Q2

cequence energy ltd

www.cequence-energy.com

HIGHLIGHTS

	Three months ended June 30,			Six months ended June 30,		
(000s except per share and per unit amounts)	**2014**	2013	% Change	**2014**	2013	% Change
Financial ($)						
Production revenue [1]	**41,219**	29,803	38	**82,314**	51,808	59
Comprehensive income (loss)	**8,876**	4,170	113	**9,388**	(1,269)	840
Per share, basic and diluted	**0.04**	0.02	100	**0.04**	(0.01)	500
Funds flow from operations [2]	**20,235**	14,831	36	**43,317**	25,484	70
Per share, basic	**0.10**	0.07	43	**0.21**	0.12	75
Per share, diluted	**0.09**	0.07	29	**0.20**	0.12	67
Production volumes						
Natural gas (Mcf/d)	**64,810**	58,153	11	**62,368**	52,262	19
Crude oil (bbls/d)	**985**	874	13	**988**	742	33
Natural gas liquids (bbls/d)	**948**	639	48	**794**	568	40
Total (boe/d)	**12,735**	11,205	14	**12,177**	10,020	22
Sales prices						
Natural gas, including realized hedges ($/Mcf)	**4.60**	3.85	19	**4.92**	3.70	33
Crude oil ($/bbl)	**104.53**	90.56	15	**103.09**	91.11	13
Natural gas liquids ($/bbl)	**54.61**	38.23	43	**57.60**	44.57	29
Total ($/boe)	**35.57**	29.23	22	**37.35**	28.57	31
Netback ($/boe)						
Price, including realized hedges	**35.57**	29.23	22	**37.35**	28.57	31
Royalties	**(4.06)**	(2.40)	69	**(4.09)**	(2.50)	64
Transportation	**(1.47)**	(1.56)	(6)	**(1.49)**	(1.57)	(5)
Operating costs	**(8.55)**	(7.71)	11	**(8.00)**	(7.51)	7
Operating netback	**21.49**	17.56	22	**23.77**	16.99	40
General and administrative	**(2.12)**	(2.14)	(1)	**(2.23)**	(2.09)	7
Interest [5]	**(1.86)**	(0.70)	166	**(1.83)**	(0.60)	205
Cash netback	**17.51**	14.72	19	**19.71**	14.30	38
Capital expenditures ($)						
Capital expenditures	**15,957**	4,723	238	**74,504**	48,382	54
Net acquisitions (dispositions) [4]	**(3,138)**	(2,641)	19	**(6,367)**	(2,623)	143
Total capital expenditures	**12,819**	2,082	516	**68,137**	45,759	49
Net debt and working capital (deficiency) [3]	**(136,040)**	(66,001)	106	**(136,040)**	(66,001)	106
Weighted average shares outstanding						
Basic	**210,986**	209,213	1	**210,952**	204,935	3
Diluted	**217,801**	209,767	4	**215,497**	204,935	5

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

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

(3) Net debt and working capital (deficiency) is calculated as cash and net working capital less commodity contract assets and liabilities, demand credit facilities, principal value of senior notes and excluding other liabilities.

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

(5) Represents finance costs less amortization on transaction costs and accretion expense on senior notes and provisions.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of the financial and operating results of Cequence Energy Ltd. ("Cequence" or the "Company") should be read in conjunction with the Company's unaudited condensed consolidated financial statements (the "consolidated financial statements") and related notes for the three and six months ended June 30, 2014 as well as with the audited consolidated financial statements (the "annual financial statements") and related notes for the years ended December 31, 2013 and 2012.

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

This MD&A is dated August 12, 2014.

Basis of Presentation

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

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

For six months ended June 30, 2014, the ratio between the average price of West Texas Intermediate ("WTI") crude oil at Cushing and NYMEX natural gas was approximately 22:1 ("Value Ratio"). The Value Ratio is obtained using the first six months 2014 WTI average price of $100.86 (US$/Bbl) for crude oil and the first six months 2014 NYMEX average price of $4.65 (US$/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 and working capital (deficiency) and funds flow from operations.

Operating and cash netback is not defined by IFRS in Canada and is referred to as a non-GAAP measure. Operating netback equals total revenue less royalties, operating costs and transportation costs. Cash netback equals the operating netback less general and administrative expenses and interest expense. Management utilizes these measures to analyze operating performance.

Net debt and working capital (deficiency) is a non-GAAP term that is calculated as cash and net working capital less commodity contract assets and liabilities, demand credit facilities, principal value of senior notes and excluding other liabilities. Cequence uses net debt and working capital deficiency as it provides an estimate of the Company's assets and obligations expected to be settled in cash.

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

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

Description Of The Business

Cequence is actively 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.

On July 7, 2014, Cequence sold all of its assets in the Ansell CGU for total consideration of $141,000 ("Ansell Disposition"). The Ansell property is located in the Alberta Deep Basin and at the time of sale consisted of 18,800 net acres of land, 1,600 boe/d of current production and a 49% working interest in the field infrastructure. At June 30, 2014 the Ansell CGU had a carrying value of $48,769 and a decommissioning liability of $974.

The common shares of Cequence trade on the Toronto Stock Exchange under the symbol CQE.

Selected Financial Information

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

	Three months ended June 30,		Six months ended June 30,	
$(000s)	**2014**	2013	**2014**	2013
Cash flow from operating activities	**20,734**	4,162	**49,539**	19,273
Decommissioning liabilities expenditures	**209**	315	**417**	389
Net change in non-cash working capital	**(708)**	10,354	**(6,639)**	5,822
Funds flow from operations	**20,235**	14,831	**43,317**	25,484
Per share, basic ($)	**0.10**	0.07	**0.21**	0.12
Per share, diluted ($)	**0.09**	0.07	**0.20**	0.12
Production revenue	**41,219**	29,803	**82,314**	51,808
Comprehensive income (loss)	**8,876**	4,170	**9,388**	(1,269)
Per share, basic and diluted ($)	**0.04**	0.02	**0.04**	(0.01)
Total assets	**639,332**	548,210	**639,332**	548,210
Demand credit facilities	**53,154**	57,170	**53,154**	57,710
Senior notes – principal	**60,000**	–	**60,000**	–

Cequence recorded comprehensive income of $8,876 for the three months ended June 30, 2014 compared to income of $4,170 in 2013. The increase is mainly due to increased production revenues due to higher production and pricing in 2014 compared to 2013.

The increase in the Company's comprehensive income for the six months ended June 30, 2014, was mainly attributable to increased production revenue which more than offset the increase in losses on derivative contracts, senior notes interest expense, deferred income tax expense and higher depletion expense due to increased volumes in 2014.

Funds flow from operations was $20,235 and $43,317 for the three and six months ended June 30, 2014, respectively, compared to $14,831 and $25,484 in 2013. The increase in funds flow from operations was attributable to increased production volumes and higher natural gas prices compared to the comparative period. For the three and six months ended June 30, 2014, Cequence realized an average natural gas price including hedging of $4.60 per mcf and $4.92 per mcf, respectively, representing an 19 percent and 33 percent increase from 2013.

Results Of Operations

PRODUCTION

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Natural gas (Mcf/d)	**64,810**	58,153	**62,368**	52,262
Crude oil (bbls/d)	**985**	874	**988**	742
Natural gas liquids (bbls/d)	**948**	639	**794**	568
Total (boe/d)	**12,735**	11,205	**12,177**	10,020
Total production (boe)	**1,158,844**	1,019,660	**2,204,013**	1,813,618

Production for the three and six months ended June 30, 2014 averaged 12,735 boe/d and 12,177 boe/d, respectively, compared to production of 11,205 boe/d and 10,020 boe/d in 2013. Production additions from the prior year were a result of drilling at the Company's Simonette and Ansell properties. In the second quarter of 2014, Cequence completed facility work at Ansell which allowed for all of the wells drilled in the first quarter of 2014 to come on-stream. As a result, average production from the property increased by 1,170 boe/d from the first quarter of 2014.

REVENUE

	Three months ended June 30,		Six months ended June 30,	
$(000s)	**2014**	2013	**2014**	2013
Revenue				
Natural gas	**29,895**	20,815	**63,550**	35,335
Realized loss on natural gas hedges	**(2,757)**	(438)	**(7,955)**	(343)
Total natural gas	**27,138**	20,377	**55,595**	34,992
Crude oil	**9,370**	7,205	**18,442**	12,237
Natural gas liquids	**4,711**	2,221	**8,277**	4,579
Total production revenue, gross of royalties	**41,219**	29,803	**82,314**	51,808
Average prices				
Natural gas ($/Mcf)	**5.07**	3.93	**5.63**	3.74
Realized natural gas hedge ($/Mcf)	**(0.47)**	(0.08)	**(0.71)**	(0.04)
Natural gas including hedge ($/Mcf)	**4.60**	3.85	**4.92**	3.70
Crude oil ($/bbl)	**104.53**	90.56	**103.09**	91.11
Natural gas liquids ($/bbl)	**54.61**	38.23	**57.60**	44.57
Average sales price before hedge ($/boe)	**37.95**	29.66	**40.96**	28.76
Average sales price including hedge ($/boe)	**35.57**	29.23	**37.35**	28.57
Benchmark pricing				
AECO-C spot (CDN$/Mcf)	**4.70**	3.55	**5.14**	3.38
WTI crude oil (US$/bbl)	**103.06**	94.14	**100.86**	94.22
Edmonton par price (CDN$/bbl)	**104.54**	92.95	**102.20**	90.75
US$/CDN$ exchange rate	**0.92**	0.98	**0.91**	0.98

Total production revenue, gross of royalties, was $41,219 in the second quarter of 2014 compared to $29,803 in 2013. The increase in revenue is attributable to the 22 percent increase in realized sales prices and 14 percent increase in production. For the six months ended June 30, 2014, production revenue, gross of royalties, increased 59 percent to $82,314 from $51,808 in the comparable period of 2013. The increase in revenue is attributable to the 31 percent increase in realized sales prices and 22 percent increase in production.

Canadian benchmark natural gas prices averaged $4.70 per mcf and $5.14 per mcf for the three and six months ended June 30, 2014, respectively, up 32 percent and 52 percent from the same time period in 2013. AECO prices increased significantly in 2014 as inventory levels decreased in response to a cold North American winter. Cequence realized an increase in natural gas sales prices comparable to the increase in benchmark prices as it sells most of its natural gas on the AECO 5A daily index. Cequence realized an average natural gas price of $5.07 per mcf and $5.63 per mcf for the three and six months ended June 30, 2014, respectively, up 29 percent and 51 percent from the comparable period in 2013. Realized natural gas prices for the three and six months ended June 30, 2014 are above benchmark prices as much of the Company's natural gas sells at a premium to AECO due to the heat content of the gas.

Oil prices for the second quarter of 2014 were $104.53 per barrel, up 15 percent from the same time period in 2013. Oil prices for the six months ended June 30, 2014 were $103.09 per barrel, up 13 percent from the comparable period in 2013. For reporting purposes, wellhead condensate is reported with crude oil.

Natural gas liquids prices for the three months ended June 30, 2014 were $54.61 per barrel, up 43 percent from the same time period in 2013. Natural gas liquids prices for the six months ended June 30, 2014 were $57.60 per barrel, up 29 percent from 2013. The increase in average realized natural gas liquids prices is due to increased benchmark natural gas liquids prices in 2014 compared to 2013.

COMMODITY PRICE MANAGEMENT

	Three months ended June 30,		Six months ended June 30,	
$(000s)	**2014**	2013	**2014**	2013
Realized loss on commodity contracts	**(2,756)**	(438)	**(7,954)**	(343)
Unrealized gain (loss) on commodity contracts	**4,198**	3,810	**(2,423)**	482
Total	**1,442**	3,372	**(10,377)**	139

Cequence has a commodity price risk management program which provides the Company flexibility to enter into derivative and physical commodity contracts to protect future cash flows for planned capital expenditures against an unpredictable commodity price environment. Management is authorized to establish hedges equal to approximately 50 percent of production net of estimated royalty payments. Historically, natural gas hedges have been executed on the AECO 5A index to match the Company's marketing arrangements.

For the remainder of 2014, Cequence has hedged approximately 60 percent (30,000 GJ/d) of its forecasted natural gas production volumes net of royalties at an average AECO 5A price of $3.46 per GJ or approximately $3.87 per mcf based on the historical heat content of the Company's natural gas. For the first quarter of 2015, Cequence has 20,000 GJ/d hedged at an average price of $3.79 per GJ or $4.25 per mcf. For the remainder of 2015 Cequence has 10,000 GJ/d hedged at an average price of $3.73 per GJ or $4.17 per mcf.

The fair value of the commodity contracts outstanding at June 30, 2014 was a non-current asset of $12 and a current liability of $5,391 (December 31, 2013 - current liability of $2,880 and a non-current liability of $76).

ROYALTY EXPENSE

	Three months ended June 30,		Six months ended June 30,	
$(000s)	**2014**	2013	**2014**	2013
Crown	**2,866**	1,389	**5,251**	2,726
Freehold / Overriding	**1,840**	1,063	**3,773**	1,815
Total Royalties	**4,706**	2,452	**9,024**	4,541
Per unit of production ($/boe)	**4.06**	2.40	**4.09**	2.50
As a % of Revenue, Before Hedging Activity				
Crown	**7%**	5%	**6%**	5%
Freehold / Overriding	**4%**	3%	**4%**	4%
	11%	8%	**10%**	9%

Royalty expense for the three months ended June 30, 2014 was $4,706 or 11 percent of revenue compared to $2,452 or 8 percent of revenue in 2013. Royalty expense for the six months ended June 30, 2014 was $9,024 or 10 percent of revenue compared to $4,541 or 9 percent of revenue in 2013. The increase in crown royalties is primarily a result of higher commodity prices in 2014. Based on forecast commodity prices and production levels, Cequence expects royalties will average approximately 9 percent of production revenue in 2014.

TRANSPORTATION EXPENSE

	Three months ended June 30,		Six months ended June 30,	
$(000s)	**2014**	2013	**2014**	2013
Transportation ($)	**1,700**	1,590	**3,287**	2,849
Per unit of production ($/boe)	**1.47**	1.56	**1.49**	1.57

Transportation expense for the three and six months ended June 30, 2014 was $1.47 per boe and $1.49 per boe, respectively, and is consistent with the comparable periods in the prior year.

OPERATING COSTS

	Three months ended June 30,		Six months ended June 30,	
$(000s)	**2014**	2013	**2014**	2013
Operating costs ($)	**9,911**	7,867	**17,642**	13,613
Per unit of production ($/boe)	**8.55**	7.71	**8.00**	7.51

For the three months ended June 30, 2014, operating costs increased to $8.55 per boe from $7.71 per boe in the comparative period in 2013. Operating costs for the six months ended June 30, 2014 were $17,642 or $8.00 per boe compared to $13,613 or $7.51 per boe for the same period in 2013. The increase in operating costs is a result of higher maintenance and chemical costs in the first half of 2014. A portion of these costs is expected to be non-recurring and the Company expects 2014 corporate operating costs to average $7.75 per boe for the year ended December 31, 2014.

OPERATING NETBACK

	Three months ended June 30,		Six months ended June 30,	
($/boe)	**2014**	2013	**2014**	2013
Production revenue [1]	**35.57**	29.23	**37.35**	28.57
Royalty expense	**(4.06)**	(2.40)	**(4.09)**	(2.50)
Transportation expense	**(1.47)**	(1.56)	**(1.49)**	(1.57)
Operating costs	**(8.55)**	(7.71)	**(8.00)**	(7.51)
Operating netback, $/boe	**21.49**	17.56	**23.77**	16.99
Operating netback, excluding realized hedges, $/boe	**23.87**	17.98	**27.38**	17.17

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

Cequence's netback for the three months ended June 30, 2014 increased 22 percent to $21.49 per boe from $17.56 per boe in 2013. For the six months ended June 30, 2014, the netback increased to $23.77 per boe from $16.99 per boe in the comparative period in 2013. The increase in 2014 operating netbacks is mainly due to increased production revenue due to higher production volumes and commodity prices in 2014 compared to 2013.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended June 30,		Six months ended June 30,	
$(000s)	**2014**	2013	**2014**	2013
G&A expenses ($)	**2,459**	2,182	**4,910**	3,782
Per unit of production ($/boe)	**2.12**	2.14	**2.23**	2.09

General and administrative ("G&A") costs per boe for the three and six months ended June 30, 2014 were $2.12 per boe and $2.23 per boe, respectively, from $2.14 per boe and $2.09 per boe in the prior year. Annual G&A expenses are expected to be approximately $1.95 per boe.

FINANCE COSTS

	Three months ended June 30,		Six months ended June 30,	
$(000s)	**2014**	2013	**2014**	2013
Interest expense on credit facilities	**804**	711	**1,348**	1,094
Interest expense on senior notes	**1,346**	–	**2,678**	–
Amortization of transaction costs	**78**	–	**155**	–
Accretion expense on senior notes	**62**	–	**122**	–
Accretion expense on provisions	**202**	200	**405**	399
Total finance costs	**2,492**	911	**4,708**	1,493
Per unit of production ($/boe)	**2.15**	0.89	**2.14**	0.82
Interest per unit of production ($/boe)	**1.86**	0.70	**1.83**	0.60

Finance costs for the three and six months ended June 30, 2014 were $2,492 and $4,708, respectively, compared to $911 and $1,493 for the comparative period in 2013. The increase is directly attributable to increased interest and amortization expense on the senior notes which were issued by the Company on October 3, 2013.

OTHER INCOME

	Three months ended June 30,		Six months ended June 30,	
$(000s)	**2014**	2013	**2014**	2013
Gain on sale of property and equipment	**(3,199)**	(1,092)	**(5,260)**	(1,092)
Transaction costs	**–**	120	**–**	345
Other	**(22)**	(29)	**(52)**	(59)
Total other income	**(3,221)**	(1,001)	**(5,312)**	(806)

During the six months ended June, 2014, the Company completed the sales of certain oil and gas properties for total cash consideration of $8,774 (2013 - $2,820), subject to final adjustments. The sales resulted in a gain recognized in comprehensive income (loss) of $5,260 (2013 - $1,092).

On April 15, 2013, the Company acquired oil and gas properties located in the Simonette area of Alberta and recorded transactions costs of $345 related to this acquisition.

DEPLETION, DEPRECIATION AND IMPAIRMENT

	Three months ended June 30,		Six months ended June 30,	
$(000s)	**2014**	2013	**2014**	2013
Depletion and depreciation expense	**14,127**	11,028	**26,569**	19,958
Impairment	**–**	2,164	**–**	2,164
Total depletion, depreciation and impairment	**14,127**	13,192	**26,569**	22,122
Per unit of production ($/boe)	**12.19**	12.94	**12.05**	12.20
Per unit of production, excluding impairment ($/boe)	**12.19**	10.82	**12.05**	11.00

Depletion and depreciation expense for the three and six months ended June 30, 2014, was $14,127 ($12.19 per boe) and $26,569 ($12.05 per boe), respectively. Depletion and depreciation rates higher than the comparable period in 2013 mainly due to higher depletion rates on producing properties in the Ansell area. Cequence reviewed its CGUs for impairment indicators at June 30, 2014 and determined that there were none.

PROVISIONS

Decommissioning liabilities

Decommissioning liabilities represent the estimated future cost of abandoning and reclaiming the company's oil and natural gas wells and related facilities. Total decommissioning liabilities at June 30, 2014 were $27,458 compared to $26,643 at December 31, 2013. The following table summarizes the changes in decommissioning liabilities for the respective periods:

(000s)	**June 30, 2014**	December 31, 2013
Balance, beginning of period	**26,643**	32,564
Property acquisitions	**–**	285
Property dispositions	**(452)**	(1,729)
Accretion expense	**402**	819
Liabilities incurred	**667**	1,120
Abandonment costs incurred	**(417)**	(619)
Revisions in estimated cash flows	**(506)**	(973)
Revisions due to change in discount rates	**2,095**	(4,824)
Reclassification to liabilities associated with assets held for sale	**(974)**	–
Balance, end of period	**27,458**	26,643

Onerous contracts

As at June 30, 2014, the Company recognized a provision related to an onerous lease contract of $346 (December 31, 2013 - $502). The provision for onerous lease contract represents the present value of the future lease obligations that the Company is presently obligated to make under a non-cancellable onerous operating lease contract, less revenue expected to be earned on the lease, including estimated future sub-lease revenue.

SHARE BASED PAYMENTS

Stock Options

For the six months ended June 30, 2014, Cequence recorded $1,217 (2013 – $2,239) in share based payment expense related to stock options with a corresponding increase to contributed surplus.

	June 30, 2014		December 31, 2013	
	Number of Options (000s)	**Weighted Average Exercise Price $**	Number of Options (000s)	Weighted Average Exercise Price $
Outstanding, beginning of period	**18,617**	**2.15**	17,289	2.19
Granted	**20**	**1.70**	1,780	1.70
Forfeited	**(166)**	**2.17**	(444)	1.92
Exercised	**(110)**	**1.73**	(8)	1.34
Outstanding, end of period	**18,361**	**2.15**	18,617	2.15

Restricted Share Units

For the six months ended June 30, 2014, Cequence recorded $499 (2013 – nil) in share based payment expense related to restricted share units ("RSU") with a corresponding increase to share based payment liability.

Number of RSUs (000s)	June 30, 2014	December 31, 2013
Outstanding, beginning of period	**561**	–
Granted	**20**	561
Forfeited	**(20)**	–
Outstanding, end of period	**561**	561

COMMON SHARES OUTSTANDING

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

Issued common voting shares (000s)	Number	Stated Value
Balance, December 31, 2012	200,610	$ 606,703
Common shares issued on property acquisition	10,300	17,510
Common shares issued on exercise of stock options	8	15
Share issue costs, net of taxes of ($35)	–	104
Balance, December 31, 2013	210,918	$ 624,332
Common shares issued on exercise of stock options	110	287
Balance June 30, 2014	211,028	$ 624,619

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

Issued warrants (000s)	Number	Stated Value
Balance, December 31, 2012	–	$ –
Granted on issuance of senior notes, net of tax of $183	3,000	1,339
Share issue costs, net of taxes of $13	–	(39)
Balance, December 31, 2013 and June 30, 2014	**3,000**	**$ 1,300**

On October 3, 2013, Cequence granted to the lender of the senior notes 3.0 million warrants at an exercise price of $2.03 to purchase common shares. The warrants will expire on October 3, 2020 and were issued with an exercise price of $2.03 which was based at a 30 percent premium to the 30 trading day volume weighted average trading price of the Cequence common shares on the TSX ending on the day immediately preceding the closing date.

As of the date of this MD&A, Cequence had the following securities outstanding: 211,028 common voting shares, 3,000,000 warrants to purchase common shares, 18,914 stock options and 561 RSUs.

CAPITAL EXPENDITURES

	Three months ended June 30,		Six months ended June 30,	
$(000s)	**2014**	2013	**2014**	2013
Property acquisitions [1]	**2**	179	**2,407**	197
Property dispositions [1]	**(3,140)**	(2,820)	**(8,774)**	(2,820)
Land	**388**	1,452	**666**	2,103
Geological & geophysical and capitalized overhead	**246**	459	**792**	914
Drilling, completions and workovers	**8,499**	173	**43,665**	30,715
Equipment, pipelines and facilities	**6,760**	2,626	**29,260**	14,582
Office furniture & equipment	**64**	13	**121**	68
Total capital expenditures	**12,819**	2,082	**68,137**	45,759

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

Net capital expenditures for the six months ended June 30, 2014 increased to $68,137 from $45,759 in 2013. For the six months ended June 30, 2014, drilling, completion and workover expenditures totalled $43,665 which included the drilling of 9 gross (5.6 net) horizontal wells and the completion of 11.0 gross (7.1 net) horizontal wells. Of the wells drilled 3.0 gross (3.0 net) Montney wells at Simonette, 1.0 gross (0.65 net) Dunvegan well at Simonette, 4.0 gross (0.9 net) were Wilrich wells at Ansell, and, 1.0 gross (1.0 net) Wilrich well at Simonette.

Equipment, pipelines and facility expenditures in the six months ended June 30, 2014 of $29,260 were mainly directed towards the construction of a gathering system and compression facility at Ansell, surface equipment and tie-in of new wells, and additional compression at Simonette. The Ansell facilities were completed in April and increased Cequence's field production capacity allowing for additional production volumes at Ansell to come onstream in the second quarter. At Simonette, Cequence compression was added to the main production facility in the field increasing its capacity to approximately 70 mmcf/d.

During the six months ended June 30, 2014, the Company completed the sales of certain oil and gas properties for total cash consideration of $8,774 (2013 - $2,820), subject to final adjustments. The sales resulted in a gain recognized in comprehensive income (loss) of $5,260 (2013 - $1,092).

On July 7, 2014, the Company closed the disposition of all non-operated assets located in the Ansell area for total consideration of approximately $141,000, prior to closing adjustments. Capital expenditures for the remainder of 2014 and the first quarter of 2015 are expected to be directed to the Company's Simonette property in the Deep Basin of Alberta.

Cequence has budgeted net capital expenditures, prior to dispositions, of $170,000 for the year ended December 31, 2014 and is expected to be focused on the development of the Company's Simonette assets. Capital expenditures for 2014 are expected to be funded from cash flow and proceeds from the Ansell disposition in Q3 2014. The Company continually monitors fluctuations in natural gas prices and may adjust budgeted discretionary capital spending based on the Company's hedge position and short to medium term natural gas prices.

Income Taxes

At June 30, 2014, a deferred income tax asset of $28,135 (December 31, 2013 - $36,094) has been recognized as the Company believes, based on estimated cash flows, its realization is probable. At June 30, 2014, Cequence has the following estimated tax pools:

Classification	Amount $(000s)
Canadian exploration expense	180,790
Non-capital losses	163,086
Undepreciated capital cost	128,416
Canadian oil and gas property expense	76,099
Canadian development expense	96,959
Scientific research and experimental development tax credit	22,704
Share issue costs	4,130
Investment tax credits	3,981
	676,165

The Company's non-capital losses expire in 2026 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. For the taxation year ended December 31, 2014, the Ansell Disposition is expected to result in a decrease in the Company's tax pools of approximately $141 million.

Liquidity and Capital Resources

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

In October 2013, Cequence closed an investment with CPPIB Credit Investments Inc., ("CII"), a wholly-owned subsidiary of Canada Pension Plan Investment Board ("CPPIB"), for an initial investment by CII of $60 million in unsecured five year senior notes with a further $60 million of notes available at a future date, subject to the approval of both CII and Cequence on terms to be confirmed at the time of issuance. In addition, Cequence granted CII 3.0 million warrants to purchase common shares. The investment diversifies the capital structure of Cequence by adding longer term debt.

On July 7, 2014, the Company closed the disposition of all non-operated assets located in the Ansell area for total consideration of approximately $141,000, prior to closing adjustments. Proceeds from the Ansell Disposition will initially repay indebtedness on the Company's credit facility and will be utilized to accelerate drilling at the Company's Simonette property in the Deep Basin of Alberta.

The Company's lenders completed a borrowing base review in connection with the disposition and have revised the Company's Credit facility from $155,000 to $135,000. Based on budget capital expenditures and funds flow from operations for 2014, Cequence expects the senior credit facility to remain undrawn through December 2014.

The Company has a credit facility with a syndicate of Canadian chartered banks. The credit facility includes a $125,000 (December 31, 2013 - $110,000) extendible revolving term credit facility by way of prime loans, U.S. Base Rate Loans, Banker's Acceptances and Libor Loans and a $10,000 (December 31, 2013 - $10,000) operating facility by way of prime loans, U.S. Base Rate Loans, Banker's Acceptances and letters of credit. Prime loans and U.S. Base Rate Loans on these facilities bear interest at the bank prime rate or U.S. Base Rate, respectively, plus 1.0 percent to 2.5 percent on a sliding scale, depending on the Company's debt to adjusted EBITDA ratio (ranging from being less than or equal to 1.0:1.0 to greater than 2.5:1.0). Banker's Acceptances, Libor Loans and letters of credit on these facilities bear interest at the Banker's Acceptance rate, Libor rate or letter of credit rate, as applicable, plus 2.0 percent to 3.5 percent based on the same sliding scale as above. The credit facilities may be extended and revolve beyond the initial one-year period, if requested by the Company and accepted by the lenders. If the credit facilities do not continue to revolve, the facilities will convert to a 366-day non-revolving term loan facility.

Both credit facilities, and the amount available for draws under the facilities, are subject to periodic review by the bank and are secured by a general assignment of book debts and a $250,000 demand debenture with a first floating charge over all assets of the Company. As at June 30, 2014, the Company has drawn $53,154 under the extendible revolving term credit facility and $nil under the operating facility (December 31, 2013 – $22,763 and $nil for the revolving and operating facilities, respectively). The Company has covenants that require Consolidated Debt and Senior Debt to twelve month trailing earnings before interest, taxes and depletion and depreciation to be less than 4:0 to 1:0 and 3:0 to 1:0, respectively. Consolidated Debt is defined as the sum of the Company's period end balance of the credit facility and senior notes. Senior Debt is defined as the sum of Consolidated Debt less the period end balance of the senior notes. The Company was in compliance with the lender's covenants at June 30, 2014 and December 31, 2013. The effective annualized interest rate, including standby fees and commitment fees, for the six months ended June 30, 2014 was 6.45 percent (2013 – 3.6 percent). The next scheduled credit facility review is to take place on November 2014.

The Company monitors net debt to funds flow as one measure of the Company's ability to manage its debt levels under current operating conditions and meet current obligations as they come due. Management targets a debt to funds flow ratio of less than two times. As at June 30, 2014, the Company's net debt to annualized funds flow ratio was calculated as 1.7:1 (December 31, 2013 – 1.9:1) based on annualized second quarter results. Pro forma the Ansell Disposition on July 7, 2014, Cequence would have a positive cash and working capital balance of $63,960 along with senior notes with a principal value of $60,000 as at June 30, 2014.

As disclosed in the annual financial statements, Cequence has periodically issued common shares and flow through common shares to fund a capital program that has been greater than the Company's cash flow. For the six months ended June 30, 2014, Cequence used funds flow from operations of $43,317, asset dispositions of $8,774 and incremental bank debt to finance its capital expenditures of $76,911.

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

Net Debt And Working Capital (Deficiency)

Net debt and working capital (deficiency) is calculated as cash and net working capital less commodity contract assets and liabilities, demand credit facilities, principal value of senior notes and excluding other liabilities, as follows:

$(000s)	As at June 30, 2014	As at December 31, 2013
Demand credit facilities	**(53,154)**	(22,763)
Senior notes – principal	**(60,000)**	(60,000)
Accounts payable and accrued liabilities	**(47,318)**	(51,692)
Accounts receivable	**20,778**	19,834
Deposits and prepaid expenses – current	**3,654**	3,188
Net debt and working capital (deficiency)	**(136,040)**	(111,433)

Contractual Obligations

	2014	2015	2016	2017	2018+	Total
Office leases	580	1,051	864	639	–	3,134
Pipeline transportation	873	1,585	–	–	–	2,458
Total	1,453	2,636	864	639	–	5,592

The pipeline transportation contract expires on November 30, 2015.

In 2011, the Company entered into a drilling service agreement whereby the Company made a deposit of $3,500 to obtain a right of first refusal on the use of two drilling rigs over the five years following the date that use of the rigs commences. The deposit is to be applied as the Company incurs costs related to the use of the drilling rigs and $2,062 has been drawn down at June 30, 2014. Cequence expects to reduce the deposit by $829 in the year ended June 30, 2015, which amount is included with deposits and prepaid expenses at June 30, 2014. The portion of the outstanding deposit expected to be drawn down in the period subsequent to June 30, 2015 of $609 is carried as a non-current asset at June 30, 2014.

The Company has an agreement allowing for up to 120 mmcf/d of natural gas deliverability to the Alliance pipeline and associated NGL processing for its Simonette property. The Company is currently reviewing several alternatives to market its natural gas and NGL's from Simonette following the conclusion of this agreement in November 2015.

Disclosure Controls and Internal Controls over Financial Reporting

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

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

As at June 30, 2014, the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have concluded, based on their evaluation of the design and operating effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting ("ICFR") that disclosure controls and procedures and ICFR are effective.

Quarterly Information

FINANCIAL

($ thousands except per share data)	2014 Q2	2014 Q1	2013 Q4	2013 Q3	2013 Q2	2013 Q1	2012 Q4	2012 Q3
Production revenue [1]	**41,219**	41,095	28,483	25,325	29,803	22,005	21,939	17,814
Royalties expense	**4,706**	4,318	1,769	2,305	2,452	2,089	1,546	992
Transportation expense	**1,700**	1,587	1,550	1,558	1,590	1,259	1,449	1,801
Operating costs	**9,911**	7,731	7,007	7,852	7,867	5,746	5,397	5,627
Comprehensive income (loss)	**8,876**	512	(827)	(517)	4,170	(5,439)	666	(3,824)
Per share – basic & diluted	**0.04**	0.00	(0.00)	(0.00)	0.02	(0.03)	(0.00)	(0.02)
Funds flow from operations [2]	**20,235**	23,082	14,855	10,973	14,831	10,652	11,603	10,803
Per share – basic	**0.10**	0.11	0.07	0.05	0.07	0.05	0.06	0.06
Per share – diluted	**0.09**	0.11	0.07	0.05	0.07	0.05	0.06	0.06
Capital expenditures, net	**15,957**	58,547	51,578	17,949	4,723	43,659	23,997	16,818
Net acquisitions (dispositions) [3]	**(3,138)**	(3,229)	(47)	(5)	(2,641)	18	644	20
Total capital expenditures	**12,819**	55,318	51,531	17,944	2,082	43,677	24,641	16,838

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

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

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

OPERATIONAL

	2014 Q2	2014 Q1	2013 Q4	2013 Q3	2013 Q2	2013 Q1	2012 Q4	2012 Q3
Production volumes								
Natural gas (Mcf/d)	**64,810**	59,898	53,433	52,848	58,153	46,306	47,125	46,641
Oil (bbls/d)	**985**	992	838	844	874	608	583	606
NGLs (bbls/d)	**948**	638	651	640	639	496	515	516
Total (boe/d)	**12,735**	11,613	10,394	10,292	11,205	8,822	8,951	8,895
Average selling price								
Natural gas ($/Mcf)	**4.60**	5.28	3.82	3.08	3.85	3.51	3.49	2.61
Oil ($/bbl)	**104.53**	101.65	87.37	97.42	90.56	91.90	86.78	83.38
NGLs ($/bbl)	**54.61**	62.08	49.54	47.26	38.23	52.84	45.83	41.89
Total ($/boe)	**35.57**	39.32	29.79	26.75	29.23	27.72	26.64	21.77
Operating netback ($/boe)								
Price	**35.57**	39.32	29.79	26.75	29.23	27.72	26.64	21.77
Royalties	**(4.06)**	(4.13)	(1.85)	(2.44)	(2.40)	(2.63)	(1.88)	(1.13)
Transportation	**(1.47)**	(1.52)	(1.62)	(1.65)	(1.56)	(1.59)	(1.76)	(2.20)
Operating costs	**(8.55)**	(7.40)	(7.33)	(8.29)	(7.71)	(7.24)	(6.55)	(6.88)
Operating netback	**21.49**	26.27	18.99	14.37	17.56	16.26	16.45	11.56

Funds flow from operations is impacted from quarter to quarter primarily due to changes in productions volumes, realized average selling prices, royalties, operating expenses, transportation costs and G&A expense. The Company's production volumes are 85 percent natural gas and fluctuations in natural gas prices have the greatest impact on the Company's revenue and funds flow from operations.

Production revenue and funds flow for operations has steadily increased in 2014 compared to prior years. The increase is mainly attributable to increased production volumes and higher natural gas prices in 2014. Canadian AECO natural gas prices have averaged $5.14 per mcf in 2014, an increase of 52% per cent from 2013 and 116 per cent from 2012. In 2012, AECO natural gas prices averaged $2.38 per mcf representing the lowest average annual price since 1998. AECO prices have recovered in 2013 and 2014 as inventory levels decreased in response to a colder North American winter and slowing growth in natural gas production.

The Company's quarterly net comprehensive income (loss) is affected by fluctuations in non-cash charges, in particular, depletion, depreciation and impairment expense, accretion of decommissioning obligations, gains/losses on derivative financial instruments, share based payments and other expense (income). During the twelve months ended December 31, 2012, the Company recorded impairment expense of $26,894 compared to $2,164 in the comparable period in 2013. The 2012 impairments were incurred on the Company's Northeast British Columbia and Peace River Arch CGUs. Impairments recognized were mainly the result of declining benchmark natural gas prices and minimal capital expenditures being incurred in the Northeast British Columbia and Peace River Arch CGUs as substantially all of the Company's capital expenditures over the past two years have been allocated to the Deep Basin CGU. These impairments cause significant reductions and increased volatility in the Company's net comprehensive income (loss).

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

Outlook Information

On July 7, 2014 Cequence provided the following guidance upon the closing of the Ansell disposition:

	2014 (12 months)	2015 (3 months)
Average production, BOE/d [1]	11,000	13,500
Exit production, BOE/d	12,000	15,000
Funds flow from operations ($) [3]	$83 million	$27 million
Funds flow from operations per share [2]	$0.39	$0.13
Capital expenditures, prior to dispositions ($) [4]	$170 million	$58 million
Net capital expenditures, including dispositions ($)	$23 million	$58 million
Wells drilled	19(15.2)	6(6.0)
Operating and transportation costs ($ per boe)	$9.00	$8.20
G&A costs ($ per boe)	$1.95	$1.55
Royalties (% revenue)	10	8
Crude – WTI (US$/bbl)	$99.75	$97.00
Natural gas – AECO (Cdn$/GJ)	$4.60	$3.85
December 31, net debt and working capital deficiency ($) [5]	$51 million	$82 million
Basic shares outstanding	211 million	211 million

(1) Average production estimates on a per BOE basis are comprised of 84% natural gas and 16% oil and natural gas liquids.

(2) Calculated as average production per million shares.

(3) Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures and net changes in non-cash working capital.

(4) Includes an estimated $24.1 million of capital expenditures incurred to date in 2014 on the Ansell property prior to disposition.

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

Capital expenditures for 2014 are expected to be funded from funds flow from operations, available bank lines and the 2014 Ansell disposition. The Company closely monitors fluctuations in natural gas prices and will adjust the 2014 budget if facts and circumstances require.

Accounting Policies Adopted

On January 1, 2014, Cequence adopted the following standards and amendments, as issued by the IASB:

- IAS 36, "Impairment of Assets". The amendments reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarifies the disclosures required when an impairment loss has been recognized or reversed in the period. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.
- IFRS Interpretations Committee ("IFRIC") 21 "Levies". IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified in the relevant legislation, occurs. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

On May 28, 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", a new standard that specifies recognition requirements for revenue as well as requiring entities to provide the users of financial statements with more informative and relevant disclosures. The standard replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue" as well as a number of revenue-related interpretations. The Company will adopt the standard for reporting periods beginning January 1, 2017. 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.

Risks

Cequence management has identified key risk and uncertainties that can impact the financial results and long term performance of the business. These risks include but are not limited to:

- Commodity, exchange rate and interest rate volatility;
- Credit and liquidity risk;
- Environmental and regulatory concerns, including the abandonment and reclamation of wells and facilities;
- Exploration, development and production risk;
- Pipeline and processing capacity;
- Reserve estimates;
- Changes in income tax and loyalty legislation; and
- Capital markets, refinancing and funding of capital projects;

Additional information is available in the Company's Annual Information form and Annual MD&A that is filed on Sedar at 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: the potential impact of implementation of the Alberta Royalty Framework on Cequence's condition and projected 2014 capital investments; projections with respect to growth of natural gas production; the projected impact of land access and regulatory issues; projections relating to the volatility of crude oil and natural gas prices in 2014 and beyond and reasons therefore; the Company's projected capital investment levels for 2014 and the source of funding therefore; the effect of the Company's risk management program, including the impact of derivative financial instruments; the Company's defence of lawsuits; the impact of the climate change initiatives on operating costs; the impact of Western Canada pipeline constraints. Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur.

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

with existing and potential future lawsuits and regulatory actions made against the Company; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Cequence. Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future.

The forward looking statements contained herein concerning production, sales prices, operating expenses and capital spending are based on Cequence's 2014 capital program. The material assumptions supporting the 2014 capital program are provided in the table above under the heading "Outlook Information".

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

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

Consolidated Balance Sheets

(Unaudited) (Expressed in thousands of Canadian dollars)

	June 30, 2014	December 31, 2013
	$	$
ASSETS		
CURRENT		
Accounts receivable	**20,778**	19,834
Deposits and prepaid expenses	**3,654**	3,188
Assets held for sale (Note 4)	**48,769**	–
	73,201	23,022
Property and equipment (Note 3)	**537,375**	537,511
Deposits and prepaid expenses	**609**	1,047
Commodity contracts (Note 15)	**12**	–
Deferred income taxes	**28,135**	36,094
	639,332	597,674
LIABILITIES		
CURRENT		
Demand credit facilities (Note 5)	**53,154**	22,763
Accounts payable and accrued liabilities	**47,318**	51,692
Share based payment liability (Note 12)	**609**	111
Commodity contracts (Note 15)	**5,391**	2,880
Other liabilities (Note 10)	**318**	317
Liabilities associated with assets held for sale (Note 4)	**974**	–
	107,764	77,763
Senior notes (Note 6)	**56,915**	56,637
Commodity contracts (Note 15)	**–**	76
Provisions (Note 10)	**27,486**	26,828
	192,165	161,304
CONTINGENCIES AND COMMITMENTS (Note 14)		
SUBSEQUENT EVENT (Note 4)		
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	**624,619**	624,332
Warrants (Note 11)	**1,300**	1,300
Contributed surplus	**27,307**	26,185
Deficit	**(206,059)**	(215,447)
	447,167	436,370
	639,332	597,674

APPROVED BY THE BOARD

[signed] "Donald Archibald"
Donald Archibald, Director

[signed] "Brian Felesky"
Brian Felesky, Director

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

Consolidated Statements of Comprehensive Income (Loss)

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
	$	$	**$**	$
REVENUE				
Production revenue (Note 7)	**39,269**	27,790	**81,244**	47,611
Gain (loss) on derivative financial instruments (Note 15)	**1,442**	3,372	**(10,377)**	139
	40,711	31,162	**70,867**	47,750
EXPENSES				
Depletion, depreciation and impairment (Note 3)	**14,127**	13,192	**26,569**	22,122
General and administrative	**2,459**	2,182	**4,910**	3,782
Finance costs (Note 9)	**2,492**	911	**4,708**	1,493
Operating costs	**9,911**	7,867	**17,642**	13,613
Share based payment (Note 12)	**875**	1,105	**1,716**	2,239
Transportation	**1,700**	1,590	**3,287**	2,849
Other income (Note 8)	**(3,221)**	(1,001)	**(5,312)**	(806)
	28,343	25,846	**53,520**	45,292
INCOME BEFORE INCOME TAXES	**12,368**	5,316	**17,347**	2,458
INCOME TAXES	**3,492**	1,146	**7,959**	3,727
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**8,876**	4,170	**9,388**	(1,269)
Income (loss) per share, basic and diluted (Note 13)	**$ 0.04**	$ 0.02	**$ 0.04**	$ (0.01)

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

Consolidated Statements of Changes in Equity

(Unaudited) (Expressed in thousands of Canadian dollars)

	Six months ended June 30, 2014	2013
	$	$
SHARE CAPITAL		
Common Shares (Note 11)		
Balance, beginning of period	**624,332**	606,703
Shares issued on property acquisition	**–**	17,510
Shares issued on exercise of stock options	**287**	–
Share issue costs, net of tax of $nil (2013 – ($22))	**–**	64
Balance, end of period	**624,619**	624,277
Warrants (Note 11)		
Balance, beginning of period	**1,300**	–
Balance, end of period	**1,300**	–
CONTRIBUTED SURPLUS		
Balance, beginning of period	**26,185**	22,556
Share based payment expense (Note 12)	**1,217**	2,239
Exercise of stock options	**(95)**	–
Balance, end of period	**27,307**	24,795
DEFICIT		
Balance, beginning of period	**(215,447)**	(212,834)
Comprehensive income (loss)	**9,388**	(1,269)
Balance, end of period	**(206,059)**	(214,103)
TOTAL EQUITY	**447,167**	434,969

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

Consolidated Statements of Cash Flows

(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
	$	$	**$**	$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net income (loss)	**8,876**	4,170	**9,388**	(1,269)
Adjustments for non-cash items:				
Depletion, depreciation and impairment	**14,127**	13,192	**26,569**	22,122
Finance costs related to provisions (Note 9)	**202**	200	**405**	399
Share based payment (Note 12)	**875**	1,105	**1,716**	2,239
Amortization of transaction costs on senior notes (Note 9)	**78**	–	**155**	–
Accretion on senior notes (Note 9)	**62**	–	**122**	–
Unrealized (gain) loss on derivative financial instruments (Note 15)	**(4,198)**	(3,810)	**2,423**	(482)
Costs related to onerous contracts (Note 10)	**(80)**	(80)	**(160)**	(160)
Gain on sale of assets (Note 3)	**(3,199)**	(1,092)	**(5,260)**	(1,092)
Deferred income tax expense	**3,492**	1,146	**7,959**	3,727
Decommissioning liabilities expenditures (Note 10)	**(209)**	(315)	**(417)**	(389)
Net change in non-cash working capital (Note 16)	**708**	(10,354)	**6,639**	(5,822)
	20,734	4,162	**49,539**	19,273
INVESTING				
Property and equipment and exploration and evaluation assets expenditures (Note 3)	**(15,957)**	(4,723)	**(74,504)**	(48,382)
Property acquisitions (Note 3)	**(2)**	(179)	**(2,407)**	(197)
Proceeds from sale of assets (Note 3)	**3,140**	2,820	**8,774**	2,820
Net change in non-cash working capital (Note 16)	**(34,502)**	(18,015)	**(11,871)**	(7,377)
	(47,321)	(20,097)	**(80,008)**	(53,136)
FINANCING				
Proceeds from demand credit facilities (Note 5)	**26,407**	16,137	**30,391**	33,979
Issue of common shares (Note 11)	**192**	–	**192**	–
Share issue costs	**–**	–	**–**	86
Net change in non-cash working capital (Note 16)	**(12)**	(202)	**(114)**	(202)
	26,587	15,935	**30,469**	33,863
NET CHANGE IN CASH	**–**	–	**–**	–
CASH, BEGINNING OF PERIOD	**–**	–	**–**	–
CASH, END OF PERIOD	**–**	–	**–**	–
SUPPLEMENTARY INFORMATION				
Income taxes paid	**–**	–	**–**	–
Interest paid	**2,162**	720	**4,140**	1,108

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

1. Nature and Description of the Company

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

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

2. Significant Accounting Policies

STATEMENT OF COMPLIANCE AND AUTHORIZATION

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

These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2013.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on August 12, 2014.

BASIS OF PRESENTATION

Except as noted below, the consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2013. The consolidated financial statements have been presented in Canadian dollars, which is also the Company's functional currency, rounded to the nearest thousand, unless otherwise indicated.

ACCOUNTING PRONOUNCEMENTS

On January 1, 2014, Cequence adopted the following standards and amendments, as issued by the IASB:

- IAS 36, "Impairment of Assets". The amendments reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarifies the disclosures required when an impairment loss has been recognized or reversed in the period. The adoption of these amendments did not have a material impact on the Company's consolidated financial statements.

- IFRS Interpretations Committee ("IFRIC") 21 "Levies". IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified in the relevant legislation, occurs. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

On May 28, 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", a new standard that specifies recognition requirements for revenue as well as requiring entities to provide the users of financial statements with more informative and relevant disclosures. The standard replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue" as well as a number of revenue-related interpretations. The Company will adopt the standard for reporting periods beginning January 1, 2017. 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.

3. Property and Equipment and Exploration and Evaluation Assets

	Property and equipment	E&E assets	Total
Cost:			
Balance at December 31, 2012	636,356	13,829	650,185
Additions	103,834	14,075	117,909
Transferred to property and equipment	27,904	(27,904)	–
Decommissioning obligation additions and change in estimates	(4,632)	–	(4,632)
Acquisitions	23,540	–	23,540
Disposals	(22,019)	–	(22,019)
Balance at December 31, 2013	764,983	–	764,983
Additions	**74,504**	**–**	**74,504**
Decommissioning obligation additions and change in estimates	**2,256**	**–**	**2,256**
Acquisitions	**2,407**	**–**	**2,407**
Disposals	**(19,882)**	**–**	**(19,882)**
Reclassification to assets held for sale (Note 4)	**(52,575)**	**–**	**(52,575)**
Balance at June 30, 2014	**771,693**	**–**	**771,693**

	Property and equipment	E&E assets	Total
Depletion, depreciation and impairment:			
Balance at December 31, 2012	(197,297)	–	(197,297)
Depletion and depreciation	(40,932)	–	(40,932)
Impairment loss	(2,164)	–	(2,164)
Disposals	12,921	–	12,921
Balance at December 31, 2013	(227,472)	–	(227,472)
Depletion and depreciation	**(26,569)**	**–**	**(26,569)**
Disposals	**15,917**	**–**	**15,917**
Reclassification to assets held for sale (Note 4)	**3,806**	**–**	**3,806**
Balance at June 30, 2014	**(234,318)**	**–**	**(234,318)**
Carrying amounts:			
At December 31, 2013	537,511	–	537,511
At June 30, 2014	**537,375**	**–**	**537,375**

Costs subject to depletion include $756,737 of estimated future capital costs (December 31, 2013 – $785,249).

The Company's credit facilities are secured by a demand debenture with a first floating charge over all assets of the Company (see note 5).

IMPAIRMENT

The Company reviewed each CGU comprising its property and equipment at June 30, 2014 for indicators of impairment and determined that there were none.

SALE OF ASSETS

During the six months ended June 30, 2014, the Company completed the sales of certain oil and gas properties for total cash consideration of $8,774 (2013 - $2,820), subject to final adjustments. The sales resulted in a gain recognized in comprehensive income (loss) of $5,260 (2013 - $1,092).

4. Assets Held for Sale

	June 30, 2014	December 31, 2013
Assets held for sale		
Property and equipment (Note 3)	**48,769**	–
	48,769	–
Liabilities associated with assets held for sale		–
Decommissioning obligations (Note 10)	**974**	–
	974	–

On July 7, 2014, the Company closed the disposition of all assets and associated liabilities presented as assets held for sale at June 30, 2014 for total consideration of approximately $141,000, prior to closing adjustments. The disposition consisted of all the Company's non-operated assets located in the Ansell area.

5. Demand Credit Facilities

At June 30, 2014, the Company has credit facilities totalling $155,000 with a syndicate of Canadian chartered banks. Credit facility A is a $145,000 (December 31, 2013 - $110,000) extendible revolving term credit facility by way of prime loans, U.S. Base Rate Loans, Banker's Acceptances and Libor Loans. Credit facility B is a $10,000 (December 31, 2013 - $10,000) operating facility by way of prime loans, U.S. Base Rate Loans, Banker's Acceptances and letters of credit. As at June 30, 2014, the Company has drawn $53,154 under the extendible revolving term credit facility and $nil under the operating facility (December 31, 2013 – $22,763 and $nil for the revolving and operating facilities, respectively). The Company has covenants that require Consolidated Debt and Senior Debt to twelve month trailing earnings before interest, taxes and depletion and depreciation to be less than 4:0 to 1:0 and 3:0 to 1:0, respectively. Consolidated Debt is defined as the sum of the Company's period end balance of the credit facility and senior notes. Senior Debt is defined as the sum of Consolidated Debt less the period end balance of the senior notes. The Company was in compliance with the lender's covenants at June 30, 2014. In July 2014, the Company's lenders completed a borrowing base review in connection with the Ansell disposition (note 4) and have revised the Company's Credit facility from $155,000 to $135,000. The next scheduled review is to take place in November 2014.

6. Senior Notes

	June 30, 2014	December 31, 2013
Senior notes	**58,477**	58,477
Less transaction costs	**(1,562)**	(1,840)
Total senior notes	**56,915**	56,637

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 are unsecured and are subordinate to Cequence's credit facilities. 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 credit facilities as well as other non-financial covenants and restrictive covenants, including restrictions over asset sales, restricted payments and the incurrence of additional indebtedness. The Company was in compliance with the senior notes covenants at June 30, 2014 and December 31, 2013.

7. Production Revenue

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2014
Sales of oil and natural gas	**43,975**	30,242	**90,268**	52,152
Royalties	**(4,706)**	(2,452)	**(9,024)**	(4,541)
Total production revenue	**39,269**	27,790	**81,244**	47,611

8. Other Income

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Gain on sale of property and equipment	**(3,199)**	(1,092)	**(5,260)**	(1,092)
Transaction costs	**–**	120	**–**	345
Other	**(22)**	(29)	**(52)**	(59)
Total other income	**(3,221)**	(1,001)	**(5,312)**	(806)

9. Finance Costs

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Interest expense on demand credit facilities (including stand-by fees and commitment fees of $458 (2013 - $296))	**804**	711	**1,348**	1,094
Interest expense on senior notes	**1,346**	–	**2,678**	–
Amortization of transaction costs	**78**	–	**155**	–
Accretion expense on senior notes	**62**	–	**122**	–
Accretion expense on provisions	**202**	200	**405**	399
Total finance costs	**2,492**	911	**4,708**	1,493

10. Provisions

DECOMMISSIONING LIABILITIES

The following table summarizes the changes in decommissioning liabilities for the periods ending June 30, 2014 and December 31, 2013:

	2014	2013
Balance, beginning of period	**26,643**	32,564
Property acquisitions	**–**	285
Property dispositions (Note 3)	**(452)**	(1,729)
Accretion expense	**402**	819
Liabilities incurred	**667**	1,120
Abandonment costs incurred	**(417)**	(619)
Revisions in estimated cash flows	**(506)**	(973)
Revisions due to change in discount rates	**2,095**	(4,824)
Reclassification to liabilities associated with assets held for sale (Note 4)	**(974)**	–
Balance, end of period	**27,458**	26,643

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 $55,646 (December 31, 2013 - $55,632). These cash flows have been discounted using a risk-free interest rate of 2.82 percent (December 31, 2013 – 3.20 percent) based on Government of Canada long-term benchmark bonds. The Company expects these obligations to be settled in approximately 1 to 50 years (December 31, 2013 – 1 to 50 years). As at June 30, 2014, no funds have been set aside to settle these liabilities.

ONEROUS CONTRACTS

As at June 30, 2014, the Company recognized a provision related to an onerous lease contract of $346 (December 31, 2013 - $502). Cequence expects to reduce the provision by $318 in the twelve months ended June 30, 2015, which amount is included with other liabilities in the consolidated balance sheet. The portion of the provision expected to be realized in the period subsequent to June 30, 2015 of $28 is carried with provisions as a non-current liability in the consolidated balance sheet as at June 30, 2014.

11. Share Capital

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

	Six months ended June 30, 2014		Year ended December 31, 2013	
Issued common voting shares	**Number**	**Stated Value**	Number	Stated Value
	(000s)	**$**	(000s)	$
Balance, beginning of period	**210,918**	**624,332**	200,610	606,703
Common shares	**110**	**287**	8	15
Common shares issued on property acquisition	**–**	**–**	10,300	17,510
	211,028	**624,619**	210,918	624,228
Share issue costs, net of taxes of ($nil) (2013 – ($35))	**–**	**–**	–	104
Balance, end of period	**211,028**	**624,619**	210,918	624,332
Warrants				
Balance, beginning of period	**3,000**	**1,300**	–	–
Granted on issuance of senior notes, net of tax of $nil (2013 – $183) (Note 6)	**–**	**–**	3,000	1,339
Transaction costs, net of tax of $nil (2013 – $13)	–	–	–	(39)
Balance, end of period	**3,000**	**1,300**	3,000	1,300

On October 3, 2013, the Company granted to the lender of the senior notes 3.0 million warrants at an exercise price of $2.03 to purchase Cequence common shares (see note 6).

12. Share Based Payment Plans

STOCK OPTIONS

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

A summary of the status of the Company's stock option plan and changes during the six months ended June 30, 2014 and the year ended December 31, 2013 is as follows:

	2014		2013	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
	(000s)	**$**	(000s)	$
Outstanding, beginning of period	**18,617**	**2.15**	17,289	2.19
Granted	**20**	**1.70**	1,780	1.70
Forfeited	**(166)**	**2.17**	(444)	1.92
Exercised	**(110)**	**1.73**	(8)	1.34
Outstanding, end of period	**18,361**	**2.15**	18,617	2.15

The following table summarizes information about stock options outstanding at June 30, 2014:

		Options Outstanding		Options Exercisable	
Range of Exercise Price	Weighted Average Exercise Price	Number of Options Outstanding	Weighted Average Contractual Life Remaining	Number of Options	Weighted Average Exercise Price
$	$	(000s)	(years)	(000s)	$
1.24 – 1.99	1.72	14,442	2.19	10,030	1.85
2.96 – 3.94	3.70	3,919	2.04	3,196	3.71
	2.15	18,361	2.16	13,226	2.30

During the six months ended June 30, 2014, $1,217 (2013 - $2,239) in share based payment expense related to equity-settled stock options has been recognized in comprehensive income (loss).

RESTRICTED SHARE UNITS

In 2013, the Company implemented an restricted share unit ("RSU") plan for directors, officers, employees and consultants of the Company and its subsidiaries. An RSU is a conditional grant to receive a Cequence common share, or the cash equivalent, as determined by the Company, upon vesting of the RSUs and in accordance with the terms of the RSU plan and grant agreement. The value of one RSU is notionally equivalent to one Cequence common share. RSUs vest over a three year period and management plans to settle the RSUs in cash on the respective vesting date.

A summary of the status of the Company's RSU plan and changes during the six months ended June 30, 2014 and the year ended December 31, 2013 is as follows:

Number of RSUs (000s)	**2014**	2013
Outstanding, beginning of period	**561**	–
Granted	**20**	561
Forfeited	**(20)**	–
Outstanding, end of period	**561**	561

During the three months ended June 30, 2014, the Company recognized $499 (2013 - $nil) in share based payment expense related to the cash-settled RSUs in comprehensive income (loss).

13. Income (Loss) Per Share

Income (loss) per share has been calculated based on the weighted average number of common shares outstanding during the year. For the three and six months ended June 30, 2014, the Company has excluded 3,919 and 3,937 stock options in the calculation of diluted shares outstanding (2013 – 12,376 and 17,214 stock options) as their inclusion would be anti-dilutive. The following table reconciles the denominators used for the basic and diluted income (loss) per share calculations.

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Basic weighted average shares	**210,986**	209,213	**210,952**	204,935
Effect of dilutive instruments	**6,815**	554	**4,545**	–
Diluted weighted average shares	**217,801**	209,767	**215,497**	204,935

14. Contingencies and Commitments

	2014	2015	2016	2017	2018+	Total
Office leases	580	1,051	864	639	–	3,134
Pipeline transportation	873	1,585	–	–	–	2,458
Total	1,453	2,636	864	639	–	5,592

15. Financial Instruments and Risk Management

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

The Company's accounts receivable, deposits, demand credit facilities and accounts payable and accrued liabilities approximate their carrying values due to their short terms to maturity and the floating interest rate on the Company's debt. The senior notes bear interest at rates available to Cequence and accordingly the fair value approximates the carrying value excluding deferred financing costs.

The Company's fair value hierarchy for those assets and liabilities measured at fair value comprises commodity contracts which are measured at level 2 under the Company's fair value hierarchy as of June 30, 2014. The fair value of commodity contracts is determined by discounting the remaining contracted petroleum and natural gas volumes by the difference between the contracted price and published forward price curves as at the balance sheet date.

The nature of these financial instruments and the Company's operations expose the Company to market risk, credit risk and liquidity risk. The Company manages its exposure to these risks by operating in a manner that minimizes these risks. Senior management employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Company's business objectives and risk tolerance levels. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established policies in setting risk limits and controls and monitors these risks in relation to market conditions.

COMMODITY PRICE RISK

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

The following information presents all outstanding positions by year for commodity derivative financial instruments contracts at June 30, 2014:

Term	Product	Type	Volume	Price	Basis
2014					
January 1, 2014 to September 30, 2014	Gas	Swap	2,500 gj/day	$3.51	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.42	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.53	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.70	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.47	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.40	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.45	AECO
January 1, 2014 to October 31, 2014	Gas	Swap	2,500 gj/day	$3.46	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.15	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.25	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.41	AECO
January 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.47	AECO
November 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$3.70	AECO
November 1, 2014 to December 31, 2014	Gas	Swap	2,500 gj/day	$4.23	AECO
2015					
January 1, 2015 to March 31, 2015	Gas	Swap	2,500 gj/day	$3.70	AECO
January 1, 2015 to March 31, 2015	Gas	Swap	2,500 gj/day	$4.23	AECO
January 1, 2015 to March 31, 2015	Gas	Swap	5,000 gj/day	$3.76	AECO
January 1, 2015 to December 31, 2015	Gas	Swap	2,500 gj/day	$3.58	AECO
January 1, 2015 to December 31, 2015	Gas	Swap	5,000 gj/day	$3.69	AECO
January 1, 2015 to December 31, 2015	Gas	Swap	2,500 gj/day	$3.95	AECO

For the six months ended June 30, 2014, realized loss from commodity derivative contracts recognized in comprehensive income (loss) was $7,954 (2013 - $343).

The fair value of the commodity contracts outstanding at June 30, 2014 was a current liability of $5,391 and non-current asset of $12 (December 31, 2013 – current liability $2,880 and non-current liability of $76).

For the six months ended June 30, 2014, the Company recorded an unrealized loss of $2,423 from derivative commodity contracts (2013 - $482 gain).

As at June 30, 2014, an increase in gas price of $0.50/gj results in a decrease in the fair value of the commodity contracts of $4,978 ($3,733 after tax) and a commensurate decrease to comprehensive income (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 accounts receivable and cash.

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 June 30, 2014, the accounts receivable balance was $20,778 of which $1,932 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
17,755	564	527	1,932	20,778

16. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Accounts receivable	**2,004**	(601)	**(944)**	646
Deposits and prepaid expenses	**(132)**	241	**(28)**	181
Accounts payable and accrued liabilities	**(35,678)**	(28,211)	**(4,374)**	(14,228)
Net change in non-cash working capital	**(33,806)**	(28,571)	**(5,346)**	(13,401)
Allocated to:				
Operating activities	**708**	(10,354)	**6,639**	(5,822)
Investing activities	**(34,502)**	(18,015)	**(11,871)**	(7,377)
Financing activities	**(12)**	(202)	**(114)**	(202)
	(33,806)	(28,571)	**(5,346)**	(13,401)

Corporate Information

Management

Paul Wanklyn
President & CEO

Howard Crone, P.Eng
Executive Vice President & COO

David Gillis, CA
Vice President, Finance & CFO

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

David P. Robinson
Vice President, Geology

Christopher C. Soby
Vice President, Land

Stephen R. Stretch
Vice President, Geophysics

Mike Stewart
Vice President, Operations

Erin Thorson, CMA
Controller

Directors

Don Archibald
Chairman

Peter Bannister
Robert C. Cook
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