

## CEQUENCE ENERGY LTD. ANNOUNCES FIRST QUARTER RESULTS

CALGARY, May 14, 2010 – Cequence Energy Ltd. ("Cequence" or the "Company") (TSX: "CQE") is pleased to announce its operating and financial results for the first quarter ended March 31, 2010. The unaudited financial statements and notes are available on the Cequence website at [www.cequence-energy.com](http://www.cequence-energy.com) and on [www.Sedar.com](http://www.Sedar.com).

### Financial and Operating Highlights

<b>(000's except per share amounts)</b>	<b>Three months ended March 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Financial (\$)</b>		
Production revenue, including realized hedge	\$ 10,093	\$ 6,627
Net income (loss)	(1,025)	3,440
Per share, basic and diluted	(0.03)	0.36
Funds flow from operations <sup>(1)</sup>	4,498	1,913
Per share, basic and diluted	0.11	0.20
<b>Production volumes</b>		
Natural gas (Mcf/d)	12,592	8,164
Crude oil (bbls/d)	268	140
Natural gas liquids (bbls/d)	78	104
Total (boe/d)	2,444	1,605
<b>Sales prices</b>		
Natural gas, including realized hedges (\$/Mcf)	\$ 6.83	\$ 7.71
Crude oil (\$/bbl)	76.80	50.26
Natural gas liquids (\$/bbl)	71.81	35.28
Total (\$/boe)	\$ 45.88	\$ 45.97
<b>Operating Netbacks (\$/boe)</b>		
Price	\$ 45.88	\$ 45.97
Royalties	(5.06)	(5.55)
Transportation	(3.38)	(1.71)
Operating costs	(13.07)	(15.86)
Operating Netback	\$ 24.37	\$ 22.85
Capital Expenditures	\$ 26,412	\$ 4,767
Property Acquisitions (net)	279	-
Total capital expenditures	\$ 26,691	\$ 4,767
Net working capital (deficiency) <sup>(2)</sup>	(16,289)	(18,251)
Long-term debt related to investments <sup>(3)</sup>	(18,000)	(18,000)
Weighted average shares outstanding (basic and diluted)	39,530	9,620
Undeveloped land (net acres)	143,200	121,000

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

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

(3) The long-term debt related to investments is a stand-alone credit facility with Cequence's lender to provide short term liquidity to the Company in light of the restructuring of the asset backed MAV II notes.

## HIGHLIGHTS

The first quarter of 2010 was highlighted by:

- Increased average production by 17 percent over the fourth quarter of 2009. Average production in the first quarter was 2,444 boepd and current production is in excess of 3,000 boepd;
- Increased funds flow by 135 percent to \$4.5 million or \$0.11 per share from \$1.9 million in the first quarter of 2009;
- Operating costs per boe were reduced to \$13.07, an improvement of 18 percent from the first quarter of 2009;
- General and administrative expenses per boe were reduced by 44 percent to \$3.52 per boe from \$6.34 per boe in the first quarter of 2009;
- Spent \$26.7 million on drilling, recompletions and land in the first quarter of 2010;
- Commenced a vertical drilling program in the Peace River Arch with three successful wells drilled and completed on recently acquired crown lands;
- Established the viability of a Lower Montney natural gas resource play at Sinclair with a successful horizontal well;
- In March 2010 began producing a horizontal Montney well at Gordondale with initial production rates of 4.0 mmcf/d; and
- In April, announced an acquisition agreement (the "Agreement") with Peloton Exploration Corp. "Peloton"), a private company, pursuant to which Cequence will, subject to certain conditions, make an offer to acquire (the "Offer") all of the issued and outstanding common shares of Peloton ("Peloton Shares").

## Acquisition of Peloton

On April 21, 2010, Cequence announced that it had entered into an agreement to acquire Peloton. Under the terms of the Agreement, Peloton shareholders will receive 0.205 of a Cequence common share for each Peloton Share held. The total purchase price is approximately \$37.1 million, including the assumption of \$7.2 million in net debt and estimated transaction costs. The offer expires on June 10, 2010.

Peloton contributes a new key land position in the Cardium light oil and Elkton natural gas resource plays in West Central Alberta. Peloton's assets include 58 net sections of undeveloped land throughout West Central and Northwest Alberta including four sections at Garrington with identified resource plays in the Cardium for light oil and the Elkton for liquids rich natural gas. Cequence has identified 14 (11.0 net) horizontal oil locations targeting the Cardium formation and 5 (4.5 net) horizontal locations targeting the Elkton formation. As a result of the high liquids content of both of these resources, Cequence intends to shift approximately \$6.5 million on its remaining capital budget in 2010 to crude oil prospects at Garrington. In addition, Peloton has a working interest in 11 net sections of land at Fir, a multi-zone, Deep Basin natural gas play with 14 (4.4 net) locations identified.

Peloton is currently producing 650 boe/d (with an additional 200 boe/d of tested production capacity), of which 85 percent is natural gas and 15 percent is oil and natural gas liquids. In the last half of 2009, Peloton successfully drilled two exploration wells at Garrington, one currently on production and one awaiting surface facility modifications, that Cequence believes significantly increases the size of the resource potential at Garrington. This drilling success, combined with Peloton's land base and repeatable nature of the play, provides the potential, in the opinion of Cequence's management, for significant production and reserves growth from both the Cardium and Elkton.

## OPERATIONS REVIEW

In the first quarter of 2010, Cequence enjoyed excellent drilling success in its Montney plays at Sinclair and Gordondale and its Peace River Arch/Deep Basin vertical drilling program.

### **Sinclair, Alberta**

Cequence completed its first horizontal Lower Montney well at Sinclair in late March. The well underwent an extensive five day flow test and tested at productive rates of 4.3 mmcf/d at surface pressure of 900 psi. The Lower Montney discovery is important to Cequence as it expands the resource potential at Sinclair to include to horizontal drilling targets in both the Upper and Lower Montney. Cequence has 15 (14.5 net) sections of land surrounding this well with the potential for up to 59 additional Lower Montney wells. Drilling success in the fourth quarter of 2009 in the Upper Montney resulted in two successful wells and the potential for 22 additional Upper Montney locations. Cequence plans to drill one (0.5 net) additional well at Sinclair in 2010 targeting the Lower Montney.

To date, the Company has successfully drilled and completed three horizontal wells at Sinclair with combined tested rates of approximately 14.0 mmcf/d of natural gas. Based on these encouraging results and the estimated reserves in place in both the Upper and Lower Montney, the Company is assessing tie-in options including the feasibility of constructing a gas plant at Sinclair.

### **Peace River Arch/Deep Basin, Alberta**

Cequence commenced its drilling program in the first quarter of 2010 with 3 exploration wells (3 net) within the Triassic fairway that yielded two new gas discoveries and one oil and gas discovery. Cequence continues to acquire additional lands in the Peace River Arch/Deep Basin and is assembling an inventory of prospects for when natural gas prices recover.

In the first quarter of 2010, Cequence completed a successful Montney horizontal well at Gordondale. The well was brought on production in March at a rate of 4.0 mmcf/d. Cequence has two successful Montney wells at Gordondale and a third horizontal well is planned for 2011.

## **FINANCIAL**

For the quarter ended March 31, 2010, Cequence reported funds flow from operations of \$4.5 million compared to \$1.9 million in the first quarter of 2009. Increase in funds flow relates to higher production volumes and lower per barrel operating expenses, general and administrative expenses and interest expense. Compared to the first quarter of 2009, the Company improved operating costs by 18 percent to \$13.07 per boe and general and administrative expenses by 44 percent to \$3.52 per boe. As a result, netbacks per barrel increased from \$22.85 per boe in the first quarter of 2009 to \$24.37 per boe in the first quarter of 2010. Cequence recorded a loss of \$1.0 million for the first quarter of 2010 compared to income of \$3.4 million in 2009 primarily due to an unrealized loss on derivative financial instruments in the first quarter of 2010 compared to a gain in the first quarter of 2009.

The Company exited the first quarter of 2010 with consolidated net working capital deficiency of \$16.3 million and \$44.9 million available for draws under its credit facilities. This financial flexibility will allow the Company to continue to execute on its 2010 capital budget of \$45 million from estimated cash flow and existing bank lines.

The Company's financial statements and management's discussion and analysis for the period ended March 31, 2010 are available on SEDAR at [sedar.com](http://sedar.com).

### **Outlook**

Cequence's 2010 capital development budget has been set at \$45.0 million, excluding corporate acquisitions. The total budget remains unchanged following the announced acquisition of Peloton; however, the Peloton lands provide Cequence crude oil drilling locations that will replace natural gas wells originally planned for the last half of 2010. For the remainder of 2010, Cequence expects to drill at least

two 100 percent working interest horizontal Cardium oil wells at Garrington, two (0.6 net) Jean Marie natural gas wells at Gunnell and 1.0 (0.5 net) horizontal Montney well at Sinclair. In addition, the Company will continue to perform workovers and recompletions of existing wellbores in an effort to add production and reserves at low cost.

Cequence continues to believe that the current environment provides an excellent opportunity to accumulate land and natural gas prospects for long term production and reserve growth. While gas price remain low, Cequence intends to limit spending on natural gas wells to competitive situations and expiries. The Company will focus its remaining capital program on light oil opportunities from the Peloton acquisition.

Cequence believes that the Company's strong balance sheet and drilling inventory will continue to generate growth in production, funds flow and reserves.

### **Annual Meeting**

The annual and special meeting of the Cequence shareholders will be held at Jamieson Place, 308 4<sup>th</sup> Avenue S.W., Calgary, Alberta, at 3:00 p.m. (Calgary time) on June 9, 2010.

### **Information Concerning Peloton Exploration Corp.**

*The information concerning Peloton contained in this Press Release has been provided by Peloton. Although Cequence has no knowledge that would indicate that any of such information is untrue or incomplete, Cequence does not assume any responsibility for the accuracy or completeness of such information or the failure by Peloton to disclose events to Cequence which may have occurred or may affect the completeness or accuracy of such information but which are unknown to Cequence.*

### **Forward looking Statements or Information**

*Certain statements included or incorporated by reference in this press release constitute forward-looking statements or forward-looking information under applicable securities legislation. Such forward-looking statements or information are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information concerning Cequence and/or Peloton in this press release may include, but are not limited to, statements or information with respect to: guidance and forecasts; business strategy and objectives; development, exploration, acquisition and disposition plans and the timing thereof; the reasons for and benefits resulting from the acquisition of Peloton; synergies and efficiencies resulting from the acquisition of Peloton; reserve quantities and the discounted present value of future net cash flows from such reserves; future production levels. Forward-looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although the Company believes that the expectations reflected in such forward-looking statements or information are reasonable, however, undue reliance should not be placed on forward-looking statements because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this press release, assumptions have been made regarding, among other things: the impact of increasing competition; the timely receipt of any required regulatory approvals; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner; the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manor; the ability of the Company to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development of exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Company to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters; and the ability of the Company to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which have been used.*

*Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking statements or information. These risks and uncertainties which may cause actual results to differ materially from the forward-looking statements or information. The material risk factors affecting the Company and its business are contained in the Company's Annual Information Form which is available at SEDAR at [www.sedar.com](http://www.sedar.com).*

*The forward-looking statements or information contained in this press release are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise unless required by applicable securities laws. The forward looking statements or information contained in this press release are expressly qualified by this cautionary statement.*

#### **Additional Advisories**

*The press release contains references 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 cash flow from operating activities before adjustments for asset retirement expenditures and 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.*

*The foregoing outlook and guidance has been provided to assist readers in analyzing the Company's anticipated development strategies and prospects and it may not be appropriate for other purposes and actual results could differ from the guidance provided above.*

*The measurement of net asset value per share has been provided to assist the reader in determining the value of the Company's underlying assets on a per share basis. Investors should be aware that the market price of the Company's shares have been subject to wide fluctuations in price which have not necessarily been related to the value of its underlying assets, its operating performance or its future prospects. It is likely that the market price for the Company's shares will continue to be subject to market trends generally notwithstanding the financial and operational performance of the Company.*

*Boes are presented on the basis of one Boe for six Mcf of natural gas. Disclosure provided herein in respect of Boes may be misleading, particularly if used in isolation. A Boe conversion ratio of 6 Mcf:1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.*

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