HIGHLIGHTS

(000's except per share amounts)	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	2011	2010	% Change
Financial ($)						
Production revenue, gross of royalties and including realized hedge	$ 27,293	$ 9,174	**198%**	$ 51,325	$ 19,267	**166%**
Comprehensive loss [1]	(701)	(4,029)	**(83)%**	(2,676)	(18,545)	**(86)%**
Per share, basic and diluted	(0.00)	(0.10)	**(100)%**	(0.02)	(0.45)	**(96)%**
Funds flow from operations [1] [2]	12,042	2,197	**448%**	21,822	6,696	**226%**
Per share, basic and diluted	0.08	0.05	**60%**	0.16	0.16	**0%**
Production volumes						
Natural gas (Mcf/d)	48,785	16,559	**195%**	45,667	14,587	**213%**
Crude oil (bbls/d)	599	253	**137%**	642	260	**147%**
Natural gas liquids (bbls/d)	396	184	**115%**	404	131	**208%**
Total (boe/d)	9,125	3,197	**185%**	8,658	2,823	**207%**
Sales prices						
Natural gas, including realized hedges ($/Mcf)	$ 4.30	$ 4.21	**2%**	$ 4.26	$ 5.34	**(20)%**
Crude oil ($/bbl)	97.80	70.22	**39%**	92.80	73.59	**26%**
Natural gas liquids ($/bbl)	80.15	72.07	**11%**	73.02	71.99	**1%**
Total ($/boe)	$ 32.87	$ 31.53	**4%**	$ 32.75	$ 37.71	**(13)%**
Operating Netbacks ($/boe)						
Price	$ 32.87	$ 31.53	**4%**	$ 32.75	$ 37.71	**(13)%**
Royalties	(4.29)	(2.40)	**79%**	(4.34)	(3.55)	**22%**
Transportation	(2.27)	(2.88)	**(21)%**	(2.37)	(3.10)	**(24)%**
Operating costs	(8.96)	(11.66)	**(23)%**	(9.05)	(12.27)	**(26)%**
Operating Netback	$ 17.35	$ 14.59	**19%**	$ 16.99	$ 18.79	**(10)%**
Capital Expenditures	$ 16,470	$ 5,057	**226%**	$ 62,044	$ 31,469	**97%**
Corporate Acquisitions [1]	-	26,634	**N/A**	-	26,634	**N/A**
Property Acquisitions (net)	14,134	-	**N/A**	(7,510)	279	**N/A**
Total capital expenditures	$ 30,604	$ 31,691	**(3)%**	$ 54,534	$ 58,382	**(7)%**
Net debt and working capital (deficiency) [3]	(65,147)	(25,226)	**158%**	(65,147)	(25,226)	**158%**
Long-term debt related to investments [4]	-	(18,000)	**N/A**	-	(18,000)	**N/A**
Weighted average shares outstanding (basic and diluted)	144,314	42,048	**243%**	137,774	40,796	**238%**
Undeveloped land (net acres)	280,000	179,000	**56%**	280,000	179,000	**56%**

(1) 2010 figures have been restated from previously reported amounts resulting from the application of IFRS. See 'Adoption of International Financial Reporting Standards' section below.

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

(3) Net debt and working capital (deficiency) is calculated as cash, net working capital less commodity contract asset and demand credit facilities and excluding obligations on flow-through shares included with accounts payable and accrued liabilities in the consolidated balance sheet.

(4) The long-term debt related to investments was a stand-alone credit facility with Cequence's lender to provide short term liquidity to the Company in light of the restructuring of the asset backed MAV II notes. During the year ended December 31, 2010, the MAV II notes were sold and the proceeds, in addition to available cash, were used to pay down the long-term debt related to investments and close the facility.

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 consolidated financial statements (the "Financial Statements") and related notes for the three and six months ended June 30, 2011 as well as with the audited consolidated financial statements (the "Annual Financial Statements") and related notes for the year ended December 31, 2010.

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

This MD & A is dated August 11, 2011.

BASIS OF PRESENTATION

The Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards", and with International Accounting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board. Previously, the Company prepared its interim and Annual Financial Statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). 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.

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. Netback is not defined by IFRS in Canada and is referred to as a non-GAAP measure. Netbacks equal total revenue less royalties, operating costs and transportation costs. Management utilizes this measure to analyze operating performance.

Funds flow from operations is a non-GAAP term that represents cash flow from operating activities before adjustments for decommissioning liability expenditures, proceeds from sale of commodity contracts 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 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.

OVERVIEW

A summary of the Company's significant transactions that occurred in the current and prior periods is as follows:

2011 Transactions

On March 17, 2011, the Company completed the sale of 13,398 common voting shares at a price of $2.85 per share for total gross proceeds of $38,183.

On March 17, 2011, the Company completed the sale of 2,100 common voting shares on a CEE "flow-through" basis at $3.50 per share for total gross proceeds of $7,350. Under the terms of the respective agreements, Cequence is required to renounce $7,350 of CEE expenditures in February 2012. The qualifying CEE expenditures must be incurred by December 31, 2012 pursuant to the terms of the related agreements. As at June 30, 2011, the Company has incurred $5,000 of the qualifying CEE expenditures.

On March 23, 2011, the Company closed the sale of certain oil and gas properties located in central Alberta for total cash consideration of $22,000, subject to adjustments. The sale resulted in a gain recognized in the consolidated statement of comprehensive income (loss) of $2,116.

On April 15, 2011, the Company closed the sale of certain oil and gas properties located in Northwest Alberta for total cash consideration of $7,500, subject to adjustments. The sale resulted in a gain recognized in the consolidated statement of comprehensive income (loss) of $1,835.

On June 10, 2011, the Company closed the acquisition of certain gas weighted properties located in Northeast British Columbia for total cash consideration of $22,200, subject to adjustments. A decommissioning liability of $1,539 has been recognized as part of the acquisition.

2010 Transactions

On July 27, 2010, Cequence sold certain non-producing gas weighted properties in the Sinclair region of Northwest Alberta for total cash consideration of $36,900, subject to final adjustments. A gain of $18 resulted on the sale, recognized with other expense (income) in the consolidated statement of comprehensive income (loss) for the year ended December 31, 2010.

On August 19, 2010, the Company completed the sale of 3,200 shares on a CEE "flow-through" private placement basis at $2.50 per share for proceeds of $8,000, 870 shares on a CDE "flow-through" private placement basis at $2.30 per share for proceeds of $2,001 and 18,545 subscription receipts at a price of $2.10 per subscription receipt for proceeds of $38,945. On September 8, 2010, the subscription receipts were converted on a one for one basis, for no additional consideration and without further action, into common voting shares of the Company. On September 17, 2010, Cequence completed the sale of 2,500 common voting shares related to an over-allotment option on the subscription receipts offering discussed above at $2.10 per share for proceeds of $5,250. Total gross proceeds from the above issuances was $54,196 and as at June 30, 2010, the Company has incurred all of the qualifying expenditures under the flow-through share agreements.

On September 8, 2010, the Company closed the acquisition of certain gas weighted properties located in the Simonette area of Northwest Alberta (the "Deep Basin Assets"). The purchase price, subject to final adjustments, was $85,000. A decommissioning liability of $7,703 has been recognized as part of the acquisition.

On September 10, 2010, the Company acquired all of the issued and outstanding shares of Temple Energy Inc. ("Temple"), a private oil and gas company, for consideration of 46,846 common voting shares. Under IFRS 3, the shares were valued based on Cequence's closing trading price on the TSX on September 10, 2010. The transaction was accounted for using the acquisition method whereby the assets acquired and liabilities assumed are recorded at their fair value as determined by reference to the relevant IFRS standards. The accounts of the Company include the results of Temple effective September 10, 2010. The purchase price allocation is as follows:

($000's)	
Cost of Acquisition	
Common shares (46,846 at $2.03)	95,098
Total	**95,098**

($000's)	
Fair Value of the Assets and Liabilities Acquired	
Property and equipment	128,968
Fair value of commodity contracts	4,201
Bank debt	(36,423)
Working capital deficiency	(3,834)
Decommissioning liabilities	(10,184)
Deferred income tax assets – non-current	12,370
Total	**95,098**

On September 10, 2010, Cequence completed the sale of 2,950 common voting shares through a private placement to a major shareholder as well as certain management and directors of the Company at $2.10 per share for total proceeds of $6,195.

On November 30, 2010, the Company completed the sale, on a private placement basis, of 2,250 units at a price of $2.00 per unit for total proceeds of $4,500. Each unit entitles the holder to:

- one common voting share on a CDE "flow-through" basis;
- one warrant to purchase one common voting share on a CDE "flow-through" basis at any time on or after August 1, 2011 and prior to August 15, 2011 at a price set as a 10 percent premium to the 10 day volume weighted average trading price of the Company's shares on the TSX for the period July 18, 2011 to July 29, 2011 (the "2011 Warrants"); and
- one warrant to purchase one common voting share on a CDE "flow-through" basis at any time on or after August 1, 2012 and prior to August 15, 2012 at a price set as a 10 percent premium to the 10 day volume weighted average trading price of the Company's shares on the TSX for the period July 18, 2012 to July 31, 2012 (the "2012 Warrants).

The purchaser has unconditionally committed to exercise the 2011 Warrants prior to August 15, 2011 and Cequence has exercised the option to hold 1,500 of the shares initially issued in escrow until such time as the 2011 Warrants are exercised. If the 2011 Warrants are not exercised, the shares held in escrow shall be cancellable at no cost to Cequence and no redress to the shareholder. The 2012 Warrants are conditional on the exercise of the 2011 Warrants and if the 2011 Warrants are not exercised in accordance with their terms, the 2012 Warrants become null and void. No value has been attributed to the 2011 Warrants or 2012 Warrants as they are issuable at the prevailing value of the stock at the time of issuance. Under the terms of the agreement, Cequence renounced $3,000 of CDE expenditures in February 2011. As at June 30, 2011, the Company has incurred all of the qualifying CDE expenditures.

SUBSEQUENT EVENTS

On August 11, 2011, Cequence filed a short form prospectus to qualify the distribution of 10,400 common voting shares at $3.85 per share for gross proceeds of $40,040 and 2,110 common voting shares on a CEE "flow-through" basis at $4.75 per share for gross proceeds of $10,023. The sale is to occur on a bought deal basis with gross proceeds totalling $50,063 and is expected to close on August 18, 2011. Cequence further granted the underwriters an over-allotment option to purchase an additional 1,560 common voting shares for $3.85 per share for gross proceeds of $6,006, for a period of up to 30 days following the closing of the offering. There can be no assurance that the over-allotment option will be exercised.

On August 11, 2011, Cequence completed the sale of certain non-core oil and gas properties in Northeast British Columbia for total cash consideration of $14,000, subject to adjustments.

SELECTED FINANCIAL INFORMATION

A reconciliation of cash flow from operating activities to funds flow from operations is as follows:

	Three months ended June 30		Six months ended June 30	
$(000's)	**2011**	**2010**	**2011**	**2010**
Cash flow from operating activities [1]	$ 7,574	$ (1,013)	$ 19,414	$ (53)
Decommissioning liabilities expenditures	88	10	115	66
Net change in non-cash working capital	4,380	3,200	2,293	6,683
Funds flow from operations	$ 12,042	$ 2,197	$ 21,822	$ 6,696

(1) 2010 figures have been restated from previously reported amounts resulting from the application of IFRS. See 'Adoption of International Financial Reporting Standards' section below.

Cequence recorded a comprehensive loss of $701 for the quarter ended June 30, 2011. Comprehensive income (loss) and funds flow from operations for the period were negatively impacted by low natural gas prices.

Funds flow from operations was $12,042 for the quarter ended June 30, 2011 compared to funds flow from operations of $2,197 for the quarter ended June 30, 2010. The increase in funds flow from operations is due largely to an increase in revenue resulting from the expanded production base of the Company through acquisitions completed in 2010 and drilling completed in 2010 and 2011.

RESULTS OF OPERATIONS

Average production volumes, revenue and prices for the three and six month periods ended June 30, 2011 and 2010 are outlined below:

	Three months ended June 30		Six months ended June 30	
	2011	**2010**	**2011**	**2010**
Production				
Natural Gas (Mcf/d)	48,785	16,559	45,667	14,587
Crude Oil (bbls/d)	599	253	642	260
Natural gas liquids (bbls/d)	396	184	404	131
Total (boe/d)	9,125	3,197	8,658	2,823
Total production (boe)	830,400	290,963	1,567,046	510,948
$(000's)				
Revenue				
Natural gas	$ 19,007	$ 6,285	$ 35,018	$ 12,315
Realized gains on natural gas contracts	71	63	176	1,772
Total natural gas	19,078	6,348	35,194	14,087
Crude Oil	5,330	1,617	10,789	3,468
Natural gas liquids	2,885	1,209	5,342	1,712
Total production revenue, gross of royalties	$ 27,293	$ 9,174	$ 51,325	$ 19,267
Average prices				
Natural gas ($/Mcf)	$ 4.28	$ 4.17	$ 4.24	$ 4.66
Realized natural gas hedge ($/Mcf)	0.02	0.04	0.02	0.68
Natural gas including realized hedge gains and losses ($/Mcf)	4.30	4.21	4.26	5.34
Crude Oil (per bbl)	97.80	70.22	92.80	73.59
Natural gas liquids (per bbl)	80.15	72.07	73.02	71.99
Average sales price before hedge (per boe)	$ 32.78	$ 31.31	$ 32.64	$ 34.24
Average sales price including hedge (per boe)	$ 32.87	$ 31.53	$ 32.75	$ 37.71

PRODUCTION

Production for the six months ended June 30, 2011 averaged 8,658 boe/d compared to production of 2,823 boe/d in the comparable period of 2010. Production for the three months ended June 30, 2011 averaged 9,125 boe/d compared to production of 3,197 boe/d in the second quarter of 2010. The increase in production is due to the acquisitions of Temple and the Deep Basin Assets completed in the third quarter of 2010, as well as new drilling and recompletions in 2010 and 2011.

REVENUE

Total production revenue, gross of royalties, was $27,293 in the second quarter of 2011 compared to $9,174 for the comparable period in 2010. The increase in revenue is mainly attributable to the 185 percent increase in production. For the six months ended June 30, 2011, production revenue, gross of royalties, increased 166 percent to $51,325 from $19,267 in the prior year. The increase is a result of a 207 percent increase in production volumes, offset by a 13 decrease in realized sales prices.

PRICING

The realized prices for the three and six months ended June 30, 2011 are above prevailing market prices as much of the Company's natural gas sells at a premium to AECO due to the heat content of the gas. The Company also entered into a commodity contract effective February 1, 2011 for the sale of 5,000 gj per day of natural gas for a price of $3.83 per gj (see 'Commodity Price Management' below). Cequence's production is approximately 88 percent natural gas and consequently, fluctuations in natural gas prices have a significant impact on the Company.

Cequence realized a natural gas price including hedging gain (as described below) for the second quarter of 2011 of $4.30 per Mcf, an increase of 2 percent from the comparable period of 2010. Realized natural gas prices for the six months ended June 30, 2011 were $4.26 per Mcf, down 20 percent from the comparable period in 2010.

Oil prices for the second quarter of 2011 were $97.80 per barrel, up 39 percent from the same time period in 2010. Oil prices for the six months ended June 30, 2011 were $92.80 per barrel, up 26 percent from the comparable period in 2010.

Natural gas liquids prices for the second quarter of 2011 were $80.15 per barrel, up 11 percent from the same time period in 2010. Natural gas liquids prices for the six months ended June 30, 2011 were $73.02 per barrel, up 1 percent from the comparable period in 2010.

Benchmark natural gas prices were lower whereas crude oil and natural gas liquids prices were higher than the three and six month comparative periods in 2010. The following table details the Company's benchmark indices:

	Three months ended June 30		**Six months ended June 30**	
Benchmark Pricing	**2011**	**2010**	**2011**	**2010**
AECO –C Spot (CDN$/Mcf)	$ 3.89	$ 3.91	$ 3.83	$ 4.41
WTI crude oil (US$/bbl)	102.28	77.88	98.39	78.26
Edmonton par price (CDN$/bbl)	103.59	75.86	96.16	78.44
US$/CDN$ exchange rate	1.03	0.97	1.02	0.97

COMMODITY PRICE MANAGEMENT

	Three months ended June 30		**Six months ended June 30**	
	2011	**2010**	**2011**	**2010**
Realized gain on commodity contracts	$ 71	$ 63	$ 176	$ 1,772
Unrealized gain (loss) on commodity contracts	(10)	(42)	140	(1,462)
Total	$ 61	$ 21	$ 316	$ 310

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. The Company had a natural gas contract in place that expired in March 31, 2010 for the sale of 6,000 gj per day of natural gas for a price of $7.85 per gj. The Company entered into a commodity contract effective February 1, 2011 for the sale of 5,000 gj per day of natural gas for a price of $3.83 per gj which expires December 31, 2011. The fair value of derivative commodity contracts at June 30, 2011 is $140 compared to $296 at June 30, 2010.

ROYALTY EXPENSE

$(000's)	Three months ended June 30 2011	2010	Six months ended June 30 2011	2010
Crown	$ 2,621	$ 620	$ 5,051	$ 1,712
Freehold / Overriding	944	79	1,757	101
	$ 3,565	$ 699	$ 6,808	$ 1,813
As a % of Revenue, Before Hedging Activity				
Crown	10%	7%	10%	10%
Freehold / Overriding	3%	1%	3%	1%
	13%	8%	13%	11%
Per Unit of Production ($/boe)				
Crown	$ 3.16	$ 2.13	$ 3.22	$ 3.35
Freehold / Overriding	1.13	0.27	1.12	0.20
	$ 4.29	$ 2.40	$ 4.34	$ 3.55

Royalty expense in the second quarter of 2011 was $3,565 or 13 percent of revenue compared to $699 or 8 percent of revenue in the second quarter of 2010. For the six months ended June 30, 2011, royalties as a percentage of revenue were 13 percent compared to 11 percent in the comparative period in 2010. Freehold and overriding royalties were 3% of revenue of revenue for the three and six month periods ended June 30, 2011, compared to 1% of revenue for the comparative periods in 2010. The increase in freehold and overriding royalties relates to freehold and overriding royalties on properties acquired through acquisitions in 2010. Royalties as a percentage of revenue are consistent with the Company's expectation of 12 to 14 percent of revenue for 2011.

A significant portion of the Company's production is in the Province of Alberta. Under the Alberta Royalty Framework ("ARF") the Crown royalty rate varies with production rates and commodity prices. The royalty rate expressed as a percentage of sales revenue will fluctuate from period to period due to the fact that the Alberta Reference Price can differ significantly from the commodity prices realized by the Company and that hedging gains and losses are not subject to royalties.

In addition to the basic underlying royalty structure (the ARF); Alberta has instituted additional features that impact the royalty paid on gas, particularly for newly drilled wells. These additional features include:

1. A one year flat 5% royalty period (18 months for horizontal wells) for each new well but capped at a cumulative production level of 500 MMcf for each new well, and
2. A Natural Gas Deep Drilling Holiday program that provides a royalty holiday value for new wells based on meterage drilled. This holiday feature further reduces the royalty for new wells to a minimum of 5% for a maximum 5 year period from on-stream date. This benefit sequentially follows the benefit under point (1) above.

TRANSPORTATION EXPENSE

	Three months ended June 30		Six months ended June 30	
$(000's)	**2011**	**2010**	**2011**	**2010**
Transportation ($)	$1,883	$ 840	$3,712	$ 1,584
Per Unit of Production ($/boe)	$ 2.27	$ 2.88	$ 2.37	$ 3.10

Transportation costs for the six months ended June 30, 2011 were $2.37 per boe, a decrease of 24 percent from the comparative period in 2010. In the second quarter of 2011, transportation costs decreased to $2.27 per boe from $2.88 per boe in the comparative period in 2010. Beginning in the fourth quarter of 2009, approximately 3,070 Mcf/d of natural gas is being shipped on the Alliance pipeline at a cost of $1.50 per Mcf for sale at Chicago. This contract had a less significant effect on transportation costs per boe in the first six months of 2011 compared to 2010 as the production base of the Company has grown by 207 percent in the first six months of 2011 as compared to the same period of 2010. Transportation costs per boe are in line with Cequence's expectation of $2.00 to $2.50 per boe for 2011.

OPERATING COSTS

	Three months ended June 30		Six months ended June 30	
$(000's)	**2011**	**2010**	**2011**	**2010**
Operating Costs ($)	$ 7,439	$ 3,392	$ 14,180	$ 6,267
Per Unit of Production ($/boe)	$ 8.96	$ 11.66	$ 9.05	$ 12.27

For the six months ended June 30, 2010, operating costs decreased to $9.05 per boe from $12.27 per boe in the comparative period in 2010. Operating costs during the second quarter of 2011 were $7,439 or $8.96 per boe compared to $3,392 or $11.66 per boe for the same time period in 2010. Operating costs per boe decreased in the three and six months ended June 30, 2011 compared to the same periods in 2010 due mainly to lower costs on new wells drilled and recompleted in 2011 and 2010 and on wells acquired through acquisitions in 2010 and 2011. Operating costs for the six months ended June 30, 2011 are in line with Cequence's expectation of approximately $9 to $10 per boe for 2011.

OPERATING NETBACKS

	Three months ended June 30		Six months ended June 30	
	2011	**2010**	**2011**	**2010**
Production revenue, including realized hedge gains (losses) and gross of royalties	$ 32.87	$ 31.53	$ 32.75	$ 37.71
Royalty expense	(4.29)	(2.40)	(4.34)	(3.55)
Transportation expense	(2.27)	(2.88)	(2.37)	(3.10)
Operating costs	(8.96)	(11.66)	(9.05)	(12.27)
Netback, $/boe	$ 17.35	$ 14.59	$ 16.99	$ 18.79
Netback, excluding realized hedge gains (losses), $/boe	$ 17.26	$ 14.37	$ 16.88	$ 15.32

Cequence's netback for the second quarter of 2011 increased to $17.35 per boe from $14.59 per boe in 2010. For the six months ended June 30, 2011, the netback decreased to $16.99 per boe from $18.79 per boe in the comparative period in 2010. In comparison to 2010, the decrease in the netback in the six month period ended June 30, 2011 is primarily due to a lower realized sales price resulting from the expiry of the Company's 6,000 gj per day commodity contract at March 31, 2010, decreases in benchmark natural gas prices from 2010 to 2011 and an increase in royalty expense. The decrease above was partially offset by improvements to transportation expense and operating costs.

Prior to hedging, Cequence's netbacks were higher than the prior year as the decrease in the average sales price and increase to royalty expense was more than offset by improvements in transportation expense and operating costs.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended June 30		Six months ended June 30	
$(000's)	**2011**	**2010**	**2011**	**2010**
G&A Expenses ($)	$ 1,965	$ 1,189	$ 3,758	$ 1,963
Total G&A ($/boe)	$ 2.37	$ 4.09	$ 2.40	$ 3.84

For the six months ended June 30, 2011, general and administrative ("G&A") expenses increased to $3,758 from $1,963 in the comparative period in 2010. On a per barrel basis, G&A costs decreased for the six months ended June 30, 2011 to $2.40 per boe compared to $3.84 per boe in 2010 as the production base of the Company has increased from the prior year.

G&A expenses were $1,965 or $2.37 per boe for the three months ended June 30, 2011. On a per barrel basis, G&A expenses decreased 42 percent from the same period in 2010 as a result of increased sales volumes. G&A expenses for the six months ended June 30, 2011 are in line with Cequence's expectation for 2011 of approximately $2.00 to $2.25 per boe for the year ended December 31, 2011.

INTEREST EXPENSE

	Three months ended June 30		Six months ended June 30	
$(000's)	**2011**	**2010**	**2011**	**2010**
Interest Expense ($)	$ 401	$ 215	$ 1,083	$ 288
Accretion expense on decommissioning liabilities [(1)]	250	78	508	156
Amortization of transaction costs on financial instruments ($)[(1)]	153	-	320	-
Total Interest Expense ($)	$ 804	$ 293	$ 1,911	$ 444
Per Unit of Production ($/boe)	$ 0.97	$ 1.01	$ 1.22	$ 0.87
Per Unit of Production, excluding accretion expense and amortization of transaction costs ($/boe)	$ 0.48	$ 0.74	$ 0.69	$ 0.56

(1) 2010 figures have been restated from previously reported amounts resulting from the application of IFRS. See 'Adoption of International Financial Reporting Standards' section below.

Interest expense for the three months ended June 30, 2011 was $804 compared to $293 for the comparative period in 2010. Included in interest expense for the three months ended June 30, 2011 is $153 of amortization related to transaction costs on the establishment and renewal of the Company's credit facilities (2010 - $nil) as well as accretion expense on decommissioning liabilities of $250 (2010 - $78). Interest expense net of the amortization and accretion described above was $401 for the three months ended June 30, 2011, compared to $215 for the comparative period in 2010.

Interest expense for the six months ended June 30, 2011 was $1,911 compared to $444 for the comparative period in 2010. Included in interest expense for the six months ended June 30, 2011 is $320 of amortization related to transaction costs on the establishment and renewal of the Company's credit facilities (2010 - $nil) as well as accretion expense on decommissioning liabilities of $508 (2010 - $156). Interest expense net of the amortization and accretion described above was $1,083 for the six months ended June 30, 2011, compared to $288 for the comparative period in 2010.

The Company's debt increased late in the third quarter of 2010, as debt was assumed on the acquisition of Temple and used in part to pay the cash consideration for the Deep Basin Assets. This resulted in interest expense increasing in the three and six month periods ended June 30, 2011 as compared to the same periods in 2010.

DEPLETION, DEPRECIATION AND IMPAIRMENT

	Three months ended June 30		Six months ended June 30	
$(000's)	**2011**	**2010**	**2011**	**2010**
Depletion expense ($)[1]	$ 10,520	$ 4,335	$ 19,657	$ 8,095
Impairment ($)[1]	-	1,333	-	20,437
Total Depletion, Depreciation and Impairment	$ 10,520	$ 5,668	$ 19,657	$ 28,532
Per Unit of Production ($/boe)	$ 12.67	$ 19.48	$ 12.54	$ 55.84
Per Unit of Production, excluding impairment ($/boe)	$ 12.67	$ 14.90	$ 12.54	$ 15.84

(1) 2010 figures have been restated from previously reported amounts resulting from the application of IFRS. See 'Adoption of International Financial Reporting Standards' section below.

Depletion expense for the three and six month periods ended June 30, 2011 was $10,520 or $12.67 per boe and $19,657 or $12.54 per boe, respectively. DD&A rates are lower than in the comparable periods in 2010 due mainly to drilling in 2011 and the acquisitions of Peloton, Temple and the Deep Basin Assets, which were completed at a lower cost per boe than Cequence's existing resource base.

Impairment expense for the three and six months ended June 30, 2011 was $nil compared to $1,333 and $20,437 for the three and six months ended June 30, 2010, respectively. Impairment in 2010 resulted from the application of IFRS standards, which are more restrictive than those under Canadian GAAP (see 'Adoption of International Financial Reporting Standards' section below) and require that impairment tests be performed on individual cash generating units as per the table below. Substantially all of the Company's planned capital expenditures and actual expenditures in the first two quarters of 2011 were in the Deep Basin CGU.

	2010 Impairment
Northeast British Columbia	$ 17,445
Peace River Arch	37,046
Central Alberta	-
Deep Basin	-
Total	$ 54,491

DECOMMISSIONING LIABILITIES

Total decommissioning liabilities at June 30, 2011 were $28,337 compared to $26,130 at December 31, 2010. Net additions to decommissioning liabilities in the six months ended June 30, 2011 totalled $1,699 which relates to liabilities assumed on the acquisition of assets, liabilities sold on the sale of properties, as well as to drilling activity, facility additions and changes in estimates.

STOCK-BASED COMPENSATION

The Company recognizes stock-based compensation expense for stock options. For the six months ended June 30, 2011, Cequence recorded $3,481 (2010 – $489) in stock-based compensation expense related to stock options and performance warrants, as applicable, with a corresponding increase to contributed surplus.

The Company issued 1,985 options in the six months ended June 30, 2011. Total stock-based compensation expense of $3,312 was determined using the Black-Scholes option pricing model and will be expensed over the three year vesting period of the options. During the six months ended June 30, 2011, 240 options were forfeited and 600 options were exercised.

COMMON SHARES OUTSTANDING

Issued common voting shares (000's)	Number	Stated Value
Balance, December 31, 2010 [1]	128,750	$ 452,526
Common shares	13,398	38,183
Flow-through shares	2,100	5,985
Common shares on exercise of stock options	600	1,794
Share issue costs, net of taxes of $729	-	(2,113)
Balance, June 30, 2011	144,848	$ 496,375
Warrants, December 31, 2010	4,500	-
Warrants, June 30, 2011	4,500	-

(1) 2010 amounts have been restated from previously reported amounts resulting from the application of IFRS. See 'Adoption of International Financial Reporting Standards' section below.

On March 17, 2011, the Company completed the sale of 13,398 common voting shares at a price of $2.85 per share for total proceeds of $38,183.

On March 17, 2011, the Company completed the sale of 2,100 common voting shares on a CEE "flow-through" basis at $3.50 per share for total gross proceeds of $7,350. Under the terms of the respective agreements, Cequence is required to renounce $7,350 of CEE expenditures in February 2012. The qualifying CEE expenditures must be incurred by December 31, 2012 pursuant to the terms of the related agreements. As at June 30, 2011, the Company has incurred $5,000 of the qualifying CEE expenditures. In accordance with IFRS, the above transaction resulted in an increase to share capital of $5,985 and the recognition of an obligation related to flow-through shares of $1,365 included with accounts payable and accrued liabilities in the consolidated balance sheet at June 30, 2011.

On June 20, 2011, a total of 600 stock options were exercised resulting in the issuance of 600 common voting shares at $1.99 per share for total gross proceeds of $1,194. The exercise of stock options further resulted in a reduction to contributed surplus of $600 and a commensurate increase to share capital to account for stock based compensation previously expensed related to the exercised options.

As at June 30, 2011, there were no issued or outstanding non-voting shares (December 31, 2010 – none).

As of the date of this MD&A, Cequence had the following securities outstanding: 144,848 common voting shares, 10,943 stock options, 2,250 CDE flow-through 2011 Warrants and 2,250 CDE flow-through 2012 Warrants.

CAPITAL EXPENDITURES

	Three months ended June 30		Six months ended June 30	
$(000's)	**2011**	**2010**	**2011**	**2010**
Property Acquisitions [1]	$ 21,700	$ -	$ 21,700	$ 453
Property Dispositions [1]	(7,566)	-	(29,210)	(174)
Land, net	3,881	624	5,661	2,732
Geological & geophysical and capitalized overhead	469	366	942	742
Drilling, completions and workovers	3,730	2,703	34,379	24,031
Equipment and facilities	8,330	1,356	20,995	3,914
Office furniture & equipment	60	8	67	50
Total capital expenditures	$ 30,604	$ 5,057	$ 54,534	$ 31,748

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

For the six months ended June 30, 2011, drilling, completion and workover expenditures totalled $34,379 which included the drilling of 4 gross (3.5 net) horizontal wells and 3 gross (2.3 net) vertical wells as well as the completion of 6 gross (5.3 net) horizontal wells and 6 gross (4.6 net) vertical wells. For the six months ended June 30, 2010, drilling, completion and workover expenditures were limited to the drilling of 1.6 net horizontal wells, 3.5 net vertical wells and the completion of one net horizontal well and one net vertical well. Facility expenditures in the first six months of 2011 of $20,995 were directed towards compression and gathering facilities in the Deep Basin and include approximately $3,000 in costs incurred related to phase two of the Company's facilities expansion at Simonette, scheduled for completion in the third quarter of 2011.

On March 23, 2011, the Company closed the sale of certain oil and gas properties located in central Alberta for total cash consideration of $22,000, subject to adjustments. The sale resulted in a gain recognized in the consolidated statement of comprehensive income (loss) of $2,116.

On April 15, 2011, the Company closed the sale of certain oil and gas properties located in Northwest Alberta for total cash consideration of $7,500, subject to adjustments. The sale resulted in a gain recognized in the condensed consolidated statement of comprehensive income (loss) of $1,835.

On June 10, 2011, the Company closed the acquisition of certain gas weighted properties located in Northeast British Columbia for total cash consideration of $22,200, subject to adjustments. A decommissioning liability of $1,539 has been recognized as part of the acquisition.

Cequence has budgeted capital expenditures of $100,000 for 2011, excluding acquisitions and dispositions, which will be directed towards the drilling of an expected 18 gross (14.0 net) wells. Capital expenditures will be funded out of cash flow, existing credit lines, proceeds of the 2011 equity financings and the sale of properties discussed in the 'Overview' and 'Subsequent Events' sections above.

INCOME TAXES

At June 30, 2011, a deferred income tax asset of $41,583 (December 31, 2010 - $47,340) has been recognized as the Company believes, based on estimated cash flows, it is more likely than not to be realized. At June 30, 2011, Cequence has the following tax pools:

Classification	Amount $(000's)
CEE	$ 161,305
Non-capital losses	103,682
UCC	87,857
COGPE	77,695
CDE	67,177
SRED	22,704
Share issue costs	8,267
ITCs	3,981
Other	799
	$ 533,467

The Company's non-capital losses expire $7,721 in 2013, $5,919 in 2014 and $90,042 in 2016 and thereafter.

On August 19, 2010, the Company completed the sale of 3,200 common voting shares on a CEE "flow-through" private placement basis at $2.50 per share for proceeds of $8,000 as well as 870 common voting shares on a CDE "flow-through" private placement basis at $2.30 per share for proceeds of $2,001, resulting in a total issuance of 4,070 common voting shares for total proceeds of $10,001. In accordance with the terms of the agreement and pursuant to certain provisions of the Income Tax Act (Canada), the Company renounced, for income tax purposes, development expenditures of $2,001 and exploration expenditures of $8,000 to the holders of the flow-through common shares effective December 31, 2010. Deferred tax of approximately $2,506 associated with renouncing the expenditures was recorded on the date of renunciation in the first quarter of 2011, the obligation on flow-through shares of $1,454 was drawn down and the difference was recognized as deferred tax expense (recovery) in the consolidated statement of comprehensive income (loss). As at June 30, 2011, the Company had incurred all of the qualifying expenditures.

On September 10, 2010, the Company completed the sale of 2,250 units at $2.00 per unit for total proceeds of $4,500, which included 2,250 common voting shares on a CDE "flow-through" private placement basis. In accordance with the terms of the agreement and pursuant to certain provisions of the Income Tax Act (Canada), the Company renounced, for income tax purposes, exploration expenditures of $3,000 to the holders of the flow-through common shares effective December 31, 2010. Deferred tax of approximately $752 associated with renouncing the expenditures was recorded on the date of renunciation in the first quarter of 2011, obligation on flow-through shares of $409 was drawn down and the difference was recognized as deferred tax expense (recovery) in the consolidated statement of comprehensive income (loss). As at June 30, 2011, the Company had incurred all of the qualifying expenditures.

Based on the Company's expected cash flow and available tax pools, Cequence does not expect to be taxable for the next three years.

LIQUIDITY AND CAPITAL RESOURCES

The Company has established two credit facilities with a syndicate of Canadian chartered banks. Credit facility A is a $100,000 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 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 1.25 percent to 2.75 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 2.25 percent to 3.75 percent based on the same sliding scale as above. The credit facilities may be extended and revolve beyond the initial one-year period, if requested by the Company and accepted by the lenders. If the credit facilities do not continue to revolve, the facilities will convert to a 366-day non-revolving term loan facility.

Both credit facilities, and the amount available for draws under the facilities, are subject to periodic review by the bank and are secured by a general assignment of book debts and a $250,000 demand debenture with a first floating charge over all assets of the Company. The Company is permitted to hedge up to 67 percent of its production under the lending agreement. As at June 30, 2011, the Company has drawn $50,912 under the extendible revolving term credit facility and $nil under the operating facility (December 31, 2010 – $57,125 and $nil for the revolving and operating facilities, respectively) and is in compliance with all covenants. The next scheduled review is to take place in November, 2011. During the six months ended June 30, 2011 the Company capitalized transaction costs related to its credit facilities of $57 (December 31, 2010 – $555; June 30, 2010 – $nil).

CONTRACTUAL OBLIGATIONS

	2011	2012	2013	2014	2015	Total
Office leases	$ 732	1,451	1,341	1,106	281	$ 4,911
Sublease	(107)	(40)	-	-	-	(147)
Pipeline transportation	838	1,663	1,663	1,663	1,522	7,349
Total	$ 1,463	3,074	3,004	2,769	1,803	$ 12,113

The Company acquired a pipeline transportation contract in a property acquisition that expires on November 30, 2015.

During the period ended June 30, 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 drawn down as the Company incurs costs related to the use of the drilling rigs and Cequence expects to reduce the deposit by $552 in the twelve months ended June 30, 2012, which amount is included with deposits and prepaid expenses in the condensed consolidated balance sheet. The portion of the outstanding deposit expected to be drawn down in the period subsequent to June 30, 2012 of $2,948 is carried as a non-current asset in the condensed consolidated balance sheet as at June 30, 2011.

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 Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared; and (ii) 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 period specified in securities legislation.

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, 2011, the Chief Executive Officer and the Chief Financial Officer have concluded, based on their evaluation of the design and operating effectiveness of the Company's disclosure controls and internal controls over financial reporting ("ICFR") that disclosure controls and ICFR are effective.

QUARTERLY INFORMATION

FINANCIAL

($ thousands except per share data)	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4	2009 Q3
Production Revenues including realized gains (losses) on financial commodity contracts and gross of royalties	$27,293	$24,032	$22,352	$12,951	$9,174	$10,093	$8,847	$5,962
Royalties	3,565	3,243	2,616	1,340	699	1,114	809	1,170
Operating expenses	7,439	6,741	7,023	4,410	3,392	2,875	2,702	2,609
Transportation expenses	1,883	1,829	1,551	1,223	840	744	781	309
Reorganization expenses	-	-	-	-	-	-	-	3,295
Comprehensive loss [1]	(701)	(1,975)	(23,205)	(10,598)	(4,029)	(14,517)	(2,656)	(6,994)
Per share - basic[1]	(0.00)	(0.02)	(0.18)	(0.15)	(0.10)	(0.37)	(0.07)	(0.26)
Per share - diluted[1]	(0.00)	(0.02)	(0.18)	(0.15)	(0.10)	(0.37)	(0.07)	(0.26)
Funds flow from operations [1]	12,042	9,780	7,629	1,672	2,197	4,498	3,161	(2,663)
Per share - basic[1]	0.08	0.07	0.06	0.02	0.05	0.11	0.08	(0.10)
Per share - diluted[1]	0.08	0.07	0.06	0.02	0.05	0.11	0.08	(0.10)
Capital expenditures, net	16,470	45,574	24,392	8,309	5,057	26,412	16,526	3,334
Acquisitions, net [1] [2]	14,134	(21,644)	(4,707)	47,534	-	279	6,374	15,421
Total expenditures	$30,604	$23,930	$19,685	$55,843	$ 5,057	$26,691	$22,900	$18,755

(1) 2010 figures have been restated from previously reported amounts resulting from the application of IFRS. See 'Adoption of International Financial Reporting Standards' section below. 2009 figures are presented in accordance with Canadian GAAP.

(2) Figures represent the cash proceeds from the sale of assets and cash paid for the acquisition of assets, as applicable.

OPERATIONS	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4	2009 Q3
Production Volumes								
Natural gas (Mcf/d)	48,785	42,514	38,702	23,674	16,559	12,592	10,696	6,734
Oil (bbls/d)	599	686	478	332	253	268	230	128
NGLs (bbls/d)	396	413	557	342	184	78	76	67
Total (boe/d)	9,125	8,185	7,485	4,619	3,197	2,444	2,089	1,317
Average selling price								
Natural gas ($per Mcf)	4.30	4.21	4.40	4.13	4.21	6.83	6.97	7.69
Oil ($per bbl)	97.80	88.38	77.24	70.47	70.22	76.80	71.65	66.85
NGLs ($per bbl)	80.15	66.12	64.13	57.33	72.07	71.81	68.82	66.76
Combined ($per boe)	32.87	32.62	32.46	30.47	31.53	45.88	46.05	49.20
Royalties ($per boe)	4.29	4.40	3.80	3.15	2.40	5.06	4.21	9.66
Operating expenses ($per boe)	8.96	9.15	10.20	10.38	11.66	13.07	14.06	21.53
Transportation ($per boe)	2.27	2.48	2.25	2.88	2.88	3.38	4.07	2.55
Netback ($per boe)	17.35	16.59	16.21	14.06	14.59	24.37	23.71	15.46

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has prepared its June 30, 2011 interim consolidated financial statements in accordance with IFRS 1, “First-time Adoption of International Financial Reporting Standards” (“IFRS 1”), and with IAS 34, “Interim Financial Reporting”, as issued by the IASB. Previously, the Company prepared its financial statements in accordance with Canadian GAAP. The adoption of IFRS has not had a material impact on the Company’s operations, strategic decisions, cash flow or capital expenditures.

The Company’s IFRS accounting policies are provided in Note 2 to the Financial Statements. In addition, Note 4 to the Financial Statements presents reconciliations between the Company’s 2010 Canadian GAAP results and the 2010 IFRS results. The reconciliations include the Consolidated Balance Sheets as at January 1, 2010, June 30, 2010 and December 31, 2010, and Consolidated Statements of Comprehensive Loss, Changes in Equity and Cash Flows for the three and six months ended June 30, 2010 and for the twelve months ended December 31, 2010.

The following provides summary reconciliations of Cequence’s 2010 Canadian GAAP and IFRS results, along with a discussion of the significant IFRS accounting policy changes.

Summary Balance Sheet Reconciliations

As at January 1, 2010						
($000's)	Canadian GAAP	E&E	Impairment	Decommissioning liabilities	Other [1]	IFRS
Current assets	30,605	-	-	-	-	30,605
Investments	13,920	-	-	-	-	13,920
Exploration and evaluation assets	-	29,411	-	-	-	29,411
Property and equipment	158,011	(29,411)	(6,791)	-	-	121,809
Deferred income taxes	5,575	-	1,717	813	(424)	7,681
Total Assets	208,111	-	(5,074)	813	(424)	203,426
Current liabilities	23,599	-	-	-	(36)	23,563
Long-term debt related to investments	18,204	-	-	-	-	18,204
Decommissioning liabilities	4,059	-	-	3,251	-	7,310
Shareholders' equity	162,249	-	(5,074)	(2,438)	(388)	154,349
Total liabilities and shareholders' equity	208,111	-	(5,074)	813	(424)	203,426

(1) Other includes adjustments related to flow-through share issuances affecting current liabilities and shareholders' equity and the reclassification of the current portion of deferred taxes to long-term.

As at December 31, 2010							
($000's)	Canadian GAAP	DD&A	Cumulative Impairment	Decommissioning liabilities	Business Combinations	Other [1]	IFRS
Current assets	20,240	-	-	-	-	-	20,240
Property and equipment	409,955	8,356	(65,274)	105	(13,827)	2,486	341,801
Deferred income taxes	26,441	-	-	-	5,645	15,254	47,340
Total Assets	456,636	8,356	(65,274)	105	(8,182)	17,740	409,381
Current liabilities	93,365	-	-	-	-	1,682	95,047
Decommissioning liabilities	14,622	-	-	3,265	8,599	(356)	26,130
Shareholders' equity	348,649	8,356	(65,274)	(3,160)	(16,781)	16,414	288,204
Total liabilities and shareholders' equity	456,636	8,356	(65,274)	105	(8,182)	17,740	409,381

(1) Other includes adjustments related to: flow-through share issuances affecting current liabilities and shareholders' equity; adjustments related to the sale of assets in 2010 affecting PP&E, decommissioning liabilities and shareholders' equity; adjustments related to transaction costs on financial instruments affecting current liabilities and shareholders' equity; and the deferred tax effect of the aggregate of the above adjustments, other than deferred tax on business combinations, at December 31, 2010.

Summary of Comprehensive Loss Reconciliation

($000's)	2010				
	Annual	Q4	Q3	Q2	Q1
Comprehensive loss as reported under Canadian GAAP	$ (14,518)	$ (6,122)	$ (3,620)	$ (3,751)	$ (1,025)
Differences increasing (decreasing) reported amounts:					
Depletion, depreciation and impairment	(50,127)	(25,490)	(7,486)	673	(17,824)
Finance costs on decommissioning liabilities	90	54	24	8	4
Transaction costs on financial instruments	386	(139)	525	-	-
Business combinations	(3,623)	(400)	(2,578)	(645)	-
Gain (loss) on sale of assets	2,842	2,824	18	-	-
Deferred tax on above	12,601	6,068	2,519	(314)	4,328
Comprehensive loss as reported under IFRS	$ (52,349)	$ (23,205)	$ (10,598)	$ (4,029)	$ (14,517)
Per share, basic and diluted	$ (0.75)	$ (0.18)	$ (0.15)	$ (0.10)	$ (0.37)

Summary of Funds Flow From Operations Reconciliation

($000's)	2010				
	Annual	Q4	Q3	Q2	Q1
Funds flow from operations as reported under Canadian GAAP [(1)]	$ 19,065	$ 8,029	$ 3,695	$ 2,842	$ 4,498
Differences increasing (decreasing) reported amounts:					
Transaction costs on financial instruments	555	-	555	-	-
Business combinations	(3,623)	(400)	(2,578)	(645)	-
Funds flow from operations as reported under IFRS [(1)]	$ 15,997	$ 7,629	$ 1,672	$ 2,197	$ 4,498
Per share, basic and diluted	$ 0.23	$ 0.06	$ 0.02	$ 0.05	$ 0.11

(1) A non-GAAP measure, which is defined under the 'Non-GAAP Measurements' section of this MD&A.

Accounting Policy Changes

The following discussion explains the significant differences between Cequence's Canadian GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters.

The most significant changes to the Company's accounting policies relate to the accounting for oil and gas assets. Under Canadian GAAP, Cequence followed Accounting Guidelines 16, "Oil and Gas Accounting – Full Cost" ("AcG 16") of Canadian GAAP in which all costs directly associated with the acquisition of, the exploration for, and the development of oil and natural gas reserves were capitalized on a country-by-country cost centre basis. Costs accumulated within each country cost centre were depleted using the unit-of-production method based on proved reserves determined using estimated future prices and costs. Upon transition to IFRS, the Company was required to adopt new accounting policies for oil and gas assets, including exploration and evaluation costs and development costs.

Under IFRS, exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. Development costs include those expenditures for areas where technical feasibility and commercial viability has been determined. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven reserves are determined to exist and are capable of economic production. Cequence adopted the IFRS 1 exemption whereby the Company deemed its January 1, 2010 IFRS oil and gas asset costs to be equal to its Canadian GAAP historical property, plant and equipment net book value. Accordingly, the Company evaluated its existing asset base and reclassified from the full cost pool to exploration and evaluation assets those assets that met the definition of exploration and evaluation assets at the date of transition to IFRS. The remaining full cost pool was allocated to development and production assets pro rata using proved plus probable reserve values. The Company chose to base the opening balance sheet allocation of production and development assets as well as to base its depletion and impairment assessment under IFRS on proved plus probable reserves as Cequence believes that this provides the most meaningful measure of the value of the Company's asset base. Under IFRS, exploration and evaluation costs are presented as exploration and evaluation assets and development costs are presented within property and equipment on the Consolidated Balance Sheet.

Exploration and Evaluation ("E&E") expenditures

Exploration and evaluation assets at January 1, 2010 were deemed to be $29,411 in accordance with the Company's policies and IFRS 6, "Exploration for and Evaluation of Mineral Resources" ("IFRS 6"). This resulted in a reclassification of $29,411 from property and equipment to exploration and evaluation assets on Cequence's Consolidated Balance Sheet as at January 1, 2010. As at December 31, 2010, the Company recognized no exploration and evaluation assets as the assets recognized at January 1, 2010 were sold during 2010 and no further assets met the definition of exploration and evaluation assets during 2010.

Depreciation and Depletion

Development costs at January 1, 2010 were deemed to be $121,809, representing the full cost pool balance under Canadian GAAP less the amount allocated to E&E assets discussed above and net of impairment recognized on transition to IFRS as discussed below. Consistent with Canadian GAAP, these costs are capitalized as property and equipment under IFRS.

Under Canadian GAAP, the Company depleted the full cost pool based on proved reserves. Under IAS 16, "Property, plant and equipment" ("IAS 16"), the Company has elected to deplete property and equipment based on proved plus probable reserves. This has resulted in a decrease to depletion and depreciation of $8,356 for the year ended December 31, 2010 (June 30, 2010 – $3,286) with a commensurate decrease to deficit.

Impairment

Under Canadian GAAP, impairment of the full cost pool was assessed by comparing the carrying amount of the full cost pool to the sum of undiscounted cash flows expected from the production of proved reserves. If the carrying amount of the full cost pool was determined to not be recoverable based on this test, impairment was recognized to the extent that the carrying amount of the full cost pool exceeded the sum of discounted cash flows expected from the production of proved plus probable reserves. Impairments under Canadian GAAP were not reversed.

Under IAS 36, "Impairment of Assets" ("IAS 36"), impairment is assessed by comparing the carrying amount of property and equipment to the sum of discounted cash flows expected from the production of proved plus probable reserves for each individual cash generating unit ("CGU") assessed by the Company. CGUs are defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. To the extent that capitalized expenditures are not expected to be recovered, the excess of the carrying amount over the recoverable amount is recognized immediately in comprehensive income (loss).

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or depletion, if no impairment loss had been recognized.

The application of IFRS resulted in an aggregate impairment loss which reduced property and equipment by $58,483 at December 31, 2010, including a $3,992 impairment of exploration and evaluation assets (June 30, 2010 – $16,445; January 1, 2010 - $6,791) with a commensurate increase to deficit. The recoverable amount of each CGU was estimated based on the higher of the value is use and the fair value less cost to sell. The estimate of fair value less cost to sell was determined using discounted proved plus probable forecasted cash flows, with escalating prices and future development costs, as obtained from the Company's reserve reports, adjusted for internal estimates and results, as applicable. The prices used to estimate the fair value less cost to sell are those used by independent industry reserve engineers.

Disposals

Under Canadian GAAP, no gain or loss is recognized on the sale of oil and gas properties unless the sale results in a change of 20 percent or more to the depletion rate applied to the full cost pool. No such provision exists under IFRS. This resulted in an increase to gain on sale of assets of $2,842 for the year ended December 31, 2010 (June 30, 2010 - $nil) with a commensurate decrease to deficit and an increase to property and equipment of $2,486 at December 31, 2010 (June 30, 2010 - $nil).

Decommissioning Liabilities

Under Canadian GAAP, accretion expense was calculated through the application of a credit-adjusted risk-free rate to the Company's discounted decommissioning liabilities. Liabilities were not re-measured to reflect period end discount rates.

Under IFRS, decommissioning liabilities are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the liabilities are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the liability as well as changes to the discount rate. The increase in the provision due to the passage of time is recognized as finance costs whereas increases or decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Further, IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37") requires the application of a risk-free rate in determining the amount of accretion to be included with finance costs in the statement of comprehensive income (loss) for the period.

In conjunction with the IFRS 1 exemption regarding oil and gas assets discussed above, Cequence was required to re-measure its decommissioning liabilities upon transition to IFRS and recognize the difference in deficit. The application of this exemption resulted in a $3,251 increase to the decommissioning liability on Cequence's Consolidated Balance Sheet as at January 1, 2010 and a corresponding increase to deficit.

The application of IFRS further resulted in an incremental increase to decommissioning liabilities of $8,257 as at December 31, 2010 (June 30, 2010 - $1,003) and an increase to property and equipment of $105 at December 31, 2010 (June 30, 2010 - $718).

Flow-through shares

Under Canadian GAAP, the proceeds from the issuance of flow-through shares are recognized as shareholders' equity. Further, the tax basis of assets related to expenditures incurred to satisfy flow-through share obligations is not reduced until the renunciation of the related tax pools at which time, the expected tax effect of the renunciation has the effect of increasing deferred income tax liability and reducing shareholders' equity.

Under IFRS, the difference between the value of a flow-through share issuance and the value of a common share issuance is initially accrued as an obligation on issuance of the flow-through shares. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, on renunciation with the Canada Revenue Agency, a deferred tax liability is recorded equal to the estimated amount of deferred income taxes payable by the Company. As a result of the renunciations, the obligation on issuance of flow-through shares is reduced and the difference is recognized in comprehensive income (loss).

The above differences resulted in an increase to shareholders' equity of $1,277, an increase to deficit of $1,665 and the recognition of an obligation on issuance of flow-through shares included with accounts payable and accrued liabilities of $388, at January 1, 2010. This further resulted in a decrease to share capital for the year ended December 31, 2010 of $1,556 (June 30, 2010 – $512 increase) and the recognition of an obligation on flow-through shares included with accounts payable and accrued liabilities on the consolidated balance sheet of $2,068 as at December 31, 2010 (June 30, 2010 - $nil).

Business combinations

The Company has applied the business combinations exemption in IFRS 1 to not apply IFRS 3, "Business Combinations" ("IFRS 3") retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the date of transition to IFRS.

Under Canadian GAAP, transaction costs related to business combinations are capitalized as part of the purchase equation. Under IFRS 3, transaction costs on business combinations are expensed as incurred. Also, under Canadian GAAP, shares issued as consideration in a business combination are valued based on the weighted average trading price surrounding the date of announcement of the transaction. Under IFRS 3, such shares are valued as at the acquisition date. Further, the determination of fair value assigned to assets and liabilities at the date of acquisition differs from Canadian GAAP due to the application of IFRS as opposed to Canadian GAAP in determining such fair values.

The aggregate differences related to the expensing of transaction costs under IFRS 3 versus capitalization under Canadian GAAP resulted in an increase to comprehensive loss of $3,623 for the year ended December 31, 2010 (June 30, 2010 – $645) and a commensurate increase to deficit. The above adjustments under IFRS 3 further result in an aggregate decrease to property and equipment of $13,827 as at December 31, 2010 (June 30, 2010 - $2,685) and an aggregate decrease to share capital of $13,158 as at December 31, 2010 (June 30, 2010 - $1,447).

Other exemptions and mandatory exceptions

Other significant exemptions and mandatory exceptions taken by Cequence as at January 1, 2010 on transition to IFRS are as follows:

***Share-based payment transactions*:** The Company has elected to apply IFRS 2, "Share-based Payments" ("IFRS 2") to equity instruments granted after November 7, 2002 that have not vested by January 1, 2010.

***Borrowing costs*:** The Company has applied the borrowing costs exemption in IFRS to not apply IAS 23, "Borrowing Costs" ("IAS 23") retrospectively to past borrowing costs related to transactions that took place prior to January 1, 2010.

***Estimates*:** Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

The remaining IFRS exemptions and mandatory exceptions were not applicable or material to the preparation of Cequence's Consolidated Balance Sheet at the date of transition to IFRS on January 1, 2010.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. As of January 1, 2013, Cequence will be required to adopt the following standards and amendments, as issued by the IASB:

- IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

- IFRS 10, "Consolidated Financial Statements", which is the result of the IASB's project to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity.

- IFRS 11, "Joint Arrangements", which is the result of the IASB's project to replace IAS 31, "Interest in Joint Ventures". The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted.

- IFRS 12, "Disclosure of Interests in Other Entities", which outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements.

- IFRS 13, "Fair Value Measurement", which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.

The Company is currently evaluating the impact of adoption of these standards and thus, the effect on Cequence's Consolidated Financial Statements at the time of adoption is not currently determinable.

CURRENT ECONOMIC CONDITIONS

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions persisted throughout 2010 and 2011, causing a loss of confidence in the global credit and financial markets and resulted in the collapse of, and government intervention in, major banks, financial institutions and insurers and created a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward. Petroleum and natural gas prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, the intensification and broadening of North African and Middle East protest movements, OPEC actions and the ongoing global credit and liquidity concerns.

OUTLOOK INFORMATION

Cequence is maintaining its guidance as provided on March 23, 2011. Capital expenditures for 2011 are expected to be funded from the proceeds of the sale of assets effected in the first and second quarters of 2011 (see 'Overview' section above), equity issuances effected in the first and third quarters of 2011 (see 'Common Shares Outstanding' and 'Subsequent Events' sections above), the planned equity issuance related to the 2011 CDE Warrants (see 'Overview' section above), cash flow from operations and available bank lines.

Cequence's current guidance for 2011 is as follows:

Average 2011 production (boe/d) (1)	9,200
Capital expenditures 2011 ($000's) (2)	$100,000
Operating costs ($ per boe)	$9.60
Crude – WTI (Cdn$ / bbl)	$95.00
Natural gas – AECO (Cdn$ / GJ)	$3.50

(1) Includes the disposition of the central Alberta properties in Q1, 2011 (see 'Overview' section above) and the Northwest Alberta properties in Q2, 2011 (see 'Overview' section above) with combined production of approximately 520 boe/d. Guidance has not been updated to include the effect of the acquisition of properties in Northeast British Columbia in Q2, 2011 or the disposition of properties in Northeast British Columbia in Q3, 2011 (see 'Overview' and 'Subsequent Events' sections above).

(2) Excludes the acquisition and disposition of properties discussed in point (1) above.

FORWARD-LOOKING STATEMENTS

Certain statements contained within this MD & A constitute forward-looking statements. These statements relate to future events or our 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 2011 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 2011 and beyond and reasons therefore; the Company's projected capital investment levels for 2011 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, and capital spending are based on Cequence's 2011 capital program. The material assumptions supporting the 2011 capital program are: i) 2011 annual production of approximately 9,200 boe/day; ii) a $3.50 CAD/gj AECO gas price; iii) capital spending of approximately $100,000.

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.