

## FINANCIAL HIGHLIGHTS

(000's except per share and per unit amounts)	Three months ended September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
<b>FINANCIAL</b>						
Total revenue <sup>(1)</sup>	15,087	14,707	3	52,251	41,821	25
Comprehensive loss	(3,076)	(880)	250	(92,724)	(18,980)	389
Per share - basic and diluted	(0.01)	(0.00)	n/a	(0.38)	(0.09)	322
Funds flow from operations <sup>(2) (5)</sup>	3,619	3,385	7	17,746	4,625	284
Per share, basic and diluted	0.01	0.02	(50)	0.07	0.02	250
Capital expenditures, before acquisitions (dispositions)	2,682	2,810	(5)	20,264	11,130	82
Capital expenditures, including acquisitions (dispositions)	2,682	(2,357)	214	20,264	5,890	244
Net debt <sup>(3)</sup>	68,407	67,913	1	68,407	67,913	1
Weighted average shares outstanding - basic & diluted	245,528	211,028	16	245,528	211,028	16
<b>OPERATING</b>						
<b>Production volumes</b>						
Natural gas (Mcf/d)	40,729	44,320	(8)	42,871	45,562	(6)
Crude oil (bbls/d)	388	175	122	364	190	92
Natural gas liquids (bbls/d)	250	261	(4)	253	247	2
Condensate (bbls/d)	841	798	5	858	869	(1)
Total (boe/d)	8,266	8,621	(4)	8,620	8,899	(3)
<b>Sales prices</b>						
Natural gas, including realized hedges (\$/Mcf)	2.12	2.28	(7)	2.59	2.05	26
Crude oil and condensate, including realized hedges (\$/bbl)	57.70	53.78	7	60.13	51.00	18
Natural gas liquids (\$/bbl)	27.86	24.09	16	28.04	20.89	34
Total (\$/boe)	19.84	18.54	7	22.20	17.15	29
<b>Netback (\$/boe)</b>						
Price, including realized hedges	19.84	18.54	7	22.20	17.15	29
Royalties	(0.61)	(0.80)	(24)	(1.17)	(0.44)	166
Transportation	(2.09)	(1.26)	66	(1.93)	(1.18)	64
Operating costs	(9.21)	(7.85)	17	(8.33)	(8.72)	(4)
Operating netback	7.93	8.63	(8)	10.77	6.81	58
General and administrative <sup>(5)</sup>	(1.33)	(2.49)	(47)	(1.38)	(3.08)	(55)
Interest <sup>(4)</sup>	(1.97)	(1.94)	2	(1.97)	(1.93)	2
Cash netback	4.63	4.20	10	7.42	1.80	312

<sup>(1)</sup> Total revenue is presented gross of royalties and includes realized gains (loss) on commodity contracts.

<sup>(2)</sup> 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.

<sup>(3)</sup> Net debt is calculated as working capital (deficiency) less the principal value of senior notes.

<sup>(4)</sup> Represents finance costs less amortization on transaction costs and accretion expense on senior notes and provisions.

<sup>(5)</sup> For the three and nine months ended September 30, 2016, general and administrative expenses and funds flow from operations includes \$410 and \$2,341 in restructuring charges (2017 - \$nil).

# 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, 2017 as well with the audited consolidated financial statements (the "annual financial statements") and related notes for the years ended December 31, 2016 and 2015. 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. Further details are provided in note 2 of the consolidated financial statements.

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](http://www.sedar.com).

This MD&A is dated November 9, 2017.

## **BASIS OF PRESENTATION**

The consolidated financial statements and comparative information have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". 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 nine months ended September 30, 2017 the ratio between the average price of West Texas Intermediate ("WTI") crude oil at Cushing and NYMEX natural gas was approximately 16:1 ("Value Ratio"). The Value Ratio is obtained using the nine months of 2017 WTI average price of \$49.33 (US\$/Bbl) for crude oil and the nine months of 2017 NYMEX average price of \$3.05 (US\$/MMbtu) for natural gas. This Value Ratio is significantly different from the energy equivalency ratio of 6:1 and using a 6:1 ratio would be misleading as an indication of value.

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

## **NON-GAAP MEASUREMENTS**

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

Operating netback is not defined by IFRS in Canada and is referred to as 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 referred to as 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) less the principal value of senior notes. For this calculation, Cequence uses the principal value of the senior notes rather than the carrying value on the statement of financial position as it reflects the 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. The Company also has assets in Northeast British Columbia and the Peace River Arch of Alberta. The common shares of Cequence trade on the Toronto Stock Exchange under the symbol CQE.

Year to date, commodity prices are significantly higher than in 2016 and Cequence's average realized price before hedging increased by 46 percent. However, AECO natural gas prices declined significantly in the third quarter averaging \$1.65/mcf compared to \$2.78/mcf in the second quarter of 2017. The Company remains cautious on the outlook for future natural gas prices and has adjusted its capital expenditure plan accordingly.

Crude oil prices have outperformed natural gas prices and the Company's planned winter drilling program will be directed toward its Dunvegan oil asset. The Company plans to drill 3.0 (2.0 net) Dunvegan oil wells that are expected to be on production in March 2018.

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's funds flow from operations for the nine months ended September 30, 2017 has increased by 284 percent from prior year and the cost structure has improved with meaningful reductions in operating and general and administrative expenses. The Company continues to be committed to pursuing initiatives that will improve its liquidity, long term sustainability and enhance shareholder value.

Financial leverage has significantly improved over the past year as the Company prudently managed total debt levels. September 30, 2017 net debt is forecast to be approximately \$68,407 (December 31, 2016 - \$64,031) or 2.8 times trailing annual funds flow (December 31, 2016 - 5.7 times).

## FINANCIAL AND OPERATING RESULTS

### PRODUCTION

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Natural gas (Mcf/d)	40,729	44,320	42,871	45,562
Crude oil (bbls/d)	388	175	364	190
Natural gas liquids (bbls/d)	250	261	253	247
Condensate (bbls/d)	841	798	858	869
Total (boe/d)	8,266	8,621	8,620	8,899
Total production (boe)	760,483	793,117	2,353,260	2,438,365

Production for the three and nine months ended September 30, 2017 averaged 8,266 boe/d and 8,620 boe/d compared to production of 8,621 boe/d and 8,899 boe/d, respectively in 2016. Sequentially, third quarter production decreased three percent from the second quarter of 2017. The Company did not add any new wells during the quarter.

Late in the third quarter the Company shut in some higher cost production in response to spot AECO natural gas prices that were below \$1/mcf. Weak pricing persisted in October and this production remained shut in until November 1. In addition, the Company shut in the entire Simonette field for one week in October to conduct water transfer and disposal operations that utilized field production infrastructure and avoiding additional trucking costs. Management estimates that this operation saved approximately \$600 on trucking expenses while conserving reserves during a period where operating netbacks were very low. As a result of the additional production downtime, 2017 annual production guidance has been reduced to 8,250 boe/d from 8,500 – 8,700 boe/d.

### PRODUCTION REVENUE

\$(000's)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Sales of natural gas, oil and condensate	12,312	13,524	49,220	34,840
Royalties	(465)	(637)	(2,747)	(1,075)
Production revenue	11,847	12,887	46,473	33,765

Production revenue was \$11,847 and \$46,473 in the three and nine months ended September 2017 compared to \$12,887 and \$33,765 in 2016. Third quarter production revenue declined from prior year due reductions in production volumes of four percent and average prices before hedging of five percent.

The increase in year to date production revenue is attributable to a 46 percent increase in realized sales prices before hedging offset by a three percent decrease in production and increased royalty expense in 2017.

## 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. The Company consistently hedges forward crude oil and natural gas production and includes the realized hedging gains and losses in assessing total revenue.

\$(000's)	Three months ended September 30,			2017 Total	2016 Total
	Natural gas	Crude oil and condensate	Natural gas liquids		
Sales of natural gas, oil and condensate	5,491	6,181	640	<b>12,312</b>	13,524
Realized gain on commodity contracts	2,435	340	-	<b>2,775</b>	1,183
Total revenue <sup>(1)</sup>	7,926	6,521	640	<b>15,087</b>	14,707

<sup>(1)</sup> Refer to non-GAAP measurements.

\$(000's)	Nine months ended September 30,			2017 Total	2016 Total
	Natural gas	Crude oil and condensate	Natural gas liquids		
Sales of natural gas, oil and condensate	27,789	19,495	1,936	<b>49,220</b>	34,841
Realized gain on commodity contracts	2,467	564	-	<b>3,031</b>	6,980
Total revenue <sup>(1)</sup>	30,256	20,059	1,936	<b>52,251</b>	41,821

<sup>(1)</sup> Refer to non-GAAP measurements.

Total revenue in the third quarter of 2017 increased three percent compared to 2016 as higher realized hedging gains offset the nine percent decline in sales of natural gas, oil and condensate. For the nine months ended September 30, 2017, total revenue increased 25 percent from the comparable period of 2016 as the average realized sales prices before hedging increased by 46 percent from the prior year.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<b>Average prices</b>				
Natural gas (\$/Mcf)	<b>1.47</b>	2.05	<b>2.37</b>	1.59
Realized natural gas hedges (\$/Mcf)	<b>0.65</b>	0.23	<b>0.22</b>	0.46
Natural gas including hedges (\$/Mcf)	<b>2.12</b>	2.28	<b>2.59</b>	2.05
Crude oil and condensate (\$/bbl)	<b>54.69</b>	51.02	<b>58.44</b>	46.89
Realized crude oil hedges (\$/bbl)	<b>3.01</b>	2.76	<b>1.69</b>	4.11
Crude oil and condensate including hedges (\$/bbl)	<b>57.70</b>	53.78	<b>60.13</b>	51.00
Natural gas liquids (\$/bbl)	<b>27.86</b>	24.09	<b>28.04</b>	20.89
Average sales price before hedges (\$/boe)	<b>16.19</b>	17.05	<b>20.92</b>	14.29
Average sales price including hedges (\$/boe)	<b>19.84</b>	18.54	<b>22.20</b>	17.15
<b>Benchmark pricing</b>				
AECO-C spot (CDN\$/Mcf)	<b>1.65</b>	2.38	<b>2.38</b>	1.87
NYMEX HH Gas (US\$/Mcf)	<b>2.95</b>	2.79	<b>3.05</b>	2.34
WTI crude oil (US\$/bbl)	<b>48.16</b>	44.88	<b>49.33</b>	41.27
Edmonton par price (CDN\$/bbl)	<b>57.11</b>	54.34	<b>61.11</b>	50.28
US\$/CDN\$ exchange rate	<b>0.80</b>	0.77	<b>0.77</b>	0.76

Following a constructive start to 2017 AECO benchmark natural gas prices declined significantly in the third quarter. For the three months ended September 30, 2017, benchmark AECO natural gas prices averaged \$1.65/mcf after averaging \$2.74/mcf for the first six months of 2017. AECO basis differentials to NYMEX widened as WCSB supply has remained strong despite ongoing pipeline maintenance that reduced capacity and limited available storage.

The Company realized natural gas prices before hedging for three months ended September 30, 2017 of \$1.47/mcf compared to \$2.05/mcf in 2016. For the nine months ended September 30, 2017, realized natural gas prices increased to \$2.37/mcf compared to \$1.59/mcf in 2016.

The Company's average natural gas price realization in the third quarter of 2017 was an 11 percent discount to AECO compared to a discount of 14 percent in 2016 which reflects the high cost of the Company's historical marketing contracts. Since the fourth quarter of 2015, the Company marketed its gas using short term transportation and sales contracts on both the Alliance and TCPL pipeline systems. The limited availability of transportation often resulted in contracts to purchase gas from the Company at a discount to market or to acquire transportation at a premium to firm service.

In the third quarter, the Company advanced the start date of approximately 26 mmcf/d of natural gas transportation to December 17, 2017 from April 2018. The Company will now have firm service from its Simonette property to AECO of 35 mmcf/d until March 2026. The Company will no longer rely on short term and interruptible service which is expected to improve the Company's netbacks by approximately \$0.20/mcf or \$1.20/boe. The cost of this transportation will be reported as transportation expense and the Company expects its sales pricing to be at a premium to AECO based on its heat content.

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 20 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 the Empress at an annual cost of approximately \$750.

For the three and nine months ended September 30, 2017, benchmark Edmonton par crude oil prices increased five percent and 22 percent from 2016. Strong demand in Alberta for condensate results in Canadian benchmark condensate prices that are a premium to par prices. For the three and nine months ended September 30, 2017, the condensate benchmark prices were a four percent and six percent premium to Edmonton par. Crude oil and condensate prices before hedges for the three and nine months ended September 30, 2017 were \$54.69/bbl and \$58.44/bbl up 7 percent and 25 percent respectively from the same period in 2016. Natural gas liquids prices for the three and nine months ended September 30, 2017 were \$27.86/bbl and \$28.04/bbl up 16 percent and 34 percent from the same time period in 2016.

## COMMODITY PRICE MANAGEMENT

\$(000's)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Realized gain on commodity contracts	2,775	1,183	3,031	6,980
Unrealized gain (loss) on commodity contracts	(641)	73	6,969	(3,891)
Total	2,134	1,256	10,000	3,089

Sequence 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, 2017 was a current asset of \$2,319 (December 31, 2016 - current liability of \$4,491 and non-current liability of \$159). Cequence has the following natural gas and crude oil hedges as at the date of this MD&A:

Term	Product	Type	Average Volume (GJ/d)	Average Price (\$/GJ)	Average Price (\$/mcf) <sup>(1)</sup>	Basis
October 1, 2017 to December 31, 2017	Gas	Swap	20,027	\$2.76	\$2.96	AECO
January 1, 2018 to March 31, 2018	Gas	Swap	12,500	\$3.01	\$3.22	AECO

<sup>(1)</sup> The conversion from GJ to Mcf is based on estimated average natural gas heat content of 37.8 MJ/m<sup>3</sup>

Term	Product	Type	Average Volume (bbl/d)	Average Price (CDN\$/bbl)	Basis
October 1, 2017 to December 31, 2017	Oil	Swap	400	\$69.58	WTI
January 1, 2018 to March 31, 2018	Oil	Swap	500	\$67.17	WTI
April 1, 2018 to June 30, 2018	Oil	Swap	500	\$63.35	WTI
July 1, 2018 to December 31, 2018	Oil	Swap	100	\$68.25	WTI

## OPERATING NETBACK

\$(boe)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Total revenue <sup>(1)</sup>	<b>19.84</b>	18.54	<b>22.20</b>	17.15
Royalty expense	<b>(0.61)</b>	(0.80)	<b>(1.17)</b>	(0.44)
Transportation expense	<b>(2.09)</b>	(1.26)	<b>(1.93)</b>	(1.18)
Operating costs	<b>(9.21)</b>	(7.85)	<b>(8.33)</b>	(8.72)
Operating netback, \$/boe	<b>7.93</b>	8.63	<b>10.77</b>	6.81
Operating netback, excluding realized hedges, \$/boe	<b>4.28</b>	7.14	<b>9.49</b>	3.95

<sup>(1)</sup> Total revenue is presented gross of royalties and includes realized gain (loss) on commodity contracts.

<sup>(2)</sup> See Non-GAAP measures for definition of operating netback.

Cequence's operating netback per boe, excluding realized hedging for the three months ended September 30, 2017 declined 40 percent to \$4.28/boe. Including realized hedges, operating netbacks per boe decreased by eight percent. The decrease in operating netbacks was driven by higher quarterly operating expenses and transportation costs.

For the nine months ended September 30, 2017 operating netback per boe, excluding realized hedging increased 140 percent. The increase in operating netbacks was driven by higher commodity prices, lower operating costs but offset by higher year to date transportation expenses and royalties.

## ROYALTY EXPENSE

\$(000's)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Crown	185	237	1,427	-
Freehold / Overriding	280	399	1,320	1,075
Total royalties	465	636	2,747	1,075
Royalties as a percentage of revenue, before hedging	4%	5%	6%	3%
Per unit of production (\$/boe)	0.61	0.80	1.17	0.44

Royalties as a percentage of revenue, before hedging for the three months ended September 30, 2017 was four percent and slightly lower than prior year. For the nine month period ended September 30, 2017 royalties increased to six percent as year to date commodity prices are higher than in 2016.

## OPERATING COSTS

\$(000's)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Operating costs	7,004	6,228	19,612	21,252
Per unit of production (\$/boe)	9.21	7.85	8.33	8.72

Operating costs for the three and nine months ended September 30, 2017, were \$9.21/boe and \$8.33/boe, respectively, compared to \$7.85/boe and \$8.72/boe in 2016. In the third quarter of 2017, the Company incurred \$820 of incremental costs associated with a water disposal project at its Simonette field. The Company is utilizing infield trucking and pipelines to transfer water to its disposal well. The water disposal project will be finalized in the fourth quarter with an additional cost of \$0.7 million over the same period. The project is expected to reduce long-term equipment rentals and ongoing associated transfer costs by \$2.5 million per year.

## TRANSPORTATION EXPENSE

\$(000's)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Transportation	1,590	1,001	4,548	2,867
Per unit of production (\$/boe)	2.09	1.26	1.93	1.18

Transportation expense for the third quarter of 2017 was \$2.09/boe an increase of 66 percent from the comparative period in 2016. For the nine months ended September 30, 2017, transportation expense was \$1.93/boe an increase of 64 percent from \$1.18/boe in 2016. The increase relates to increased clean oil and condensate volumes resulting in higher trucking and pipeline costs. Year to date, transportation expense also increased due to a firm service natural gas transportation contract that commenced in July 2016.



## GENERAL AND ADMINISTRATIVE EXPENSES

\$(000's)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
G&A expenses, prior to restructuring charges	1,054	1,601	3,511	5,329
Restructuring charges	-	410	-	2,341
G&A expenses	1,054	2,011	3,511	7,670
Administrative and capital recovery	(39)	(38)	(264)	(152)
Total G&A expenses	1,015	1,973	3,247	7,518
Per unit of production, excluding restructuring charges (\$/boe)	1.33	1.97	1.38	2.12
Per unit of production (\$/boe)	1.33	2.49	1.38	3.08

In 2016, the Company made several improvements to its G&A cost structure including a significant staff reduction and relocation of the Company's office after its lease expired. For the nine months ended September 30, 2017, G&A expenses, prior to restructuring charges decreased by \$1,818 or 34 percent from 2016. Annual G&A expenses are expected to be slightly less than forecast of \$5,000 or \$1.60/boe in 2017.

## FINANCE COSTS

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Interest and standby fees expense on credit facilities	32	79	275	358
Interest expense and standby fees on senior notes	1,467	1,463	4,354	4,357
Amortization of transaction costs	112	101	326	293
Accretion expense on senior notes	87	78	251	227
Accretion expense on provisions	231	181	659	583
Total finance costs	1,929	1,902	5,865	5,818
Per unit of production (\$/boe)	2.54	2.40	2.49	2.39
Interest per unit of production (\$/boe)	1.97	1.94	1.97	1.93

Finance costs for the three and nine months ended September 30, 2017 were \$1,929 and \$5,865 compared to \$1,902 and \$5,818 in 2016. The Company remains undrawn on its senior credit facility other than letters of credit of \$4,182.

## OTHER INCOME

\$(000's)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Loss (gain) on sale of property and equipment	2	(2,982)	(118)	(2,982)
Interest income	(21)	(2)	(81)	(40)
Other	(84)	(57)	(197)	(192)
Total other income	(103)	(3,041)	(396)	(3,214)

Other income includes a gain in 2016 of \$2,982 from the sale of certain infrastructure assets that were partially depreciated.

## DEPLETION, DEPRECIATION AND IMPAIRMENT

\$(000's)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Depletion and depreciation expense	5,400	6,719	19,258	20,865
Impairment loss	-	-	96,200	-
Total depletion, depreciation and impairment	5,400	6,719	115,458	20,865
Per unit of production (\$/boe)	7.10	8.47	49.06	8.56
Per unit of production, excluding impairment (\$/boe)	7.10	8.47	8.18	8.56

Depletion and depreciation expense for the three and nine months ended September 30, 2017 was \$5,400 (\$7.10/boe) and \$19,258 (\$8.18/boe). Depletion and depreciation rates are lower than the prior year due to the reduction in net book value resulting from the impairment charge in the second quarter of 2017.

The continued decline in crude oil and natural gas prices and the further reduction in the Company's enterprise value were considered to be an indicator of potential impairment at June 30, 2017 and impairment tests were conducted. The Company uses the price deck of its third-party reserves evaluator in its impairment test. Forward looking commodity prices for the first 8 years of the GLJ price deck have decreased by an average of 14% for natural gas and 16% for crude oil from December 31, 2016. In addition, the Company's stock price had declined by 50% from December 31, 2016.

Impairment is recognized when the carrying value of an asset or cash generating units ("CGU") exceeds its recoverable amount which is determined as the higher of its value in use or fair value less cost to sell. Aggregate impairment expense recognized for the nine months ended September 30, 2017 was \$96,200. The impairments are largely a result of the decrease in commodity prices reducing the economic value of the Company's oil and gas reserves.

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

\$(000's)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Northeast British Columbia	-	-	-	-
Peace River Arch	-	-	2,200	-
Deep Basin	-	-	94,000	-
Total	-	-	96,200	-

## SHARE BASED PAYMENTS

### Stock Options

The Company has 13,220 stock options outstanding with an average exercise price of \$0.56. The options have a five year life and vest evenly over a three year period on the anniversary date of their grant. For the nine months ended September 30, 2017, Cequence recorded \$782 (2016 - \$536) 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 nine months ended September 30, 2017, Cequence recognized \$81 (2016 - \$192) in share based payment expense related to RSUs with a corresponding increase 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, 2017 and year ended December 31, 2016 is as follows:

Number (000's)	RSUs		Stock Options	
	2017	2016	2017	2016
Outstanding, beginning of period	<b>3,010</b>	1,707	<b>11,003</b>	11,395
Granted	<b>700</b>	2,622	<b>5,025</b>	6,295
Settled	<b>(849)</b>	(642)	-	-
Cancelled/Forfeited	<b>(18)</b>	(677)	<b>(108)</b>	(3,900)
Expired	-	-	<b>(2,700)</b>	(2,787)
Outstanding, end of period	<b>2,843</b>	3,010	<b>13,220</b>	11,003

## CAPITAL EXPENDITURES

\$(000's)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Land	<b>198</b>	224	<b>625</b>	687
Geological and geophysical and capitalized overhead	<b>508</b>	143	<b>818</b>	590
Drilling, completions and workovers	<b>815</b>	2,411	<b>14,543</b>	5,081
Equipment, facilities and tie-ins	<b>1,161</b>	32	<b>4,275</b>	4,771
Office furniture and equipment	-	-	<b>3</b>	1
Capital expenditures	<b>2,682</b>	2,810	<b>20,264</b>	11,130
Property acquisitions <sup>(1)</sup>	-	(90)	-	(83)
Property dispositions <sup>(1)</sup>	-	(5,077)	-	(5,157)
Total capital expenditures	<b>2,682</b>	(2,357)	<b>20,264</b>	5,890

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

Capital expenditures in the third quarter consisted of a Dunvegan well recompletion at Simonette and minor field facilities upgrades. Total capital expenditures for 2017 are budgeted to be approximately \$24 million and include a 3.0 gross (2.0 net) drilling program beginning in December and targeting the Dunvegan.

## INCOME TAXES

As at September 30, 2017, the Company has tax pools and available losses of \$616,804 (December 31, 2016 - \$613,777). Due to the uncertainty of future realization, a deferred tax asset has not been recognized.

At September 30, 2017, Cequence has the following tax pools:

Classification	Amount \$(000's)	Annual Deductibility
Canadian exploration expense	151,078	100%
Non-capital losses	316,018	100%
Undepreciated capital cost	48,479	Primarily 25%, declining balance
Canadian oil and gas property expense	9,109	10%, declining balance
Canadian development expense	64,123	30%, declining balance
Other	27,997	Various
	<b>616,804</b>	

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 obligations

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, 2017 were \$37,091 compared to \$38,161 at December 31, 2016. 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 \$1,602 of decommissioning obligations in the twelve months ended September 30, 2018. The following table summarizes the changes in decommissioning liabilities for the respective periods:

	September 30, 2017	December 31, 2016
Balance, beginning of period	<b>38,161</b>	40,708
Property dispositions	<b>(118)</b>	(364)
Accretion expense	<b>659</b>	803
Liabilities incurred	<b>181</b>	286
Abandonment costs incurred	<b>(539)</b>	(1,852)
Revisions in estimated cash flows	<b>(208)</b>	(126)
Revisions due to change in discount rates	<b>(1,045)</b>	(1,294)
Balance, end of period	<b>37,091</b>	38,161

The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are \$64,940 (December 31, 2016 - \$66,240). These cash flows have been discounted using a risk-free interest rate of 2.49 percent (December 31, 2016 - 2.34 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, 2016 - 1 to 50 years).

## LIQUIDITY AND CAPITAL RESOURCES

The Company's capital comprises shareholders' equity, demand credit facilities, senior notes and working capital. Cequence manages the capital structure and adjusts considering economic conditions and the risk characteristics of the underlying assets.

\$(000's)	As at September 30, 2017	As at December 31, 2016
Cash	7,230	17,778
Demand credit facility	-	-
Senior notes - principal	(60,000)	(60,000)
Accounts payable and accrued liabilities	(24,669)	(36,124)
Share based payment liability	(219)	(341)
Provisions - current	(1,602)	(366)
Accounts receivable	10,083	14,145
Deposits and prepaid expenses	770	877
Net debt <sup>(1)</sup>	(68,407)	(64,031)
Funds flow from operations <sup>(1)</sup> - trailing twelve months	24,371	11,250
Net debt to funds flow from operations trailing twelve months	2.8:1	5.7:1

<sup>(1)</sup> Refer to non-GAAP measurements

At September 30, 2017, the Company's net debt to funds flow from operations of 2.8:1 is higher than the Company's long term target of 2:1 due to the prolonged period of low commodity prices beginning in 2015. Historically, the Company has managed its debt levels and working capital through its hedging program, issuing common shares, adjusting capital expenditures, and executing asset dispositions. The Company typically carries a working capital deficiency as cash balances are used to repay short term borrowings.

To manage its leverage and limit borrowing on its senior credit facility, the Company has significantly reduced capital expenditures in recent quarters, lowered its year to date operating and G&A expenses and partly financed its 2016/17 winter drilling program with an equity financing. In 2017 the Company's net debt to funds flow from operations trailing twelve months has improved as commodity prices have increased and the Company realized the benefits of its costs saving initiatives. Based on current projections, the Company expects to be able to fund its working capital deficiency and 2017 capital expenditure program with funds flow from operations and available credit.

Based on the current outlook for natural gas Cequence anticipates that it will continue to manage its balance sheet by limiting its capital expenditures to within cash flow. In the current commodity price environment drilling programs will be directed to oil assets that are expected to produce high returns and shorter payback periods.

## SENIOR CREDIT FACILITY

As at September 30, 2017, Cequence had a \$20,000 (December 31, 2016 - \$20,000) term credit facility available from a syndicate of Canadian chartered banks. The senior credit facility is secured by a first floating charge debenture, general assignment of book debts and Cequence's oil and natural gas properties and equipment. The senior credit facility has a term date of May 31, 2018 and 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 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 by the end of November 2017.

As at September 30, 2017 and December 31, 2016, the senior credit facility is undrawn. The company has letters of credit outstanding of \$4,128 (December 31, 2016 - \$3,307). The senior 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, 2017 with a ratio of 0.1 times (December 31, 2016 - 0.2 times). At September 30, 2017, there are no restrictions on the Company's ability to draw on its credit facility.

## SENIOR NOTES

In October 2013, Cequence closed an investment with CPPIB Credit Investments Inc., ("CII"), a wholly-owned subsidiary of Canada Pension Plan Investment Board ("CPPIB"), for an initial investment by CII of \$60,000 in unsecured five year 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 warrants to purchase common shares. The initial investment of \$60,000 of senior notes were issued at par and carry a 9% coupon rate per annum. A standby charge of 0.7% is applied to the further \$60,000 of notes available at a future date.

The senior notes mature in October 2018 and Cequence is engaged in a review of potential financing alternatives to modify or replace the senior notes or otherwise improve the long term sustainability of the Company. If Cequence does not find a financing alternative for the Notes, it appears unlikely that Cequence will be able to repay the principal amount of the Notes on or before October 2018 as Cequence's current and anticipated earnings and available liquidity are not likely to provide enough cash to do so. Cequence is actively pursuing various strategies to improve its liquidity position including ongoing discussions with CPPIB, debt or equity financing, potential business combinations or other restructuring. Management believes that it will be able to implement one or more of these strategies prior to the senior notes maturing.

## Senior Note Covenants

The senior notes contain incurrence covenants that use a Debt to Cashflow test of 2.5 times to limit the incurrence of certain indebtedness and restricted payments without debtholder approval. The incurrence covenants do not contain provisions that make the notes callable. For this purpose, Debt is defined as the Company's period end balance of the credit facility and senior notes. Cashflow is equivalent to the Company's calculation of funds flow from operations for the trailing twelve months. At September 30, 2017, the Company's Debt to Cashflow ratio was more than 2.5 times. Based on the current forward commodity prices, the Company expects that its Debt to Cashflow ratio will remain at more than 2.5 times for the remainder of 2017.

The incurrence covenants limit the incurrence of additional debt, unless permitted by the debtholder, as follows:

- Senior secured debt is restricted to the maximum of \$125,000; the current borrowing base; 30 percent of Adjusted Consolidated Net Tangible Assets ("ACTNA") and 75 percent of the NPV 10% of the Company's PDP reserves as determined by GLJ Petroleum;
- Capital lease obligations exceeding \$6,250 or 1.25% of ACTNA;
- Non-recourse debt exceeding \$10,000;
- Other indebtedness exceeding \$12,500;
- Debt subordinated to the senior notes; and
- Certain liens in connection with indebtedness.

The Company's ACTNA is defined as the value of the Company's total proved reserves before taxes, plus the value of tangible assets less working capital. At September 30, 2017 ACTNA is \$237,924. The Company does not currently expect the incurrence covenants in the senior note indenture to restrict its planned activities.

Generally, the incurrence covenants also restrict payments as follows:

- dividends and other distributions;
- stock repurchases;
- subordinated debt prepayment; and
- certain investments outside of the oil and gas business.

Certain restricted payments are excluded from the general restrictions or are permitted, including a general lifetime exclusion of \$12,500. A full detail of the Trust Indenture dated October 3, 2013 is filed at [sedar.com](http://sedar.com). The Company does not currently anticipate initiating a payment that would be restricted by the trust indenture.

## COMMITMENTS

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

	2017	2018	2019	2020	2021+	Total
Office leases	90	359	262	-	-	711
Pipeline transportation	210	5,178	6,118	6,118	38,251	55,875
Gas processing	1,047	4,154	4,154	4,166	38,779	52,300
<b>Total</b>	<b>1,347</b>	9,691	10,534	10,284	77,030	108,886

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 of 42 mmcf/d or approximately \$4,154 per year concluding April 30, 2030.

In the quarter, 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 the netbacks by lowering the cost of transportation or improving sales prices. Beginning December 17, 2017, the Company will have firm transportation to AECO on the NGLT pipeline system for approximately 35 mmcf/d 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 20 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 the Empress at an annual cost of approximately \$750.

## OUTSTANDING SHARE DATA

	November 9, 2017	September 30, 2017	December 31, 2016
Common shares	245,528	245,528	245,528
Stock options	13,220	13,220	11,003
Restricted share units	2,843	2,843	3,010
Warrants	3,000	3,000	3,000

Cequence has an unlimited number of common voting shares and common non-voting shares with no par value. Warrants have an exercise price of \$2.03 to purchase common shares.

## SELECTED FINANCIAL INFORMATION

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

\$(000's)	Nine months ended September 30,		
	2017	2016	2015
Cash flow from operating activities	<b>18,227</b>	5,557	28,618
Decommissioning liabilities expenditures	<b>539</b>	1,593	344
Net change in non-cash working capital	<b>(1,020)</b>	(2,525)	(8,258)
Funds flow from operations	<b>17,746</b>	4,625	20,704
Per share - basic and diluted (\$)	<b>0.07</b>	0.02	0.10
Total revenue	<b>52,251</b>	41,821	64,779
Comprehensive loss	<b>(92,724)</b>	(18,980)	(103,487)
Per share - basic and diluted (\$)	<b>(0.38)</b>	(0.09)	(0.49)
Total assets	<b>280,194</b>	377,116	551,390
Demand credit facilities	-	-	-
Senior notes - principal	<b>60,000</b>	60,000	60,000

Funds flow from operations was \$17,746 for the nine months ended September 30, 2017 compared to \$4,625 in 2016. The increase in funds flow from operations is due to increased realized prices combined with lower operating and G&A expenses.

Cequence recorded a comprehensive loss of \$92,724 for the nine months ended September 30, 2017 compared to a loss of \$18,980 in 2016. The decrease is due to an impairment charge of \$96,200 recognized in 2017.



## QUARTERLY INFORMATION

### FINANCIAL

	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4
(\$ 000's except per share data)								
Total revenue <sup>(1)</sup>	15,087	17,810	19,354	17,253	14,707	11,343	15,772	16,112
Royalties expense	465	927	1,355	467	636	(125)	565	(507)
Transportation expense	1,590	1,650	1,308	1,151	1,001	774	1,092	1,339
Operating costs	7,004	5,829	6,779	6,184	6,228	5,812	9,212	7,031
Comprehensive income (loss)	(3,076)	(94,899)	5,251	(9,077)	(880)	(12,212)	(5,888)	(146,585)
Per share - basic and diluted	(0.01)	(0.39)	0.02	(0.04)	(0.00)	(0.06)	(0.03)	(0.69)
Funds flow from (used in) operations <sup>(2)</sup>	3,619	6,781	7,346	6,625	3,385	1,554	(314)	4,874
Per share - basic and diluted	0.01	0.03	0.03	0.03	0.02	0.01	(0.00)	0.02
Capital expenditures, net	2,682	2,536	15,046	11,460	2,810	958	7,362	15,175
Net acquisitions (dispositions) <sup>(3)</sup>	-	-	-	(54)	(5,167)	138	(211)	1,176
Total capital expenditures	2,682	2,536	15,046	11,406	(2,357)	1,096	7,151	16,351

<sup>(1)</sup> Total revenue is presented gross of royalties and includes realized gains (loss) on commodity contracts.

<sup>(2)</sup> 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.

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

### OPERATIONAL

	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4
<b>Production volumes</b>								
Natural gas (Mcf/d)	40,729	42,719	45,214	45,005	44,320	40,127	52,253	41,794
Oil (bbls/d)	388	224	481	140	175	178	218	225
NGLs (bbls/d)	250	239	270	209	261	244	235	300
Condensate (bbls/d)	841	919	814	760	798	748	1,061	723
Total (boe/d)	8,266	8,502	9,101	8,609	8,621	7,857	10,223	8,213
<b>Average selling price, including realized hedges</b>								
Natural gas (\$/Mcf)	2.12	2.83	2.79	2.92	2.28	1.73	2.10	2.89
Crude oil and condensate (\$/bbl)	57.70	60.11	62.50	56.27	53.78	54.01	46.69	52.32
NGLs (\$/bbl)	27.86	26.11	29.92	25.61	24.09	21.50	16.68	16.45
Total (\$/boe)	19.84	23.02	23.63	21.78	18.54	15.86	16.95	21.32
<b>Operating netback, including realized hedges (\$/boe)</b>								
Price	19.84	23.02	23.63	21.78	18.54	15.86	16.95	21.32
Royalties	(0.61)	(1.20)	(1.65)	(0.59)	(0.80)	0.17	(0.61)	0.67
Transportation	(2.09)	(2.13)	(1.60)	(1.45)	(1.26)	(1.08)	(1.17)	(1.77)
Operating costs	(9.21)	(7.53)	(8.28)	(7.81)	(7.85)	(8.13)	(9.90)	(9.30)
Operating netback	7.93	12.16	12.10	11.93	8.63	6.82	5.27	10.92

The company's funds flow from operations and comprehensive incomes (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 have averaged \$2.38 so far 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 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.

## OUTLOOK INFORMATION

The Company's guidance for the year ended December 31, 2017 is updated in the table below. Production estimates have been lowered by four percent due to production curtailments in the third and fourth quarters as a result of low natural gas prices. The Company plans to drill 3.0 (2.0 net) Dunvegan wells beginning in December 2017 with production additions not expected until the first quarter of 2018. The Company may adjust its capital expenditure program should commodity prices increase or decrease significantly.

Funds flow from operations has been reduced to \$20,000 reflecting lower expected commodity prices and production volumes.

	<b>Revised Guidance Year Ended December 31, 2017</b>	August 10, 2017 Guidance Year Ended December 31, 2017
(000's, except per share and per unit references)		
Average production, boe/d <sup>(1)</sup>	<b>8,250</b>	8,500-8,700
Funds flow from operations (\$) <sup>(2)</sup>	<b>20,000</b>	23,000
Funds flow from operations per share <sup>(2)</sup>	<b>0.08</b>	0.10
Capital expenditures, (\$)	<b>24,000</b>	24,000
Operating and transportation costs (\$/boe)	<b>10.50</b>	10.25
G&A costs (\$/boe)	<b>1.50</b>	1.60
Royalties (% revenue)	<b>6</b>	8
Crude - WTI (US\$/bbl)	<b>50.25</b>	49.25
Natural gas - AECO (CDN\$/GJ)	<b>2.08</b>	2.50
Period end, net debt (\$) <sup>(3)</sup>	<b>68,000</b>	65,000
Weighted average basic shares outstanding	<b>245,500</b>	245,500

<sup>(1)</sup> Average production estimates on a per boe basis are comprised of 85% natural gas and 15% oil and natural gas liquids.

<sup>(2)</sup> 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.

<sup>(3)</sup> Net debt is calculated as working capital (deficiency) less the aggregate principal amount of the senior notes.

## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Chief Executive Officer (“CEO”) and Executive Vice President, Finance and Chief Financial Officer (“CFO”) 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 CEO and CFO 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 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 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, 2017, CEO and CFO have concluded, based on their evaluation of the design and operating effectiveness of the Company’s disclosure controls and procedures and internal controls over financial reporting (“ICFR”) that disclosure controls and procedures and ICFR are effective.

## **FUTURE ACCOUNTING POLICIES**

As at the date of this MD&A, the following standards and interpretations relevant to the Company’s operations were issued by IASB but are not yet mandatory:

IFRS 9 ‘Financial instruments’ was issued by the IASB in July 2014 as a complete standard, including the requirements previously issued related to classification and measurement of financial assets and liabilities, and additional amendments to introduce a new expected loss impairment model for financial assets including credit losses. Retrospective application of this standard with certain exemptions is effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The Company is in the process of assessing the impact of the adoption of this standard on the Company’s consolidated financial statements.

IFRS 15 ‘Revenue from contracts with customers’ was issued by the IASB in May 2014 and amended in September 2015 for application beginning on or after 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. The standard requires revenue to be recognized at an amount that reflects the expected consideration receivable in exchange for transferring goods or services to a customer by applying the following five step model:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs. Additional disclosures will also be required under the new standard. IFRS 15 will be applied by Cequence on January 1, 2018. The Company is currently evaluating the impact of adoption of this standard and the effect on Cequence’s consolidated financial statements has not yet been determined.

IFRS 16 'Leases' was issued by the IASB in January 2016. IFRS 16 replaces the existing standard IAS 17 and requires the recognition of most leases on the balance sheet. IFRS 16 effectively removes the classification of leases as either finance or operating leases and treats all leases as finance leases for lessees with exemptions for short-term leases where the term is twelve months or less and for leases of low value items. The accounting treatment for lessors remains the same. IFRS 16 is effective January 1, 2019, with earlier application permitted. The Company is in the process of assessing the impact of the adoption of this standard on the Company's consolidated financial statements. The Company did not adopt any new accounting standards in the three and nine months ended September 30, 2017.

## **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, transportation 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, oil and natural gas transportation, 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](http://www.sedar.com)

## FORWARD-LOOKING STATEMENTS

Certain statements contained within this MD&A constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", and similar expressions. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to: projections with respect to natural gas production; the projection of future royalty, operating, transportation and G&A expenses; the projected impact of land access and regulatory issues; projections relating to the volatility of crude oil and natural gas prices in 2017 and beyond ; the Company's projected capital investment levels for 2017 and the source of funding therefore; the effect of the Company's risk management program, including the impact of derivative financial instruments; the impact of the climate change initiatives on operating costs; the impact of Western Canada pipeline constraints. Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur.

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

The forward looking statements contained herein concerning production, sales prices, operating expenses and capital spending are based on Cequence's 2017 capital program. The material assumptions supporting the 2017 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.

# CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited) (Expressed in thousands of Canadian dollars)

	September 30, 2017	December 31, 2016
	\$	\$
<b>ASSETS</b>		
CURRENT		
Cash	7,230	17,778
Accounts receivable	10,083	14,145
Deposits and prepaid expenses	770	877
Commodity contracts (Note 10)	2,319	-
	<b>20,402</b>	32,800
Property and equipment (Note 3)	<b>259,792</b>	356,058
	<b>280,194</b>	388,858
<b>LIABILITIES</b>		
CURRENT		
Accounts payable and accrued liabilities	24,669	36,124
Commodity contracts (Note 10)	-	4,491
Share based payment liability (Note 8)	219	341
Provisions (Note 7)	1,602	366
	<b>26,490</b>	41,322
Commodity contracts (Note 10)	-	159
Senior notes (Note 5)	59,134	58,557
Provisions (Note 7)	35,489	37,795
	<b>121,113</b>	137,833
GOING CONCERN (Note 2)		
COMMITMENTS (Note 12)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	633,846	633,848
Warrants	1,300	1,300
Contributed surplus	30,867	30,085
Deficit	(506,932)	(414,208)
	<b>159,081</b>	251,025
	<b>280,194</b>	388,858

## APPROVED BY THE BOARD

[signed] "Donald Archibald"  
Donald Archibald, Director

[signed] "Brian Felesky"  
Brian Felesky, Director

# CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>REVENUE</b>				
Production revenue	11,847	12,887	46,473	33,765
Gain on derivative financial instruments (Note 10)	2,134	1,256	10,000	3,089
	<b>13,981</b>	14,143	<b>56,473</b>	36,854
<b>EXPENSES</b>				
Depletion and depreciation (Note 3)	5,400	6,719	19,258	20,865
Impairment (Note 3)	-	-	96,200	-
General and administrative	1,015	1,973	3,247	7,518
Finance costs (Note 6)	1,929	1,902	5,865	5,818
Operating costs	7,004	6,228	19,612	21,252
Share based payment (Note 8)	222	241	863	728
Transportation	1,590	1,001	4,548	2,867
Other income	(103)	(3,041)	(396)	(3,214)
	<b>17,057</b>	15,023	<b>149,197</b>	55,834
LOSS BEFORE INCOME TAXES	<b>(3,076)</b>	(880)	<b>(92,724)</b>	(18,980)
INCOME TAXES	-	-	-	-
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>(3,076)</b>	(880)	<b>(92,724)</b>	(18,980)
Loss per share (Note 9)				
Basic and diluted	<b>(\$0.01)</b>	(\$0.00)	<b>(\$0.38)</b>	(\$0.09)

# CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited) (Expressed in thousands of Canadian dollars)

	Nine months ended September 30,	
	2017	2016
	\$	\$
<b>SHARE CAPITAL</b>		
<b>Common Shares</b>		
Balance, beginning of period	633,848	624,619
Share issue costs	(2)	-
Balance, end of period	633,846	624,619
<b>Warrants</b>		
Balance, beginning of period	1,300	1,300
Balance, end of period	1,300	1,300
<b>CONTRIBUTED SURPLUS</b>		
Balance, beginning of period	30,085	29,377
Share based payment expense (Note 8)	782	536
Balance, end of period	30,867	29,913
<b>DEFICIT</b>		
Balance, beginning of period	(414,208)	(386,151)
Comprehensive loss	(92,724)	(18,980)
Balance, end of period	(506,932)	(405,131)
<b>TOTAL EQUITY</b>	<b>159,081</b>	<b>250,701</b>



# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:</b>				
<b>OPERATING</b>				
Net loss	(3,076)	(880)	(92,724)	(18,980)
Adjustments for non-cash items:				
Depletion and depreciation expense (Note 3)	5,400	6,719	19,258	20,865
Impairment expense (Note 3)	-	-	96,200	-
Finance costs related to provisions (Note 6)	231	181	659	583
Share based payment expense (Note 8)	222	241	863	728
Amortization of transaction costs on senior notes (Note 6)	112	101	326	293
Accretion on senior notes (Note 6)	87	78	251	227
Unrealized loss (gain) on derivative financial instruments (Note 10)	641	(73)	(6,969)	3,891
Loss (gain) on sale of property and equipment (Note 3)	2	(2,982)	(118)	(2,982)
Decommissioning liabilities expenditures (Note 7)	(225)	4	(539)	(1,593)
Net change in non-cash working capital (Note 11)	2,375	(974)	1,020	2,525
	5,769	2,415	18,227	5,557
<b>INVESTING</b>				
Property and equipment expenditures (Note 3)	(2,682)	(2,810)	(20,264)	(11,130)
Property acquisitions	-	90	-	83
Proceeds from sale of property and equipment	-	5,077	-	5,157
Net change in non-cash working capital (Note 11)	776	2,188	(8,306)	(8,011)
	(1,906)	4,545	(28,570)	(13,901)
<b>FINANCING</b>				
Proceeds from demand credit facility (Note 4)	-	-	-	2,160
Repayment of demand credit facility (Note 4)	-	(2,160)	-	(2,160)
Cash settlement of share based payments (Note 8)	-	(110)	(203)	(110)
Share issue costs	-	-	(2)	-
Net change in non-cash working capital (Note 11)	-	(37)	-	(139)
	-	(2,307)	(205)	(249)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>3,863</b>	<b>4,653</b>	<b>(10,548)</b>	<b>(8,593)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>3,367</b>	<b>-</b>	<b>17,778</b>	<b>13,246</b>
<b>CASH, END OF PERIOD</b>	<b>7,230</b>	<b>4,653</b>	<b>7,230</b>	<b>4,653</b>
<b>SUPPLEMENTARY INFORMATION</b>				
Income taxes paid	-	-	-	-
Interest paid	1,506	1,577	4,658	4,854

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2017 and 2016  
(Unaudited) (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 1400, 215 – 9th Avenue. SW, Calgary, Alberta, T2P 1K3.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance and authorization

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

These consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2016.

The consolidated financial statements were authorized for issue by the Company’s Board of Directors on November 9, 2017.

### Basis of presentation

The consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2016. 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.

### Going concern

These 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.

As at September 30, 2017, the Company had a working capital deficiency of \$6,088 and senior notes outstanding of \$60,000. The Company has a \$20,000 senior credit facility with a syndicate of chartered banks that is currently undrawn other than letters of credit outstanding of \$4,128. The senior credit facility is a demand loan with a maturity date of May 31, 2018.

The senior notes mature on October 3, 2018 and the Company is engaged in ongoing discussions with the lender in a review of potential financing alternatives to modify or replace the senior notes prior to maturity. The Company is also in the process of identifying and pursuing alternative financing arrangements, property acquisitions or divestitures, corporate mergers and acquisitions and other recapitalization opportunities to repay the principal amount of the senior notes at it comes due. There is no assurance that any financing or other arrangement, or cash generated by operations, will be available or sufficient to meet these requirements, or if debt or equity financing is available, that it will be on terms acceptable to the Company. These circumstances result in a material uncertainty surrounding the Company's ability to continue as a going concern and create significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly the appropriateness of the use of accounting principles applicable to a going concern.

These consolidated financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern.

### **Future accounting pronouncements**

As at the date of authorization of these consolidated financial statements, the following standards and interpretations relevant to the Company's operations were issued by IASB but are not yet mandatory:

IFRS 9 'Financial instruments' was issued by the IASB in July 2014 as a complete standard, including the requirements previously issued related to classification and measurement of financial assets and liabilities, and additional amendments to introduce a new expected loss impairment model for financial assets including credit losses. Retrospective application of this standard with certain exemptions is effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The Company is in the process of assessing the impact of the adoption of this standard on the Company's consolidated financial statements.

IFRS 15 'Revenue from contracts with customers' was issued by the IASB in May 2014 and amended in September 2015 for application beginning on or after 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. The standard requires revenue to be recognized at an amount that reflects the expected consideration receivable in exchange for transferring goods or services to a customer by applying the following five step model:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs. Additional disclosures will also be required under the new standard. IFRS 15 will be applied by Cequence on January 1, 2018. The Company is currently evaluating the impact of adoption of this standard and the effect on Cequence's consolidated financial statements has not yet been determined.

IFRS 16 'Leases' was issued by the IASB in January 2016. IFRS 16 replaces the existing standard IAS 17 and requires the recognition of most leases on the balance sheet. IFRS 16 effectively removes the classification of leases as either finance or operating leases and treats all leases as finance leases for lessees with exemptions for short-term leases where the term is twelve months or less and for leases of low value items. The accounting treatment for lessors remains the same. IFRS 16 is effective January 1, 2019, with earlier application permitted. The Company is in the process of assessing the impact of the adoption of this standard on the Company's consolidated financial statements.

The Company did not adopt any new accounting standards in the three and nine months ended September 30, 2017.

### 3. PROPERTY AND EQUIPMENT

#### Cost:

Balance at December 31, 2015	906,545
Additions	22,590
Decommissioning obligation additions and change in estimates	(1,134)
Acquisitions	(60)
Disposals	(2,847)
Balance at December 31, 2016	925,094
Additions	<b>20,264</b>
Decommissioning obligation additions and change in estimates	<b>(1,072)</b>
Balance at September 30, 2017	<b>944,286</b>

#### Depletion, depreciation and impairment:

Balance at December 31, 2015	(537,866)
Depletion and depreciation	(31,622)
Disposals	452
Balance at December 31, 2016	(569,036)
Depletion and depreciation	<b>(19,258)</b>
Impairment loss	<b>(96,200)</b>
Balance at September 30, 2017	<b>(684,494)</b>

#### Carrying amounts:

At December 31, 2016	356,058
At September 30, 2017	<b>259,792</b>

Costs subject to depletion include \$902,896 of estimated future capital costs (December 31, 2016 - \$921,573).

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

#### Sales of assets

On August 11, 2016, the Company disposed of certain pipeline and facilities at Simonette for proceeds of \$5,092 prior to closing adjustments. The sale resulted in a gain recognized in comprehensive loss of \$2,982.

## Impairment

At September 30, 2017, Cequence evaluated its development and production assets for indicators of any potential impairment or related reversal. As a result of this assessment, no indicators were identified and no impairment or related reversal was recorded on Cequence's development and production assets for the three months ended September 30, 2017.

The Company reviewed each CGU comprising its property and equipment at June 30, 2017 for indicators of impairment and determined that indicators were present, related to the further reduction in the Company's enterprise value and decreases to future crude oil and natural gas prices used to estimate the value in use and fair value less cost to sell of each of the Company's CGUs.

As a result, impairment tests were carried out at June 30, 2017. The recoverable amounts of each of the Company's CGUs at June 30, 2017 were estimated as their fair value less cost to sell, based on the pre-tax net present value of discounted future cash flows from oil and gas reserves as estimated by the Company's independent reserves evaluator at December 31, 2016 updated for current price forecasts. The Company also included the fair value of undeveloped land based on an internal evaluation. Consideration was also given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant CGU. The fair value less costs of disposal values used to determine the recoverable amounts are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data but, rather, management's best estimates.

The benchmark escalated prices on which the June 30, 2017 impairment tests are based are as follows:

	Natural Gas AECO Spot (\$/mmbtu)	Condensate Edmonton Pentanes Plus (\$/bbl)	Crude Oil Edmonton Par (\$/bbl)
2017	2.83	65.63	61.33
2018	2.93	67.02	63.23
2019	3.05	70.89	66.88
2020	3.22	74.52	70.30
2021	3.39	77.32	72.94
2022	3.58	81.06	76.47
2023	3.76	83.60	80.00
2024	3.95	87.29	83.53
2025	4.03	90.98	87.06
2026	4.11	94.04	89.99

Prices increase at a rate of approximately 2.0 percent per year for natural gas, condensate and crude oil after 2026. Adjustments were made to the benchmark prices, for purposes of the impairment tests, to reflect varied delivery points and quality differentials in the products delivered.

The Company used a pre-tax 15% discount rate for the June 30, 2017 impairment tests which took into account the risks specific to the CGUs and current market assessment of the time value of money.

The estimated recoverable amounts used in the June 30, 2017 impairment tests were \$7,425 for the Northeast British Columbia CGU, \$2,497 for the Peace River Arch CGU and \$255,999 for the Deep Basin CGU.

Results of the Company's impairment test for the six months ended June 30, 2017 are as follows:

	<b>2017</b>
Northeast British Columbia	-
Peace River Arch	<b>2,200</b>
Deep Basin	<b>94,000</b>
<b>Total Impairment</b>	<b>96,200</b>

As at June 30, 2017, a one percent increase in the discount rate applied to the Company's future estimated cash flows would result in an additional impairment of \$22,286 (2016 - \$nil), whereas a ten percent decrease in forward commodity prices would result in additional impairment of \$106,947 (2016 - \$nil) recognized in comprehensive loss for the nine months ended September 30, 2017.

#### **4. DEMAND CREDIT FACILITY**

As at September 30, 2017, the Company has an extendible revolving term credit facility ("senior credit facility") of \$20,000 (December 31, 2016 - \$20,000) with a syndicate of Canadian chartered banks and has drawn \$nil (December 31, 2016 - \$nil) under the facility. The company has letters of credit outstanding of \$4,128 (December 31, 2016 - \$3,307). The senior credit facility has a term date of May 31, 2018 and may be extended beyond the initial term, if requested by the Company and accepted by the lenders. If the senior credit facility does not continue to revolve, amounts borrowed under the facility must be repaid on the term date. Prime loans and U.S. Base Rate Loans on the facility bear interest at the bank prime rate or U.S. Base Rate, respectively, plus 1.0 percent to 3.5 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 3.5:1.0). Banker's Acceptances, Libor Loans and letters of credit on the facility bear interest at the Banker's Acceptance rate, Libor rate or letter of credit rate, as applicable, plus 2.0 percent to 4.5 percent based on the same sliding scale as above. The credit facility is 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. The Company has a covenant that requires Senior Debt to EBITDA, as defined in the bank agreement, to be less than 3:0 to 1:0. 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 senior credit facility and senior notes. The Company was in compliance with the lender's covenants at September 30, 2017 and December 31, 2016. 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 to take place in November 2017.

## 5. SENIOR NOTES

	<b>September 30, 2017</b>	December 31, 2016
Senior notes	<b>56,503</b>	56,503
Add transaction costs	<b>2,631</b>	2,054
	<b>59,134</b>	58,557

On October 3, 2013, Cequence issued \$60,000 of unsecured five year term notes (“senior notes”) at par with a 9% coupon per annum for gross proceeds net of transaction costs of \$57,974. The senior notes have a term of five years, are unsecured and are subordinate to Cequence’s senior credit facility. The senior notes were issued pursuant to a trust indenture with a Canadian trust company, which provides for an additional \$60,000 of unsecured senior notes at a future date, subject to approval of both the lender and the Company on terms to be confirmed at the time of issuance.

The senior notes are subject to the same financial covenants as the Company’s senior credit facility as well as other non-financial covenants and restrictive covenants, including restrictions over asset sales, restricted payments and the incurrence of additional indebtedness (see note 13).

## 6. FINANCE COSTS

	<b>Three months ended September 30,</b>		Nine months ended September 30,	
	<b>2017</b>	2016	<b>2017</b>	2016
Interest expense on demand credit facilities	<b>32</b>	79	<b>275</b>	358
Interest expense on senior notes	<b>1,467</b>	1,463	<b>4,354</b>	4,357
Amortization of transaction costs	<b>112</b>	101	<b>326</b>	293
Accretion expense on senior notes	<b>87</b>	78	<b>251</b>	227
Accretion expense on provisions	<b>231</b>	181	<b>659</b>	583
	<b>1,929</b>	1,902	<b>5,865</b>	5,818

## 7. PROVISIONS

### Decommissioning liabilities

The following table summarizes the changes in decommissioning liabilities for the nine months ended September 30, 2017 and year ended December 31, 2016:

	2017	2016
Balance, beginning of period	38,161	40,708
Property dispositions	(118)	(364)
Accretion expense	659	803
Liabilities incurred	181	286
Abandonment costs incurred	(539)	(1,852)
Revisions in estimated cash flows	(208)	(126)
Revisions due to change in discount rates	(1,045)	(1,294)
Balance, end of period	37,091	38,161
Current	1,602	366
Non-current	35,489	37,795
	37,091	38,161

The Company's decommissioning liabilities result from its ownership in oil and natural gas assets including well sites, facilities and gathering systems. The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are \$64,940 (December 31, 2016 - \$66,240). These cash flows have been discounted using a risk-free interest rate of 2.49 percent (December 31, 2016 - 2.34 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, 2016 - 1 to 50 years). As at September 30, 2017, no funds have been set aside to settle these liabilities.

## 8. SHARE BASED PAYMENT PLANS

The Company has a stock option and RSU plan for directors, officers, employees and consultants of the Company and its subsidiaries. For the three and nine months ended September 30, 2017, Cequence recognized share based payment expense on equity-settled stock options of \$225 and \$782 (2016 - \$151 and \$536) and RSUs of (\$3) and \$81 (2016 - \$90 and \$192).

A summary of the status of the Company's stock option and RSU plans during the nine months ended September 30, 2017 and year ended December 31, 2016 is as follows:

Number of Options (000's)	2017	2016
Outstanding, beginning of period	11,003	11,395
Granted <sup>(1)</sup>	5,025	6,295
Cancelled/Forfeited	(108)	(3,900)
Expired	(2,700)	(2,787)
Outstanding, end of period	13,220	11,003

<sup>(1)</sup> The company issued 5,025,000 stock options (2016 - 6,295,000) at a weighted average exercise price of \$0.32 (2016 - \$0.33) to employees, officers and directors.



Number of RSUs (000's)	2017	2016
Outstanding, beginning of period	3,010	1,707
Granted	700	2,622
Settled	(849)	(642)
Cancelled/Forfeited	(18)	(677)
Outstanding, end of period	2,843	3,010

## 9. LOSS PER SHARE

Loss per share has been calculated based on the weighted average number of common shares outstanding during the period. For the three and nine months ended September 30, 2017 and 2016, the Company excluded all dilutive instruments 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,	
	2017	2016	2017	2016
Basic weighted average shares	245,528	211,028	245,528	211,028
Effect of dilutive instruments	-	-	-	-
Diluted weighted average shares	245,528	211,028	245,528	211,028

## 10. RISK MANAGEMENT

There have been no changes to the Company's exposure to risks, or the objectives, policies and processes to manage these risks from December 31, 2016.

### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's comprehensive loss to the extent the Company has outstanding financial instruments. The objective of the Company is to mitigate market risk exposures within acceptable limits, while maximizing returns.

### 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 loss.

The following information presents all outstanding positions for commodity derivative financial instruments at September 30, 2017:

Term	Product	Type	Volume	Price	Basis
October 1, 2017 to December 31, 2017	Gas	Swap	20,027 gj/day	\$2.76	AECO
January 1, 2018 to March 31, 2018	Gas	Swap	12,500 gj/day	\$3.01	AECO
October 1, 2017 to December 31, 2017	Oil	Swap	400 bbl/day	\$69.58	WTI
January 1, 2018 to March 31, 2018	Oil	Swap	400 bbl/day	\$66.90	WTI
April 1, 2018 to June 30, 2018	Oil	Swap	400 bbl/day	\$62.13	WTI

For the three and nine months ended September 30, 2017, realized gains from commodity derivative contracts recognized in comprehensive loss were \$2,775 and \$3,031 (2016 - \$1,183 and \$6,980 gains).

The fair value of the commodity contracts outstanding at September 30, 2017 was a current asset of \$2,319 (December 31, 2016 - current liability of \$4,491 and non-current liability of \$159).

For the three and nine months ended September 30, 2017, the Company recorded unrealized losses of \$641 and gains of \$6,969 from derivative commodity contracts (2016 - \$73 unrealized gains and \$3,891 unrealized losses).

As at September 30, 2017, an increase in gas price of \$0.50/gj and oil price of \$1.00/bbl results in a decrease in the fair value of the commodity contracts of \$1,484 (\$1,083 after tax) and \$109 (\$80 after tax) respectively and a commensurate increase to comprehensive loss.

### Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company is exposed to credit risk with respect to its cash, accounts receivable and commodity contract assets.

The Company's cash is held with a large established financial institution. The majority of the Company's accounts receivable are due from joint venture partners in the oil and gas industry and from marketers of the Company's petroleum and natural gas production. The Company mitigates its credit risk by entering into contracts with established counterparties that have strong credit ratings and reviewing its exposure to individual counterparties on a regular basis.

As at September 30, 2017, the accounts receivable balance was \$10,083 of which \$908 was past due. The Company considers all amounts greater than 90 days past due. These past due accounts are considered to be collectible, except as provided in the allowance for doubtful accounts. When determining whether past due accounts are uncollectible, the Company factors in the past credit history of the counterparties. The following table provides an aging analysis of the Company's accounts receivables:

Current	30-60 days	60-90 days	90+days	Total
8,555	325	295	908	10,083

At September 30, 2017, the Company has an allowance for doubtful accounts of \$692 (December 31, 2016 - \$647).

## 11. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Accounts receivable	2,274	1,462	4,062	12,343
Deposits and prepaid expenses	213	258	107	493
Accounts payable and accrued liabilities	664	(543)	(11,455)	(18,461)
Net change in non-cash working capital	3,151	1,177	(7,286)	(5,625)
Allocated to:				
Operating activities	2,375	(974)	1,020	2,525
Investing activities	776	2,188	(8,306)	(8,011)
Financing activities	-	(37)	-	(139)
	3,151	1,177	(7,286)	(5,625)

## 12. COMMITMENTS

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

	2017	2018	2019	2020	2021+	Total
Office leases	90	359	262	-	-	711
Pipeline transportation	210	5,178	6,118	6,118	38,251	55,875
Gas processing	1,047	4,154	4,154	4,166	38,779	52,300
Total	1,347	9,691	10,534	10,284	77,030	108,886

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 of 42 mmcf/d or approximately \$4,154 per year concluding April 30, 2030.

In the quarter, the Company advanced the start date of approximately 26 mmcf/d of natural gas transportation to December 17, 2017 from April 2018. Beginning December 17, 2017, the Company will have firm transportation to AECO on the NGLT pipeline system for approximately 35 mmcf/d 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. As part of this commitment, the Company entered into a five year contract to transport AECO gas to the Empress at an annual cost of approximately \$750.

### 13. CAPITAL MANAGEMENT

There have been no changes to the Company's objectives, policies and processes to manage capital from December 31, 2016.

At September 30, 2017, Cequence has \$60,000 in senior notes due in 2018 and a \$20,000 senior credit facility which the Company had drawn \$nil. The Company's senior credit facility is based on the lenders' review of the Company's oil and natural gas reserves with the next scheduled review expected to be completed in November 2017. The senior credit facility has a covenant that requires Senior Debt to twelve month trailing EBITDA, as defined in the bank agreement, to be less than 3:0 to 1:0. The Company was in compliance with the lender's covenant at September 30, 2017 with a ratio of 0.1 times (December 31, 2016 - 0.2 times).

The senior notes contain incurrence covenants that use a Debt to Cashflow test that is in excess of 2.5 times for the preceding four quarters to limit 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. At September 30, 2017 the Company's Debt to Cashflow ratio was in excess of 2.5 times. If low commodity prices persist, the Company expects the Debt to Cashflow ratio to remain in excess of 2.5 times. The Company does not currently anticipate initiating an action that would be restricted by the incurrence covenants.

Based on budgeted cash flow from operating activities at current forward strip crude oil and natural gas prices and available credit lines the Company may not be able to repay the senior notes on October 3, 2018 as they come due (see note 2). Management is working towards an extension or refinancing of the senior notes prior to maturity on October 3, 2018.

# CORPORATE INFORMATION

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## MANAGEMENT

**Todd Brown, P.Eng**

Chief Executive Officer

**David Gillis, CA**

Executive Vice President, Finance  
& CFO

**David P. Robinson**

Vice President, Geology

**Christopher C. Soby**

Vice President, Land

**Erin Thorson, CMA**

Controller

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## DIRECTORS

**Don Archibald**

Chairman

**Peter Bannister**

**Howard Crone**

**Brian Felesky**

**Daryl Gilbert**

**James K. Gray<sup>(1)</sup>**

**Francesco Mele**

<sup>(1)</sup> Director Emeritus

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## TRANSFER AGENT AND REGISTRAR

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Calgary, Alberta

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## AUDITORS

**Deloitte LLP**

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## BANKERS

**Canadian Imperial Bank of Commerce**

Calgary, Alberta

**Bank of Montreal**

Calgary, Alberta

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## LEGAL COUNSEL

**Norton Rose Canada LLP**

Calgary, Alberta

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## EVALUATION ENGINEERS

**GLJ Petroleum Consultants**

Calgary, Alberta

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## STOCK EXCHANGE LISTING

**Toronto Stock Exchange**

Symbol: CQE



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