HIGHLIGHTS

(000's except share and per share amounts)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Financial ($)				
Production revenue, including realized hedge	$5,962	$11,503	$19,136	$38,874
Net income (loss)	(6,994)	6,113	(5,998)	(7,192)
Funds flow from operations[1]	(2,663)	4,638	749	18,710
Funds flow from operations before one-time charges and reorganization expenses[2]	2,387	4,638	5,799	18,710
Production volumes				
Natural gas (mcf/d)	6,734	10,918	7,556	13,030
Crude oil (bbls/d)	128	197	124	218
Natural gas liquids (bbls/d)	67	107	88	113
Total (boe/d)	1,317	2,123	1,471	2,503
Sales prices				
Natural gas, including realized hedges ($/mcf)	$7.69	$8.33	$7.70	$8.23
Crude oil ($/bbl)	66.85	112.39	61.00	105.36
Natural gas liquids ($/bbl)	66.76	112.16	49.42	103.00
Total ($/boe)	$49.20	$58.88	$47.64	$56.68
Operating Netbacks ($/boe)				
Price	$49.20	$58.88	$47.64	$56.68
Royalties	(9.66)	(7.36)	(5.86)	(7.08)
Transportation	(2.55)	(1.63)	(1.98)	(1.45)
Operating costs	(21.53)	(20.45)	(17.69)	(14.49)
Operating Netback	$15.46	$29.44	$22.11	$33.66
Capital Expenditures	3,334	9,208	8,310	31,334
Corporate Acquisition	320	-	320	-
Property Acquisitions	15,763	-	15,763	-
Total capital expenditures	19,416	9,208	24,393	31,334
Net working capital (deficiency) [3]	23,888	(44,858)	23,888	(44,858)
Long term debt	18,120	-	18,120	-
Undeveloped land (net acres)	155,400	119,700	155,400	119,700

Notes:

(1) Funds flow from operations is calculated as net income plus non controlling interest, unrealized derivate gains and losses, depletion, accretion, future income taxes, stock compensation expense, valuation allowances and asset retirement expenditures.

(2) Funds flow before one-time charges and reorganization expense is calculated as funds flow plus the reorganization expenses of $3,295 and $1,755 in onetime adjustments to royalties and operating expenses.

(3) Net working capital is calculated cash, net working capital less derivative contract asset and demand credit facilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD & A") of the financial and operating results for 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 nine months ended September 30, 2009 as well as with the audited consolidated financial statements (the "Annual Financial Statements") and MD&A for the year ended December 31, 2008.

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

This MD & A is dated November 10, 2009.

BASIS OF PRESENTATION

The financial data presented below has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The financial information presented reflects the consolidated financial statements of Cequence including its 71 percent owned subsidiary, HFG Holdings Inc. ("HFG"). In accordance with Canadian GAAP, the consolidated statements of Cequence include 100% of HFG with the minority interest reflected as a 'non-controlling interest' on the balance sheet and income statement.

The reporting and the measurement currency is the Canadian dollar. For the purpose of calculating unit costs, natural gas is converted to a barrel equivalent ("boe") using six thousand cubic feet of natural gas equal to one barrel of oil unless otherwise stated. The term barrels of oil equivalents (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.

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 GAAP 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 net income (loss) adjusted for non-cash items including depletion, depreciation, accretion, future income taxes, stock-based compensation, unrealized hedge gains (losses), asset write-downs and gains (losses) on sale of assets and non-controlling interest and before adjustments for changes in 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.

A reconciliation of funds flow from net income is as follows:

	Three months ended September 30		**Nine months ended September 30**	
$(000's)	**2009**	**2008**	**2009**	**2008**
Net income (loss)	$(6,994)	$6,113	$(5,998)	$(7,192)
Depletion, depreciation and amortization	3,056	4,867	9,979	15,791
Accretion	54	39	133	173
Stock based compensation	245	211	573	761
Valuation allowance on investments	544	2,530	544	8,462

$(000's)	Three months ended September 30 2009	2008	Nine months ended September 30 2009	2008
Unrealized loss(gain) on commodity contracts	2,435	(12,407)	28	291
Loan premium amortization	(16)	-	(33)	-
Future income tax (recovery)	(1,936)	3,547	(4,472)	1,025
Asset retirement expenditures	-	(262)	(17)	(601)
Non-controlling interest	(51)	-	12	-
Funds flow	$(2,663)	$4,638	$749	$18,710

FORWARD-LOOKING STATEMENTS

Certain statements contained within this MD & A constitute forward-looking statements. These statements related 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 2009 capital investments; the Company's ability to realize its investments in MAV 2 Notes; 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 prices in 2009 and beyond and reasons therefore; the Company's projected capital investment levels for 2009 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; projections that the Company will fully recover from its MAV 2 Notes. 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, forecast, projects 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 projects 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 gas prices; assumptions based upon Cequence's current guidance; fluctuations in currency and interest rates; the Company's ability to realize its investment in MAV 2 Notes; product supply and demand; market competition; risk 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.

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. 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 expectation 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.

RESULTS OF OPERATIONS

REORGANIZATION OF SABRETOOTH

On July 30, 2009 the shareholders of Cequence (formerly Sabretooth Energy Ltd.) approved certain reorganization transactions to recapitalize the Company with new equity, appoint new management and restructure the board of directors. Also as part of the transaction the Company changed its name to Cequence Energy Ltd. and affected a four for one share consolidation (the "reorganization transactions"). These transactions were approved by the shareholders of the Company at the annual and special meeting of shareholders held on July 29, 2009.

The reorganization transactions included a private placement to new management, employees and directors; a rights offering to existing shareholders and a subscription receipt offering. Total cash proceeds from the equity offerings totalled $65,315 and a portion of which was used to eliminate the outstanding operating bank line and complete two property acquisitions in the quarter. At September 30, 2009, the Company was in strong financial condition to pursue further acquisition and drilling opportunities with positive cash and working capital and access to a $40 million credit facility.

Due to the nature of the reorganization, all of the legal, severance and banking costs have been expensed in the period. These costs totalled $3,295 and are not recurring.

NET INCOME AND FUNDS FLOW

Cequence recorded a loss of $6,994 in the third quarter of 2009. Net income and funds flow from operations for the period were negatively impacted by reorganization costs of $3,295. In addition, low natural gas prices and high operating costs contributed to the net loss for the three and nine month periods ended September 30, 2009. Net income of $6,113 for the three months ended September 30, 2008 relates primarily to an unrealized hedging gain of $12,407.

Funds flow from operations was $(2,663) for the third quarter of 2009 compared to $4,638 in 2008. The decrease in funds flow is due to the reorganization costs expensed in the quarter, higher royalty and operating costs and a decrease in sales volumes and prices from the prior year.

	Three months ended September 30		**Nine months ended September 30**	
$(000's)	**2009**	**2008**	**2009**	**2008**
Revenue[1]	$ 5,962	$ 11,503	$ 19,136	$ 38,874
Funds flow from operations	$ (2,663)	$ 4,638	$ 749	$ 18,710
Net income (loss)	$ (6,994)	$ 6,113	$ (5,998)	$ (7,192)

Note:

[1]Includes realized gains and losses on derivative commodity contracts

REVENUE

Total revenue was $5,962 in the third quarter of 2009 compared to $11,503 for the comparable period in 2008. The decrease in revenue is attributable to the 38 percent decrease in production and a 16 percent decrease in realized

sales prices. For the nine month period ended September 30, 2009 total revenue decreased 51 percent to $19,136 from $38,874 in the prior period. The decrease in natural gas revenue for the nine month period is a result of a 41 percent decrease in production volumes and a 16 percent decrease in sales price.

	Three months ended September 30		Nine months ended September 30	
$(000's)	**2009**	**2008**	**2009**	**2008**
Natural gas	$1,965	$8,332	$8,534	$31,764
Realized gains (losses) on natural gas contracts	2,800	33	7,346	(2,378)
Total natural gas	4,765	8,365	15,880	29,386
Oil	785	2,032	2,063	6,293
Natural gas liquids	412	1,106	1,193	3,195
Total Revenue	$5,962	$11,503	$19,136	$38,874

PRICING

Benchmark natural gas and crude oil prices decreased significantly from the comparative periods in 2008. Cequence realized natural gas price for the three and nine month periods ended September 30, 2009 were $7.69 and $7.70. The realized prices are significantly above prevailing market prices as most of the Company's natural gas production in the quarter was sold at a price of $7.85 under a fixed price contract. The decrease in realized natural gas prices is consistent with the decrease in industry benchmark prices. Cequence's production is approximately 87 percent natural gas and fluctuations in natural gas prices have a significant impact on the Company.

Oil prices for the third quarter of 2009 were $66.85 per barrel down 41 percent from the same time period in 2008. For the nine month period ended September 30, 2009 realized oil prices decreased 42 percent to $61.00 per boe. Realized natural gas liquids prices decreased 40 percent and 52 percent for the three and nine month periods ended September 30, 2009 from the comparative periods in 2008.

The following tables detail the Company's average sales prices and benchmark indices:

	Three months ended September 30		Nine months ended September 30	
Average Selling Price	**2009**	**2008**	**2009**	**2008**
Natural gas ($/mcf)	$3.17	$8.30	$4.14	$8.90
Realized natural gas hedge $/mcf)	4.52	0.03	3.56	(0.67)
Natural gas including realized hedge gains and losses	7.69	8.33	7.70	8.23
Crude Oil (per bbl)	66.85	112.39	61.00	105.36
Natural gas liquids (per bbl)	66.76	112.16	49.59	103.00
Average sales price before hedge	$26.10	$58.72	$29.35	$60.15
Average sales price including hedge	$49.20	$58.88	$47.64	$56.68

Benchmark Pricing	Three months ended September 30 2009	2008	Nine months ended September 30 2009	2008
AECO natural gas – monthly index (CDN$/Mcf)	2.87	8.76	3.89	8.13
AECO natural gas – daily index (CDN$/Mcf)	2.78	8.13	3.57	8.76
WTI crude oil (US$/bbl)	68.30	118.21	57.00	113.61
Edmonton par price (CDN$/bbl)	71.59	123.02	62.40	115.86
US$/CDN$ exchange rate	1.09	0.98	1.17	0.96

COMMODITY PRICE MANAGEMENT

Cequence has a commodity price risk management program and will enter into derivative commodity contracts to protect future cash flows or planned capital expenditures. The Company has a natural gas contract in place until the end of March 2010 for the sale of 6,000 gj per day of natural gas for a price of $7.85 per gj. The fair value of derivative commodity contracts at the end of September is $3,033 compared to $552 in 2008.

	Three months ended September 30 2009	2008	Nine months ended September 30 2009	2008
Realized gain (loss) on commodity contracts	2,800	33	7,346	(2,378)
Unrealized gain (loss) on commodity contracts	(2,422)	12,407	(1)	(291)
Total	378	12,440	7,345	(2,669)

PRODUCTION

Production for the three months ended September 30, 2009 averaged 1,317 boe/d compared to production of 2,123 boe/d in the third quarter of 2008. The decrease is primarily due to the sale of the West Central and Fireweed properties in July 2008 and the shut in of certain properties in the quarter due to low natural gas prices. The two property acquisitions completed in the quarter did not have a material impact on production as the major acquisition closed on September 24, 2009.

Average production volumes for the three and nine month periods ended September 30, 2009 and 2008 are outlined below:

Three months ended September 30	2009 Total	2009 Per Day	2008[1] Total	2008[1] Per Day
Natural Gas (mcf)	619,508	6,734	1,004,445	10,918
Crude Oil (bbls)	11,742	128	18,078	197
NGLs (boe)	6,186	67	9,861	107
Total (boe)	121,179	1,317	195,356	2,123

Nine months ended September 30	2009 Total	2009 Per Day	2008[1] Total	2008[1] Per Day
Natural Gas (mcf)	2,062,896	7,556	3,570,255	13,030
Crude Oil (bbls)	33,818	124	59,723	218
NGLs (boe)	24,039	88	31,016	113
Total (boe)	401,673	1,471	685,819	2,503

Includes royalty volumes

ROYALTY EXPENSE

Royalty expense in the third quarter of 2009 was $1,170 or 37 percent of revenue compared to $1,437 or 12 percent of revenue in the third quarter of 2008. For the nine month period ended September 30, 2009 royalties as a percentage of revenue were 20 percent compared to 12 percent in the comparative period in 2008. On a per barrel basis royalties increased in both the three and nine month periods primarily due to adjustments made to overriding royalties on properties acquired in 2007. The royalty adjustments resulted in a one-time change that is not recurring. Based on the nature of the Company's production and facilities, at current commodity prices Cequence reduces a significant portion of its crown royalties with gas cost allowance. Royalties as a percentage of sales are expected to be approximately 10 percent in the fourth quarter based on our estimate of commodity prices.

	Three months ended September 30		Nine months ended September 30	
$(000's)	**2009**	**2008**	**2009**	**2008**
Royalties ($)	$1,170	$1,437	$2,355	$4,859
As a % of sales	37%	12%	20%	12%
Per Unit of Production ($/boe)	$9.66	$7.36	$5.86	$7.08

TRANSPORTATION EXPENSE

In the third quarter of 2009 transportation costs per boe increased to $2.55 per boe from $1.63 in the comparative period. Transportation costs for the nine months ended September 30, 2009 were $1.98 per boe, an increase of 37 percent from the comparative period in 2008.

	Three months ended September 30		Nine months ended September 30	
$(000's)	**2009**	**2008**	**2009**	**2008**
Transportation ($)	$309	$319	$794	$994
Per Unit of Production ($/boe)	$2.55	$1.63	$1.98	$1.45

OPERATING COSTS

Operating costs during the third quarter of 2009 were $2,609 or $21.53 per boe compared to $3,995 or $20.45 per boe for the same time period in 2008. For the nine month period ended September 30, 2009 operating costs increased to $17.69 per boe from $14.49 in the comparative period. The increase in operating costs per boe in both the three and nine month periods were a result of decreased production while fixed costs remained constant. Operating costs are expected to decrease to $14 to $16 per barrel as the Company's production increases from the properties acquired in the third quarter.

	Three months ended September 30		Nine months ended September 30	
$(000's)	**2009**	**2008**	**2009**	**2008**
Operating Costs ($)	$2,609	$3,995	$7,107	$9,940
Per Unit of Production ($/boe)	$21.54	$20.45	$17.69	$14.49

OPERATING NETBACKS

Cequence's netback for the third quarter of 2009 decreased to $15.46 per boe in 2009 from $29.44 in 2008. In comparison to 2008, the decrease in the netback in both the three and nine month periods is primarily due to the lower average selling prices, higher royalty, transportation and operating expenses.

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Production revenue, including realized hedge gains (losses)	$49.20	$58.88	$47.64	$56.68
Royalty expense	(9.66)	(7.36)	(5.86)	(7.08)
Transportation Expense	(2.55)	(1.63)	(1.98)	(1.45)
Operating Costs	(21.53)	(20.45)	(17.69)	(14.49)
Netback, $/boe	$15.46	$29.44	$22.11	$33.66

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative ("G&A") expenses were in $745 for the three months ended September 30, 2009 compared to $713 for 2008. For the nine month period ended September 30, 2009 G&A expenses increased to $3,542 from $2,827 in 2008. On a per barrel basis, general and administrative costs have increased as the production base of the Company has declined. As a result of the reorganization transactions and subsequent acquisitions, management expects that G&A expenses will be approximately $4.00-$4.50 per boe in the fourth quarter.

For the three and nine months ended September 30, 2009 Cequence capitalized $243 and $1,185 of G&A expenses related to exploration and development. Beginning in the third quarter, the Company is no longer capitalizing a portion of general and administrative expenses.

	Three months ended September 30		Nine months ended September 30	
$(000's)	2009	2008	2009	2008
G&A Expenses ($)	$745	$713	$3,542	$2,827
Total G&A ($/boe)	$6.15	$3.64	$8.82	$4.12

REORGANIZATION EXPENSES

The three and nine month periods ended September 30, 2009 include all of the costs of the reorganization transactions completed on July 30, 2009. These one-time costs relate primarily to the legal, investment banking and severance costs incurred to restructure the Company and totalled $3,295.

INTEREST EXPENSE

Interest expense for the three months ended September 30, 2009 was $474 compared to $577 for the comparative period. For the nine months ended September 30, 2009 interest expense was $1,237 compared to $2,078 in 2008. The decrease in interest expense in both periods is attributable to the decrease in bank debt and lower interest rates. Interest expense includes $130 and $244 of part XII.6 tax related to the outstanding flow through obligations for the three and nine month periods ended September 30, 2009. As part of the reorganization of Sabretooth the Company repaid all of its outstanding current debt and; as a result, interest expense is expected to decrease in the fourth quarter of 2009.

	Three months ended September 30		Nine months ended September 30	
$(000's)	2009	2008	2009	2008
Interest Expense ($)	$474	$577	$1,237	$2,078
Per Unit of Production ($/boe)	$3.91	$2.95	$3.08	$3.03

DEPLETION, DEPRECIATION AND AMORTIZATION ("DD&A")

DD&A expense for the three months ended September 30, 2009 was $3,056 or $25.22 per boe. For the nine month period ended September 30, 2009 DD&A per boe was $9,979 or $24.84 per boe. DD&A rates are comparable with the prior year.

$(000's)	Three months ended September 30 2009	2008	Nine months ended September 30 2009	2008
Depletion expense ($)	$3,056	$4,867	$9,979	$15,791
Per Unit of Production ($/boe)	$25.22	$24.91	$24.84	$23.03

ASSET RETIREMENT OBLIGATIONS

Total asset retirement obligations at September 30, 2009 were $3,854 compared to $2,515 at December 31, 2008. Additions to asset retirement obligations in the third quarter totalled $1,187 of which $1,129 related to the two property acquisitions and $58 to drilling activity and facility additions. During the three and nine month periods ended September 30, 2009, the company recorded accretion expense of $54 and $133, respectively.

STOCK-BASED COMPENSATION

The Company recognizes stock-based compensation expense for stock options and performance warrants. For the three months ended September 30, 2009, Cequence recorded $245 (2008 - $211) in stock-based compensation expense, with a corresponding increase to contributed surplus. For the nine month period ended September 30, 2009 stock-based compensation was $573 compared to $761 in 2008. As part of the reorganization, substantially all the outstanding stock options were forfeited on July 30, 2009. In total, 730 options were forfeited and $421 of previously recognized stock compensation expense was reversed in the quarter.

The Company issued 900 options in the third quarter. Total stock-based compensation expense of $1,698 was determined using the Black-Scholes option pricing model and will be expensed over the four year vesting period of the options.

As part of the reorganization, certain officers and directors of the Company were awarded a total of 5,200 performance warrants that are exercisable into a common share of Cequence at a price of $1.88. At the time the performance warrants were negotiated the market price of the Company's shares was $1.48. The performance warrants are divided into three equal tranches with the first one-third having a four year term and vest once the 20 day weighted average share price of Cequence exceeds $3.20. The second tranche has a 4.5 year term and vests if the 20 day weighted average share price of Cequence exceeds $4.40. The final third of the performance warrants have a five year term and vest if the 20 day weighted average share price of Cequence exceeds $5.60. The performance shares are convertible to non-voting shares of Cequence.

As of September 30, 2009 the first two performance criteria had been met and the Company has recognized the full compensation expense related to the first two tranches of the performance warrants. The Company recognized $513 of stock-based compensation for the performance warrants in the third quarter of 2009.

COMMON SHARES OUTSTANDING

Issued common voting shares (000's)	Number	Stated Value
Balance, December 31, 2008	$9,665	$192,849
Repurchase of shares - NCIB	(50)	(997)
Private placement, July 30, 2009	6,377	9,438
Corporate acquisition, July 30, 2009	380	562
Subscription receipts, July 30, 2009	13,398	46,087
Rights offering, August 14, 2009	6,615	9,790
Share issue costs (net of tax of $861)		(2,307)
Balance, September 30, 2009	$36,385	$255,422

As part of the reorganization, the Company was recapitalized in the third quarter through a series of transactions, as described below. In total 26,770 common shares were issued for consideration of $65,877 before issue costs.

The new management, directors, certain employees and consultants of the Company (as well as a former officer of the Company) purchased 6,377 common shares of the Company at a price of $1.48 per share for aggregate subscription proceeds of $9,438 (the "Private Placement"). Existing shareholders of the Company were granted rights to acquire a maximum of 6,757 common shares at a price of $1.48 until August 14, 2009. A total of 6,615 rights were exercised for total consideration of $9,790 (the "Rights Offering").

On May 27, 2009 the Company entered into an agreement to sell on a private placement basis 13,398 subscription receipts at a price of $3.44 per subscription receipt for total proceeds of $46,087. The subscription receipts were convertible to Cequence common shares without further consideration upon shareholder approval of the reorganization transactions and regulatory approval. Upon closing of the Transactions, the Company's subscription receipts previously issued on June 18, 2009 were converted, for no additional consideration and without further action, into common shares of the Company. Holders of the subscription receipts received one common share of the Company for each subscription receipt held.

The Company also acquired all the shares of a private oil and gas company owned by certain members of the new management team in exchange for the issuance of an aggregate of approximately 380 common shares of the Company at a price of $1.48 per share for total consideration of $562. The purchase price was allocated to cash and working capital of $335, property, oil and gas properties of $321 and future income tax liability of $94. The private oil and gas company has a CEE flow through share commitment of $400 that must be spent prior to the end of 2009.

As part of the reorganization, the Company consolidated its common shares on a four for one basis. All historical amounts have been restated.

As of the date of this MD&A, Cequence had the following securities outstanding: 36,885 common voting shares 5,200 warrants and 914 stock options.

CAPITAL EXPENDITURES

	Three months ended September 30		**Nine months ended September 30**	
$(000's)	**2009**	**2008**	**2009**	**2008**
Property Acquisitions	$15,763	-	$15,763	-
Corporate Acquisition	320	-	320	-
Land	584	659	611	5,931
Geological & geophysical and capitalized	270	512	1,212	2,109
Drilling, completions and workovers	2,102	6,896	5,391	19,577
Equipment and facilities	374	1,183	1,096	3,722
Office furniture & equipment	3	(42)	-	(5)
Total capital expenditures	$19,416	$9,208	$24,393	$31,334

Capital expenditures for the three months ended September 30, 2009 relate primarily to two property acquisitions closed in the quarter for total consideration of $15,763. Remaining capital expenditures of $3,333 were significantly lower than in the prior year as the capital program was reduced in response to lower commodity prices. The Company expects capital expenditures to be approximately $20,000, prior to acquisitions, in the fourth quarter of 2009.

INCOME TAXES

The Company has non-capital loss carry-forwards, investment tax credits and Scientific Research and Experimental Development ("SRED") expenses available to reduce future years' income for tax purposes. The SRED expenses of approximately $22,704 available for carry-forward do not expire.

In addition, the Company on a consolidated basis has UCC pools of approximately $22,000; COGPE pools of approximately $29,000; CEE pools of approximately $34,000; CDE pools of approximately $3,900, share issue costs of approximately $5,800 which can be used to reduce future taxable income. At September 30, 2009 a future income tax asset of $5,842 has been recognized as a future income tax asset as the Company believes, based on estimated cash flows, it is more likely than not to be realized.

The non-capital losses and investment tax credits expire as follows:

Year of expiry	Non-capital losses $(000's)	Investment tax credits $(000's)
2009	$8,224	-
2010	-	930
2011	-	1,280
2012	-	672
2013	6,812	761
2014+	22,414	338
	$37,450	$3,981

Based on the Company's expected cash flow and available tax pools, Cequence does not expect to be taxable in 2009 or 2010.

INVESTMENTS

The Company owns Asset Backed Notes ("MAV Notes") with a face value of $24,147. These Notes were issued in replacement of Third Party Asset Backed Commercial Paper ("ABCP") formerly held by the Company. When this ABCP matured but was not redeemed in 2007, it became the subject of a restructuring process overseen by the Pan Canadian Investor Committee. The restructuring was concluded on January 21, 2009 when the ABCP was replaced with long term asset backed securities - the AB Notes.

Using publicly available information received from the Pan Canadian Investor Committee as well as Ernst & Young, the court appointed monitor of the restructuring, and Blackrock, the asset administrator, the Company has been able to determine the key characteristics of each class of MAV Notes it received: par value; credit rating; interest rate and projected interest payments; and maturity date. The Company engaged an ABCP expert to estimate the return that a prospective investor would require for each class of MAV Notes (Required Yield). The net present value of the cash flows for each class of MAV Notes using the Required Yield as the discount factor.

During the third quarter, the Fair Market Value of the MAV Notes has been impacted – both positively and negatively – by a number of factors. On the positive side, there has been a continued improvement in general corporate credit market conditions over this time period. This decrease in credit risk impacts the intrinsic value of the MAV Notes due to a general lowering of default risk – albeit a decline from historically high levels – and a decrease in the likelihood that credit risk limits built into the MAV Notes will be exceeded (specifically, the spread-based margin triggers). Accordingly, the Required Yield on the MAV Notes has been reduced to reflect easing in the credit markets.

Another positive factor is the simple passage of time. As with all debt instruments, the value of these MAV Notes will approach par as the date of maturity approaches and assuming that they do not default. The reduction in the time-to-maturity is a factor that increases the Fair Market Value of the AB Notes this period.

There was an offsetting negative factor that influenced the valuation of the MAV Notes. On August 11, 2009 Dominion Bond Rating Service ("DBRS") downgraded the MAV2 A-2 Pooled Notes to BBB(low) with a negative outlook. DBRS cited credit quality concerns specific to five assets underlying the MAV2 Pool and disclosed additional details on the composition and performance of those assets. While none of these assets had defaulted, DBRS felt that their margins of protection against loss had been eroded; increasing the probability that one or more of these assets may default. DBRS noted that if all of these assets were to default and realize 100% losses, then the MAV2 A-2 Notes would realize a small loss; the C Notes and B Notes would be lost in entirety. In order to take this

new disclosure into account, the required yield for the MAV2 A-2, B, and C Notes was increased in determining the Fair Market Valuation of the Notes held by the Company.

For the valuation as at September 30, 2009, the Company has engaged an ABCP expert and it has adopted the valuation model of that advisor. The new methodology takes into consideration market and other events affecting the MAV Notes and is expected to better reflect the evolution of these Notes on a going-forward basis. The net impact of these positive and negative factors was a decrease in fair market value in the period. As a result of this analysis, the Company has estimated the fair market value of its MAV Notes investment to be $13,424 as at September 30, 2009. The Company has recorded an impairment of long term investments of $544 in the third quarter.

Management believes that an appropriate methodology has been used to estimate fair value; however, given the ongoing volatility of global credit markets there can be no assurance that management's estimate of potential recovery as at September 30, 2009 is accurate. Subsequent adjustments, either materially higher or lower, may be required in future reporting periods. Management will continue to seek all avenues to recover the maximum value from the original investments and interest due. The secondary market for the MAV Notes continues to be illiquid with only a small number of trades reported that took place at distressed sales prices. There is little bidding activity and it is difficult to ascertain what potential volume could be transacted at those bids. Investors wishing to sell their MAV Notes would have to give up a significant liquidity discount below the intrinsic value of the Notes. It is uncertain if or when a more liquid secondary market for the MAV Notes will develop.

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

LIQUIDITY AND CAPITAL RESOURCES

The Company has established two credit facilities with a Canadian chartered bank. Credit facility A is a $40,000 revolving operating demand loan by way of prime rate based loans, Banker's Acceptances and letters of credit/guarantee, which bears interest at the bank prime rate plus 0.25 percent to 2.5 percent on a sliding scale, depending on the Company's debt to cash flow ratio (ranging from being less than 1.0:1.0 to greater than or equal to 3:1). Credit facility B is a $5,000 non-revolving acquisition/development demand loan, which bears interest at the bank prime rate plus 0.75 percent to 3.0 percent on the same sliding scale as credit facility A. Both credit facilities are subject to periodic review by the bank and are secured by a general assignment of book debts and a $165,000 demand debenture with a first floating charge over all assets of the Company. The Company is required to meet certain financial based covenants under the terms of this facility. The Company is also required to hedge no more than 70 percent of its production under the lending agreement. As at September 30, 2009, the Company has not drawn on either credit facility. The next scheduled bank review is expected to take place in November 2009.

On March 31, 2009, the Company's bank provided the Company with an additional credit facility to provide liquidity in respect to the MAV 2 Notes. The credit facility is structured to a maximum of $18,120 with an initial maturity date of March 30, 2012 with an option to extend the term to seven years on a year by years basis if agreed to by both parties. The facility provides lending against the restructuring notes held by the Company and was computed in two tranches:

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

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

Interest is payable at preferred rates. Prime rate loans are at the bank prime rate less 1% or by bankers acceptance at discounted bankers' acceptance rates plus a stamping fee of 0.65 percent. The credit facility is secured by the MAV

2 Notes as well as a hypothecation/pledge of the notes and all cash proceeds the Company receives on the sale of MAV 2 Notes will reduce the available amount of the facility commencing with Tranche A. The Company is required to meet certain financial based covenants under the terms of this facility. The credit facility provides for the ability of the Company to assign to the bank the MAV 2 Notes in payment of the principal due under Tranche A only.

At September 30, 2009 the company had borrowed $18,120 using this facility. The effective interest rate for the quarter ended September 30, 2009 was 1.12 percent.

CONTRACTUAL OBLIGATIONS

	2009	2010	2011	2012	2013+	Total
Office lease	$42	$170	$143	$107	-	$463
Pipeline						
CEE Flow-through						
CDE Flow-through						
Total	$12,808	$1,789	$1,762	$1,726	$4,719	$22,805

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

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

CONTINGENCIES

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

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

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company has the following financial instruments:

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

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

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

A) MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net earnings or the value of financial instruments. These risks are generally outside the control of the Company. The objective of the Company is to mitigate market risk exposures within acceptable limits, while maximizing returns.

Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices and initiates instruments to manage exposure to these risks when it deems appropriate. As a means of managing commodity price volatility, the Company enters into various derivative financial instrument agreements and physical contracts. Collars ensure that the commodity prices realized will fall into a contracted range for a contracted sale volume based on the monthly index price. Monthly gains and losses are determined based on the differential between the AECO daily index and the AECO monthly index when the monthly index price falls in between the floor and the ceiling. Derivative financial instruments are marked-to-market and are recorded on the consolidated balance sheet as either an asset or liability with the change in fair value recognized in net earnings.

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

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

Foreign exchange risk

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

Interest rate risk

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

Based on debt outstanding at September 30, 2009, a 1% change in interest rate with all other variables held constant, after tax net earnings for the quarter would have changed by $136 ($99 after tax).

B) CREDIT RISK

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

The Company also has credit risk related to its long-term investment in commercial paper. There is currently no market quotations for the long term investment and uncertainties exist regarding the values of the assets which underlie the MAV 2 notes.

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

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

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

As at September 30, 2009, the maximum exposure to credit risk was $46,143 (2008 - $40,889) being the carrying value of its cash and cash equivalents, accounts receivable, commodity contracts, and investment in commercial paper. Credit risk on the investment in commercial paper is partly mitigated by a put option embedded in the long term debt agreement. The Company has the option to repay the outstanding loan amount under Tranche A at the maturity date in exchange for the MAV 2 notes, to a maximum of $10,872.

The Company continually monitors credit risk and an allowance for doubtful accounts of $343 has been recorded at September 30, 2009.

C) LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's financial liabilities consist of accounts payable and accrued liabilities and bank indebtedness and long term debt. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when they are due. The nature of the oil and gas industry is capital intensive. As a result, the Company prepares annual capital expenditure budgets and utilizes authorizations for expenditures for projects to manage capital expenditures.

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

D) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The fair value of the Company's investment in commercial paper is determined by probability-weighted discounted cash flows considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments.

DISCLOSURE CONTROLS AND PROCEDURES

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 Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures as of September 30, 2009, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company would have been made known to them.

SUBSEQUENT EVENTS

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

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer are also 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 Canadian GAAP. The COSO framework provides the basis for managements design of internal controls over financial reporting. As at September 30, 2009, the Company's Chief Executive Officer and Chief Financial Officer have evaluated or caused to be evaluated under their supervision the effectiveness of the Company's internal controls over financial reporting and have concluded that there are several material weaknesses with regards to lack of segregation of duties and lack of financial reporting expertise.

The relatively small size of the Company makes the identification and authorization process relatively efficient; however, during the evaluation of the design of internal controls over financial reporting it was noted that, due to the limited number of staff at Cequence, it is not feasible to achieve complete segregation of incompatible duties nor does the Company have a sufficient number of finance personnel to address all complex and non-routine accounting transactions that may arise, which may lead to the possibility of inaccuracies in financial reporting. The Company has employed accounting staff to ensure financial reporting and internal controls over financial reporting have been designed which provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. In the third quarter of 2009 the Company has started to address the weakness in financial reporting. Management has implemented a number of additional control procedures, reporting practices and accounting systems. We expect to continue these efforts in the fourth quarter of 2009.

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.

QUARTERLY INFORMATION

FINANCIAL	2009			2008				2007
($ thousands except per share data)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Production Revenues including realized gains (losses) on financial commodity contract	$5,962	$ 6,548	$6,627	$ 8,079	$11,503	$13,228	$14,143	$14,369
Royalties	1,170	385	800	894	1,437	1,350	2,072	2,246
Operating expenses	2,609	2,212	2,286	2,831	3,995	2,782	3,163	3,647
Transportation expenses	309	238	247	342	319	329	346	521
Reorganization expenses	3,295	-	-	-	-	-	-	-
Net income (loss)	(6,994)	(2,444)	3,440	(987)	6,113	(2,486)	(10,819)	217
Per share - basic	(0.26)	(0.24)	0.36	(0.12)	0.63	(0.24)	(1.12)	0.04
Per share - diluted	(0.26)	(0.24)	0.36	(0.12)	0.63	(0.24)	(1.12)	0.04
Funds flow	(2,663)	1,507	1,906	1,278	4,900	6,558	7,733	5,985
Per share - basic	(0.10)	0.04	0.05	0.03	0.13	0.17	0.20	0.15
Per share - diluted	(0.10)	0.04	0.05	0.03	0.13	0.17	0.20	0.15
Capital expenditures, net	3,333	209	4,767	6,024	(11,983)	9,522	12,604	12,013
Acquisition, net	16,083	-	-	-	-	-	-	
Total expenditures	$19,416	$ 209	$4,767	$ 6,024	$(11,983)	$ 9,522	$12,604	$12,013

	2009			2008				2007
OPERATIONS	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Production Volumes								
Natural gas (mcf/day)	6,734	8,077	8,164	9,480	10,918	12,422	15,773	17,303
Oil (bbl/day)	128	106	140	186	197	179	278	325
NGLs (bbl/day)	67	96	104	122	107	107	125	171
Total boe/day	1,317	1,548	1,602	1,887	2,123	2,357	3,032	3,380
Average selling price								
Natural gas ($per mcf)	7.69	7.50	7.71	7.34	8.33	8.91	7.63	6.84
Oil ($per bbl)	66.85	68.00	50.26	53.55	112.39	125.19	87.57	76.55
NGLs ($per bbl)	66.76	52.12	35.28	67.98	112.16	113.55	86.02	75.81
Combined ($per boe)	49.20	47.00	45.97	46.52	58.88	61.67	51.25	46.21
Royalties ($per boe)	9.66	2.76	5.55	5.15	7.36	6.29	7.51	7.22
Operation expense ($per boe)	21.53	15.88	15.86	16.30	20.45	12.97	11.46	11.73
Transportation ($per boe)	2.55	1.71	1.71	1.97	1.63	1.53	1.25	1.68
Netback ($per boe)	15.46	26.65	22.85	23.10	29.44	40.88	31.03	25.58

CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING PRONOUNCEMENTS

I) GOODWILL AND INTANGIBLE ASSETS

Effective January 1, 2009, the Company adopted CICA Section 3064, "Goodwill and Intangible Assets", which has replaced Handbook Section 3062. This new guidance reinforces a principles-based approach to the recognition of costs as assets in accordance with the definition of an asset and the criteria for asset recognition under Handbook Section 1000, "Financial Statement Concepts". Section 3064 clarifies the application of the concept of matching revenues and expenses in Section 1000 to eliminate the current practice of recognizing as assets items that do not meet the definition and recognition criteria. Under this new guidance, fewer items meet the criteria for capitalization. The implementation of this section had no impact on the Company's financial statements.

II) CREDIT RISK AND THE FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

FUTURE ACCOUNTING PRONOUNCEMENTS

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

I) BUSINESS COMBINATIONS

In January 2009, the CICA issued Section 1582, "Business Combinations", which replaces former guidance on business combinations. The new Section expands the definition of a business subject to an acquisition and establishes significant new guidance on the measurement of consideration given, and the recognition and measurement of assets acquired and liabilities assumed in a business combination. The new Section requires that all business acquisitions be measured at the full fair value of the acquired entity at the acquisition date even if the business combination is achieved in stages, or if less than 100 percent of the equity interest in the acquiree is owned at the acquisition date.

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

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

II) CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS

In January 2009, the CICA issued Handbook Section 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

Section 1602 applies to the accounting for non-controlling interests and transactions with non-controlling interest holders in consolidated financial statements. The new Sections require that, for each business combination, the acquirer measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The new Sections also require non-controlling interest to be presented as a separate component of shareholders' equity. Under Section 1602, non-controlling interest in income is not deducted in arriving at consolidated net income or other comprehensive income. Rather, net income and each component of other comprehensive income are allocated to the controlling and non-controlling interests based on relative ownership interests.

These two Sections are the equivalent to the corresponding provisions of International Accounting Standard 27, "Consolidated and Separate Financial Statements (January 2008)". These Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, and should be adopted concurrently with Section 1582. Earlier adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

III) INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS") on January 1, 2011.

Although IFRS is principles based and uses a conceptual framework similar to Canadian GAAP, there are significant differences and choices in accounting policies, as well as increased disclosure requirements under IFRS. It is expected the most significant impact will be to property, plant and equipment.

Although IFRS 1 provides some relief on transition to IFRS, the changeover may materially affect the reporting of Company's reported financial position and results of operations. The Company is currently assessing the impact of the conversion from Canadian GAAP to IFRS on its results of operations, financial position and disclosures, and is in the process of developing an IFRS changeover plan. The plan will include an assessment of differences between Canadian GAAP and IFRS, accounting policy choices under IFRS, internal controls over financial reporting, potential system changes, and affects on internal controls including resources and training required for employees. Certain employees have been identified to manage this transition and to ensure successful implementation within the required timeframe. The Company will provide disclosures of the key elements of its plan and progress on the project as the information becomes available during the transition period. The Company is continuing to monitor new standards development as issued by the AcSB and the IASB.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by Cequence are disclosed in note 3 to the Annual Financial Statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstance may result in actual results or changes to estimate amounts that differ materially from current estimates. The following discussion identifies the critical accounting policies and practices of the Company and helps assess the likelihood of materially different results being reported.

RESERVES

Oil and gas reserves are estimates made using all available geological and reservoir data, as well as historical production data. All of the Company's reserves were evaluated and reported on by an independent qualified reserves

evaluator. However, revisions can occur as a result of various factors including: actual reservoir performance, change in price and cost forecasts or a change in the Company's plans. Reserve changes will impact the financial results as reserves are used in the calculation of depletion and are used to assess whether asset impairment occurs. Reserve changes also affect other Non-GAAP measurements such as finding and development costs; recycle ratios and net asset value calculations.

DEPLETION

The Company follows the full cost method of accounting for oil and natural gas properties. Under this method, all costs related to the acquisition of, exploration for and development of oil and natural gas reserves are capitalized whether successful or not. Depletion of the capitalized oil and natural gas properties and depreciation of production equipment which includes estimated future development costs less estimated salvage values are calculated using the unit-of-production method, based on production volumes in relation to estimated proven reserves.

An increase in estimated proved reserves would result in reduction in depletion expense. A decrease in estimated future development costs would also result in a reduction in depletion expense.

UNPROVED PROPERTIES

The cost of acquisition and evaluation of unproved properties are initially excluded from the depletion calculation. An impairment test is performed on these assets to determine whether the carrying value exceeds the fair value. Any excess in carrying value over fair value is impairment. When proved reserves are assigned or a property is considered to be impaired, the cost of the property or the amount of the impairment will be added to the capitalized costs for the calculation of depletion.

CEILING TEST

The ceiling test is a cost recovery test intended to identify and measure potential impairment of assets. An impairment loss is recorded if the sum of the undiscounted cash flows expected from the production of the proved reserves and the lower of cost and market price of unproved properties does not exceed the carrying values of the petroleum and natural gas assets. An impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market price of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk free rate. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment as a result of this ceiling test will be charged to operation as additional depletion and depreciation expense.

ASSET RETIREMENT OBLIGATIONS

The Company records a liability for the fair value of legal obligations associated with the retirement of petroleum and natural gas assets. The liability is equal to the discounted fair value of the obligation in the period in which the asset is recorded with an equal offset to the carrying amount of the asset. The liability then accretes to its fair value with the passage of time and the accretion is recognized as an expense in the financial statements. The total amount of the asset retirement obligation is an estimate based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total amount of the estimated cash flows required to settle the asset retirement obligation, the timing of those cash flows and the discount rate used to calculate the present value of those cash flows are all estimates subject to measurement uncertainty. Any change in these estimated would impact the asset retirement liability and the accretion expense.

STOCK BASED COMPENSATION

The Company uses fair value accounting for stock-based compensation. Under this method, all equity instruments awarded to employees and the cost of the service received as considerations are measured and recognized based on the fair value of the equity instruments issued. Compensation expense is recognized over the period of related employee service, usually the vesting period of the equity instrument awarded.

INCOME TAXES

The determination of income and other tax assets and liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax asset may differ significantly from that estimated and recorded by management.

The recognition of a future income tax asset is also based on estimates of whether the Company is "more likely than not" to realize these assets. This estimate, in turn, is based on estimates of proved and probable reserves, future oil and natural gas prices, royalty rates and costs. Changes in these estimates could materially impact net income and the future income tax asset recognized.

LONG-TERM INVESTMENT

See "Liquidity and Capital Resources" section for an in-depth discussion of the estimates used to value the ABCP held by the Company.

OTHER ESTIMATES

The accrual method of accounting requires management to incorporate certain estimates including estimates of revenues, royalties and operating costs as at a specific reporting date, but for which actual revenues and costs have not yet been received. In addition, estimates are made on capital projects which are in progress or recently completed where actual costs have not been received by the reporting date. The Company obtains the estimates from the individuals with the most knowledge of the activity and from all project documentation received. The estimates are reviewed for reasonableness and compared to past performance to assess the reliability of the estimates. Past estimates are compared to actual results in order to make informed decisions on future estimates.

RISK MANAGEMENT

The Company is engaged in the exploration, development, production and acquisition of crude oil and natural gas. This business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates and currency exchange rates along with the credit risk of the Company's industry partners. Operational risks include reservoir performance uncertainties, the reliance on operators of our non-operated properties, competition, environmental and safety issues, and a complex and changing regulatory environment.

The primary risks and how the Company mitigates them are as follows:

Commodity price and exchange rate volatility

Revenues and consequently cash flows fluctuate with commodity prices and the US/Canadian dollar exchange rate. Commodity prices are determined on a global basis and circumstances that occur in various parts of the world are outside of the control of the Company. The Company protects itself from fluctuations in prices by maintaining an appropriate hedging strategy, diversifying its asset mix and strengthening its balance sheet in order to take advantage of low price environments by making strategic acquisitions. We enter into commodity price contracts to actively manage the risks associated with price volatility and thereby protect our cash flows used to fund our capital program. We have used costless collars and swap contracts to manage these risks and to take advantage of market conditions. Net earnings for the period ended September 30, 2009 included $7,346 of realized gains and $1 of unrealized losses on these transactions.

Cequence is also exposed to fluctuations in the exchange rate between the Canadian and US dollar. Most commodity prices are based on U.S. dollar benchmarks that results in our realized prices being influenced mainly by the Canadian/U.S. currency exchange rates. The decline in the price of both oil and natural gas during the latter half of the year precipitated a decline in the Canadian dollar relative to the US dollar and one has tended to, at least partially, offset the effects of the other. As at September 30, 2009, the Company had no forward, foreign exchange contracts in place, nor any significant working capital items denominated in foreign currencies.

Credit risk

Credit risk arises from the potential loss resulting from a counterparty failing to meet its obligations in accordance with the agreed terms. The Company may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner. Substantially all of the accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable, counterparties and partners. In many cases, the Company has offsetting receivables and payables with its partners and makes use of these offsets to mitigate any payment risk. Wherever possible, the Company requires cash calls from its partners on capital projects before they commence.

Receivables related to the sale of the Company's petroleum and natural gas production are mainly from major marketing companies who have excellent credit ratings. These revenues are normally collected on the 25th day of the month following delivery. The Company has not experienced any collection losses from its marketing companies.

Access to Capital Risk

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As the Company's revenues may decline as a result of decreased commodity pricing, it may be required to reduce capital expenditures. In addition, uncertain levels of near term industry activity coupled with the present global credit crisis exposes the Company to additional access to capital risk. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business financial condition, results of operations and prospects.

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 worsened in 2008 and are continuing in 2009, causing a loss of confidence in the global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating 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 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, OPEC actions and the ongoing global credit and liquidity concerns.

ALBERTA ROYALTY REGIME

Alberta Government New Royalty Framework

On April 10, 2008, the Alberta Government announced revisions to the Framework that was legislated in November 2008 and took effect on January 1, 2009. The revisions to the Framework include the following:

- Increased royalty rates on conventional and non-conventional oil and natural gas production in Alberta whereby royalty rates may increase to a maximum rate of 50 per cent;
- Sliding scale royalty calculations based on a broader range of commodity prices whereby conventional oil and natural gas royalty rates may increase up to maximum prices of approximately Cdn$120 per barrel and Cdn$16 per GJ, respectively;
- The elimination of royalty incentive and royalty holiday programs with the exception of specific programs relating to deep oil and natural gas drilling programs, innovative technology and enhanced recovery programs.

Subsequent to legislation of the NRF, the Alberta Government introduced the Transitional Royalty Plan ("TRP") in response to the anticipated decrease in Alberta development activity resulting from the economic downturn and declining commodity prices. The TRP offers reduced royalty rates for new wells drilled on or after November 19, 2008 through December 31, 2013 that meet certain depth criteria. The TRP is in place for a maximum period of five years to December 31, 2013; all wells will convert to the NRF on January 1, 2014. The TRP is an "elective plan" whereby an election must be filed on an individual well basis to qualify for the TRP. The Company does not anticipate a significant benefit from the TRP in 2009 as the majority of the Company's wells converted to the NRF on January 1, 2009.

On March 3, 2009, the Alberta Government announced the Energy Incentive Program ("EIP") in response to the decrease in energy related development activity in the province. The incentive program will work in tandem with the NRF and the TRP and includes the following key elements:

- Drilling Royalty Credit – producers will receive a drilling credit for new wells drilled between April 1, 2009 and March 31, 2011. The drilling credit is based on a $200 per meter credit on total meters drilled.
- New Well Incentive Program – new production brought on-stream between April 1, 2009 and March 31, 2011 will qualify for a five per cent Alberta Crown Royalty rate for a period of 24 months subject to volume caps of 50,000 barrels of crown oil production and 150 Mmcf of crown natural gas production.

Cequence is evaluating the impact of all of the Alberta royalty changes on its operations and future drilling expenditures.