HIGHLIGHTS

(000's except per share and per unit amounts)	Three months ended June 30			Six months ended June 30		
	2012	2011	**% Change**	**2012**	2011	**% Change**
Financial ($)						
Production revenue [1]	**$ 16,032**	$ 27,293	**(41)**	**$ 35,896**	$ 51,325	**(30)**
Comprehensive loss	**(6,579)**	(701)	**839**	**(14,515)**	(2,676)	**442**
Per share, basic and diluted	**(0.04)**	(0.00)	**N/A**	**(0.09)**	(0.02)	**350**
Funds flow from operations [2]	**4,563**	12,042	**(62)**	**11,318**	21,822	**(48)**
Per share, basic and diluted	**0.03**	0.08	**(63)**	**0.07**	0.16	**(56)**
Production volumes						
Natural gas (Mcf/d)	**45,042**	48,785	**(8)**	**47,483**	45,667	**4**
Crude oil (bbls/d)	**618**	599	**3**	**651**	642	**1**
Natural gas liquids (bbls/d)	**535**	396	**35**	**497**	404	**23**
Total (boe/d)	**8,660**	9,125	**(5)**	**9,062**	8,658	**5**
Sales prices						
Natural gas, including realized hedges ($/Mcf)	**$ 2.11**	$ 4.30	**(51)**	**$ 2.28**	$ 4.26	**(46)**
Crude oil ($/bbl)	**79.92**	97.80	**(18)**	**85.00**	92.80	**(8)**
Natural gas liquids ($/bbl)	**59.54**	80.15	**(26)**	**67.43**	73.02	**(8)**
Total ($/boe)	**$ 20.34**	$ 32.87	**(38)**	**$ 21.77**	$ 32.75	**(34)**
Operating Netbacks ($/boe)						
Price	**$ 20.34**	$ 32.87	**(38)**	**$ 21.77**	$ 32.75	**(34)**
Royalties	**(0.15)**	(4.29)	**(97)**	**(1.39)**	(4.34)	**(68)**
Transportation	**(2.11)**	(2.27)	**(7)**	**(2.09)**	(2.37)	**(12)**
Operating costs	**(8.32)**	(8.96)	**(7)**	**(8.13)**	(9.05)	**(10)**
Operating netback	**$ 9.76**	$ 17.35	**(44)**	**$ 10.16**	$ 16.99	**(40)**
Capital Expenditures ($)						
Capital expenditures	**$ 9,909**	$ 16,470	**(40)**	**$ 50,843**	$ 62,044	**(18)**
Property acquisitions (net)	**(2,980)**	14,134	**(121)**	**(13,922)**	(7,510)	**85**
Total capital expenditures	**$ 6,929**	$ 30,604	**(77)**	**$ 36,921**	$ 54,534	**(32)**
Net debt and working capital (deficiency) ($) [3]	**(43,855)**	(65,147)	**(33)**	**(43,855)**	(65,147)	**(33)**
Weighted average shares outstanding (basic and diluted)	**164,823**	144,314	**14**	**163,339**	137,774	**19**
Undeveloped land (net acres)	**223,200**	280,000	**(20)**	**223,200**	280,000	**(20)**

(1) Production revenue is presented gross of royalties and includes realized gains on commodity contracts.
(2) Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures and net changes in non-cash working capital.
(3) Net debt and working capital (deficiency) is calculated as cash and net working capital less commodity contract assets and liabilities and demand credit facilities and excluding other liabilities.

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

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 14, 2012.

BASIS OF PRESENTATION

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

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

For the first six months of 2012, the ratio between the average price of West Texas Intermediate ("WTI") crude oil at Cushing and NYMEX natural gas was approximately 40:1 ("Value Ratio"). The Value Ratio is obtained using the first six months 2012 WTI average price of $93.30 (US$/Bbl) for crude oil and the NYMEX average price of $2.35 (US$/Mcf) for natural gas. This Value Ratio is significantly different from the energy equivalency ratio of 6:1 and using a 6:1 ratio would be misleading as an indication of value.

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

NON-GAAP MEASUREMENTS

Within the MD & A references are made to terms commonly used in the oil and gas industry, including netbacks, net debt and working capital (deficiency) and funds flow from operations.

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

Net debt and working capital (deficiency) is a non-GAAP term that is calculated as cash and net working capital less commodity contract assets and liabilities and demand credit facilities and excluding other liabilities.

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

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

AUX SABLE ARRANGEMENT

The Company began selling gas on the Alliance pipeline under the previously announced Aux Sable arrangement in June, 2012. This resulted in an increase to natural gas liquids volumes, a lower realized natural gas liquids price and a higher netback as a result of reductions to processing fees on the Company's gas. The full effects of the Aux Sable arrangement are not expected to be realized until the third quarter of 2012 as the arrangement was only effective for part of the second quarter of 2012.

SUBSEQUENT EVENTS

During the three months ended June 30, 2012, Cequence made an offer to acquire all of the issued and outstanding shares of Open Range Energy Corp. ("Open Range"), a publicly traded Canadian oil and gas company. Subsequent to June 30, 2012, Open Range accepted a superior proposal from another publicly traded Canadian oil and gas company. In accordance with the terms of the arrangement agreement between Cequence and Open Range, Open Range paid to Cequence a termination fee of $4,600, prior to related additional transaction costs, which was received by Cequence subsequent to June 30, 2012 and is not reflected in comprehensive income (loss) for the three and six months ended June 30, 2012.

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	
$(000's)	**2012**	2011	**2012**	2011
Cash flow from operating activities	**$ 2,135**	$ 7,574	**$ 10,578**	$ 19,414
Decommissioning liabilities expenditures	**194**	88	**724**	115
Net change in non-cash working capital	**2,234**	4,380	**16**	2,293
Funds flow from operations	**$ 4,563**	$ 12,042	**$ 11,318**	$ 21,822

Cequence recorded a comprehensive loss of $6,579 and $14,515 for the three and six months ended June 30, 2012, respectively. Comprehensive income (loss) and funds flow from operations for the six months ended June 30, 2012 were negatively impacted by low natural gas prices and impairments recognized on the Company's property and equipment (see 'Depletion, Depreciation and Impairment' section below), offset by gains realized on the sale of certain undeveloped land and natural gas weighted properties during the first six months of 2012.

Funds flow from operations was $4,563 and $11,318 for the three and six months ended June 30, 2012, respectively, compared to funds flow from operations of $12,042 and $21,822 for the three and six months ended June 20, 2011, respectively. The decrease in funds flow from operations is due largely to a decrease in revenue resulting from lower realized natural gas prices, offset by cash cost reductions.

RESULTS OF OPERATIONS

Average production volumes, revenue and prices for the three and six month periods ended June 30, 2012 and 2011 are outlined below:

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Production				
Natural gas (Mcf/d)	**45,042**	48,785	**47,483**	45,667
Crude oil (bbls/d)	**618**	599	**651**	642
Natural gas liquids (bbls/d)	**535**	396	**497**	404
Total (boe/d)	**8,660**	9,125	**9,062**	8,658
Total production (boe)	**788,039**	830,400	**1,649,229**	1,567,046
$(000's)				
Revenue				
Natural gas	**$ 8,564**	$ 19,007	**$ 19,651**	$ 35,018
Realized gains on natural gas hedges	**76**	71	**76**	176
Total natural gas	**8,640**	19,078	**19,727**	35,194
Crude oil	**4,492**	5,330	**10,071**	10,789
Natural gas liquids	**2,900**	2,885	**6,098**	5,342
Total production revenue, gross of royalties	**$ 16,032**	$ 27,293	**$ 35,896**	$ 51,325
Average prices				
Natural gas ($/Mcf)	**$ 2.09**	$ 4.28	**$ 2.27**	$ 4.24
Realized natural gas hedge ($/Mcf)	**0.02**	0.02	**0.01**	0.02
Natural gas including realized hedge gains and losses ($/Mcf)	**2.11**	4.30	**2.28**	4.26
Crude oil ($/bbl)	**79.92**	97.80	**85.00**	92.80
Natural gas liquids ($/bbl)	**59.54**	80.15	**67.43**	73.02
Average sales price before hedging ($/boe)	**$ 20.25**	$ 32.78	**$ 21.72**	$ 32.64
Average sales price including hedging ($/boe)	**$ 20.34**	$ 32.87	**$ 21.77**	$ 32.75

PRODUCTION

Production for the three and six months ended June 30, 2012 averaged 8,660 boe/d and 9,062 boe/d, respectively, compared to production of 9,125 boe/d and 8,658 boe/d, respectively, in the comparable periods of 2011. The decrease in production in the second quarter of 2012 is due to mainly to shut ins resulting from low natural gas prices and facility constraints and access, offset by new drilling and recompletions in 2011 and 2012. The Company currently has a total of 550 boe/d of shut in production.

REVENUE

Total production revenue, gross of royalties, was $16,032 in the second quarter of 2012 compared to $27,293 in the second quarter of 2011. The decrease in revenue is mainly attributable to the 38 percent decrease in realized sales prices and 5 percent decrease in production. For the six months ended June 30, 2012, production revenue, gross of royalties, decreased 30 percent to $35,896 from $51,325 in the comparable period of 2011. The decrease is a result of a 34 decrease in realized sales prices, offset by a 5 percent increase in production volumes.

PRICING

Cequence realized a natural gas price including hedging gain (as described below) for the second quarter of 2012 of $2.11 per Mcf, a decrease of 51 percent from the comparable period in 2011. Realized natural gas prices for the six months ended June 30, 2012 were $2.28 per Mcf, down 46 percent from the comparable period in 2011.

Oil prices for the second quarter of 2012 were $79.92 per barrel, down 18 percent from the same time period in 2011. Oil prices for the six months ended June 30, 2012 were $85.00 per barrel, down 8 percent from the comparable period in 2011.

Natural gas liquids prices for the second quarter of 2012 were $59.54 per barrel, down 26 percent from the same time period in 2011. Natural gas liquids prices for the six months ended June 30, 2012 were $67.43 per barrel, down 8 percent from the comparable period in 2011. Natural gas liquids prices were mainly impacted by declines to benchmark prices in the second quarter of 2012 as well as the commencement of the Aux Sable arrangement discussed above.

The realized natural gas prices for the three and six months ended June 30, 2012 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. Cequence's production is approximately 87 percent natural gas and consequently, fluctuations in natural gas prices have a significant impact on the Company's revenue.

Benchmark natural gas, crude oil and natural gas liquids prices were lower than the three and six month comparative periods in 2012. The following table details the Company's benchmark indices:

	Three months ended June 30		**Six months ended June 30**	
Benchmark Pricing	**2012**	2011	**2012**	2011
AECO-C spot (CDN$/Mcf)	**$ 1.91**	$ 3.89	**$ 2.02**	$ 3.83
WTI crude oil (US$/bbl)	**93.30**	102.28	**98.15**	98.39
Edmonton par price (CDN$/bbl)	**84.97**	103.59	**88.92**	96.16
US$/CDN$ exchange rate	**0.99**	1.03	**0.99**	1.02

COMMODITY PRICE MANAGEMENT

	Three months ended June 30		**Six months ended June 30**	
	2012	2011	**2012**	2011
Realized gain on commodity contracts	**$ 76**	$ 71	**$ 76**	$ 176
Unrealized gain (loss) on commodity contracts	**(119)**	(10)	**(119)**	140
Total	**$ (43)**	$ 61	**$ (43)**	$ 316

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. During the six months ended June 30, 2012, the Company entered into the following commodity contracts:

	Product	Type	Volume	Price	Basis
May 1, 2012 to October 31, 2012	Gas	Swap	5,000 gj/day	$1.82	AECO
June 1, 2012 to October 31, 2012	Gas	Swap	2,500 gj/day	$2.26	AECO
June 1, 2012 to December 31, 2012	Gas	Swap	2,000 gj/day	$3.14	AECO
August 1, 2012 to December 31, 2012 [1]	Gas	Swap	2,500 gj/day	$2.50	AECO
January 1, 2013 to December 31, 2013	Gas	Swap	2,000 gj/day	$2.84	AECO
January 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.09	AECO
January 1, 2013 to December 31, 2013	Gas	Swap	2,500 gj/day	$3.00	AECO
January 1, 2013 to December 31, 2013	Oil	Sold Call	200 bbls/day	$110.00 USD	WTI

(1) Swap entered into subsequent to June 30, 2012.

In 2011, 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 expired December 31, 2011 as well as a contract effective July 1, 2011 for the sale of 2,500 gj per day of natural gas for a price of $4.00 per gj which expired October 31, 2011. The fair value of the commodity contracts outstanding at June 30, 2012 was a current asset of $69 and a non-current liability of $188 (December 31, 2011 - $nil).

ROYALTY EXPENSE

	Three months ended June 30		**Six months ended June 30**	
$(000's)	**2012**	2011	**2012**	2011
Crown	**$ (337)**	$ 2,621	**$ 1,513**	$ 5,051
Freehold / Overriding	**455**	944	**781**	1,757
	$ 118	$ 3,565	**$ 2,294**	$ 6,808
As a % of Revenue, Before Hedging Activity				
Crown	**(2)%**	10%	**4%**	10%
Freehold / Overriding	**3%**	3%	**2%**	3%
	1%	13%	**6%**	13%
Per Unit of Production ($/boe)				
Crown	**$ (0.43)**	$ 3.16	**$ 0.92**	$ 3.22
Freehold / Overriding	**0.58**	1.13	**0.47**	1.12
	$ 0.15	$ 4.29	**$ 1.39**	$ 4.34

Royalty expense in the second quarter of 2012 was $118 or 1 percent of revenue compared to $3,565 or 13 percent of revenue in the second quarter of 2011. For the six months ended June 30, 2012, royalties as a percentage of revenue were 6 compared to 13 percent in the comparative period of 2011. The overall royalty rate has decreased in the three and six months ended June 30, 2012 as compared to the same periods in 2011 due to adjustments related to gas cost allowance received in the second quarter of 2012 related to prior periods. Royalties as a percentage of revenue for the first six months of 2012 are lower than the Company's expectation of 11 to 13 percent of revenue for 2012 due to the adjustment discussed above. In light of the above, the Company now expects royalties as a percentage of revenue to average 7 to 9 percent of revenue for 2012.

TRANSPORTATION EXPENSE

$(000's)	Three months ended June 30 2012	2011	Six months ended June 30 2012	2011
Transportation ($)	**$ 1,661**	$ 1,883	**$ 3,452**	$ 3,712
Per unit of production ($/boe)	**$ 2.11**	$ 2.27	**$ 2.09**	$ 2.37

Transportation expense for the six months ended June 30, 2012 was $2.09 per boe, a decrease of 12 percent from the comparative period in 2011. In the second quarter of 2012, transportation expense decreased to $2.11 per boe from $2.27 per boe in the comparative period in 2011. 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. Transportation costs per boe are in line with Cequence's expectation of $1.50 to $2.00 per boe for 2012.

OPERATING COSTS

$(000's)	Three months ended June 30 2012	2011	Six months ended June 30 2012	2011
Operating costs ($)	**$ 6,554**	$ 7,439	**$ 13,416**	$ 14,180
Per unit of production ($/boe)	**$ 8.32**	$ 8.96	**$ 8.13**	$ 9.05

For the six months ended June 30, 2012, operating costs decreased to $8.13 per boe from $9.05 per boe in the comparative period in 2011. Operating costs for the second quarter of 2012 were $6,554 or $8.32 per boe compared to $7,439 or $8.96 per boe for the same time period in 2011. Operating costs per boe decreased in the three and six months ended June 30, 2012 compared to the same periods in 2011 due mainly to lower costs on new wells drilled and recompleted in 2011 and 2012, the sale of higher cost properties in 2011 and the commencement of the Aux Sable arrangement in the second quarter of 2012. These cost reductions were offset by plant turnarounds and costs associated with shut in wells in the second quarter of 2012. Operating costs for the six months ended June 30, 2012 are in line with Cequence's previous expectation of approximately $8 to $9 per boe for 2012. Based on results to date, the Company now expects operating costs to average $7 to $8 for 2012.

OPERATING NETBACKS

($/boe)	Three months ended June 30 2012	2011	Six months ended June 30 2012	2011
Production revenue [1]	**$ 20.34**	$ 32.87	**$ 21.77**	$ 32.75
Royalty expense	**(0.15)**	(4.29)	**(1.39)**	(4.34)
Transportation expense	**(2.11)**	(2.27)	**(2.09)**	(2.37)
Operating costs	**(8.32)**	(8.96)	**(8.13)**	(9.05)
Netback	**$ 9.76**	$ 17.35	**$ 10.16**	$ 16.99
Netback, excluding realized hedge gains (losses)	**$ 9.67**	$ 17.26	**$ 10.11**	$ 16.88

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

Cequence's netback for the second quarter of 2012 decreased to $9.76 per boe from $17.35 per boe in 2011. For the six months ended June 30, 2012, the netback decreased to $10.16 per boe from $16.99 per boe in the comparative period in 2011. In comparison to 2011, the decrease in the netback in the three and six month periods ended June 30, 2012 is primarily due to decreases in benchmark natural gas prices from 2011 to 2012. The decreases above were partially offset by improvements to royalty expense, transportation expense and operating costs.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended June 30		Six months ended June 30	
$(000's)	**2012**	2011	**2012**	2011
G&A expenses ($)	**$ 2,016**	$ 1,965	**$ 3,790**	$ 3,758
Per unit of production ($/boe)	**$ 2.56**	$ 2.37	**$ 2.30**	$ 2.40

For the six months ended June 30, 2012, general and administrative ("G&A") expenses increased to $3,790 from $3,758 in the comparable period in 2011. On a per barrel basis, G&A costs decreased for the six months ended June 30, 2012 to $2.30 per boe compared to $2.40 per boe in 2011 as the production base of the Company has increased from the prior year.

G&A expenses were $2,016 or $2.56 per boe for the three months ended June 30, 2012. On a per barrel basis, G&A expenses increased 8 percent from the same period in 2011 as a result of decreased sales volumes. G&A expenses for the six months ended June 30, 2012 are in line with Cequence's expectation of approximately $2.00 to $2.50 per boe in 2012.

FINANCE COSTS

	Three months ended June 30		Six months ended June 30	
$(000's)	**2012**	2011	**2012**	2011
Interest expense ($)	**$ 698**	$ 401	**$ 1,104**	$ 1,083
Accretion expense on provisions ($)	**185**	250	**336**	508
Amortization of transaction costs on financial instruments ($)	**-**	153	**-**	320
Total finance costs ($)	**$ 883**	$ 804	**$ 1,440**	$ 1,911
Per unit of production ($/boe)	**$ 1.12**	$ 0.97	**$ 0.87**	$ 1.22
Per unit of production, excluding accretion expense and amortization of transaction costs ($/boe)	**$ 0.89**	$ 0.48	**$ 0.67**	$ 0.69

Finance costs for the three months ended June 30, 2012 were $883 compared to $804 for the comparative period in 2011. Included in finance costs for the three months ended June 30, 2012 is $nil of amortization related to transaction costs on the establishment and renewal of the Company's credit facilities (2011 - $153) as well as accretion expense on provisions of $185 (2011 - $250). Finance costs net of the amortization and accretion described above were $698 for the three months ended June 30, 2012, compared to $401 for the comparative period in 2011.

Finance costs for the six months ended June 30, 2012 were $1,440 compared to $1,911 for the comparative period in 2011. Included in finance costs for the six months ended June 30, 2012 is $nil of amortization related to transaction costs on the establishment and renewal of the Company's credit facilities (2011 - $320) as well as accretion expense on provisions of $336 (2011 - $508). Finance costs net of the amortization and accretion described above were $1,104 for the six months ended June 30, 2012, compared to $1,083 for the comparative period in 2011.

Interest expense in the three month period ended June, 2012 was higher than the same period in 2011 as the Company had a higher cost of borrowing in 2012 as compared to 2011 and did not pay down debt with proceeds received on equity issuances until late in the second quarter of 2012 (see 'Common Shares Outstanding' section below).

DEPLETION, DEPRECIATION AND IMPAIRMENT

	Three months ended June 30		**Six months ended June 30**	
$(000's)	**2012**	2011	**2012**	2011
Depletion and depreciation expense ($)	**$ 9,634**	$ 10,520	**$ 20,201**	$ 19,657
Impairment ($)	**4,416**	-	**22,497**	-
Total depletion, depreciation and impairment ($)	**$ 14,050**	$ 10,520	**$ 42,698**	$ 19,657
Per unit of production ($/boe)	**$ 17.83**	$ 12.67	**$ 25.89**	$ 12.54
Per unit of production, excluding impairment ($/boe)	**$ 12.23**	$ 12.67	**$ 12.25**	$ 12.54

Depletion and depreciation expense for the three and six month periods ended June 30, 2012 was $9,634 or $12.23 per boe and $20,201 or $12.25 per boe, respectively. Depletion and depreciation rates are similar to the comparable period in 2011 as there have not been significant changes to Cequence's resource base during this time.

Impairment expense for the three and six months ended June 30, 2012 was $4,416 and $22,497, respectively, compared to $nil for the three and six months ended June 30, 2011. Impairment in 2012 resulted largely from declining natural gas prices. Substantially all of the Company's actual and planned capital expenditures in 2012 are in the Deep Basin CGU. The following represents impairment recognized per CGU in the three and six months ended June 30, 2012 and 2011:

	Three months ended June 30		**Six months ended June 30**	
	2012	2011	**2012**	2011
Northeast British Columbia	**$ 737**	$ -	**$ 13,931**	$ -
Peace River Arch	**3,679**	-	**8,566**	-
Deep Basin	**-**	-	**-**	-
Total	**$ 4,416**	$ -	**$ 22,497**	$ -

PROVISIONS

Decommissioning liabilities

Total decommissioning liabilities at June 30, 2012 were $29,997 compared to $28,135 at December 31, 2011. Net additions to decommissioning liabilities in the six months ended June 30, 2012 totalled $1,862 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, accretion expense and changes in estimates.

Onerous contracts

As at June 30, 2012, the Company recognized a provision related to an onerous lease contract of $965 (December 31, 2011 - $1,138). The provision for onerous lease contract represents the present value of the future lease obligations that the Company is presently obligated to make under a non-cancellable onerous operating lease contract, less revenue expected to be earned on the lease, including estimated future sub-lease revenue.

STOCK-BASED COMPENSATION

The Company recognizes stock-based compensation expense for stock options. For the six months ended June 30, 2012, Cequence recorded $3,076 (2011 – $3,481) in stock-based compensation expense related to stock options with a corresponding increase to contributed surplus.

The Company issued 1,518 stock options in the six months ended June 30, 2012. Total stock-based compensation expense of $947 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, 2012, 413 stock options were forfeited.

COMMON SHARES OUTSTANDING

Issued common voting shares (000's)	**Number**	**Stated Value**
Balance, December 31, 2011	161,856	$ 559,371
Common shares	20,017	24,020
Flow-through shares	8,650	10,380
Share issue costs, net of taxes of $569	-	(1,710)
Balance, June 30, 2012	190,523	$ 592,061
Warrants, December 31, 2011	2,250	$ -
Warrants cancelled	(2,250)	-
Warrants, June 30, 2012	-	$ -

On March 8, 2012, the 2012 Warrants (see the 'Annual Financial Statements') were cancelled at no cost to Cequence and no redress to the shareholder.

On June 20, 2012, the Company completed the sale of 11,684 common voting shares at a price of $1.20 per share for gross proceeds of $14,020. On July 12, 2012, the Company further completed the sale of 1,253 common voting shares at a price of $1.20 per share for gross proceeds of $1,503 related to the exercise of an over-allotment option on the above issuance.

On June 20, 2012, the Company completed the sale of 4,850 common voting shares on a CEE "flow-through" basis at $1.45 per share for gross proceeds of $7,033 as well as 3,800 common voting shares on a CDE "flow-through" basis at $1.32 per share for gross proceeds of $5,016, resulting in a total issuance of 8,650 common voting shares for total gross proceeds of $12,049. The above transaction resulted in an increase to share capital of $10,380 and the recognition of an obligation related to flow-through shares of $1,669 included with other liabilities in the condensed consolidated balance sheet at June 30, 2012. In accordance with the terms of the related agreements and pursuant to certain provisions of the Income Tax Act (Canada), the Company is required to renounce, for income tax purposes, exploration expenditures of $7,033 and development expenditures of $5,016 to the holders of the flow-through common shares effective December 31, 2012. As at June 30, 2012, the Company has not incurred any of the qualifying expenditures.

On June 22, 2012, the Company completed the sale, on a private placement basis, of 8,333 common voting shares at a price of $1.20 per share for gross proceeds of $10,000.

As at June 30, 2012, there were no issued or outstanding non-voting shares (December 31, 2011 – none).

As of the date of this MD&A, Cequence had the following securities outstanding: 191,775 common voting shares and 14,159 stock options.

CAPITAL EXPENDITURES

	Three months ended June 30		Six months ended June 30	
$(000's)	**2012**	2011	**2012**	2011
Property acquisitions [1]	**$ -**	$ 21,700	**$ 6,740**	$ 21,700
Property dispositions [1]	**(2,980)**	(7,566)	**(20,662)**	(29,210)
Land, net	**290**	3,881	**553**	5,661
Geological & geophysical and capitalized overhead	**393**	469	**2,617**	942
Drilling, completions and workovers	**3,772**	3,730	**29,474**	34,379
Equipment and facilities	**5,362**	8,330	**18,095**	20,995
Office furniture & equipment	**92**	60	**104**	67
Total capital expenditures	**$ 6,929**	$ 30,604	**$ 36,921**	$ 54,534

(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, 2012, drilling, completion and workover expenditures totalled $29,474 which included the drilling of 5 gross (3.0 net) horizontal wells as well as the completion of 6 gross (4.0 net) horizontal wells. For the six months ended June 30, 2011, drilling, completion and workover expenditures included the drilling of 3.5 net horizontal wells and 2.3 net vertical wells as well as the completion of 5.3 net horizontal wells and 4.6 net vertical wells. Facility expenditures in the six months ended June 30, 2012 of $18,095 were directed towards completion of the meter station and tie in to the Alliance pipeline related to the Aux Sable arrangement discussed above as well as to compression and gathering facilities in the Deep Basin. The Company accelerated compression and gathering facilities expenditures previously scheduled for the second half of 2012 to the second quarter of 2012 due to capacity constraints resulting from the success of drilling activities in the first quarter of 2012.

On January 13, 2012, the Company closed the acquisition of properties, composed primarily of undeveloped land, located in the Deep Basin for total cash consideration of $6,800, subject to adjustments.

During the six months ended June 30, 2012, the Company closed the sale of certain undeveloped land and gas-weighted properties located in the Deep Basin and Northwest Alberta for total cash consideration of $20,662, subject to final adjustments. The sales resulted in a gain recognized in comprehensive income (loss) of $20,390.

Cequence has budgeted net capital expenditures of $69,000 for 2012, including acquisitions and dispositions, which will be directed towards the drilling of an expected 6.15 net horizontal wells as well as compression and gathering facilities at Simonette, including the meter station and tie in to the Alliance pipeline related to the Aux Sable arrangement discussed above. Capital expenditures will be funded out of cash flow, existing credit lines, and the sale of properties and equity financings completed in the first half of 2012, as discussed above. The Company continually monitors fluctuations in natural gas prices and will adjust budgeted discretionary capital spending for the remainder of 2012 based on short to medium term natural gas prices.

INCOME TAXES

At June 30, 2012, a deferred income tax asset of $43,773 (December 31, 2011 - $48,316) has been recognized as the Company believes, based on estimated cash flows, its realization is probable. At June 30, 2012, Cequence has the following tax pools:

Classification	Amount $(000's)
CEE	$179,448
Non-capital losses	140,747
UCC	98,851
COGPE	73,799
CDE	57,779
SRED	22,704
Share issue costs	10,379
ITCs	3,981
	$587,688

The Company's non-capital losses expire $6,812 in 2012, $4,512 in 2013 and $129,423 in 2024 and thereafter. The Company expects to use the non-capital losses in the required timeframes.

In accordance with the terms of the related agreements and pursuant to certain provisions of the Income Tax Act (Canada), the Company renounced, for income tax purposes, development expenditures of $14,301 and exploration expenditures of $17,373 to the holders of flow-through common shares effective December 31, 2011. Deferred tax of approximately $7,919 associated with renouncing the expenditures was recorded on the date of renunciation in the first quarter of 2012, the related obligation on flow-through shares of $4,958 was drawn down and the difference was recognized as deferred income tax expense (recovery) in comprehensive income (loss). As at December 31, 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

On May 10, 2012, the Company renewed its credit facilities with a syndicate of Canadian chartered banks. The renewed facilities are on the same terms and at the same interest rates as the previous facilities. Credit facility A is a $90,000 extendible revolving term credit facility by way of prime loans, U.S. Base Rate Loans, Banker's Acceptances and Libor Loans. Credit facility B is a $10,000 operating facility by way of prime loans, U.S. Base Rate Loans, Banker's Acceptances and letters of credit. Prime loans and U.S. Base Rate Loans on these facilities bear interest at the bank prime rate or U.S. Base Rate, respectively, plus 1.0 percent to 2.5 percent on a sliding scale, depending on the Company's debt to adjusted EBITDA ratio (ranging from being less than or equal to 1.0:1.0 to greater than 2.5:1.0). Banker's Acceptances, Libor Loans and letters of credit on these facilities bear interest at the Banker's Acceptance rate, Libor rate or letter of credit rate, as applicable, plus 2.0 percent to 3.5 percent based on the same sliding scale as above. The credit facilities may be extended and revolve beyond the initial one-year period, if requested by the Company and accepted by the lenders. If the credit facilities do not continue to revolve, the facilities will convert to a 366-day non-revolving term loan facility.

Both credit facilities, and the amount available for draws under the facilities, are subject to periodic review by the bank and are secured by a general assignment of book debts and a $250,000 demand debenture with a first floating charge over all assets of the Company. The Company is permitted to hedge up to 67 percent of its production under the lending agreement. As at June 30, 2012, the Company has drawn $40,236 under the extendible revolving term credit facility and $nil under the operating facility (December 31, 2011 – $11,618 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, 2012. During the six months ended June 30, 2012 the Company capitalized transaction costs related to its credit facilities of $nil (June 30, 2011 – $57).

NET DEBT AND WORKING CAPITAL (DEFICIENCY)

Net debt and working capital (deficiency) is calculated as cash and net working capital less commodity contract asset and demand credit facilities and excluding other liabilities, as follows:

$(000's)	**As at June 30, 2012**	As at December 31, 2011	As at June 30, 2011
Demand credit facilities	**$ (40,236)**	$ (11,618)	$ (50,789)
Accounts payable and accrued liabilities	**(25,510)**	(64,467)	(36,804)
Cash	**311**	380	1,672
Accounts receivable	**17,619**	21,032	17,288
Deposits and prepaid expenses – current	**3,961**	3,231	3,486
Net debt and working capital (deficiency)	**$ (43,855)**	$ (51,442)	$ (65,147)

CONTRACTUAL OBLIGATIONS

	2012	**2013**	**2014**	**2015**	**2016+**	**Total**
Office leases	$ 588	1,133	922	187	-	$ 2,830
Drilling services	689	2,138	-	-	-	2,827
Pipeline transportation	857	1,700	1,700	1,556	-	5,813
Total	$ 2,134	4,971	2,622	1,743	-	$ 11,470

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

During the year ended December 31, 2011, the Company entered into a drilling service agreement whereby the Company has committed to use a drilling rig for 360 days over the two years following commencement of use of the drilling rig at current market rates. The commitment is drawn down when the rig is in use, whether by Cequence or third parties. Cequence expects to meet the commitment in the required time.

During the year ended December 31, 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 $550 has been drawn down at June 30, 2012. Cequence expects to reduce the deposit by $618 in the twelve months ended June 30, 2013, which amount is included with deposits and prepaid expenses in the condensed consolidated balance sheet as at June 30, 2012. The portion of the outstanding deposit expected to be drawn down in the period subsequent to June 30, 2013 of $2,332 is carried as a non-current asset in the condensed consolidated balance sheet as at June 30, 2012.

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, 2012, 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)	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3
Production revenue [1]	$16,032	$19,864	$23,527	$27,144	$27,293	$24,032	$22,352	$12,951
Royalties	118	2,176	3,063	3,872	3,565	3,243	2,616	1,340
Transportation expense	1,661	1,791	1,580	1,861	1,883	1,829	1,551	1,223
Operating costs	6,554	6,862	7,022	8,471	7,439	6,741	7,023	4,410
Comprehensive loss	(6,579)	(7,936)	(15,598)	(1,884)	(701)	(1,975)	(23,205)	(10,598)
Per share – basic	(0.04)	(0.05)	(0.10)	(0.01)	(0.00)	(0.02)	(0.18)	(0.15)
Per share – diluted	(0.04)	(0.05)	(0.10)	(0.01)	(0.00)	(0.02)	(0.18)	(0.15)
Funds flow from operations [2]	4,563	6,755	10,002	10,438	12,042	9,780	7,629	1,672
Per share – basic	0.03	0.04	0.06	0.07	0.08	0.07	0.06	0.02
Per share – diluted	0.03	0.04	0.06	0.07	0.08	0.07	0.06	0.02
Capital expenditures, net	9,909	40,934	56,335	31,222	16,470	45,574	24,392	8,309
Acquisitions, net [3]	(2,980)	(10,942)	-	(15,513)	14,134	(21,644)	(4,707)	47,534
Total capital expenditures	$ 6,929	$29,992	$56,335	$15,709	$30,604	$23,930	$19,685	$55,843

(1) Production revenue is presented gross of royalties and includes realized gains on commodity contracts.
(2) Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures, proceeds from the sale of commodity contracts and net changes in non-cash working capital.
(3) Figures represent the cash proceeds from the sale of assets and cash paid for the acquisition of assets, as applicable.

OPERATIONS	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3
Production volumes								
Natural gas (Mcf/d)	45,042	49,924	47,203	52,694	48,785	42,514	38,702	23,674
Oil (bbls/d)	618	684	503	514	599	686	478	332
NGLs (bbls/d)	535	459	509	536	396	413	557	342
Total (boe/d)	8,660	9,464	8,879	9,833	9,125	8,185	7,485	4,619
Average selling price								
Natural gas ($/Mcf)	2.11	2.44	3.59	4.04	4.30	4.21	4.40	4.13
Oil ($/bbl)	79.92	89.58	97.15	87.65	97.80	88.38	77.24	70.47
NGLs ($/bbl)	59.54	76.63	73.19	69.34	80.15	66.12	64.13	57.33
Combined ($/boe)	20.34	23.07	28.80	30.00	32.87	32.62	32.46	30.47
Operating Netbacks								
Average selling price ($/boe)	20.34	23.07	28.80	30.00	32.87	32.62	32.46	30.47
Royalties ($/boe)	(0.15)	(2.53)	(3.75)	(4.28)	(4.29)	(4.40)	(3.80)	(3.15)
Transportation ($/boe)	(2.11)	(2.08)	(1.93)	(2.06)	(2.27)	(2.48)	(2.25)	(2.88)
Operating costs ($/boe)	(8.32)	(7.97)	(8.60)	(9.36)	(8.96)	(9.15)	(10.20)	(10.38)
Operating netback ($/boe)	9.76	10.49	14.52	14.30	17.35	16.59	16.21	(14.06)

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 2011 and 2012, 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 provided revised 2012 guidance on August 14, 2012. Capital expenditures for 2012 are expected to be funded from cash flow from operations, available bank lines and proceeds from the sale of assets and equity financings completed in the first half of 2012:

	2012
Average 2012 production, BOE/d [(1)]	8,700
Exit 2012 production, BOE/d [(1)]	8,400
Capital expenditures 2012, net ($000's) [(2)]	69,000
Operating costs ($ per boe)	$7.50
Royalties (% revenue)	8
Crude – WTI (US$/bbl) [(3)]	$89.85
Natural gas – AECO (Cdn$/GJ) [(4)]	$2.60
Funds flow from operations ($)	$30 million
December 31, 2012 Net debt and working capital deficiency ($)	$55 million
Basic shares outstanding, Dec 31 2012	191.8 million

Notes:

(1) Production figures are presented giving effect to production curtailments which are expected to impact 2012 average production by 600 boe/d.
(2) Includes $13.9 million in net dispositions of non-core assets and undeveloped land completed in the first six months of 2012.
(3) Based on a WTI crude oil price of $89.85 US$/bbl for the six months ended December 31, 2012.
(4) Based on an AECO natural gas price of $2.60 Cdn$/GJ for the six months ended December 31, 2012.

The Company closely monitors fluctuations in natural gas prices and will adjust the 2012 budget if facts and circumstances require.

FORWARD-LOOKING STATEMENTS

Certain statements contained within this MD & A constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", and similar expressions. Forward-looking statements in this MD & A include, but are not limited to, statements with respect to: 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 2012 and beyond and reasons therefore; the Company's projected capital investment levels for 2012 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 the Aux Sable arrangement on the Company's production volumes, realized prices and netbacks; 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 2012 capital program. The material assumptions supporting the 2012 capital program are: i) 2012 annual production of approximately 8,700 boe/d; ii) a $2.60 Cdn$/gj AECO gas price; iii) net capital spending of approximately $69,000.

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.