

CEQUENCE ENERGY LTD.
(formerly Sabretooth Energy Ltd.)
FINANCIAL STATEMENTS
Consolidated Balance Sheets
(Unaudited) (Expressed in thousands of Canadian dollars)

	September 30, 2009	December 31, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	\$25,683	\$15,437
Accounts receivable	3,830	7,232
Interest receivable (note 5)	-	1,218
Deposits and prepaid expenses	820	1,549
Commodity contracts (note 16)	3,033	3,034
	33,366	28,470
Investments (note 5)	13,424	13,968
Other derivative financial instrument (note 8)	173	-
Property and equipment (note 6)	136,547	115,383
Future income taxes	5,842	6,129
	\$189,352	\$163,950
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Demand credit facilities (note 7)	-	\$47,970
Accounts payable and accrued liabilities	6,445	10,771
	6,445	58,741
Long-term debt (note 8)	18,120	-
Loan premium (note 8)	167	-
Asset retirement obligations (note 9)	3,854	2,515
Non-controlling interest	8,486	8,474
	37,072	69,730
SHAREHOLDERS' EQUITY		
Share capital (note 10)	255,422	192,849
Warrants (note 10)	-	598
Contributed surplus (note 11)	7,679	5,596
Deficit	(110,821)	(104,823)
	152,280	94,220
	\$189,352	\$163,950
Contingencies (note 14)		
Commitments (note 15)		

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

"Donald Archibald"

Donald Archibald
Director

"Peter Bannister"

Peter Bannister
Director

CEQUENCE ENERGY LTD.
(formerly Sabretooth Energy Ltd.)
Consolidated Statements of Operations,
Comprehensive Income (Loss) and Deficit

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
REVENUES				
Production revenue	\$3,162	\$11,470	\$11,790	\$41,252
Royalties	(1,170)	(1,437)	(2,355)	(4,859)
Realized gain (loss) on derivative financial instruments (note 16)	2,800	33	7,346	(2,378)
Unrealized gain (loss) on derivative financial instruments (notes 8 and 16)	(2,435)	12,407	(28)	(291)
Interest on commercial paper	-	438	-	1,135
	2,357	22,911	16,753	34,859
EXPENSES				
Operating costs	2,609	3,995	7,107	9,940
Transportation	309	319	794	994
Reorganization expenses (note 3)	3,295	-	3,295	-
General and administrative	745	713	3,542	2,827
Depletion, depreciation, and amortization	3,056	4,867	9,979	15,791
Accretion expense	54	39	133	173
Interest	474	577	1,237	2,078
Stock-based compensation (note 11)	245	211	573	761
Valuation allowance on investment (note 5)	544	2,530	544	8,462
	11,331	13,251	27,204	41,026
Income (loss) before taxes and non-controlling interest	(8,974)	9,660	(10,451)	(6,167)
Current income tax	7	-	7	-
Future income tax (recovery)	(1,936)	(3,547)	(4,472)	1,025
Income (loss) before non-controlling interest	(7,045)	6,113	(5,986)	(7,192)
Non-controlling interest	51	-	(12)	-
Net Income (Loss) and Comprehensive Income (Loss)	(6,994)	6,113	(5,998)	(7,192)
Deficit, beginning of period	(103,827)	(109,949)	(104,823)	(96,644)
Deficit, end of period	\$(110,821)	\$(103,836)	\$(110,821)	\$(103,836)
Net Income (loss) per share (note 10)				
Basic	\$(0.26)	\$0.63	\$(0.39)	\$(0.74)
Diluted	\$(0.26)	\$0.63	\$(0.39)	\$(0.74)

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

CEQUENCE ENERGY LTD.
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Consolidated Statements of Cash Flows

(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
CASH FLOWS FROM (USED IN)				
Operating activities				
Net income (loss)	(6,994)	6,113	(5,998)	(7,192)
Items not affecting cash				
Depletion, depreciation, and amortization	3,056	4,867	9,979	15,791
Accretion expense	54	39	133	173
Stock-based compensation	245	211	573	761
Valuation allowance on investments	544	2,530	544	8,462
Unrealized loss (gain) on derivative financial instruments (note 16)	2,435	(12,407)	28	291
Loan premium amortization (note 8)	(16)	-	(33)	-
Future income tax recovery	(1,936)	3,547	(4,472)	1,025
Asset retirement expenditures (note 9)	-	(262)	(17)	(601)
Non-controlling interest	(51)	-	12	-
	(2,663)	4,638	749	18,710
Net change in non-cash working capital (note 17)	1,018	3,789	1,628	(335)
	(1,645)	8,427	2,377	18,375
Investing activities				
Corporate acquisitions (note 3)	342		342	
Property and equipment expenditures, net	(3,334)	(9,208)	(8,310)	(31,334)
Acquisition of assets (note 4)	(15,763)	-	(15,763)	-
Proceeds from sale of assets	-	21,191	-	21,191
Net change in non-cash working capital (note 17)	1,554	(309)	(612)	(3,796)
	(17,201)	(11,674)	(24,343)	(13,939)
Financing activities				
Issue of common shares	65,315	-	65,315	-
Share issue costs	(3,138)	-	(3,168)	-
Exercise of stock options	-	-	-	100
Repurchase of stock options	-	-	-	(104)
Repurchase of common shares under NCIB (note 10)	-	-	(85)	-
Repayment of demand credit facilities	(29,740)	(20,101)	(47,970)	(4,432)
Proceeds from long-term debt	-	-	18,120	-
Net change in non-cash working capital (note 17)	315	-	-	-
	32,752	-	32,212	-
Increase (decrease) in cash and cash equivalents	13,906	(20,101)	10,246	(4,436)
Cash and cash equivalents, beginning of period	11,777	-	15,437	-
Cash and cash equivalents, end of period	25,683	-	25,683	-
Income taxes paid	723	-	7	-
Cash interest paid	32323	557	1,102	2,078

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

CEQUENCE ENERGY LTD.
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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
Three and nine month periods ended September 30, 2009
(Unaudited, all figures expressed in thousands unless otherwise noted)

1. INTERIM FINANCIAL STATEMENTS – BASIS OF PRESENTATION

At the annual and special meeting of Sabretooth Energy Ltd. on July 29, 2009, the shareholders approved transactions to refinance the company, appoint new management, restructure the board of directors and acquire a private oil and gas company. As part of the reorganization the company effected a name change to Cequence Energy Ltd. (the "Company" or "Cequence") and completed a 4:1 share consolidation (the "reorganization transactions"). All share and per share comparative numbers have been restated to reflect the share consolidation. The reorganization transactions are described in more detail in Note 3 below.

The interim consolidated financial statements of Cequence have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and follow the same accounting policies as the most recent audited annual consolidated financial statements, except as noted below. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2008. The financial information presented reflects the consolidated financial statements of Cequence including its 71 percent owned subsidiary, HFG Holdings Inc. In accordance with Canadian GAAP, the consolidated statements of Cequence include 100 percent of HFG Holdings Inc. with the minority interest reflected as a 'non-controlling interest' on the balance sheet and income statement.

2. CHANGES IN ACCOUNTING POLICIES AND PRACTICES AND FUTURE ACCOUNTING PRONOUNCEMENTS

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3064, "Goodwill and Intangible Assets", which has replaced previous Handbook Section 3062. This new guidance reinforces a principles-based approach to the recognition of costs as assets in accordance with the definition of an asset and the criteria for asset recognition under Handbook Section 1000, "Financial Statement Concepts". Under this new guidance, fewer items meet the criteria for capitalization. The implementation of this section had no impact on the Company's financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

Effective January 1, 2009, the Company adopted the Emerging Issues Committee ("EIC") abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which provides further information on the determination of the fair value of financial assets and financial liabilities under Section 3855, entitled "Financial Instruments - Recognition and Measurement". EIC 173 is to be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after the date of issuance of this abstract. The implementation of this section resulted in no change to the financial statements.

3. REORGANIZATION TRANSACTIONS

On July 29, 2009 the shareholders of Cequence approved certain reorganization transactions to recapitalize the Company with new equity, appoint new management and restructure the board of directors.

The new management, directors, certain employees and consultants of the Company (as well as a former officer of the Company) purchased 25,500 common shares (6,377 post-consolidation) of the

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Company at a price of \$0.37 per share (\$1.48 post-consolidation) for aggregate subscription proceeds of \$9,438 (the "Private Placement"). Existing shareholders of the Company were granted rights to acquire a maximum of 27,027 common shares (6,757 post-consolidation) at a price of \$0.37 per share (\$1.48 post-consolidation) until August 14, 2009. A total of 26,460 rights (6,615 post-consolidation) were exercised for total consideration of \$9,790 (the "Rights Offering").

The Company also acquired all of the issued and outstanding shares of a private oil and gas company owned by certain members of the new management team in exchange for the issuance of an aggregate of approximately 1,519 common shares (380 post-consolidation) of the Company at a price of \$0.37 per share (\$1.48 post-consolidation) per share for total consideration of \$562. The purchase price was allocated to cash and working capital of \$335, property, oil and gas properties of \$321 and future income tax liability of \$94. The private oil and gas company has a CEE flow through share commitment of \$400 that must be spent prior to the end of 2009. The \$0.37 price per share was determined based on the approximate trading price of the Company at the time the Private Placement was agreed to.

On May 27, 2009 the Company entered into an agreement to sell on a private placement basis 53.6 million subscription receipts (13.4 million post-consolidation) at a price of \$0.86 per subscription receipt (\$3.44 post-consolidation) for total proceeds of \$46.1 million. The subscription receipts were convertible to Cequence common shares without further consideration upon shareholder approval of the reorganization transactions and regulatory approval. Upon closing of the reorganization transactions, the Company's subscription receipts previously issued on June 18, 2009 were converted, for no additional consideration and without further action, into common shares of the Company. Holders of the subscription receipts received one common share of the Company for each subscription receipt held.

Seventy-five percent of the shares issued to the new management and directors of the Company through the private placement and acquisition of the private oil and gas company have been deposited into escrow with one-third of the escrowed shares being released on each of the first, second and third anniversaries of the closing of the reorganization transactions on July 30, 2009.

As part of the completion of the transactions, the new management and certain directors were issued 20,800 performance warrants (5,200 post-consolidation) which are convertible into non-voting shares of the Company. Each performance warrant has an exercise price of \$0.47 per non-voting share (\$1.88 post-consolidation) and will be exercisable upon reaching certain common share trading price thresholds. The performance warrants are considered stock-based compensation as described in Note 11.

Costs of the reorganization of \$3,295 relate primarily to legal, investment banking and severance and are included in general and administrative expenses. Share issue costs associated with the private placement, rights offering and subscription receipts totalled \$3,168 and are included in share capital.

4. PROPERTY ACQUISITIONS

A) Peace River Assets

On September 24, 2009 the Company closed the acquisition of certain oil and natural gas properties and related facilities in the Peace River Arch area of Northwest Alberta. The purchase price, subject to a final statement of adjustments, was approximately \$11,795. An asset retirement obligation of \$1,074 has been recognized as part of the acquisition. The results of operations from these properties have been included in the consolidated financial statements from the closing date of the acquisition. The acquisition was financed through available cash.

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B) Gordondale Assets

On August 21, 2009 the Company closed the acquisition of natural gas properties in the Gordondale area of Northwest Alberta. The purchase price, subject to final adjustments, was \$3,968. An asset retirement obligation of \$55 has been recognized as part of the acquisitions. The results of operations from these properties have been included in the consolidated financial statements from the closing date of acquisition. The acquisition was financed through available cash.

5. INVESTMENTS

As at September 30, 2009, the Company held long-term floating rate notes ("MAV 2" notes) with a carrying value of \$13,424. The MAV 2 notes are a result of the restructuring of the Company's holdings of asset-backed commercial paper ("ABCP") that matured during the third quarter of 2007 but, as a result of the liquidity issues in the ABCP market, did not settle on maturity. The ABCP had an original cost of \$24,147 and an interest rate of 4.52 percent. At the dates the Company acquired these investments, they were rated R1 (High) and backed by R1 (High) rated assets and liquidity agreements.

On January 21, 2009, the Pan-Canadian Investors Committee announced that the restructuring had been completed to extend the maturity of the ABCP to provide for a maturity similar to that of the underlying assets. The transactions of the ABCP conduits supported solely by leveraged collateralized debt and a combination of synthetic and traditional securitized assets, have been pooled into the Master Asset Vehicles "MAV" 1 and 2, which are class A1 and class A2 senior long-term notes that will bear interest at floating rates and class B and C subordinated long-term notes that will bear interest at floating rates. Ineligible assets in MAV 1 and MAV 2 have been segregated, and note holders have received ineligible assets tracking notes that will track the performance of the underlying individual asset.

As a result of the restructuring, the Company received MAV 2 Notes, including senior notes (Class A1 and A2) and subordinated Class B and C notes, which have not been rated by DBRS Limited. MAV 2 Notes means that the Company will not finance margin calls, but will receive a reduced coupon. The Class A1 and A2 notes will pay interest and Class B and C notes will accrue interest with payments to be made only after the Class A1 and A2 notes have been fully repaid. The following are the new notes received from the restructuring:

MAV2	Class A1	\$ 6,717
MAV2	Class A2	14,149
MAV2	Class B	2,568
MAV2	Class C	725
		\$24,159

As at January 21, 2009 the carrying value of the previous notes was removed from the consolidated balance sheet and replaced with the new notes at fair value. No gain or loss on exchange was recognized because the total fair value of the MAV 2 Notes and the expected interest payments net of restructuring costs was equal to the carrying value of the ABCP investments at January 21, 2009. These notes are designated as held-for-trading financial assets and are subject to fair value accounting. Changes in fair value are recorded in income as they arise.

For the nine months ended September 30, 2009, the Company received \$1,166 of interest on the ABCP related to the period between August 13, 2007 and December 31, 2008. As at December 31, 2008 the interest receivable is presented on the consolidated balance sheet as the short-term portion

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of investments in floating rate notes. Interest for the period January 22, 2009 to September 30, 2009 has not been accrued as a result of low current interest rates.

The valuation technique used by the Company to estimate the fair value of its investment in MAV 2 Notes at September 30, 2009 and ABCP at December 31, 2008, incorporates probability-weighted discounted cash flows considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. Discount rates used in the valuation were 7.24 percent for Class A1 Notes, 9.96 percent for Class A2 Notes, and 24.14 percent for Class B Notes and 33.19 percent for subordinated notes. Due to current bankers acceptance rates, the MAV 2 Notes are not currently paying interest. As a result, a zero coupon rate has been assumed on the B and C Notes. Discount rates have been estimated using benchmark bond rates plus expected credit spread premiums for lack of liquidity, uncertainty for future payments, lack of transparency and the nature of the underlying assets. Assumptions have been made as to the long-term interest rates to be received from the long-term floating rate notes. The term of the notes is estimated to be approximately eight years which approximates the maturity of the assets backing the notes. Interest on Class A1 notes is to be accrued and paid currently, with interest on all other Classes to be accrued, but only paid after interest on higher ranking Classes is paid. The probability weighted discounted cash flows resulted in an estimated fair value of the Company's MAV 2 Notes of \$13,424 at September 30, 2009 (December 31, 2008 - \$13,968), a cumulative reduction of \$10,735 to the original cost of the ABCP. As the estimated fair value was reduced during the quarter, \$544 was charged to income (September 30, 2008 - \$8,462).

There are currently no market quotations available for the ABCP or the new MAV 2 Notes and uncertainties exists regarding the value of the assets which underlie the MAV 2 Notes, the amount and timing of cash flows, the evolution of the liquidity of the market for the new notes issued following the restructuring and the evolution of the prevailing economy could give rise to a further change in the value of the Company's investment in the MAV 2 Notes. It is reasonably possible that changes in future conditions in the near term could require a material change in the recognized amount. A 1.0 percent increase in the discount rate will decrease the fair value of the MAV 2 Notes by approximately \$860 before tax.

6. PROPERTY AND EQUIPMENT

	September 30, 2009	December 31, 2008
Petroleum & natural gas properties and equipment	\$198,336	\$166,696
Other	354	851
	198,690	167,547
Accumulated depletion and depreciation	(62,143)	(52,164)
	\$136,547	\$115,383

Unproved properties and seismic not subject to depletion amounted to approximately \$18,650 at September 30, 2009 (December 31, 2008 - \$26,421; September 30, 2008 - \$28,207).

The Company capitalized general and administrative costs related to exploration and development of approximately \$1,185 for the nine month period ended September 30, 2009 (September 30, 2008 - \$1,573).

Costs subject to depletion include \$17,938 of estimated future capital costs (December 31, 2008 - \$16,168; September 30, 2008 - \$10,326).

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7. DEMAND CREDIT FACILITIES

The Company has established two credit facilities with a Canadian chartered bank. Credit facility A is a \$40,000 revolving operating demand loan by way of prime rate based loans, Banker's Acceptances and letters of credit/guarantee, which bears interest at the bank prime rate plus 0.25 percent to 2.5 percent on a sliding scale, depending on the Company's debt to cash flow ratio (ranging from being less than 1.0:1.0 to greater than or equal to 3:1). Credit facility B is a \$5,000 non-revolving acquisition/development demand loan, which bears interest at the bank prime rate plus 0.75 percent to 3.0 percent on the same sliding scale as facility A. Both credit facilities are subject to periodic review by the bank and are secured by a general assignment of book debts and a \$165,000 demand debenture with a first floating charge over all assets of the Company. The Company is required to meet certain financial based covenants under the terms of this facility. The Company is also permitted to hedge up to 70 percent of its production under the lending agreement. As at September 30, 2009, the Company has not drawn amounts under either facility. The effective interest rate for the period ended September 30, 2009 was 3.0 percent (2008 – 5.4 percent). The next scheduled review is to take place in November 2009.

8. LONG-TERM DEBT

On March 31, 2009, the Company's bank provided the Company with an additional credit facility to provide liquidity in respect to the MAV 2 Notes (note 5). The credit facility is structured as follows:

Tranche A: \$10,872 revolving credit facility, which represents an amount equal to approximately 45 percent of the face value of the restructuring notes.

Tranche B: \$7,248 revolving credit facility, which represents an amount equal to approximately 30 percent of the face value of the restructuring notes.

The borrowings under the credit facility are first allocated to Tranche A and the balance allocated to Tranche B. The maturity date is March 30, 2012 with an option to extend the term to seven years on a year by year basis if agreed to by both parties. Interest is payable on prime rate loans at the bank prime rate less 1 percent or by bankers acceptance at discounted bankers' acceptance rates plus a stamping fee of 0.65 percent. The credit facility is secured by the MAV 2 Notes as well as a hypothecation/pledge of the notes and all cash proceeds the Company receives on the sale of MAV 2 Notes will reduce the available amount of the facility commencing with Tranche A. The Company is required to meet certain financial based covenants under the terms of this facility. The effective interest rate for the quarter ended September 30, 2009 was 1.12 percent.

Under the terms of the credit facility and subject to certain conditions, the Company has the option to repay the outstanding loan amount under Tranche A at the maturity date in exchange for the MAV 2 notes. This option is considered an embedded derivative, classified as held for trading, and is recorded at fair value using a Black-Scholes valuation model using current market rate assumptions and a discount rate reflective of the financial institution. The derivative financial instrument has been discounted using a discount factor reflective of the credit profile of the financial institution. At inception the asset had a fair value of \$200 and was recorded as a derivative financial instrument asset with an offsetting loan premium liability. At September 30, 2009 this option has a fair value of \$173. During the quarter the company recognized an unrealized loss of \$13 on the revaluation of the derivative instrument and interest recovery of \$16 on the amortization of the loan premium. For the nine months ended September 30, 2009 the unrealized loss recognized was \$27 on the revaluation of the derivative instrument and the interest recovery was \$33 on the amortization of the loan premium. A variation of 1 percent in the discount rate would impact the option fair value by approximately \$30 before tax.

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9. ASSET RETIREMENT OBLIGATIONS

The following table summarizes the changes in asset retirement obligations for the nine months ended September 30, 2009 and year ended December 31, 2008:

	September 30, 2009	December 31, 2008
Balance - Beginning of period	\$2,515	\$4,560
Property acquisitions (note 4)	1,129	-
Property disposition	-	(1,729)
Accretion expense	133	212
Liabilities incurred	58	278
Abandonment cost incurred	(17)	(816)
Revision in estimated cash flows	36	10
Balance - End of period	3,854	\$2,515

The total estimated, inflated undiscounted cash flows required to settle the obligations are \$12,863 (December 31, 2008 - \$7,694) which have been discounted using a weighted average credit-adjusted risk-free interest rate of 7.1 percent (December 31, 2008 – 6.25 percent). The Company expects these obligations to be settled in approximately 2 to 19 years. As at September 30, 2009, no funds have been set aside to settle these obligations.

10. SHARE CAPITAL

Cequence has an unlimited number of common voting shares and common non voting shares.

Issued common voting shares (000's)	Number	Stated Value
Balance, December 31, 2008	\$9,665	\$192,849
Repurchase of shares - NCIB	(50)	(997)
Private placement	6,377	9,438
Corporate acquisition	380	562
Subscription receipts	13,398	46,087
Rights offering	6,615	9,790
Share issue costs (net of tax of \$861)		(2,307)
Balance, September 30, 2009	\$36,385	\$255,422

On August 21, 2009 Cequence completed a four for one share consolidation. All share and per share amounts have been adjusted retroactively for the consolidation.

On January 7, 2009, the Company repurchased 50 common shares of the Company under a Normal Course Issuer Bid ("NCIB") for \$85. The stated value of the shares was debited to share capital, with the excess of stated value over the cost of the re-acquisition of \$912 credited to contributed surplus.

On January 1, 2009, the Company had 263 warrants outstanding that entitled the holder to acquire one common share on a CDE "flow-through" basis under the Income Tax Act (Canada) at a price of \$15.24 per share. The warrants expired on March 31, 2009 unexercised, with the deemed value of \$598 credited to contributed surplus.

On May 27, 2009 the Company entered into an agreement to sell on a private placement basis 53,592 subscription receipts (13,398 post-consolidation) at a price of \$0.86 per subscription receipt (\$3.44 post-consolidation) for total proceeds of \$46,087. The subscription receipts were convertible to

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Cequence common shares without further consideration upon shareholder approval of the reorganization transactions and regulatory approval. Upon closing of the Transactions, the Company's subscription receipts previously issued on June 18, 2009 were converted, for no additional consideration and without further action, into common shares of the Company. Holders of the subscription receipts will receive one common share of the Company for each subscription receipt held.

On July 30, 2009, the shareholders of the Company approved reorganization transactions that included the issuance of 25,500 common shares (6,377 post-consolidation) to new employees, directors and officers of Cequence for total consideration of \$9,438. Also, shareholders approved the issuance of 1,519 common shares (380 post-consolidation) for total consideration of \$562 to purchase a private oil and gas company owned by certain officers of Cequence.

As part of the reorganization, existing shareholders of the Company were offered rights to purchase common shares of Cequence for a price of \$0.37 per share (\$1.48 post-consolidation) up to a maximum of 27,027 common shares (6,757 post-consolidation). The rights offering expired on August 14, 2009 and a total of 26,460 common shares (6,615 post-consolidation) were issued for total consideration of \$9,790.

11. STOCK BASED COMPENSATION PLANS

a) Stock Options

The Company has a stock option plan for directors, officers, employees and consultants of the Company and its subsidiaries. Options typically vest over a four year period and expire five years from the date of grant. During the quarter, 731 options were forfeited due to the reorganization of the Company. A summary of the status of the Company's stock option plan and changes during the nine month period ended September 30, 2009 is as follows:

	Number of Options (000s)	Weighted Average Exercise Price
Balance, December 31, 2008	789	\$8.56
Forfeited	(775)	8.56
Issued	900	4.32
Balance, September 30, 2009	914	\$4.39

The following table summarizes information about stock options outstanding at September 30, 2009:

(000's)	Options Outstanding			Options Exercisable	
	Weighted Average Exercise Price	Number of Options Outstanding (000's)	Weighted Average Contractual Life Remaining (years)	Number of Options (000's)	Weighted Average Exercise Price
Range of Exercise Price					
\$4.32	\$4.32	900	4.9	-	\$ -
\$8.36-10.68	\$8.93	14	8.3	5	\$8.76
	\$4.39	914	5.0	5	\$8.76

During the nine months ended September 30, 2009, \$60 (2008 - \$761) in compensation expense related to stock options has been recognized in the consolidated statement of operations.

On August 16, 2009 the Company issued 900 stock options at a price of \$4.32 to employees and directors. The options have a five year life and 25 percent vest annually commencing in one year

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following the grant date. To determine the fair value of the options, the Company uses the Black Scholes option pricing model with a volatility of 50 percent, risk free interest rate of 2.7 percent, forfeiture of 6 percent and an average life of 5 years. The Company expenses options using the graded vesting method.

b) Performance Warrants

As part of the reorganization, certain officers and directors of the Company were awarded a total of 20,800 (5,200 post-consolidation) performance warrants that are exercisable into a common share of Cequence at a price of \$0.47 (\$1.88 post-consolidation). At the time the performance warrants were negotiated the market price of the Company's shares was \$0.37 (\$1.48 post-consolidation). The performance warrants are divided into three equal tranches with the first one-third having a four year term and vest once the 20 day weighted average share price of Cequence exceeds \$3.20. The second tranche has a 54 month term and vests if the 20 day weighted average share price of Cequence exceeds \$4.40. The final third of the performance warrants have a five year term and vest if the 20 day weighted average share price of Cequence exceeds \$5.60. The performance shares are convertible to non-voting shares of Cequence.

As of September 30, 2009 the first two performance criteria had been met and the Company has recognized the full compensation expense related to the first two tranches of the performance warrants. The Company recognized \$513 of stock based compensation for the performance warrants in the third quarter of 2009. The Company utilized a Black-Scholes option pricing model to price the warrants. A fair value of \$0.12 per warrant was determined using an expected volatility of 40 percent, an average life of 4.5 years and risk free interest rate of 1.78 percent.

Contributed Surplus	Nine months ended September 30, 2009
Opening balance	\$5,596
Stock-based compensation expensed	573
Repurchase of common shares - NCIB (note 10)	912
Warrants unexercised (note 10)	598
Ending Balance	\$7,679

12. NET INCOME (LOSS) PER SHARE

Net income (loss) per share has been calculated based on the weighted average number of common shares outstanding during the period. The following table reconciles the denominators used for the basic and diluted net income (loss) per share calculations. No stock options or warrants have been included in the calculation of diluted shares outstanding for the period ended September 30, 2009 as their inclusion would be anti-dilutive.

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Basic weighted average shares	26,577	9,779	15,333	9,771
Effect of dilutive stock options and warrants	-	-	-	-
Diluted weighted average shares	26,577	9,779	15,333	9,771

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13. RELATED PARTY TRANSACTIONS

A director of the Company is a partner of a law firm that provides tax planning services to the Company. During the nine months ended September 30, 2009, the Company paid \$49 (September 30, 2008 - \$19) to this firm for tax planning fees and disbursements which are included as general and administration expenses. Of this amount, \$46 is included in accounts payable and accrued liabilities at September 30, 2009, due under normal credit terms. These transactions have been recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

14. CONTINGENCIES

The Bear Ridge acquisition that occurred on August 21, 2007 resulted in one dissenting shareholder. The shareholder holds 449,358 Bear Ridge shares and 389,435 Bear Ridge warrants with a strike price of \$1.41. An accrual has been made for management's best estimate of the settlement which will be paid to this Bear Ridge shareholder. The dispute is currently with the courts. The Company does not expect any additional costs to be incurred on this matter other than the amount already accrued as part of the purchase price of Bear Ridge. The estimated settlement price is subject to measurement uncertainty.

During the year ended December 31, 2008, the Company received a Statement of Claim and Notice from a service provider of the Company for \$1,039. The Company and the Company's legal counsel believe this claim is without merit. The Company has filed a counter claim. Cequence has accrued management's best estimate of legal costs to address the claim at September 30, 2009, but has not accrued any amount related to the claim itself. The estimated resolution, and the amount of the settlement, if any, is subject to measurement uncertainty. Any amount settled will be recorded in the year of settlement.

15. COMMITMENTS

	2009	2010	2011	2012	2013+	Total
Office lease	42	170	143	107	-	463
Pipeline transportation	408	1,619	1,619	1,619	4,719	9,984
CEE Flow-through shares	10,333	-	-	-	-	10,333
CDE Flow-through shares	2,025	-	-	-	-	2,025
Total	12,808	1,789	1,762	1,726	4,719	22,804

- a) Pursuant to a flow-through share offering of the Company's 71 percent owned subsidiary HFG is committed to incur a total of \$15,221 in CEE qualifying expenditures by December 31, 2009. As of September 30, 2009, the Company estimates that \$9,933 CEE commitment remains outstanding. Pursuant to a flow-through share offering of the private oil and gas company acquired in the reorganization transaction (Note 3) the Company is committed to incur \$400 in CEE qualifying expenditures by December 31, 2009. Subsequent to quarter end Cequence issued \$2,025 of CDE flow through shares that are required to be spent in 2009.
- b) The Company acquired a pipeline transportation contract in a property acquisition that expires on November 30, 2015.

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16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company has the following financial instruments:

Cash and cash equivalents are designated as held-for-trading instruments and are measured at fair value. Long-term investments are designated as held-for-trading and are measured at fair value with changes in fair value recognized in earnings. Accounts receivable and deposits are designated as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities, bank indebtedness, and long-term debt are designated as other financial liabilities and are measured at amortized cost. All risk management assets and liabilities including commodity contracts are derivative financial instruments and are classified as held-for-trading.

The Company uses various types of derivative financial instruments to manage risks associated with natural gas price fluctuations. These instruments are not used for trading or speculative purposes. Proceeds and costs realized from holding the related contracts are recognized at the time each transaction under a contract is settled. For the unrealized portion of such contracts, the Company utilizes the fair value method of accounting. The fair value is based on an estimate of the amounts that would have been paid to or received from counter parties to settle these instruments given future market prices and other relevant factors. The method requires the fair value of the derivative financial instruments to be recorded at each balance sheet date with unrealized gains or losses on those contracts recorded through net earnings. Transaction costs, if any, are expensed when incurred in relation to the acquisition of a derivative.

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.

A) 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 net earnings or the value of financial instruments. These risks are generally outside the control of the Company. 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. Collars ensure that the commodity prices realized will fall into a contracted range for a contracted sale volume based on the monthly index price. Monthly gains and losses are determined based on the differential between the AECO daily index and the AECO monthly index when the monthly index price falls in between the floor and the ceiling. Derivative financial instruments are marked-to-market and are recorded on the consolidated balance sheet as either an asset or liability with the change in fair value recognized in net earnings.

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The following information presents all outstanding positions for the commodity derivative financial instruments at September 30, 2009.

Term	Volume	Price	Basis
October 1, 2009 to March 31, 2010	6,000 GJ/day	\$7.85	AECO

Realized gains totalling \$2,800 for the quarter ended September 30, 2009 from commodity derivative contracts was recognized in income (September 30, 2008 - \$33). For the nine month period ended September 30, 2009 realized gains were \$7,346 compared to a loss of \$2,378 in the prior period.

The fair value of the commodity contracts outstanding at September 30, 2009 was an asset of \$3,033 (December 31, 2008 - \$3,034). For the quarter ended September 30, 2009 the Company recorded an unrealized loss of \$2,422 from derivative commodity contracts. An unrealized loss of \$1 related to the derivative financial commodity contracts was recorded for the nine months ended September 30, 2009 compared to an unrealized loss of \$291 in 2008. An estimate of credit risk has been made in the valuation of all derivative commodity contracts.

As at September 30, 2009, a change in gas price of \$0.50/gj results in a change in the fair value of the commodity contract of \$509 (\$361 after tax).

Foreign exchange risk

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices are referenced to U.S. dollar denominated prices. As at September 30, 2009 the Company had no forward, foreign exchange contracts in place, nor any significant working capital items denominated in foreign currencies.

Interest rate risk

The Company is exposed to interest rate risk to the extent that changes in market interest rates impact its borrowings under the floating rate credit facilities. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. The Company has no interest rate swaps or financial contracts in place as at or during the three months ended September 30, 2009.

As at September 30, 2009 a 1 percent change in interest rates on the Company's outstanding debt, with all other variables constant, would result in a change in net income of \$136 (\$99 after tax).

B) CREDIT RISK

The majority of the Company's accounts receivable are due from joint venture partners in the oil and gas industry and from purchasers of the Company's petroleum and natural gas production and are subject to the same industry factors such as commodity price fluctuations and escalating costs. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit.

Joint venture receivables are typically collected within one to three months of the joint venture billing being issued to the partners. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure and issuing cash calls on large capital projects to its partners on capital projects before they commence. The Company reviews the financial status of joint venture partners before partner approval is obtained.

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At September 30, 2009 the Company has an allowance for doubtful accounts of \$343.

Receivables from petroleum and natural gas marketers are normally collected on the twenty-fifth day of the month following production. Receivables related to the sale of the Company's petroleum and natural gas production are from major marketing companies. The Company historically has not experienced material collection issues with its petroleum and natural gas marketers. As at September 30, 2009 the Company has approximately \$1,685 of receivables from marketers which have subsequently been collected.

Cash and cash equivalents consist of bank balances. The Company manages the credit exposure of cash by selecting financial institutions with high credit ratings and monitors all short-term deposits.

The Company has credit risk related to its investments as further described in Note 5. There are currently no market quotations available for MAV 2 notes and uncertainties exist regarding the values of the assets which underlie the MAV 2 notes.

As at September 30, 2009, the maximum exposure to credit risk was \$46,143 (December 31, 2008 - \$40,889) being the carrying value of its cash and cash equivalents, accounts receivable, commodity contracts, derivative financial instruments and investments. The Company has the option to repay a portion of the long-term debt with the outstanding MAV 2 notes (note 8).

C) LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's financial liabilities consist of accounts payable and accrued liabilities and bank indebtedness and long term debt. Accounts payable and accrued liabilities have contractual maturities of less than one year. The Company maintains a revolving credit facility as outlined in Note 7 that is reviewed semi-annually by the lenders and is due on demand. The Company's long-term debt, as described in note 8, has a minimum term of three years. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when they are due. The nature of the oil and gas industry is capital intensive and the Company maintains and monitors a certain level of cash flow to finance operating and capital expenditures. As a result, the Company prepares annual capital expenditure budgets and utilizes authorizations for expenditures for projects to manage capital expenditures. Refer to note 18 for disclosure related to the management of capital.

The Company believes it has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect there will be a material adverse impact on its business as a result of the current third party ABCP liquidity issue.

The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic downturn.

D) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's cash and cash equivalents, accounts receivable, deposits, bank indebtedness, accounts payable and accrued liabilities and long-term debt approximate their carrying values due to their short terms to maturity and the floating interest rate on the Company's debt.

The fair value of derivative contracts is determined by discounting the difference between the contracted price and published forward price curves as at the balance sheet date, using the remaining contracted petroleum and natural gas volumes.

The fair value of the Company's investments and derivative financial instruments, as disclosed in Notes 8 and 16, is determined by probability-weighted discounted cash flows considering the best

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available public information regarding market conditions and other factors that a market participant would consider for such investments.

17. CHANGES IN NON-CASH WORKING CAPITAL

\$(000's)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Accounts receivable	\$ 611	\$ 1,905	\$ 3,402	\$ 2,833
Interest accrued on commercial paper	-	(437)	1,218	(1,134)
Deposits and prepaid expenses	404	183	729	615
Accounts payable and accrued liabilities	1,879	1,829	(4,326)	(6,445)
Corporate acquisition of working capital (note 3)	(7)	-	(7)	-
Net change in non-cash working capital	\$ 2,887	\$ 3,480	\$ 1,016	\$(4,131)
Allocated to:				
Operating activities	1,018	3,789	1,628	(335)
Financing	315	-	-	-
Investing activities	1,554	(309)	(612)	(3,796)

18. CAPITAL MANAGEMENT

As a result of the reorganization of the Company that was completed July 30, 2009, the Company's objectives for managing capital have changed. Cequence's objectives are to maintain a flexible capital structure in order to meet financial obligations and to execute on strategic opportunities throughout the business cycle. The Company's capital comprises shareholders' equity, bank indebtedness 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 order to maintain or adjust the capital structure, Cequence may issue new common shares, issue new debt or replace existing debt, adjust capital expenditures and acquire or dispose of assets. As part of the reorganization in the third quarter, the Company issued 26,770 new common shares (post-consolidation) for total cash proceeds of \$65,315 before transaction costs. A portion of the proceeds were used to eliminate the outstanding bank indebtedness which was \$29,740 at June 30, 2009. The remaining proceeds were used for the acquisitions described in Note 4 and will be used to fund the remaining budgeted 2009 capital expenditures.

The Company evaluates its capital structure based on the non-GAAP measure of net debt to cash flow from operating activities and the current credit available to Cequence compared to its budgeted capital expenditures. At September 30, 2009 Cequence has a positive net consolidated working capital of \$26,921, including the fair value of the commodity contract, that management believes, along with expected future cash generated from operations and available borrowing, is adequate to fund budgeted capital expenditures of \$15,000 for the remainder of 2009. Of the total capital expenditures, \$10,000 will be incurred within HFG Holdings which will be funded with the cash balance within HFG.

Net debt to cash flow provides a measure of the Company's ability to manage its debt levels under current operating conditions. The ratio is calculated as net debt, defined as current debt, long term debt and working capital excluding commodity derivative assets of liabilities, divided by cash flow from operations before asset retirement expenditures and changes in non-cash working capital for the most recent quarter. It is the Company's objective to maintain a net debt to annualized funds from operations ratio to less than 2:1. At September 30, 2009 the Company is in a net cash position.

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The Company's current borrowing capacity is based on the lenders' semi-annual review of the Company's oil and natural gas reserves. The Company is also subject to various covenants including a minimum adjusted working capital ratio under its credit facilities. Compliance with these covenants is monitored on a regular basis and at September 30, 2009 the Company was in compliance with all covenants.

19. FUTURE ACCOUNTING PRONOUNCEMENTS

The Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have an impact on the Company:

BUSINESS COMBINATIONS

In January 2009, the CICA issued Section 1582, "Business Combinations", which replaces former guidance on business combinations. The new Section requires that all business acquisitions be measured at the full fair value of the acquired entity at the acquisition date.

Currently, the purchase price used in business combinations is based on the average of the fair value of shares issued as consideration a few days before and after the day the terms and conditions have been agreed to and the acquisition announced. Under the new standard, however, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date and re-measured at fair value through net earnings each period until settled. In addition, under the new standard, negative goodwill is required to be recognized immediately in net earnings. The standard also states that acquisition-related costs, including restructuring and other direct costs, will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date, unless they constitute the costs associated with issuing debt or equity securities. Restructuring and other direct costs of a business combination are no longer considered part of the acquisition accounting.

This standard is equivalent to the International Financial Reporting Standard 3, "Business Combinations (January 2008)" on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. This new Section will only have an impact on the Company's consolidated financial statements for future acquisitions that will be made in periods subsequent to the date of adoption.

CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS

In January 2009, the CICA issued Handbook Section 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The new Sections require that, for each business combination, the acquirer measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The new Sections also require non-controlling interest to be presented as a separate component of shareholders' equity. Under Section 1602, non-controlling interest in income is not deducted in arriving at consolidated net income or other comprehensive income. Rather, net income and each component of other comprehensive income are allocated to the controlling and non-controlling interests based on relative ownership interests.

These two Sections are the equivalent to the corresponding provisions of International Accounting Standard 27, "Consolidated and Separate Financial Statements (January 2008)". These Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after

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January 1, 2011, and should be adopted concurrently with Section 1582. Earlier adoption is permitted.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The CICA Accounting Standards Board ("AcSB") has adopted a strategic plan for the direction of accounting standards in Canada that requires public companies to converge with International Financial Reporting Standards ("IFRS") on January 1, 2011. IFRS is principles based and uses a conceptual framework similar to Canadian GAAP. However, there will be differences in accounting policies and disclosure requirements under IFRS. The most significant differences are expected to be in the accounting for property plant and equipment. IFRS 1 "First Time Adoption of International Financial Reporting Standards" provides some relief on transition to IFRS and permits companies to apply IFRS prospectively, including to the carrying value of the full cost pool of exploration and development expenses within an initial impairment test at the transition date. Despite the relief provided in IFRS 1 the changeover may materially affect the reporting of Company's reported financial position and results of operations.

The Company is currently assessing the impact of the conversion to IFRS and is in the process of developing a changeover plan. The plan will include an assessment of differences between Canadian GAAP and IFRS, accounting policy choices under IFRS, internal controls over financial reporting, potential system changes, and affects on internal controls including resources and training required for employees. Certain employees have been identified to manage this transition and to ensure successful implementation within the required timeframe. The Company will provide disclosures of the key elements of its plan and progress on the project as the information becomes available during the transition period. The Company is continuing to monitor new standards development as issued by the AcSB and the International Accounting Standards Board.

20. SUBSEQUENT EVENTS

The Company announced on September 25, 2009 that it has offered to acquire all of the outstanding common shares ("HFG Shares") of HFG Holdings Inc. ("HFG") not already owned by Cequence or its affiliates or associates, on the basis of 0.04 of a common share ("Cequence Shares") of Cequence for each outstanding HFG Share. The Offer will be open for acceptance until November 12, 2009, unless withdrawn or extended by Cequence. Cequence currently beneficially owns 161,546,590 HFG Shares representing approximately 71 percent of the currently outstanding HFG Shares.

On October 26, 2009 the Company issued 500 flow-through shares at a price of \$4.05 per share for total consideration of \$2,025. The terms of the flow-through shares require Cequence to renounce \$2,025 of Canadian Development Expense ("CDE") for expenditures incurred from the date of issue through the end of 2009.

On November 10, 2009 the Company entered into a purchase and sale agreement to acquire oil and gas properties for total consideration of \$6,100. The transaction will be funded with existing cash and is expected to close in November 2009.