cequence
energy ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Cequence Energy Ltd. ("Cequence" or the "Company") is for the three months ended March 31, 2019.

This MD&A should be read in conjunction with Cequence's March 31, 2019 unaudited condensed consolidated interim financial statements and the audited annual consolidated financial statements and MD&A for the financial year ended December 31, 2018, the notes contained therein to which the readers are referred and the statements regarding "Forward-Looking Statements and Information" and "Non-IFRS Measures" in this report.

This MD&A was prepared effective May 9, 2019 and was approved and authorized for issuance by the Board of Directors of the Company (the "Board") on May 9, 2019.

Cequence was incorporated under the Business Corporations Act (Alberta). The common shares trade on the Toronto Stock Exchange under the symbol CQE. Additional information regarding Cequence, can be found under Cequence's profile on SEDAR at www.sedar.com or the Company's website at www.cequence-energy.com.

OVERVIEW OF CEQUENCE

Cequence is engaged in the exploration for and the development of oil and natural gas reserves. The Company's primary focus is the development of its Simonette asset in the Alberta Deep Basin with other non-core assets in Northeast British Columbia and the Peace River Arch of Alberta.

SELECTED INFORMATION

(in thousands of dollars except production volumes, per share and $/boe amounts)	Three months ended March 31,	
	2019	2018
Financial		
Total revenue[1]	**16,637**	14,443
Net loss and comprehensive loss	**(3,814)**	(3,725)
Per share – basic and diluted[i]	**(0.16)**	(0.30)
Funds flow from operations[1]	**5,364**	3,236
Per share - basic and diluted[i]	**0.22**	0.26
Capital expenditures, before acquisitions (dispositions)	**2,184**	7,454
Total assets	**277,898**	281,368
Net debt[1]	**71,849**	74,477
Production volumes		
Natural gas (Mcf/d)	**26,689**	34,828
Crude oil (bbls/d)	**916**	245
Natural gas liquids (bbls/d)	**183**	274
Condensate (bbls/d)	**417**	647
Total (boe/d)	**5,964**	6,970
Netback ($/boe)		
Price, including realized hedges	**31.00**	23.02
Operating netback[1]	**13.56**	9.36

(i) Prior period common share, stock options, warrants, restricted share units and per share amounts have been restated to reflect the 2018 share consolidation where one post-consolidation common share was equal to 20 pre-consolidation common shares.

[1] Refer to "Non-IFRS Measures" section for further information.

BASIS OF PRESENTATION

All references to dollar amounts are to Canadian dollars, except where otherwise indicated. Natural gas volumes recorded in thousand cubic feet (“mcf”) are converted to barrels of oil equivalent (“boe”) using the ratio of six thousand cubic feet to one barrel of oil unless otherwise stated. Boe’s 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.

In 2018, The Company’s shareholders approved a share consolidation based on one post-consolidation common share for every 20 pre-consolidation common shares. This MD&A and all information relating to issued and common shares, stock options, warrants, restricted share units and per share amounts from the prior periods have been restated to reflect the consolidation for all periods presented.

HIGHLIGHTS

Funds flow from operations(1) was $5.4 million for the three months ended March 31, 2019, $2.1 million higher than the same prior year period and $3.3 million higher than the fourth quarter 2018.

Key highlights included:

- Production of 5,964 boe/d, 25% comprised of crude oil and liquids in the first quarter 2019 compared to 17% for the same period in 2018.
- March 2019 production averaged 6,475 boe/d, 24% comprised of crude oil and liquids with the addition of 2.0 gross (net) Dunvegan horizontal oil wells and reactivation of 3.0 (net) Montney wells in the first three months of 2019.
- Initial production in the first 90 days from the two Dunvegan horizontal oil wells was 444 boe/d and 369 boe/d, respectively, approximately 60% crude oil and liquids.

INDUSTRY OVERVIEW

	Three months ended March 31,	
Benchmark pricing	**2019**	2018
AECO-C spot gas (CDN$/Mcf)	**2.62**	2.06
Ontario Dawn gas (CDN$/Mcf)	**3.87**	3.03
WTI crude oil (US$/bbl)	**54.90**	62.60
Edmonton City Gate oil (CDN$/bbl)	**66.43**	72.17
US$/CDN$ exchange rate	**0.75**	0.79

Natural gas prices remain volatile with AECO prices averaging $2.62/mcf for the three months ended March 31, 2019 compared to $2.06/mcf for the same prior year period. Forward AECO prices remain below thresholds where investment in natural gas wells is economically beneficial. The Western Canadian Sedimentary Basin (“WCSB”) natural gas market continues to be oversupplied as Canada’s most significant customer, the US has increased its own supply reducing reliance on Canadian natural gas. The WCSB has also been hampered by planned pipeline outages limiting transportation access to key US markets. The longer-term solution is the development of liquefied natural gas (“LNG”) facilities in Canada to access global LNG markets. The LNG Canada announcement in 2018 to proceed with an LNG facility on the west coast was positive for the WCSB natural gas market, however additional LNG export capacity beyond the two-train facility expected to be completed in the mid 2020’s will be required for any significant and sustained price increase.

Oil prices were lower in the first quarter 2019, compared with the same prior year period but strengthened through the first quarter 2019 as oversupply concerns and trade tensions between the US and China subsided as the quarter progressed. The Organization of Petroleum Exporting Countries continued to adjust production to offset US supply growth and support global oil prices. In addition, the WCSB oil curtailments mandated by the Alberta government at the end of 2018 to reduce the excess storage imbalance and light oil differentials have been successful at improving Canadian oil prices and stabilizing oil differentials. Cequence is exempt from these production curtailments.

RESULTS OF OPERATIONS

	Three months ended March 31,			
	2019		2018	
	($ thousands)	***($/boe)***	*($ thousands)*	*($/boe)*
Sales of natural gas, oil and condensate	**15,651**	**29.16**	13,678	21.80
Realized gain on commodity contracts	**986**	**1.84**	765	1.22
Total revenue[1]	**16,637**	**31.00**	14,443	23.02
Royalties expense	**882**	**1.64**	737	1.18
	15,755	**29.36**	13,706	21.84
Operating costs	**6,131**	**11.42**	6,389	10.18
Transportation expense	**2,350**	**4.38**	1,440	2.30
Operating netback[1]	**7,274**	**13.56**	5,877	9.36
General and administrative expense	**1,156**	**2.15**	1,250	1.99
Finance costs	**982**	**1.84**	1,896	3.02
Cash netback[1]	**5,136**	**9.57**	2,731	4.35
Unrealized loss on commodity contracts	**2,790**		1,646	
Depletion and depreciation expense	**6,076**		4,829	
Share-based payment expense	**135**		65	
Other income	**(51)**		(84)	
Net loss and comprehensive loss	**(3,814)**		(3,725)	

Operating netback[1] was $13.56 per boe for the three months ended March 31, 2019 compared to $9.36 per boe for the same prior year period. The increase was due to higher realized natural gas prices and increased oil production. Higher realized natural gas prices were due to AECO prices that were supported by cold weather during the quarter and entering into a marketing arrangement for fixed transportation effective April 1, 2018, where the Company has been selling 10,850 GJ/d of gas in the Dawn, Ontario market. This marketing arrangement provided diversification away from the volatile AECO prices for approximately 40 percent of the Company's gas production. Higher oil production was due to completing and tying in 5.0 gross (4.0 net) Dunvegan horizontal oil wells in 2018 and early 2019.

Production

	Three months ended March 31,	
	2019	2018
Natural gas (Mcf/d)	**26,689**	34,828
Crude oil (bbls/d)	**916**	245
Natural gas liquids (bbls/d)	**183**	274
Condensate (bbls/d)	**417**	647
Total (boe/d)	**5,964**	6,970
Crude oil and liquids production (%)	**25%**	17%
Total production (boe)	**536,731**	627,335

Production for the three months ended March 31, 2019 averaged 5,964 boe/d compared to production of 6,970 boe/d for the same prior year period. Crude oil and liquids production increased to 25 percent in the three months ended March 31, 2019 from 17 percent for the first quarter 2018 of overall production. The increase was due to the 3.0 gross (2.0 net) and 2.0 gross (2.0 net) Dunvegan horizontal oil wells that were completed in each of the first quarter 2018 and 2019, respectively, and tied into permanent facilities. March 2019 production averaged 6,475 boe/d due to optimization of the new Dunvegan horizontal oil wells and reactivation of 3.0 gross (net) Montney wells. Since 2017 the Company has limited natural gas capital spending to adjust for lower funds flow from operations[1] and the reduced economics of the Company's natural gas weighted drilling inventory.

Total Revenue and Pricing

	Three months ended March 31,	
(in thousands of dollars except prices)	**2019**	2018
Natural gas	**8,558**	8,476
Crude oil and condensate	**7,693**	5,023
Natural gas liquids	**386**	944
Total revenue[1]	**16,637**	14,443
Prices, including realized hedges		
Natural gas ($/Mcf)	**3.56**	2.70
Crude oil and condensate ($/bbl)	**64.14**	62.59
Natural gas liquids ($/bbl)	**23.46**	38.30
Price ($/boe)	**31.00**	23.02

Total revenue[1] was $16.6 million for the three months ended March 31, 2019 compared to $14.4 million for the same prior year period. The increase in total revenue is mainly due to increased oil volumes and higher realized natural gas pricing. These increases more than offset the declines in natural gas, condensate and liquids volumes.

Higher oil production was due to the Dunvegan horizontal oil wells completed and tied in 2018 and early 2019. With the addition of these wells and reduced capital spending on natural gas development, Cequence's total revenue is weighted more to crude oil, condensate and natural gas liquids production at 49 percent for the three months ended March 31, 2019 compared to 41 percent for the same prior year period.

Effective April 1, 2018, the Company diversified away from the volatile AECO market selling approximately 40 percent of its gas production or 10,850 GJ/d of gas in the Dawn, Ontario market. For the first quarter ended March 31, 2019, Dawn prices averaged approximately $3.87/mcf compared to the AECO pricing of approximately $2.62/mcf.

Commodity Price Management

(in thousands of dollars)	Three months ended March 31, **2019**	2018
Realized gain on commodity contracts	**986**	766
Unrealized loss on commodity contracts	**(2,790)**	(1,647)
Total	**(1,804)**	(881)

Cequence has a commodity price risk management program which provides the Company flexibility to enter into derivative and physical commodity contracts to protect future cash flows for planned capital expenditures against an unpredictable commodity price environment. Cequence has the following natural gas and crude oil hedges as at the date of this MD&A:

Term	Product	Type	Average Volume (GJ/d)	Average Price ($/GJ)	Basis
April 1, 2019 to June 30, 2019	Gas	Swap	5,000	3.20	Dawn
July 1, 2019 to September 30, 2019	Gas	Swap	2,500	3.04	Dawn
April 1, 2019 to October 31, 2019	Gas	Swap	5,000	1.37	AECO
November 1, 2019 to March 31, 2020	Gas	Swap	5,000	2.11	AECO

Term	Product	Type	Average Volume (bbl/d)	Average Price (CDN$/bbl)	Basis
April 1, 2019 to December 31, 2019	Oil	Swap	400	85.29	WTI
July 1, 2019 to December 31, 2019	Oil	Swap	100	86.53	WTI
January 1, 2020 to June 30, 2020	Oil	Swap	100	83.12	WTI

Royalty Expense

(in thousands of dollars except percentages and $/boe)	Three months ended March 31, **2019**	2018
Crown	**660**	298
Freehold / Overriding	**222**	439
Total royalties	**882**	737
Royalties as a percentage of sales of natural gas, oil and condensate, before hedging	**6%**	5%
Per unit of production ($/boe)	**1.64**	1.18

Royalties as a percentage of sales of natural gas, oil and condensate, before hedging, for the three months ended March 31, 2019 were higher than the same prior year period due to expiry of the initial reduced royalty rates on the Dunvegan horizontal oil wells that were tied in during the first quarter 2018. Crown royalties operate on a sliding scale and royalty rates increase when commodity prices increase.

Operating Costs

(in thousands of dollars except $/boe)	Three months ended March 31, **2019**	2018
Operating costs	**6,131**	6,389
Per unit of production ($/boe)	**11.42**	10.18

Operating costs for the three months ended March 31, 2019 were $0.3 million lower than the same prior year period due to lower water handling and long-term field rentals expenses. In 2018 Cequence reduced its use of rental equipment and completed a second water disposal well to reduce trucking and water disposal costs at Simonette. Operating costs per boe have increased for the three months ended March 31, 2019 compared to the same prior year period due to workover, swabbing and chemical expenses to optimize and reactivate production. Three (net) Montney wells were reactivated and the new Dunvegan horizontal oil wells production was improved resulting in March 2019 production of 6,475 boe/d.

The Company continues to monitor production in periods of low commodity prices and may shut in higher cost, uneconomic production. When this occurs, per unit operating costs are expected to increase as fixed costs are allocated to a smaller production base.

Transportation Expense

(in thousands of dollars except $/boe)	Three months ended March 31, **2019**	2018
Transportation	**2,350**	1,440
Per unit of production ($/boe)	**4.38**	2.30

Transportation expense for the three months ended March 31, 2019 was $4.38 per boe compared to $2.30 per boe for the same prior year period. The Company has entered into agreements to secure service for natural gas transportation that are recognized as transportation expense where this was previously included as part of the realized price on the commodity sale. In 2018 Cequence secured service on the Simonette NGTL of 35,000 mcf/d and 10,850 GJ/d from Empress to Dawn, Ontario. The toll on the Empress to Dawn hub is contracted at a cost of $0.77 per GJ for a period of 10 years with an early termination right that can be exercised following the initial five years of service. This increased transportation costs by approximately $1.75 per boe for the three months ended March 31, 2019 compared to the same prior year period.

General and Administrative Expenses (“G&A”)

(in thousands of dollars except $/boe)	Three months ended March 31, **2019**	2018
G&A expenses	**1,202**	1,426
Administrative and capital recovery	**(46)**	(176)
Total G&A expenses	**1,156**	1,250
Per unit of production ($/boe)	**2.15**	1.99

G&A costs for the first three months ended March 31, 2019 were lower than the same prior year period due to lower professional fees and the conversion to International Financial Reporting Standard 16 – Leases ("IFRS 16"). Professional fees were lower for the three months ended March 31, 2019 due to fees incurred in the first quarter 2018 to assess strategic alternatives and renegotiate the Term Loan in 2018. The conversion to IFRS 16 resulted in Cequence's head office lease costs of approximately $0.1 million in the first quarter 2019 no longer being recorded as a G&A expense. See "Change in Accounting Standard" for further explanation.

Finance Costs

	Three months ended March 31,	
(in thousands of dollars except $/boe)	**2019**	2018
Finance costs	**982**	1,896
Per unit of production ($/boe)	**1.84**	3.02

Finance costs for the three months ended March 31, 2019 were $0.9 million lower compared to the same prior year period. The decrease is primarily due to restructuring the Senior loan in 2018 and replacing it with the Term Loan which reduced the interest rate on the debt from 9.7% to 5.0%.

Depletion and Depreciation

	Three months ended March 31,	
(in thousands of dollars except $/boe)	**2019**	2018
Depletion and depreciation expense	**6,076**	4,829
Per unit of production ($/boe)	**11.32**	7.70

Depletion and depreciation expense for the three months ended March 31, 2018 was $1.2 million higher than the same prior year period due to recording additional depletion associated with decommissioning costs for properties that were fully depleted where no reserves were assigned at March 31, 2019.

Share-Based Payment Expense

	Three months ended March 31,	
(in thousands of dollars)	**2019**	2018
Share-based payments expense	**135**	65

Other Income (Expense)

	Three months ended March 31,	
(in thousands of dollars)	**2019**	2018
Loss on sale of property and equipment	**(1)**	(4)
Interest income	**50**	40
Other	**2**	48
Total other income	**51**	84

CAPITAL EXPENDITURES

(in thousands of dollars)	Three months ended March 31, **2019**	2018
Land	**153**	198
Geological & geophysical and capitalized overhead	**191**	169
Drilling, completions and workovers	**1,433**	5,827
Equipment, facilities and tie-ins	**404**	1,260
Office furniture & equipment	**3**	-
Capital expenditures	**2,184**	7,454
Property dispositions [(i)]	**1**	4
Total capital expenditures	**2,185**	7,458

(i) Represent the cash proceeds from the sale of assets.

Capital expenditures for the three months ended March 31, 2019 focused at Simonette where the Company completed and tied in the 2.0 gross (2.0 net) Dunvegan horizontal oil wells drilled in the fourth quarter of 2018 and completed in early 2019.

Cequence's 2019 capital budget is approximately $13.0 million comprised primarily of costs to drill and complete 2.0 gross (2.0 net) Dunvegan horizontal oil wells in the second half of 2019. The capital budget will be funded from funds flow from operations[(1)].

PROVISIONS – DECOMMISSIONING LIABILITIES

Decommissioning liabilities represent the estimated future cost of decommissioning and reclaiming the Company's oil and natural gas wells and related facilities. Decommissioning obligations are adjusted for revisions to the future liability costs and the estimated timing of costs to be incurred in future years.

The following table summarizes the changes in decommissioning liabilities for the respective periods:

(in thousands of dollars)	**As at March 31, 2019**	As at December 31, 2018
Balance, beginning of period	**35,555**	38,478
Property dispositions	**-**	(2,149)
Accretion expense	**176**	803
Liabilities incurred	**-**	192
Decommissioning costs incurred	**(2,478)**	(3,756)
Revisions in estimated cash flows	**2,956**	1,870
Revisions due to change in discount rates	**2,057**	117
Balance, end of period	**38,266**	35,555

For the three months ended March 31, 2019 Cequence incurred approximately $2.1 million of decommissioning costs in excess of amounts provided for related to Silver British Columbia properties where facility removal costs were significantly higher than anticipated. Revisions in estimated cash flows include these additional costs as well as revisions to estimates to account for the increase costs to decommission these properties. The compressors and power generation equipment that was removed will be redeployed at Simonette supporting optimization projects to increase production. Management expects decommissioning costs for the remainder of 2019 to be approximately $0.5 million.

The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are $55.8 million (December 31, 2018 - $55.4 million). These cash flows have been discounted using a risk-free interest rate of 1.84 percent (December 31, 2018 – 2.15 percent) based on Government of Canada long-term benchmark bonds. The change in the risk-free interest rate as at March 31, 2019 compared to December 2019 increased the liability by $2.1 million. The Company expects these obligations to be settled in approximately 1 to 50 years (December 31, 2018 – 1 to 50 years).

LIQUIDITY AND CAPITAL RESOURCES

The Company's capital comprises equity, a demand credit facility ("Credit Facility"), a Term Loan and working capital. Cequence manages the capital structure and makes adjustments considering economic conditions and the risk characteristics of the underlying assets. The Company typically carries a working capital deficiency as cash balances are used to fund ongoing operations and the Company's drilling program. Cequence manages its working capital needs through its hedging program, issuing common shares, adjusting capital expenditures, and executing asset dispositions. The Dunvegan oil development and operating results achieved to-date in 2018 and 2019 and the Company's cost-saving initiatives are anticipated to continue to have a positive impact on funds flow from operations[(1)] and the working capital deficiency. The Company also has $7.0 million available on the Credit Facility with no amounts drawn on as at March 31, 2019 (excluding letters of credit of $1.6 million).

(in thousands of dollars except ratios)	**As at March 31, 2019**	As at March 31, 2018
Cash	**6,877**	7,951
Credit Facility	**-**	-
Senior Notes	**-**	(60,000)
Term Loan	**(60,000)**	-
Accounts payable and accrued liabilities	**(30,319)**	(34,202)
Share-based payment liability	**(62)**	(74)
Decommissioning liability – current	**(2,142)**	(743)
Accounts receivable	**13,025**	11,889
Deposits and prepaid expenses	**772**	702
Net debt[(1)]	**(71,849)**	(74,477)
Funds flow from operations[(1)] - trailing twelve months	**15,215**	15,219
Net debt[(1)] to funds flow from operations[(1)] trailing twelve months	**4.7:1**	4.9:1

At March 31, 2019, the Company's net debt to trailing twelve month funds flow from operations[(1)] of 4.7:1 is higher than the Company's long-term internal target of 2:1. The prolonged period of low commodity prices, in particular natural gas pricing, has reduced the Company's funds flow from operations[(1)] and limited the availability of new capital to repay debt or expand development activity. During this time period, the Company has lowered capital spending, issued flow-through shares and reduced its G&A to manage its leverage and to limit borrowing on its Credit Facility.

The Company remains focused on developing the Dunvegan property, identifying and pursuing alternative financing arrangements, property dispositions, corporate mergers or other recapitalization opportunities to further reduce the net debt[(1)] to funds flow from operations[(1)] ratio. The Company continuously monitors changes in forecasted funds flow from operations[(1)] as a result of changes to forward commodity prices and will make adjustments to planned capital expenditures as appropriate.

CREDIT FACILITY AND TERM LOAN

Credit Facility

Cequence's Credit Facility is a $7.0 million extendible revolving term credit facility that matures on May 31, 2019, is renewable at the lender's consent and is secured by a first floating charge debenture, general assignment of book debts and oil and natural gas properties and equipment. To the extent the Credit Facility is not renewed, the balance becomes immediately due and payable on the maturity date. At March 31, 2019, $nil (March 31, 2018 - $nil) was drawn on the Credit Facility except for letters of credit outstanding of $1.6 million (March 31, 2018 - $1.5 million).

The Credit Facility requires a semi-annual review with the lender holding the right to request an additional review and has a financial covenant that requires Senior Debt(1) to twelve-month trailing EBITDA(1) to be less than 3:0 to 1:0. The Company was in compliance with all covenants at March 31, 2019 with a Senior Debt(1) to EBITDA(1) ratio of 0.1 times.

Term Loan

On July 27, 2018, Cequence entered into the Term Loan, a second lien secured loan with CPPIB Credit Investments Inc. ("CII"), a wholly-owned subsidiary of Canada Pension Plan Investment Board ("CPPIB"). The Term Loan is comprised of a $60.0 million loan facility due October 3, 2022. Interest on the Term Loan is paid quarterly at the rate of 5% per annum if the 12-month trailing funds flow from operations(1) is equal to or less than $40.0 million; and 10% per annum if the 12-month trailing funds flow from operations(1) is greater than $40.0 million. The Term Loan refinanced the $60.0 million unsecured five-year senior notes (the "Senior Notes") that were issued in October 2013 by CII.

Cequence granted CII second lien security over all of the Company's assets (with the exception of its Simonette joint venture property) through a $100.0 million demand debenture, which ranks junior in priority to the security securing the obligations under the Credit Facility pursuant to an intercreditor agreement among the Company's lenders. As part of the refinancing of the Senior Notes, Cequence issued 1,841,459 share purchase warrants (the "Warrants") entitling CII to purchase common shares of the Company at a price of $2.00 per common share which are exercisable for four years from the date of issuance of September 13, 2018.

On December 17, 2018, the Term Loan and Warrants were purchased from CII by an individual who, in subsequent transactions, sold interests in the Term Loan and Warrants to a group of persons, including two of the Company's directors who at March 31, 2019 held $11.5 million, collectively, of the outstanding Term Loan.

The Term Loan is subject to a cross default clause and the same financial covenants as the Credit Facility as well as certain other non-financial covenants and restrictive covenants, including restrictions over asset sales, restricted payments, the incurrence of additional indebtedness, a limit on the Credit Facility borrowing of $20 million, and other transactions outside of the ordinary course of business.

Contractual Obligations and Commitments

Cequence has assumed various contractual obligations and commitments in the normal course of operations and financing activities, which are summarized and discussed below:

	2019	2020	2021	2022	2023+	Total
Term Loan	-	-	-	60,000	-	60,000
Interest payments	2,250	3,000	3,000	2,250	-	10,500
Accounts payable and accrued liabilities	30,319	-	-	-	-	30,319
Office leases	241	275	207	-	-	723
Pipeline transportation	4,913	6,535	6,535	6,118	26,016	50,117
Gas processing	3,130	4,166	4,154	4,154	30,470	46,074
Total	40,853	13,976	13,896	72,522	56,486	197,733

The Company has two agreements in place for natural gas firm service transportation on pipelines. An agreement to ship approximately 35 mmcf/d of natural gas to AECO on the NGLT pipeline system until March 2026 and an agreement to ship 10,850 GJ/d of natural gas to the Dawn hub at a cost of $0.77/GJ until March 2028. The Dawn agreement provides market diversification for approximately 40 percent of current natural gas production. Historically, pricing at the Dawn hub has been at a premium to AECO. As part of the Dawn commitment, the Company entered into a five-year contract to transport AECO gas to Empress.

Cequence has a take or pay agreement for gas processing with the operator of the Simonette gas plant. The minimum commitment under the take or pay is 42 mmcf/d per year concluding April 30, 2030.

CHANGE IN ACCOUNTING STANDARD

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees, where a lessee recognizes a right-of-use asset and a lease liability. IFRS 16 was effective for annual periods beginning on or after January 1, 2019.

Cequence adopted IFRS 16 using a modified retrospective approach on January 1, 2019 recognizing a new right-of-use asset and lease liability for its head office operating lease. This resulted in the Company recording a right-of-use asset and lease liability of $0.7 million on January 1, 2019 on initial adoption. Lease expenses previously recorded as G&A expenses on the statements of net loss and comprehensive loss have been replaced by a depreciation charge for right-of-use assets and finance costs on lease liabilities. The total annual impact will be to reduce G&A by approximately $0.3 million and increase depletion and deprecation by approximately $0.3 million.

SHARE CAPITAL

As at May 9, 2019, there were 24,552,778 common shares, 1,625,251 share options, 1,841,459 Warrants and 532,874 Restricted Share Units outstanding. Of the 1,625,251 share options, 155,000 were “in-the-money” as at May 9, 2019 but not exercisable.

DISCLOSURE CONTROLS AND PROCEDURES

The Company’s Chief Executive Officer (“CEO”) and Vice President, Finance and Chief Financial Officer (“CFO”) 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 CEO and CFO, particularly during the period in which annual, interim or other reports 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. Cequence reported on disclosure controls and procedures as part of its 2018 annual disclosure requirements (please refer to the MD&A for the year-ended December 31, 2018, which is available on SEDAR at www.sedar.com and on Cequence's website at www.cequence-energy.com). There have been no significant changes to the Company's disclosure controls and procedures in the current period.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS"). The Company's CEO and CFO are responsible for designing, or causing to be designed under their supervision, ICFR related to the Company, including its consolidated subsidiaries. Cequence reported on ICFR as part of its 2018 annual disclosure requirements (please refer to the MD&A for the year ended December 31, 2018, which is available on SEDAR at www.sedar.com and on Cequence's website at www.cequence-energy.com). There have been no significant changes to ICFR in the current period that have materially affected, or are reasonably likely to affect, the Company's ICFR.

OUTLOOK

Cequence continues to monitor commodity price volatility and plans to spend within funds flow from operations[(1)] in executing its 2019 capital program and meeting its debt maintenance requirements. The Company plans to drill and bring on to production 2.0 gross (2.0 net) Dunvegan horizontal oil wells in the second half of 2019. Key guidance metrics for 2019 are as follows:

(in thousands of dollars, except per boe, per GJ and percentages)	**Guidance year ended December 31, 2019**	**Year ended December 31, 2018**
Average production, boe/d[(i)]	**5,800**	**6,507**
Funds flow from operations[(1)] ($)	**17,000**	**13,087**
Development expenditures ($)	**13,000**	**23,800**
Net wells	**2.0**	**4.0**
Operating and transportation costs ($/boe)	**15.00**	**13.15**
Royalties (% revenue)	**10**	**7**
Crude – WTI (US$/bbl)	**61.62**	**65.20**
Natural gas – AECO (CDN$/GJ)	**1.59**	**1.44**

(i) Average production estimates on a per BOE basis are comprised of approximately 75% natural gas and 25% oil, condensate and natural gas liquids in 2019.

SUMMARY OF QUARTERLY INFORMATION

Generally, the quarterly changes in operating and financial measures since the second quarter 2017 have been negatively impacted by low commodity prices, in particular natural gas prices. AECO natural gas prices averaged $2.23/Mcf in 2017 and $1.52/Mcf in 2018, significantly lower than previous years. The Company's strategy has been to reduce capital expenditures on new natural gas wells during this time period and invest available cash flow in new oil wells that provide better financial metrics. Restricted access to cost effective capital has also limited development as the Company focuses to operate within funds flow from operations[(1)].

The Company's quarterly net income (loss) and net comprehensive income (loss) is affected by fluctuations in non-cash charges, in particular, depletion, depreciation and impairment expense, accretion of decommissioning obligations, gains/losses on derivative financial instruments, share-based payments and other expense (income). During the three months ended June 30, 2017, the Company recorded impairment expense of $96,200. Impairments recognized were mainly the result of the impact of declining benchmark natural gas prices on the estimated future value of the Company's oil and gas reserves. These impairments cause significant reductions and increased volatility in the Company's net comprehensive income (loss).

Please refer to "*Results of Operations*" and other sections of this MD&A and the Company's previously issued MD&A for detailed discussions on variances between reporting periods and changes in prior periods.

FINANCIAL								
(in thousands of dollars except per share data information)	**2019 Q1**	**2018 Q4**	**2018 Q3**	**2018 Q2**	**2018 Q1**	**2017 Q4**	**2017 Q3**	**2017 Q2**
Total revenue[1]	**16,637**	12,184	17,680	14,613	14,443	13,585	15,087	17,810
Royalties expense	**882**	736	1,453	1,043	737	391	465	927
Transportation expense	**2,350**	2,116	1,876	1,728	1,440	1,023	1,590	1,650
Operating costs	**6,131**	5,440	5,493	6,758	6,389	7,972	7,004	5,829
Comprehensive income (loss)	**(3,814)**	(3,802)	573	(2,745)	(3,725)	(6,638)	(3,076)	(94,899)
Per share – basic & diluted[ii]	**(0.16)**	(0.16)	0.04	(0.22)	(0.30)	(0.54)	(0.25)	(7.73)
Funds flow from operations [1]	**5,364**	2,071	5,589	2,191	3,236	1,583	3,619	6,781
Per share – basic & diluted[ii]	**0.22**	0.08	0.38	0.18	0.26	0.13	0.29	0.55
Capital expenditures	**2,184**	13,397	1,119	1,830	7,454	5,593	2,682	2,536
Net acquisitions (dispositions)[i]	**1**	(934)	(500)	(1,433)	4	(4,277)	-	-
Net capital expenditures	**2,185**	12,463	619	397	7,458	1,316	2,682	2,536

OPERATIONAL								
Production volumes								
Natural gas (Mcf/d)	**26,689**	27,645	29,376	28,628	34,828	33,331	40,729	42,719
Oil (bbls/d)	**916**	736	1,198	864	245	283	388	224
NGLs (bbls/d)	**183**	227	259	240	274	257	250	239
Condensate (bbls/d)	**417**	427	382	459	647	617	841	919
Total (boe/d)	**5,964**	5,997	6,734	6,334	6,970	6,713	8,266	8,502
Average selling price, including realized hedges								
Natural gas ($/Mcf)	**3.56**	2.91	2.20	2.14	2.70	2.33	2.12	2.83
Crude oil and condensate ($/bbl)	**64.14**	37.74	73.57	68.79	62.59	66.73	57.70	60.11
NGLs ($/bbl)	**23.46**	35.37	43.51	34.91	38.30	38.55	27.86	26.11
Total ($/boe)	**31.00**	22.08	28.53	25.35	23.02	22.00	19.84	23.02
Operating netback, including realized hedges ($/boe)								
Price	**31.00**	22.08	28.53	25.35	23.02	22.00	19.84	23.02
Royalties	**(1.64)**	(1.33)	(2.35)	(1.81)	(1.18)	(0.63)	(0.61)	(1.20)
Transportation	**(4.38)**	(3.84)	(3.03)	(3.00)	(2.30)	(1.66)	(2.09)	(2.13)
Operating costs	**(11.42)**	(9.86)	(8.87)	(11.72)	(10.18)	(12.91)	(9.21)	(7.53)
Operating netback	**13.56**	7.05	14.28	8.82	9.36	6.80	7.93	12.16

(i) Represents the cash proceeds from the sale of assets and cash paid for the acquisition of assets, as applicable.

(ii) Prior period common share, stock options, warrants, restricted share units and per share amounts have been restated to reflect the 2018 share consolidation where one post-consolidation common share was equal to 20 pre-consolidation common shares.

FORWARD-LOOKING STATEMENTS

Certain statements contained within this MD&A constitute forward-looking statements or forward-looking information under applicable securities legislation. These statements relate to future events or the Company's future performance and are provided for the purpose of providing information about management's current expectations and plans relating to the future. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "continue", "could", "estimate" "expect", "forecast", "forward", "future", "may", "plan", "predict", "potential", "propose", "schedule", "target", "thereafter", "will", "would" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this MD&A may include, but are not limited to, statements with respect to: future capital investments and the repayment of the Company's debt; the Company's plans to continue to seek opportunities to divest non-core assets and other property dispositions, and to pursue alternative financing arrangements, mergers or other recapitalization opportunities; the Company's future cash flows, planned capital expenditures and the source of funding thereof; the Company's guidance under the heading "Outlook"; projections with respect to the Company's production; future performance expectations of the recently completed Dunvegan horizontal oil wells and there impact on funds flow from operations(1) and working capital; drilling, completion and planned production of the new Dunvegan horizontal oil wells, the possible curtailing of gas production due to low natural gas prices;, the Company's lender's support for the extension of the Company's Credit Facility; the projection of future royalty, operating, transportation and G&A expenses; the projection of the Company's future taxability; the projected impact of land access and regulatory issues; the amount of future decommissioning liabilities and ability to settle these obligations; projections relating to the volatility of crude oil and natural gas prices in 2019 and beyond; the effect of the Company's risk management program, including the impact of derivative financial instruments; and the impact of Western Canada pipeline constraints. 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.

Readers are cautioned not to place undue reliance on forward-looking statements or information, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. Forward-looking statements or information are based on a number of factors and assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements or information. These assumptions, risks and uncertainties include, among other things: the Company's ability to realize its assets and discharge its liabilities and commitments in the normal course of business; the Company's ability to enter into derivative and physical commodity contracts; future production volumes; the impact of increasing competition; the timely receipt of any required regulatory approvals; the Company's lender's support for the extension of the Credit Facility; 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 manner; field production and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development of exploration; forward commodity prices; the timing and costs of pipeline, storage and facility construction; the impact of the climate change initiatives; the ability of the Company to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; changes in the regulatory framework regarding royalties, taxes and environmental matters; the ability of the Company to successfully market its oil and natural gas products; assumptions based upon Cequence's current guidance; product supply and demand; 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 generate sufficient cash flow from operations to meet its current and future obligations; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Cequence. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which have been used. The material risk

factors affecting the Company and its business are contained in the Company's Annual Information Form which is available on SEDAR at www.sedar.com.

Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. The purpose of such financial outlook is to enrich this MD&A. Readers are cautioned that such financial outlook information contained in this MD&A may not be appropriate for other purposes, such as making investment decisions.

Although Cequence believes that the expectations represented by such forward-looking statements or information are reasonable, there can be no assurance that such expectations will prove to be correct. Furthermore, the forward-looking statements or information 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 or information, whether as a result of new information, future events or otherwise. The forward-looking statements or information contained in this MD&A are expressly qualified by this cautionary statement.

(1) Non-IFRS Measures

Throughout this MD&A, certain terms that are not specifically defined in IFRS are used to analyze Cequence's operations. In addition to the primary measures of net loss and comprehensive loss and net loss and comprehensive loss per share in accordance with IFRS, Cequence believes that certain measures not recognized under IFRS assist both Cequence and the reader in assessing performance and understanding Cequence's results. Each of these measures provides the reader with additional insight into the Company's ability to fund principal debt repayments and capital programs. These terms and financial measures are therefore unlikely to be comparable to similar measures presented by other companies and should not be used to make comparisons between companies. These measures should not be considered alternatives to net loss and comprehensive loss and net loss and comprehensive loss per share as calculated in accordance with IFRS.

Cash netback is a measure used in the oil and gas industry to analyze profitability after G&A and finance costs. Cash netback equals operating netback less G&A expenses and finance costs. Management utilizes this measure to analyze the Company's profitability for future capital investment or repayment of debt after considering costs not specifically attributable to its assets or operating areas. The "Results of Operations" table reconciles cash netback to the IFRS measure net loss and comprehensive loss.

EBITDA is defined in the Credit Facility agreement as net income (loss) plus finance costs, share-based payment expense, income tax expense (recovery), unrealized loss (gain) on commodity contracts, loss (gain) on sale of property and equipment, depletion and depreciation less costs related to onerous contracts. The following table reconciles EBITDA to the IFRS measure net loss and comprehensive loss for the trailing twelve months.

(thousands of dollars)	**2019 Q1**	**2018 Q4**	**2018 Q3**	**2018 Q2**	**Trailing twelve months**
EBITDA	6,170	2,855	7,529	3,662	20,216
Finance costs	982	975	3,122	1,881	6,960
Depletion and depreciation	6,076	11,322	5,019	6,310	28,727
Share-based payment	135	114	46	75	370
Income taxes	-	-	-	-	-
Unrealized loss (gain) on commodity contracts	2,790	(4,309)	(425)	(216)	(2,160)
Loss (gain) on sale of property and equipment	1	(1,445)	(806)	(1,643)	(3,893)
Net (loss) income and comprehensive (loss) income	(3,814)	(3,802)	573	(2,745)	(9,788)

Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning costs incurred and net change in non-cash working capital. The Company uses this measure to analyze operating performance and leverage and considers it 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. Funds flow from operations per share is calculated using the same weighted average number of shares outstanding used in the calculation of net loss and comprehensive loss per share.

The following table reconciles funds flow from operations, to the IFRS measure, cash flow from operating activities:

	Three months ended March 31,	
(thousands of dollars)	**2019**	2018
Cash flow from operating activities	**243**	48
Decommissioning costs incurred	**2,478**	2,556
Net change in non-cash working capital	**2,643**	632
Funds flow from operations	**5,364**	3,236

Net debt is a measure that provides Cequence's total indebtedness. It is calculated as working capital deficiency (excluding commodity contracts and lease liability) plus amounts outstanding in the Company's Credit Facility plus the principal value of the Term Loan (previously Senior Notes). Cequence uses net debt as an estimate of the Company's assets and obligations expected to be settled in cash. The "Liquidity and Capital Resources" table reconciles net debt.

Operating netback is a measure used in the oil and gas industry to analyze margin and cash flow. Operating netback equals revenue less royalties, operating costs and transportation costs. Management utilizes this measure to analyze operating performance of its assets and operating areas, compare results to peers and to evaluate drilling prospects. The "Results of Operations" table reconciles operating netback to the IFRS measure net loss and comprehensive loss.

Senior Debt is defined as the sum of amounts outstanding at the period end on the Company's Credit Facility and Term Loan (previously Senior Notes). The following table calculates Senior Debt.

(thousands of dollars)	As at March 31, 2019
Term Loan	**60,000**
Credit Facility – Letters of credit	**1,590**
Credit Facility	**-**
Senior debt	**61,590**

Total revenue equals production revenue gross of royalties and includes realized gains (losses) on commodity contracts. Management utilizes this measure to analyze revenue and commodity pricing and its impact on operating performance. The "Results of Operations" table reconciles total revenue to the IFRS measure net loss and comprehensive loss.