 30,		Nine months ended September 30,	
$(000's)	**2013**	2012	**2013**	2012
Cash flow from operating activities	**15,233**	13,897	**34,506**	24,475
Decommissioning liabilities expenditures	**93**	100	**482**	824
Net change in non-cash working capital	**(4,353)**	(3,194)	**1,469**	(3,178)
Funds flow from operations	**10,973**	10,803	**36,457**	22,121
Per share, basic and diluted ($)	**0.06**	0.06	**0.18**	0.13
Production revenue	**25,325**	17,814	**77,134**	53,711
Comprehensive loss	**(517)**	(3,824)	**(1,786)**	(18,339)
Per share, basic and diluted ($)	**(0.00)**	(0.02)	**(0.01)**	(0.11)
Total assets	**551,993**	503,521	**551,993**	503,521
Demand credit facilities	**49,218**	30,199	**49,218**	30,199

Cequence recorded a comprehensive loss of $517 for the three months ended September 30, 2013 compared to a loss of $3,824 in 2012.The comprehensive loss in both periods is primarily due to low natural gas prices. AECO spot natural gas prices averaged $2.45 per mcf in the third quarter of 2013 and $2.30 in the third quarter of 2012.

Cequence recorded a comprehensive loss of $1,786 for the three months ended September 30, 2013 compared to a loss of $18,339 in 2012.The decrease in the Company's comprehensive loss for the nine months ended September 30, 2013, was mainly attributable to higher operating netbacks due to increased production volumes and commodity prices. In addition, the Company's 2012 net loss was negatively impacted by impairments recognized on the Company's property and equipment, offset by gains realized on the sale of certain undeveloped land and the receipt of a termination fee on an unsuccessful acquisition.

Funds flow from operations was $10,973 and $36,457 for the three and nine months ended September 30, 2013, respectively, compared to $10,803 and $22,121 in 2012. The increase in funds flow from operations was attributable to increased production volumes and higher natural gas prices compared to the comparative period.

Results of Operations

Production

Average production volumes, revenue and prices for the three and nine months ended September 30, 2013 and 2012 are outlined below:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	**2013**	2012
Natural gas (Mcf/d)	**52,848**	46,641	**52,459**	47,200
Crude oil (bbls/d)	**844**	606	**776**	636
Natural gas liquids (bbls/d)	**640**	516	**592**	503
Total (boe/d)	**10,292**	8,895	**10,112**	9,006
Total production (boe)	**946,883**	818,340	**2,760,508**	2,467,644

Production for the three months and nine months ended September 30, 2013 averaged 10,292 boe/d and 10,112 boe/d, respectively, compared to production of 8,895 boe/d and 9,006 boe/d in 2012. Higher average production resulted from production additions from the Company's drilling program. Cequence's average production is forecast to be 10,000 boe/d for the year ended December 31, 2013.

Revenue

	Three month ended September 30,		Nine months ended September 30,	
$(000's)	**2013**	2012	**2013**	2012
Revenue				
Natural gas	**13,077**	11,083	**48,413**	30,735
Realized gain on natural gas hedges	**1,899**	98	**1,556**	174
Total natural gas	**14,976**	11,181	**49,969**	30,909
Crude oil	**7,566**	4,645	**19,803**	14,716
Natural gas liquids	**2,783**	1,988	**7,362**	8,086
Total production revenue, gross of royalties	**25,325**	17,814	**77,134**	53,711
Average prices				
Natural gas ($/Mcf)	**2.69**	2.58	**3.38**	2.38
Realized natural gas hedge ($/Mcf)	**0.39**	0.03	**0.11**	0.01
Natural gas including hedge ($/Mcf)	**3.08**	2.61	**3.49**	2.39
Crude oil ($/bbl)	**97.42**	83.38	**93.42**	84.48
Natural gas liquids ($/bbl)	**47.26**	41.89	**45.55**	58.64
Average sales price before hedge ($/boe)	**24.74**	21.65	**27.38**	21.70
Average sales price including hedge ($/boe)	**26.75**	21.77	**27.94**	21.77
Benchmark pricing				
AECO-C spot (CDN$/Mcf)	**2.45**	2.30	**3.07**	2.11
WTI crude oil (US$/bbl)	**105.82**	92.20	**98.09**	96.15
Edmonton par price (CDN$/bbl)	**105.36**	84.87	**95.62**	87.56
US$/CDN$ exchange rate	**0.96**	0.99	**0.97**	0.99

Total production revenue, gross of royalties, was $25,325 in the third quarter of 2013 compared to $17,814 in 2012. The increase in revenue is attributable to the 23 percent increase in realized sales prices and 16 percent increase in production. For the nine months ended September 30, 2013, production revenue, gross of royalties, increased 44 percent to $77,134 from $53,711 in the comparable period of 2012.The increase is a result of a 28 percent increase in realized sales prices and a 12 percent increase in production volumes.

Pricing

Cequence's production is approximately 86 percent natural gas and consequently, fluctuations in natural gas prices have a significant impact on the Company's revenue and funds flow. Canadian benchmark natural gas prices averaged $3.07 per mcf during the nine months ended September 30, 2013, an increase of 45 per cent from $2.11 per mcf in 2012.

Realized natural gas prices for the three months ended September 30, 2013 were $2.69 per mcf, up 4 percent from the comparable period in 2012. Realized natural gas prices for the nine months ended September 30, 2013 were $3.38 per Mcf, up 42 percent from the comparable period in 2012. Realized natural gas prices for the nine months ended September 30, 2013 are above benchmark prices as much of the Company's natural gas sells at a premium to AECO due to the heat content of the gas.

Oil prices for the third quarter of 2013 were $97.42 per barrel, up 17 percent from the same time period in 2012. Oil prices for the nine months ended September 30, 2013 were $93.42 per barrel, up 11 percent from the comparable period in 2012.

Natural gas liquids prices for the three months ended September 30, 2013 were $47.26 per barrel, up 13 percent from the same time period in 2012. Natural gas liquids prices for the nine months ended September 30, 2013 were $45.55 per barrel, down 22 percent from 2012.The decline in average realized natural gas liquids prices is due to an increase in ethane and propane production as a percentage of the natural gas liquid mix from prior year. Ethane and propane have the lowest realized price and value of all natural gas liquids.

Upon the commencement of the Aux Sable arrangement in June 30, 2012, a significant portion of the Company's natural gas production from its Simonette property is shipped to the Aux Sable NGL extraction and fractionation plant in Channahon, IL. Cequence continues to sell 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. As a component of this processing arrangement additional ethane and propane volumes were extracted from the Company's raw natural gas.

Commodity Price Management

	Three months ended September 30,		**Nine months ended September 30,**	
$(000's)	**2013**	2012	**2013**	2012
Realized gain on commodity contracts	**1,899**	98	**1,556**	174
Unrealized gain (loss) on commodity contracts	**(426)**	(614)	**56**	(733)
Total	**1,473**	(516)	**1,612**	(559)

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.

For the remainder of 2013, Cequence has hedged approximately 50 percent (24,500 GJ/d) of its forecasted natural gas production volumes net of royalties at an average AECO price of $3.15 per GJ or approximately $3.65 per mcf. Cequence has hedged on average 19,500 GJ/d of estimated 2014 natural gas production volumes at an average price of $3.50 per GJ or approximately $4.06 per mcf.

The fair value of the commodity contracts outstanding at September 30, 2013 was a current asset of $618 and a non-current asset of $195 (December 31, 2012 - current asset of $694 and a non-current asset of $63).

Royalty Expense

	Three months ended September 30,		Nine months ended September 30,	
$(000's)	**2013**	2012	**2013**	2012
Crown	**1,396**	399	**4,122**	1,911
Freehold / Overriding	**909**	523	**2,724**	1,305
	2,305	922	**6,846**	3,216
As a % of Revenue, Before Hedging Activity				
Crown	**6**	2	**6**	4
Freehold / Overriding	**4**	3	**3**	2
	10	5	**9**	6
Per Unit of Production ($/boe)				
Crown	**1.47**	0.49	**1.49**	0.77
Freehold / Overriding	**0.97**	0.64	**0.99**	0.53
	2.44	1.13	**2.48**	1.30

Royalty expense for the three months ended September 30, 2013 was $2,305 or 10 percent of revenue compared to $922 or 5 percent of revenue in 2012. Royalty expense for the nine months ended September 30, 2013 was $6,846 or 9 percent of revenue compared to $3,216 or 6 percent of revenue in 2012. In 2012, crown royalties were lower due to decreased natural gas prices and an adjustment for gas cost allowance recognized. Crown royalties as a percentage of revenue remain low in 2013 due to low natural gas prices and royalty rates of 5 percent on initial production from new horizontal wells. Royalties as a percentage of revenue are within the Company's guidance of approximately 9 percent for the year ended December 31, 2013.

Transportation Expense

	Three months ended September 30,		Nine months ended September 30,	
$(000's)	**2013**	2012	**2013**	2012
Transportation ($)	**1,558**	1,801	**4,407**	5,253
Per unit of production ($/boe)	**1.65**	2.20	**1.60**	2.13

Transportation expense for the three months ended September 30, 2013 was $1.65 per boe, a decrease of 25 percent from the comparative period in 2012. For the nine months ended September 30, 2013, transportation expense decreased to $1.60 per boe from $2.13 per boe in the comparative period in 2012. The decrease is due to lower transportation rates on marketing contracts which were renewed in late 2012. Cequence expects transportation expense to average approximately $1.50 to $1.75 per boe for the year ended December 31, 2013.

Operating Costs

	Three months ended September 30,		Nine months ended September 30,	
$(000's)	**2013**	2012	**2013**	2012
Operating costs ($)	**7,852**	5,627	**21,465**	19,043
Per unit of production ($/boe)	**8.29**	6.88	**7.78**	7.72

For the three months ended September 30, 2013, operating costs increased to $8.29 per boe from $6.88 per boe in the comparative period in 2012. Operating costs for the nine months ended September 30, 2013 were $7.78 per boe compared to $7.72 per boe for the same period in 2012. The increase in third quarter operating costs can be attributed to increased chemical costs and cost escalation in non-core properties due to plant turnarounds, workovers and declining production.

For the three and nine month periods ended September 30, 2013 operating costs in the Company's primary operating area of Simonette were significantly lower than corporate operating costs. For the nine months ended September 30, 2013 Simonette operating costs were $4.95 per boe, a 25 percent improvement from the same period in 2012. Conversely, operating costs in the Company's other properties have increased by 44 percent over the same period of comparison. Simonette currently comprises 66 percent of corporate production and has been the focus of the Company's capital expenditures and production growth for the past three years. Cequence forecasts corporate operating costs to decrease as Simonette production volumes comprise a greater percentage of the Company's total production. The Company's operating costs per boe have been revised to approximately $7.00 per boe from $6.75 per boe for the year ended December 31, 2013.

Operating Netback

	Three months ended September 30,		Nine months ended September 30,	
($/boe)	**2013**	2012	**2013**	2012
Production revenue [1]	**26.75**	21.77	**27.94**	21.77
Royalty expense	**(2.44)**	(1.13)	**(2.48)**	(1.30)
Transportation expense	**(1.65)**	(2.20)	**(1.60)**	(2.13)
Operating costs	**(8.29)**	(6.88)	**(7.78)**	(7.72)
Operating netback, $/boe	**14.37**	11.56	**16.08**	10.62
Operating netback, excluding realized hedges, $/boe	**12.37**	11.44	**15.53**	10.55

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

Cequence's netback for the three months ended September 30, 2013 increased 24 percent to $14.37 per boe from $11.56 per boe in 2012. For the nine months ended September 30, 2013, the netback increased to $16.08 per boe from $10.62 per boe in the comparative period in 2012.The increase in 2013 operating netbacks is mainly due to increased production revenue due to higher production volumes and commodity prices in 2013 compared to 2012.

General And Administrative Expenses

	Three months ended September 30,		Nine months ended September 30,	
$(000's)	**2013**	2012	**2013**	2012
G&A expenses ($)	**1,909**	1,796	**5,691**	5,586
Per unit of production ($/boe)	**2.02**	2.19	**2.06**	2.26

Total general and administrative ("G&A") costs for the three and nine months ended September 30, 2013 were consistent with the prior year as the size and nature of the business have not changed significantly. G&A per boe has decreased in the three and nine month periods primarily as a result of increased production volumes.The Company's G&A expenses per boe for the year ended December 31, 2013 is expected to average approximately $2.00 to $2.25 per boe.

Finance Costs

	Three months ended September 30,		Nine months ended September 30,	
$(000's)	**2013**	2012	**2013**	2012
Interest expense	**656**	492	**1,750**	1,596
Accretion expense on provisions	**216**	187	**615**	523
Total finance costs	**872**	679	**2,365**	2,119
Per unit of production ($/boe)	**0.92**	0.83	**0.86**	0.86
Interest per unit of production ($/boe)	**0.69**	0.60	**0.63**	0.65

Finance costs for the three months ended September 30, 2013 were $872 compared to $679 for the comparative period in 2012. Finance costs for the nine months ended September 30, 2013 were $2,365 compared to $2,119 for the comparative period in 2012.

Other Expense (Income)

	Three months ended September 30,		Nine months ended September 30,	
$(000's)	**2013**	2012	**2013**	2012
Gain on sale of property and equipment	**–**	–	**(1,092)**	(20,390)
Termination fee net of transaction costs	**–**	(3,668)	**–**	(3,308)
Transaction costs	**8**	–	**353**	–
Other	**(16)**	(39)	**(75)**	(37)
Total other expense (income)	**(8)**	(3,707)	**(814)**	(23,735)

During the nine months ended September 30, 2013, the Company completed the sales of certain oil and gas properties for total cash consideration of $2,837 (2012 - $20,662), subject to final adjustments. The sales resulted in a gain recognized in comprehensive loss of $1,092 (2012 - $20,390).

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

On April 15, 2013, the Company acquired oil and gas properties located in the Simonette area of Alberta and recorded transactions costs of $353 related to this acquisition.

Depletion, Depreciation And Impairment

	Three months ended September 30,		Nine months ended September 30,	
$(000's)	**2013**	2012	**2013**	2012
Depletion and depreciation expense	**10,067**	10,018	**30,025**	30,219
Impairment	–	3,284	**2,164**	25,781
Total depletion, depreciation and impairment	**10,067**	13,302	**32,189**	56,000
Per unit of production ($/boe)	**10.63**	16.25	**11.66**	22.69
Per unit of production, excluding impairment ($/boe)	**10.63**	12.24	**10.88**	12.25

Depletion and depreciation expense for the three and nine month periods ended September 30, 2013 was $10,067 ($10.63 per boe) and $30,025 ($10.88 per boe), respectively. Depletion and depreciation rates are similar to the comparable period in 2012 as there have not been significant changes to Cequence's resource base during this time.

Impairment expense for the nine months ended September 30, 2013 was $2,164 compared to $25,781 for the comparable period in 2012. During the three months ended June 30, 2013 the Company recorded an impairment of $2,164 reflecting the difference between the carrying value and fair value of the Fir assets included as consideration transferred in the Simonette property acquisition. Substantially all of the Company's capital expenditures in the past two years have been on the Deep Basin cash generating unit ("CGU"). The 2012 impairment of the Northeast British Columbia and Peace River Arch CGU's resulted largely from declining natural gas prices. The following represents impairment recognized per CGU in the three and nine months ended September 30, 2013 and 2012:

	Three months ended September 30,		Nine months ended September 30,	
$(000's)	**2013**	2012	**2013**	2012
Northeast British Columbia	–	1,000	–	14,931
Peace River Arch	–	2,284	–	10,850
Deep Basin disposition	–	–	**2,164**	–
Total	–	3,284	**2,164**	25,781

Provisions

Decommissioning liabilities

Total decommissioning liabilities at September 30, 2013 were $26,780 compared to $32,564 at December 31, 2012. The following table summarizes the changes in decommissioning liabilities for the respective periods:

(000's)	**September 30, 2013**	December 31, 2012
Balance, beginning of period	**32,564**	28,135
Property acquisitions	**239**	417
Property dispositions	**(1,728)**	(533)
Accretion expense	**606**	730
Liabilities incurred	**739**	1,775
Abandonment costs incurred	**(482)**	(904)
Revisions in estimated cash flows	**(912)**	2,078
Revisions due to change in discount rates	**(4,246)**	866
Balance, end of period	**26,780**	32,564

Onerous contracts

As at September 30, 2013, the Company recognized a provision related to an onerous lease contract of $579 (December 31, 2012 - $812). 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, 2013, Cequence recorded $2,995 (2012 – $4,530) in share based payment expense related to stock options with a corresponding increase to contributed surplus.

	September 30, 2013		December 31, 2012	
	Number of Options (000's)	**Weighted Average Exercise Price $**	Number of Options (000's)	Weighted Average Exercise Price $
Outstanding, beginning of period	**17,289**	**2.19**	13,094	2.54
Granted	**125**	**1.35**	5,118	1.30
Forfeited	**(444)**	**1.92**	(923)	2.20
Exercised	**(8)**	**1.34**	–	–
Outstanding, end of period	**16,962**	**2.19**	17,289	2.19

Common Shares Outstanding

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

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 common shares	17,485	24,429
Share issue costs, net of taxes of $874	–	(2,620)
Balance, December 31, 2012	200,610	$ 606,703
Common shares issued on property acquisition	**10,300**	**17,510**
Common shares issued on exercise of stock options	**8**	**15**
Share issue costs, net of taxes of ($35)	**–**	**104**
Balance, September 30, 2013	**210,918**	**$ 624,332**

On April 15, 2013, the Company issued an aggregate of 10,300,000 Cequence common shares as partial consideration for the acquisition of oil and gas properties located in the Simonette area of Alberta. The common shares were distributed directly to the shareholders of a publicly listed Canadian company.

As of the date of this MD&A, Cequence had the following securities outstanding: 210,917,883 common voting shares, 3,000,000 warrants to purchase common shares, 18,492,375 stock options and 561,000 restricted stock units ("RSU").

The RSU grant represents the first award under the Company's RSU plan. An RSU award entitles the grantee to receive, on each applicable vesting date, the number of common shares pursuant to the terms of the RSU grant or a cash payment equal to the fair market value (determined on a five day volume weighted average) of a common share multiplied by the number of vested RSUs. The RSU's were granted to directors, officers and employees of the Company and vest annually in equal amounts over a three year period.

Capital Expenditures

	Three months ended	September 30,	Nine months ended	September 30,
$(000's)	**2013**	2012	**2013**	2012
Property acquisitions [1]	**12**	20	**209**	6,760
Property dispositions [1]	**(17)**	–	**(2,837)**	(20,662)
Land	**230**	313	**2,333**	866
Geological & geophysical and capitalized overhead	**768**	1,011	**1,682**	3,628
Drilling, completions and workovers	**11,705**	11,625	**42,420**	41,099
Equipment and facilities	**5,240**	3,859	**19,822**	21,954
Office furniture & equipment	**6**	10	**74**	114
Total capital expenditures	**17,944**	16,838	**63,703**	53,759

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

Net capital expenditures for the nine months ended September 30, 2013 increased to $63,703 from $53,759 in 2012. The increase is mainly due the impact of $20,662 of property dispositions and $6,760 of acquisitions in 2012 compared to 2013.

For the nine months ended September 30, 2013, drilling, completion and workover expenditures totalled $42,420 which included the completion of 7.0 gross (5.8 net) horizontal wells.

Equipment and facility expenditures in the nine months ended September 30, 2013 of $19,822 were mainly directed towards a facility expansion for the Simonette compression and dehydration facility, along with additional pipelines.

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 $6,760, subject to adjustments.

During the nine months ended September 30, 2013, the Company completed the sales of certain oil and gas properties for total cash consideration of $2,837 (2012 - $20,662), subject to final adjustments. The sales resulted in a gain recognized in comprehensive loss of $1,092 (2012 - $20,390).

Cequence has budgeted net capital expenditures of $110,000 for the year ended December 31, 2013 and is expected to be focused on the development of the Company's Simonette and Ansell assets. Capital expenditures for the remainder of the year are expected to be funded from cash flow, proceeds from the Notes and borrowing from the Company's senior credit facility. The Company continually monitors fluctuations in natural gas prices and may adjust budgeted discretionary capital spending based on the Company's hedge position and short to medium term natural gas prices.

Property Acquisition

On April 15, 2013, the Company acquired oil and gas properties located in the Simonette area of Alberta. As consideration for the assets, Cequence transferred its interest in its non-operated oil and gas properties located in the Fir area, and issued an aggregate of 10,300,000 Cequence common shares to the Corporation. The Company recorded $353 of transactions costs related to this acquisition. Cequence believes that this expansion and consolidation of its contiguous Montney land position at Simonette has significant present and future economic and strategic value.

Cequence assessed the property acquisition and determined that it constitutes a business combination under IFRS. In a business combination, acquired assets and liabilities are recognized by the acquirer at their fair value at the time of purchase. Any difference between the determined fair value of the assets and liabilities and the purchase price is recognized as either a bargain purchase gain or goodwill in the period of acquisition.

A summary of the acquired property is as follows:

Estimated fair value of acquisition:	
Property and equipment	23,336
Decommissioning liabilities	(239)
Deferred income tax liability	(3)
	23,094
Consideration:	
Common shares issued	17,510
Property and equipment transferred	6,004
Decommissioning liabilities transferred	(420)
	23,094

Income Taxes

At September 30, 2013, a deferred income tax asset of $36,253 (December 31, 2012 - $44,266) has been recognized as the Company believes, based on estimated cash flows, its realization is probable. At September 30, 2013, Cequence has the following tax pools:

Classification	Amount $(000's)
Canadian exploration expense	207,155
Non-capital losses	123,496
Undepreciated capital cost	118,932
Canadian oil and gas property expense	79,362
Canadian development expense	64,092
Scientific research and experimental development tax credit	22,704
Share issue costs	6,537
Investment tax credits	3,981
	626,259

The Company's non-capital losses expire in 2019 and thereafter.

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 $5,016 and exploration expenditures of $23,555 to the holders of flow-through common shares effective December 31, 2012. Deferred tax of approximately $7,143 associated with renouncing the expenditures was recorded on the date of renunciation in the first quarter of 2013, the related obligation on flow-through shares of $4,142 was drawn down and the difference was recognized as deferred income tax expense. As at September 30, 2013, the Company has estimated that it has 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

Cequence's objectives are to maintain a flexible capital structure in order to meet its financial obligations and to execute its business plan throughout the commodity cycle. The Company's capital comprises shareholders' equity, demand credit facilities and working capital. Cequence manages the capital structure and makes adjustments in light of economic conditions and the risk characteristics of the underlying assets.

In October 2013, Cequence closed an investment with CPPIB Credit Investments Inc., ("CII"), a wholly-owned subsidiary of Canada Pension Plan Investment Board ("CPPIB"), for an initial investment by CII of $60 million in unsecured five year notes (the "Notes") with a further $60 million of notes available at a future date, subject to the approval of both CII and Cequence on terms to be confirmed at the time of issuance. In addition, Cequence has granted CII 3.0 million warrants to purchase common shares (the "Warrants"). The investment will allow Cequence to accelerate the development of its assets.

The initial investment of $60 million of notes were issued at par and carry a 9% coupon rate per annum. A standby charge of 0.7% is applied to the further $60 million of notes available at a future date. The Notes, which have make whole and other change of control provisions, have been issued pursuant to a trust indenture with a Canadian trust company (the "Indenture"), which is available under the Company's profile on SEDAR at www.sedar.com. The Indenture contains certain covenants regarding the incurrence of additional debt, the creation of liens in connection with indebtedness, dividends and other distributions, asset sales and other matters, and customary events of default. The Warrants will expire on October 3, 2020 and were issued with an exercise price of $2.03 which was based at a 30 percent premium to the 30 trading day volume weighted average trading price of the Cequence common shares on the TSX ending on the day immediately preceding the closing date.

The proceeds from the Notes issuance will initially be used for the repayment of indebtedness on the senior credit facility. The financial flexibility afforded by the Notes will allow Cequence to accelerate the development of the Company's development of its Simonette project beginning in the fourth quarter of 2013. Capital expenditures are budgeted to increase by $13 million to $110 million for 2013 with an additional 3.0 (2.5 net) wells scheduled to be drilled prior to year end. Using forecasted 2013 cash flow of $50,000 this represents a debt to cash flow ratio of 2.2. Capital expenditures for 2014 are budgeted to be $120 million which the Company expects will increase average production to approximately 13,500 to 14,000 boepd, representing approximately 40 percent growth over guidance provided earlier in the year. Debt to annualized cash flow for 2014 is forecasted to be 1.7 times.

The Company monitors net debt to funds flow as one measure of the Company's ability to manage its debt levels under current operating conditions and meet current obligations as they come due. Management targets a debt to cash flow ratio of less than two times. As at September 30, 2013, the Company's net debt to annualized funds flow ratio was calculated as 1.7:1 (December 31, 2012 – 1:0) based on annualized third quarter results. In a typical year due to seasonality, capital expenditures increase in the winter months and are lower in the spring and early summer. As a result, the Company's accounts payable and accrued liabilities often peak at the end of the first quarter. The Company's budgeted capital expenditures for 2013 and 2014 result in peak first quarter debt to cash flow of approximately 2.5 times.

As disclosed in the annual financial statements, Cequence has periodically issued common shares and flow through common shares to fund a capital program that has been greater than the Company's cash flow. For the nine months ended September 30, 2013, Cequence used funds flow from operations of $36,457 and bank debt to finance its capital expenditures of $63,703.

The Company's credit facility with a syndicate of Canadian chartered banks has been redetermined and is now $120 million after giving effect to the issuance of the Notes. Credit facility A is a $110,000 (December 31, 2012 - $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 (December 31, 2012 - $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. As at September 30, 2013, the Company has drawn $49,218 under the extendible revolving term credit facility and $nil under the operating facility (December 31, 2012 – $23,191 and $nil for the revolving and operating facilities, respectively) and is in compliance with all covenants. The effective annualized interest rate, including standby fees and commitment fees, for the nine months ended September 30, 2013 was 4.5 percent (2012 – 4.4 percent). The next scheduled credit facility review is to take place on May 2014.

The oil and gas business can involve significant capital expenditures as assets are explored for and developed. In order to fund capital expenditures Cequence may adjust the capital structure through the issue of new common shares, new debt or replace existing debt, adjust capital expenditures and acquire or dispose of assets. Historically, a significant portion of the Company's capital expenditures have been discretionary and can be adjusted in response to fluctuation in commodity prices in order to manage the Company's debt levels. The Company has also hedged natural gas production to protect future cash flow.

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, 2013**	As at December 31, 2012
Demand credit facilities	**(49,218)**	(23,191)
Accounts payable and accrued liabilities	**(40,158)**	(42,190)
Accounts receivable	**12,998**	16,084
Deposits and prepaid expenses – current	**3,394**	3,428
Net debt and working capital (deficiency)	**(72,984)**	(45,869)

Contractual Obligations

	2013	2014	2015	2016	2017+	Total
Office leases	**283**	922	187	–	–	1,392
Drilling services	**610**	–	–	–	–	610
Pipeline transportation	**430**	1,708	1,562	–	–	3,700
Total	**1,323**	2,630	1,749	–	–	5,702

The pipeline transportation contract expires on November 30, 2015.

In 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.

In 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 applied as the Company incurs costs related to the use of the drilling rigs and $1,462 has been drawn down at September 30, 2013. Cequence expects to reduce the deposit by $601 in the twelve months ended September 30, 2014, which amount is included with deposits and prepaid expenses at September 30, 2013. The portion of the outstanding deposit expected to be drawn down in the period subsequent to September 30, 2014 of $1,437 is carried as a non-current asset at September 30, 2013.

Disclosure Controls and Internal Controls Over Financial Reporting

The President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's President and Chief Executive Officer and Vice President, Finance and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its President and Chief Executive Officer and Vice President, Finance and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The Committee of Sponsoring Organizations ("COSO") framework provides the basis for management's design of internal controls over financial reporting. Management and the Board work to mitigate the risk of a material misstatement in financial reporting; however, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met and it should not be expected that the disclosure and internal control procedures will prevent all errors or fraud.

As at September 30, 2013, the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have concluded, based on their evaluation of the design and operating effectiveness of the Company's disclosure controls and internal controls over financial reporting ("ICFR") that disclosure controls and ICFR are effective.

Quarterly Information

Financial

($ thousands except per share data)	2013 Q3	2013 Q2	2013 Q1	2012 Q4	2012 Q3	2012 Q2	2012 Q1	2011 Q4
Production revenue [(1)]	**25,325**	29,803	22,005	21,939	17,814	16,032	19,864	23,527
Royalties expense	**2,305**	2,452	2,089	1,546	992	118	2,176	3,063
Transportation expense	**1,558**	1,590	1,259	1,449	1,801	1,661	1,791	1,580
Operating costs	**7,852**	7,867	5,746	5,397	5,627	6,554	6,862	7,022
Comprehensive income (loss)	**(517)**	4,170	(5,439)	666	(3,824)	(6,579)	(7,936)	(15,598)
Per share – basic & diluted	**(0.00)**	0.02	(0.03)	(0.00)	(0.02)	(0.04)	(0.05)	(0.10)
Funds flow from operations [(2)]	**10,973**	14,831	10,652	11,603	10,803	4,563	6,755	10,002
Per share – basic & diluted	**0.06**	0.07	0.05	0.06	0.06	0.03	0.04	0.06
Capital expenditures, net	**17,949**	4,723	43,659	23,997	16,818	9,909	40,934	56,335
Net acquisitions (dispositions) [(3)]	**(5)**	(2,641)	18	644	20	(2,980)	(10,942)	–
Total capital expenditures	**17,944**	2,082	43,677	24,641	16,838	6,929	29,992	56,335

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

(2) Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures, proceeds from the sale of commodity contracts and net changes in non-cash working capital.

(3) Represents the cash proceeds from the sale of assets and cash paid for the acquisition of assets, as applicable.

Operational

	2013 Q3	2013 Q2	2013 Q1	2012 Q4	2012 Q3	2012 Q2	2012 Q1	2011 Q4
Production volumes								
Natural gas (Mcf/d)	**52,848**	58,153	46,306	47,125	46,641	45,042	49,924	47,203
Oil (bbls/d)	**844**	874	608	583	606	618	684	503
NGLs (bbls/d)	**640**	639	496	515	516	535	459	509
Total (boe/d)	**10,292**	11,205	8,822	8,951	8,895	8,660	9,464	8,879
Average selling price								
Natural gas ($/Mcf)	**3.08**	3.85	3.51	3.49	2.61	2.11	2.44	3.59
Oil ($/bbl)	**97.42**	90.56	91.90	86.78	83.38	79.92	89.58	97.15
NGLs ($/bbl)	**47.26**	38.23	52.84	45.83	41.89	59.54	76.63	73.19
Total ($/boe)	**26.75**	29.23	27.72	26.64	21.77	20.34	23.07	28.80
Operating Netback ($/boe)								
Price	**26.75**	29.23	27.72	26.64	21.77	20.34	23.07	28.80
Royalties	**(2.44)**	(2.40)	(2.63)	(1.88)	(1.13)	(0.15)	(2.53)	(3.75)
Transportation	**(1.65)**	(1.56)	(1.59)	(1.76)	(2.20)	(2.11)	(2.08)	(1.93)
Operating costs	**(8.29)**	(7.71)	(7.24)	(6.55)	(6.88)	(8.32)	(7.97)	(8.60)
Operating netback	**14.37**	17.56	16.26	16.45	11.56	9.76	10.49	14.52

Funds flow from operations is impacted from quarter to quarter primarily due to changes in productions volumes, realized average selling prices, royalties, operating expenses, transportation costs and G&A expense. The Company's production volumes are 86 percent natural gas and fluctuations in natural gas prices have the greatest impact on the Company's revenue and funds flow from operations.

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 twelve months ended December 31, 2012, the Company recorded impairment expense of $26,894 compared to $18,332 in the comparable period in 2011. The impairments were incurred on the Company's Northeast British Columbia and Peace River Arch CGUs. Impairments recognized are mainly the result of declining benchmark natural gas prices and minimal capital expenditures being incurred in the Northeast British Columbia and Peace River Arch CGUs as substantially all of the Company's capital expenditures over the past two years have been allocated to the Deep Basin CGU. These impairments cause significant reductions and increased volatility in the Company's net comprehensive income (loss).

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

Accounting policies adopted

On January 1, 2013, Cequence adopted the following standards and amendments, as issued by the IASB:

- IFRS 10, "Consolidated Financial Statements", which is the result of the IASB's project to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.
- IFRS 11, "Joint Arrangements", which is the result of the IASB's project to replace IAS 31, "Interest in Joint Ventures". The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.
- IFRS 12, "Disclosure of Interests in Other Entities", which outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.
- IFRS 13, "Fair Value Measurement", which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements. The adoption of this standard required the Company to provide additional disclosures in the notes to the consolidated financial statements.

Outlook Information

On October 3, 2013 Cequence provided the following guidance.

	2013	2014
Average production (boe/d) [1]	10,000	13,500 - 14,000
Average production per share [2]	47	65
Exit production (boe/d)	12,000	15,000
Funds flow from operations ($) [3]	50 million	85 million
Funds flow from operations per share ($)	0.24	0.39
Capital expenditures ($)	110 million	120 million
Wells drilled	16(13.8)	16(14)
Operating costs ($ per boe)	7.00	6.85
Royalties (% revenue)	9	8
Crude – WTI (US$/bbl)	95.75	95.75
Natural gas – AECO (CDN$/GJ)	3.00	3.50
December 31, net debt and working capital deficiency ($) [4]	110 million	145 million
Basic shares outstanding	211 million	211 million

(1) Average production estimates on a per BOE basis are comprised of 85% natural gas and 15% oil and natural gas liquids.

(2) Calculated as average production per million shares.

(3) 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.

(4) Net debt and working capital (deficiency) is calculated as cash and net working capital less commodity contract assets and liabilities, demand credit facilities and the aggregate principal amount of the Notes and excluding other liabilities.

Capital expenditures for 2013 are expected to be funded from funds flow from operations, available bank lines and proceeds from 2012 equity raises. The Company closely monitors fluctuations in natural gas prices and will adjust the 2013 budget if facts and circumstances require.

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: the potential impact of implementation of the Alberta Royalty Framework on Cequence's condition and projected 2013 capital investments; 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 2013 and beyond and reasons therefore; the Company's projected capital investment levels for 2013 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 Western Canada pipeline constraints. Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur.

By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These assumptions, risks and uncertainties include, among other things: volatility of and assumptions regarding oil and natural gas prices; assumptions based upon Cequence's current guidance; fluctuations in currency and interest rates; product supply and demand; market competition; risks inherent in the Company's marketing operations, including credit risks; imprecision of reserves estimates and estimates of recoverable quantities of oil, natural gas and liquids from resource plays and other sources not currently classified as proved; the Company's ability to replace and expand oil and gas reserves; the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations; the Company's ability to access external sources of debt and equity capital; the timing and cost of well and pipeline constructions; the Company's ability to secure adequate product transportation; changes in royalty, tax, environmental and other laws or regulations or the interpretations of such laws or regulations; risks associated with existing and potential future lawsuits and regulatory actions made against the Company; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Cequence. Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future.

The forward looking statements contained herein concerning production, sales prices, operating expenses and capital spending are based on Cequence's 2013 capital program. The material assumptions supporting the 2013 capital program are provided in the table above under the heading "Outlook Information".

Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. The purpose of such financial outlook is to enrich this MD&A. Readers are cautioned that such financial outlook information contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

Although Cequence believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and, except as required by law, Cequence does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Consolidated Balance Sheets

(Unaudited) (Expressed in thousands of Canadian dollars)

	September 30, 2013	December 31, 2012
	$	$
ASSETS		
CURRENT		
Accounts receivable (Note 5)	**12,998**	16,084
Deposits and prepaid expenses (Note 14)	**3,394**	3,428
Commodity contracts (Note 15)	**618**	694
	17,010	20,206
Exploration and evaluation assets (Note 3)	**16,886**	13,829
Property and equipment (Note 3)	**480,212**	439,059
Deposits and prepaid expenses (Note 14)	**1,437**	1,901
Commodity contracts (Note 15)	**195**	63
Deferred income taxes	**36,253**	44,266
	551,993	519,324
LIABILITIES		
CURRENT		
Demand credit facilities (Note 4)	**49,218**	23,191
Accounts payable and accrued liabilities (Note 6)	**40,158**	42,190
Other liabilities (Note 7)	**317**	4,459
	89,693	69,840
Provisions (Note 11)	**27,042**	33,059
	116,735	102,899
CONTINGENCIES AND COMMITMENTS (Note 14)		
SUBSEQUENT EVENT (Note 18)		
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	**624,332**	606,703
Contributed surplus	**25,546**	22,556
Deficit	**(214,620)**	(212,834)
	435,258	416,425
	551,993	519,324

APPROVED BY THE BOARD

"Donald Archibald"
Donald Archibald, Director

"Brian Felesky"
Brian Felesky, Director

Consolidated Statements of Comprehensive Loss

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	**2013**	2012
	$	$	**$**	$
REVENUE				
Production revenue (Note 8)	**21,121**	16,795	**68,732**	50,321
Gain (loss) on derivative financial instruments (Note 15)	**1,473**	(516)	**1,612**	(559)
	22,594	16,279	**70,344**	49,762
EXPENSES				
Depletion, depreciation and impairment (Note 3)	**10,067**	13,302	**32,189**	56,000
General and administrative	**1,909**	1,796	**5,691**	5,586
Finance costs (Note 10)	**872**	679	**2,365**	2,119
Operating costs	**7,852**	5,627	**21,465**	19,043
Share based payment (Note 13)	**756**	1,454	**2,995**	4,530
Transportation	**1,558**	1,801	**4,407**	5,253
Other expense (income) (Note 9)	**(8)**	(3,707)	**(814)**	(23,735)
	23,006	20,952	**68,298**	68,796
INCOME (LOSS) BEFORE INCOME TAXES	**(412)**	(4,673)	**2,046**	(19,034)
Deferred income tax expense (recovery)	**105**	(849)	**3,832**	(695)
NET LOSS AND COMPREHENSIVE LOSS	**(517)**	(3,824)	**(1,786)**	(18,339)
Loss per share, basic and diluted (Note 17)	**$ (0.00)**	$ (0.02)	**$ (0.01)**	$ (0.11)

Consolidated Statements of Changes in Equity

(Unaudited) (Expressed in thousands of Canadian dollars)

	Nine months ended September 30,	
	2013	2012
	$	$
SHARE CAPITAL		
Common Shares (Note 12)		
Balance, beginning of period	**606,703**	559,371
Shares issued on property acquisition (Note 3)	**17,510**	–
Shares issued on exercise of stock options (Note 13)	**15**	–
Proceeds from shares issued in public offerings	**–**	25,903
Proceeds from shares issued in private placements	**–**	10,000
Share issue costs, net of tax of ($35) (2012 - $615)	**104**	(1,853)
Balance, end of period	**624,332**	593,421
CONTRIBUTED SURPLUS		
Balance, beginning of period	**22,556**	16,839
Share based payment (Note 13)	**2,995**	4,530
Exercise of stock options (Note 13)	**(5)**	–
Balance, end of period	**25,546**	21,369
DEFICIT		
Balance, beginning of period	**(212,834)**	(195,161)
Comprehensive loss	**(1,786)**	(18,339)
Balance, end of period	**(214,620)**	(213,500)
TOTAL EQUITY	**435,258**	401,290

Consolidated Statements of Cash Flows

(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	**2013**	2012
	$	$	**$**	$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net loss	**(517)**	(3,824)	**(1,786)**	(18,339)
Adjustments for non-cash items:				
Depletion, depreciation and impairment	**10,067**	13,302	**32,189**	56,000
Finance costs related to provisions (Note 10)	**216**	187	**615**	523
Share based payment (Note 13)	**756**	1,454	**2,995**	4,530
Unrealized loss (gain) on derivative financial instruments (Note 15)	**426**	614	**(56)**	733
Costs related to onerous contracts (Note 11)	**(80)**	(81)	**(240)**	(241)
Gain on sale of assets (Note 3)	**–**	–	**(1,092)**	(20,390)
Deferred income tax expense (recovery)	**105**	(849)	**3,832**	(695)
Decommissioning liabilities expenditures (Note 11)	**(93)**	(100)	**(482)**	(824)
Net change in non-cash working capital (Note 16)	**4,353**	3,194	**(1,469)**	3,178
	15,233	13,897	**34,506**	24,475
INVESTING				
Property and equipment and exploration and evaluation assets expenditures	**(17,949)**	(16,818)	**(66,331)**	(67,661)
Property acquisitions	**(12)**	(20)	**(209)**	(6,760)
Proceeds from sale of assets (Note 3)	**17**	–	**2,837**	20,662
Net change in non-cash working capital (Note 16)	**10,350**	11,877	**2,973**	(24,697)
	(7,594)	(4,961)	**(60,730)**	(78,456)
FINANCING				
Proceeds from demand credit facilities (Note 4)	**–**	–	**26,027**	41,521
Repayment of demand credit facilities (Note 4)	**(7,952)**	(10,037)	**–**	(22,940)
Issue of common shares (Note 12)	**10**	1,503	**10**	37,572
Share issue costs (Note 12)	**53**	(189)	**139**	(2,468)
Net change in non-cash working capital (Note 16)	**250**	(240)	**48**	200
	(7,639)	(8,963)	**26,224**	53,885
NET DECREASE IN CASH	**–**	(27)	**–**	(96)
CASH, BEGINNING OF PERIOD	**–**	311	**–**	380
CASH, END OF PERIOD	**–**	284	**–**	284
SUPPLEMENTARY INFORMATION				
Income taxes paid	**–**	–	**–**	–
Interest paid	**626**	434	**1,734**	1,651

Notes to the Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2013 with 2012 comparatives
(All figures expressed in thousands except per share amounts unless otherwise noted)

1. Nature and Description of the Company

Cequence Energy Ltd. (the "Company" or "Cequence") is incorporated under the laws of Alberta with common shares that are widely held and listed on the Toronto Stock Exchange. Cequence is engaged in the acquisition, exploration and production of petroleum and natural gas reserves in Western Canada. The registered office of the Company is located at Suite 3100, 525 - 8th Ave. SW, Calgary, Alberta, T2P 1G1.

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

2. Significant Accounting Policies

Statement of compliance and authorization

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

These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2012.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on November 12, 2013.

Basis of presentation

Except as noted below, the consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2012. The consolidated financial statements have been presented in Canadian dollars, which is also the Company's functional currency, rounded to the nearest thousand, unless otherwise indicated.

Accounting policies adopted

On January 1, 2013, Cequence adopted the following standards and amendments, as issued by the IASB:

- IFRS 10, "Consolidated Financial Statements", which is the result of the IASB's project to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

- IFRS 11, "Joint Arrangements", which is the result of the IASB's project to replace IAS 31, "Interest in Joint Ventures". The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.
- IFRS 12, "Disclosure of Interests in Other Entities", which outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.
- IFRS 13, "Fair Value Measurement", which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements. The adoption of this standard required the Company to provide additional disclosures in the notes to the consolidated financial statements (see Note 15).

3. Property and Equipment and Exploration and Evaluation Assets

	Property and equipment	E&E assets	Total
Cost:			
Balance at December 31, 2011	541,204	6,221	547,425
Additions	91,231	427	91,658
Decommissioning obligation additions and change in estimates	4,720	–	4,720
Acquisitions	641	7,181	7,822
Disposals	(1,440)	–	(1,440)
Balance at December 31, 2012	636,356	13,829	650,185
Additions	**63,274**	**3,057**	**66,331**
Decommissioning obligation additions and change in estimates	**(4,419)**	**–**	**(4,419)**
Acquisitions	**23,544**	**–**	**23,544**
Disposals	**(21,978)**	**–**	**(21,978)**
Balance at September 30, 2013	**696,777**	**16,886**	**713,663**
Depletion, depreciation and impairment:			
Balance at December 31, 2011	(131,475)	–	(131,475)
Depletion and depreciation	(39,564)	–	(39,564)
Impairment loss	(26,894)	–	(26,894)
Disposals	636	–	636
Balance at December 31, 2012	(197,297)	–	(197,297)
Depletion and depreciation	**(30,025)**	**–**	**(30,025)**
Impairment loss	**(2,164)**	**–**	**(2,164)**
Disposals	**12,921**	**–**	**12,921**
Balance at September 30, 2013	**(216,565)**	**–**	**(216,565)**
Carrying amounts:			
At December 31, 2012	439,059	13,829	452,888
At September 30, 2013	**480,212**	**16,886**	**497,098**

Costs subject to depletion include $808,882 of estimated future capital costs (December 31, 2012 – $631,687).

The Company's credit facilities are secured by a demand debenture with a first floating charge over all assets of the Company (see note 4).

Impairment

The Company reviewed each CGU comprising its property and equipment at September 30, 2013 for indicators of impairment and determined that there were none.

During the three months ended June 30, 2013, the Company recorded an impairment of $2,164 on its Fir assets which reflected the difference between the carrying value and fair value of the assets included as consideration transferred in the Simonette property acquisition described below.

During the three and nine months ended September 30, 2013 and 2012, the Company recorded the following impairments:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	**2013**	2012
Northeast British Columbia	–	1,000	–	14,931
Peace River Arch	–	2,284	–	10,850
Deep Basin disposition	–	–	**2,164**	–
Total	–	3,284	**2,164**	25,781

Property acquisition

On April 15, 2013, the Company acquired oil and gas properties located in the Simonette area of Alberta. As consideration for the assets, Cequence transferred its interest in its non-operated oil and gas properties located in the Fir area, and issued an aggregate of 10,300,000 Cequence common shares to the Corporation. The Company recorded $353 of transactions costs related to this acquisition (see note 9). Cequence believes that this expansion and consolidation of its contiguous Montney land position at Simonette has significant present and future economic and strategic value.

A property acquisition is accounted for as a business combination when certain criteria are met, such as the acquisition of inputs and processes to convert those inputs into beneficial outputs. Cequence assessed the property acquisition and determined that it constitutes a business combination under IFRS. In a business combination, acquired assets and liabilities are recognized by the acquirer at their fair value at the time of purchase. Any difference between the determined fair value of the assets and liabilities and the purchase price is recognized as either a bargain purchase gain or goodwill in the period of acquisition.

The estimated fair value of the property and equipment acquired was determined using both internal and external estimates. Decommissioning liabilities assumed were determined using the timing and estimated costs associated with the abandonment, restoration and reclamation of the wells and facilities acquired. A summary of the acquired property is as follows:

Estimated fair value of acquisition:	
Property and equipment	23,336
Decommissioning liabilities	(239)
Deferred income tax liability	(3)
	23,094
Consideration:	
Common shares issued	17,510
Property and equipment transferred	6,004
Decommissioning liabilities transferred	(420)
	23,094

If the acquisition had been effective January 1, 2013, the impact on the Company's production revenue and loss before tax would have been immaterial.

Sale of Assets

During the nine months ended September 30, 2013, the Company completed the sales of certain oil and gas properties for total cash consideration of $2,820 (2012 - $20,662), subject to final adjustments. The sales resulted in a gain recognized in comprehensive loss of $1,092 (2012 - $20,390).

4. Demand Credit Facilities

The Company has credit facilities totalling $125,000 with a syndicate of Canadian chartered banks. Credit facility A is a $115,000 (December 31, 2012 - $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 (December 31, 2012 - $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, 2013, the Company has drawn $49,218 under the extendible revolving term credit facility and $nil under the operating facility (December 31, 2012 –

$23,191 and $nil for the revolving and operating facilities, respectively) and is in compliance with all covenants. The effective annualized interest rate, including standby fees and commitment fees, for the nine months ended September 30, 2013 was 4.5 percent (2012 – 4.4 percent). The next scheduled review is to take place on May 2014 (see note 18).

5. Accounts Receivable

	September 30, 2013	December 31, 2012
Trade receivables	**6,413**	7,852
Allowance for doubtful accounts	**(442)**	(515)
Net trade receivables	**5,971**	7,337
Accrued revenue	**6,840**	7,627
Other receivables	**187**	1,120
Total accounts receivable	**12,998**	16,084

6. Accounts Payable and Accrued Liabilities

	September 30, 2013	December 31, 2012
Accounts payable	**10,768**	17,657
Accrued liabilities	**29,390**	24,533
Total accounts payable and accrued liabilities	**40,158**	42,190

7. Other Liabilities

	September 30, 2013	December 31, 2012
Obligations related to onerous contracts – current (Note 11)	**317**	317
Obligations related to flow-through shares	–	4,142
Total other liabilities	**317**	4,459

8. Production Revenue

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	**2013**	2012
Sales of oil and natural gas	**23,426**	17,717	**75,578**	53,537
Less: royalties	**(2,305)**	(922)	**(6,846)**	(3,216)
Total production revenue	**21,121**	16,795	**68,732**	50,321

9. Other Expense (Income)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	**2013**	2012
Gain on sale of property and equipment	**–**	–	**(1,092)**	(20,390)
Termination fee net of transaction costs	**–**	(3,668)	**–**	(3,308)
Transaction costs	**8**	–	**353**	–
Other	**(16)**	(39)	**(75)**	(37)
Total other expense (income)	**(8)**	(3,707)	**(814)**	(23,735)

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

10. Finance Costs

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	**2013**	2012
Interest expense on demand credit facilities (including stand-by fees and commitment fees of $392 (2012 - $223))	**656**	492	**1,750**	1,596
Accretion expense on provisions	**216**	187	**615**	523
Total finance costs	**872**	679	**2,365**	2,119

11. Provisions

Decommissioning liabilities

The following table summarizes the changes in decommissioning liabilities for the nine months ended September 30, 2013 and the year ended December 31, 2012:

	2013	2012
Balance, beginning of period	**32,564**	28,135
Property acquisitions (Note 3)	**239**	417
Property dispositions (Note 3)	**(1,728)**	(533)
Accretion expense	**606**	730
Liabilities incurred	**739**	1,775
Abandonment costs incurred	**(482)**	(904)
Revisions in estimated cash flows	**(912)**	2,078
Revisions due to change in discount rates	**(4,246)**	866
Balance, end of period	**26,780**	32,564

The Company's decommissioning liabilities result from its ownership in oil and natural gas assets including well sites, facilities and gathering systems.The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are $51,800 (December 31, 2012 - $47,549). These cash flows have been discounted using a risk-free interest rate of 3.09 percent (December 31, 2012 - 2.37 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, 2012 – 1 to 50 years). As at September 30, 2013, no funds have been set aside to settle these liabilities (December 31, 2012 – nil).

Onerous contracts

As at September 30, 2013, the Company recognized a provision related to an onerous lease contract of $579 (December 31, 2012 - $812). The provision for onerous lease contract represents the present value of the future lease obligations that the Company is presently obligated to make under a non-cancellable onerous operating lease contract, less revenue expected to be earned on the lease, including estimated future sub-lease revenue. The total estimated, undiscounted cash flows, required to settle the obligations are $588 (December 31, 2012 - $830). These cash flows have been discounted using a risk-free interest rate of 1.21 percent (December 31, 2012 – 1.20 percent) based on Government of Canada three year benchmark bonds.

Cequence expects to reduce the provision by $317 in the twelve months ended September 30, 2014, which amount is included with other liabilities in the consolidated balance sheet (see note 7). The portion of the provision expected to be realized in the period subsequent to September 30, 2014 of $262 is carried with provisions as a non-current liability in the consolidated balance sheet as at September 30, 2013. The estimate may vary as a result of changes in the utilization of the lease premises and the sub-lease arrangements, where applicable. The unexpired term of the leases at September 30, 2013 is 22 months.

12. Share Capital

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

	Nine months ended September 30, 2013		**Year ended December 31, 2012**	
Issued common voting shares	**Number**	**Stated Value**	Number	Stated Value
	(000's)	**$**	(000's)	$
Balance, beginning of period	**200,610**	**606,703**	161,856	559,371
Common shares	**8**	**15**	21,269	25,523
Common shares issued on property acquisition (Note 3)	**10,300**	**17,510**	–	–
Flow-through common shares	–	–	17,485	24,429
	210,918	**624,228**	200,610	609,323
Share issue costs, net of taxes of ($35) (2012 - $874)	–	**104**	–	(2,620)
Balance, end of period	**210,918**	**624,332**	200,610	606,703

13. Share Based Payment Plans

Stock options

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

A summary of the status of the Company's stock option plan and changes during the nine months ended September 30, 2013 and year ended December 31, 2012 is as follows:

	September 30, 2013		December 31, 2012	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
	(000's)	**$**	(000's)	$
Outstanding, beginning of period	**17,289**	**2.19**	13,094	2.54
Granted	**125**	**1.35**	5,118	1.30
Forfeited	**(444)**	**1.92**	(923)	2.20
Exercised	**(8)**	**1.34**	–	–
Outstanding, end of period	**16,962**	**2.19**	17,289	2.19

The following table summarizes information about stock options outstanding at September 30, 2013:

		Options Outstanding		Options Exercisable	
Range of Exercise Price	Weighted Average Exercise Price	Number of Options Outstanding	Weighted Average Contractual Life Remaining	Number of Options	Weighted Average Exercise Price
$	$	(000's)	(years)	(000's)	$
1.24 – 1.99	1.72	12,938	2.7	9,417	1.87
2.96 – 3.94	3.69	4,024	2.8	2,419	3.70
	2.19	16,962	2.7	11,836	2.24

During the nine months ended September 30, 2013, $2,995 (2012 - $4,530) in share based payment expense related to equity-settled stock options has been recognized in comprehensive loss.

14. Contingencies and Commitments

	2013	2014	2015	2016	2017+	Total
Office leases	283	922	187	–	–	1,392
Drilling services	610	–	–	–	–	610
Pipeline transportation	430	1,708	1,562	–	–	3,700
Total	1,323	2,630	1,749	–	–	5,702

The pipeline transportation contract expires on November 30, 2015.

In 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.

In 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 applied as the Company incurs costs related to the use of the drilling rigs and $1,462 has been drawn down at September 30, 2013. Cequence expects to reduce the deposit by $601 in the twelve months ended September 30, 2014, which amount is included with deposits and prepaid expenses at September 30, 2013. The portion of the outstanding deposit expected to be drawn down in the period subsequent to September 30, 2014 of $1,437 is carried as a non-current asset at September 30, 2013.

15. Financial Instruments and Risk Management

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

The Company's accounts receivable, demand credit facilities and accounts payable and accrued liabilities approximate their carrying values due to their short terms to maturity and the floating interest rate on the Company's debt. As at September 30, 2013, the accounts receivable balance was $12,998 of which $2,300 was past due. The past due accounts are considered collectible, except as provided for in the allowance for doubtful accounts. The following tables provides an aging analysis of the Company's accounts receivables:

Current	30-60 days	60-90 days	90+days	Total
9,446	757	495	2,300	12,998

The Company's fair value hierarchy for those assets and liabilities measured at fair value as of September 30, 2013 comprises cash, which is considered a level 1 financial instrument and commodity contracts. Cequence's commodity contracts are measured at level 2 under the Company's fair value hierarchy as of September 30, 2013. The fair value of commodity contracts is determined by discounting the remaining contracted petroleum and natural gas volumes by the difference between the contracted price and published forward price curves as at the balance sheet date.

The nature of these financial instruments and the Company's operations expose the Company to market risk, credit risk and liquidity risk. The Company manages its exposure to these risks by operating in a manner that minimizes these risks. Senior management employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Company's business objectives and risk tolerance levels. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established policies in setting risk limits and controls and monitors these risks in relation to market conditions. There have not been any changes to the Company's exposure to risks, or the objectives, policies and processes to manage these risks from December 31, 2012.

Commodity price risk

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

During the nine months ended September 30, 2013, the Company entered into several commodity derivative financial instrument contracts. The following information presents all outstanding positions for commodity derivative financial instruments at September 30, 2013:

Term	Product	Type	Volume	Price	Basis
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, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.40	AECO
March 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.03	AECO
March 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.17	AECO
May 1, 2013 to October 31, 2013	Gas	Swap	2,500 gj/day	$3.49	AECO
January 1, 2014 to September 30, 2014	Gas	Swap	2,500 gj/day	$3.51	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.42	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.53	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.70	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.47	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.40	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.45	AECO
November 1, 2014 to March 31, 2015	Gas	Swap	2,500 gj/day	$3.70	AECO
January 1, 2013 to December 31, 2013	Oil	Sold Call	200 bbls/day	$110.00 USD	WTI

For the nine months ended September 30, 2013, the realized gain from commodity derivative contracts recognized in comprehensive loss was $1,556 (2012 - $174 gain).

The fair value of the commodity contracts outstanding at September 30, 2013 was a current asset of $618 and non-current asset of $195 (December 31, 2012 - current asset of $694 and non-current asset of $63).

For the nine months ended September 30, 2013, the Company recorded an unrealized gain of $56 from derivative commodity contracts (2012 - $733 loss).

As at September 30, 2013, an increase in gas price of $0.50/gj results in an decrease in the fair value of the commodity contracts of $4,179 ($3,134 after tax) and a commensurate increase to comprehensive loss.

16. Changes in Non-Cash Working Capital

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	**2013**	2012
Accounts receivable	**2,440**	3,610	**3,086**	7,023
Deposits and prepaid expenses	**317**	443	**498**	(163)
Accounts payable and accrued liabilities	**12,196**	10,778	**(2,032)**	(28,179)
Net change in non-cash working capital	**14,953**	14,831	**1,552**	(21,319)
Allocated to:				
Operating activities	**4,353**	3,194	**(1,469)**	3,178
Investing activities	**10,350**	11,877	**2,973**	(24,697)
Financing activities	**250**	(240)	**48**	200
	14,953	14,831	**1,552**	(21,319)

17. Loss Per Share

Loss per share has been calculated based on the weighted average number of common shares outstanding during the respective periods. No stock options have been included in the calculation of diluted shares outstanding for the three or nine months ended September 30, 2013 (2012 – none) as their inclusion would be anti-dilutive. The following table reconciles the denominators used for the basic and diluted loss per share calculations.

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	**2013**	2012
Basic weighted average shares	**210,918**	191,612	**206,951**	172,832
Effect of dilutive stock options	**–**	–	**–**	–
Diluted weighted average shares	**210,918**	191,612	**206,951**	172,832

18. Subsequent Event

On October 3, 2013, Cequence entered into a private transaction for the issuance of $60,000 in unsecured five year notes (“notes”) with a further $60 million of notes available at a future date, subject to the approval by both parties. The initial investment of $60 million of notes were issued at par and carry a 9% coupon rate per annum, a standby charge of 0.7% is applied to the further $60 million of notes available at a future date. In conjunction with the issuance, the Company’s credit facility borrowing base has been redetermined to $120 million and will be undrawn after giving effect to the issuance of the notes. In addition, Cequence has granted, to the lender of the notes, 3.0 million warrants at an exercise price of $2.03 to purchase common shares.

Corporate Information

Management

Paul Wanklyn
President & CEO

Howard Crone, P.Eng
Executive Vice President & COO

David Gillis, CA
Vice President, Finance & CFO

James R. Jackson, P.Eng, CFA
Vice President, Engineering

David P. Robinson
Vice President, Geology

Christopher C. Soby
Vice President, Land

Stephen R. Stretch
Vice President, Geophysics

Mike Stewart
Vice President, Operations

Erin Thorson, CMA
Controller

Directors

Don Archibald
Chairman

Peter Bannister
Robert C. Cook
Howard Crone
Brian Felesky
James K. Gray [1]
Francesco Mele
Paul Wanklyn
Daryl Gilbert

(1) Director Emeritus

Transfer Agent and Registrar

Valiant Trust Company
Calgary, Alberta

Head Office

Suite 3100, 525 8th Avenue SW
Calgary, Alberta T2P 1G1
T: 403-229-3050
F: 403-229-0603
E: info@cequence-energy.com
W: www.cequence-energy.com

Auditors

Deloitte LLP
Calgary, Alberta

Bankers

Canadian Imperial Bank of Commerce
Calgary, Alberta

National Bank of Canada
Calgary, Alberta

Bank of Montreal
Calgary, Alberta

Legal Counsel

Norton Rose Canada LLP
Calgary, Alberta

Evaluation Engineers

GLJ Petroleum Consultants
Calgary, Alberta

Stock Exchange Listing

Toronto Stock Exchange
Symbol: CQE

Suite 3100, 525 - 8th Avenue S.W.
Calgary, Alberta T2P 1G1

www.cequence-energy.com