HIGHLIGHTS

(000's except per share and per unit amounts)	Three months ended June 30,			Six months ended June 30,		
	2018	**2017**	% Change	**2018**	**2017**	% Change
FINANCIAL						
Total revenue[1], [5]	**14,613**	17,810	**(18)**	**29,057**	37,164	**(22)**
Comprehensive loss	**(2,745)**	(94,899)	**(97)**	**(6,470)**	(89,648)	**(93)**
Per share – basic and diluted	**(0.01)**	(0.39)	**(97)**	**(0.03)**	(0.37)	**(92)**
Funds flow from operations [2], [5]	**2,191**	6,781	**(68)**	**5,427**	14,127	**(62)**
Per share, basic and diluted	**0.01**	0.03	**(67)**	**0.02**	0.06	**(67)**
Capital expenditures, before acquisitions (dispositions)	**1,830**	2,536	**(28)**	**9,284**	17,582	**(47)**
Capital expenditures, including acquisitions (dispositions)	**397**	2,536	**(84)**	**7,855**	17,582	**(55)**
Net debt [3], [5]	**(73,486)**	(67,862)	**8**	**(73,486)**	(67,862)	**8**
Weighted average shares outstanding – basic	**245,528**	245,528	**-**	**245,528**	245,528	**-**
Weighted average shares outstanding – diluted	**245,528**	245,528	**-**	**245,528**	245,528	**-**
OPERATING						
Production volumes						
Natural gas (Mcf/d)	**28,628**	42,719	**(33)**	**31,711**	43,959	**(28)**
Crude oil (bbls/d)	**864**	224	**286**	**556**	352	**58**
Natural gas liquids (bbls/d)	**240**	239	**-**	**257**	255	**1**
Condensate (bbls/d)	**459**	919	**(50)**	**553**	867	**(36)**
Total (boe/d)	**6,334**	8,502	**(25)**	**6,651**	8,800	**(24)**
Sales prices						
Natural gas, including realized hedges ($/Mcf)	**2.14**	2.83	**(24)**	**2.45**	2.81	**(13)**
Crude oil and condensate, including realized hedges ($/bbl)	**68.79**	60.11	**14**	**66.31**	61.37	**8**
Natural gas liquids ($/bbl)	**34.91**	26.11	**34**	**36.71**	28.12	**31**
Total ($/boe)	**25.35**	23.02	**10**	**24.14**	23.33	**3**
Netback ($/boe)						
Price, including realized hedges	**25.35**	23.02	**10**	**24.14**	23.33	**3**
Royalties	**(1.81)**	(1.20)	**51**	**(1.48)**	(1.43)	**3**
Transportation	**(3.00)**	(2.13)	**41**	**(2.63)**	(1.86)	**41**
Operating costs	**(11.72)**	(7.53)	**56**	**(10.92)**	(7.92)	**38**
Operating netback [5]	**8.82**	12.16	**(27)**	**9.11**	12.12	**(25)**
General and administrative	**(2.58)**	(1.53)	**69**	**(2.27)**	(1.40)	**62**
Interest[4]	**(2.55)**	(1.98)	**29**	**(2.45)**	(1.97)	**24**
Cash netback [5]	**3.69**	8.65	**(57)**	**4.39**	8.75	**(50)**

(1) Total revenue is presented gross of royalties and includes realized gains (loss) on commodity contracts.
(2) Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures and net changes in non-cash working capital.
(3) Net debt is calculated as working capital deficiency (excluding commodity contracts) plus the principal value of the senior notes.
(4) Represents finance costs less amortization on transaction costs and accretion expense on senior notes and provisions.
(5) Refer to non-GAAP measurements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial and operating results of Cequence Energy Ltd. ("Cequence" or the "Company") should be read in conjunction with the Company's unaudited condensed consolidated financial statements (the "consolidated financial statements") and related notes for the three and six months ended June 30, 2018 as well with the audited consolidated financial statements (the "annual financial statements ") and related notes for the years ended December 31, 2017 and 2016.

The consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which asserts that the Company has the ability to realize its assets and discharge its liabilities and commitments in the normal course of business.

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

This MD&A is dated August 10, 2018.

BASIS OF PRESENTATION

The consolidated financial statements and comparative information have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". The financial information presented reflects the consolidated financial statements of Cequence.

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

For the six months ended June 30, 2018 the ratio between the average price of West Texas Intermediate ("WTI") crude oil at Cushing and NYMEX natural gas was approximately 22:1 ("Value Ratio"). The Value Ratio is obtained using the first six months of 2018 WTI average price of $65.17 (US$/bbl) for crude oil and the six months of 2018 NYMEX average price of $2.96 (US$/mcf) for natural gas. This Value Ratio is significantly different from the energy equivalency ratio of 6:1 and using a 6:1 ratio would be misleading as an indication of value.

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

NON-GAAP MEASUREMENTS

Within the MD&A references are made to terms commonly used in the oil and gas industry, including operating netback, cash netback, net debt, funds flow from (used in) operations and total revenue.

Operating netback is not defined by IFRS in Canada and is referred to as a non-GAAP measure. Operating netback equals per boe 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.

Cash netback is not defined by IFRS in Canada and is referred to as a non-GAAP measure. Cash netback equals operating netback less per boe general and administrative expenses and interest expense. Management utilizes this measure to analyze the Company's per boe profitability for future capital investment or repayment of debt after considering cash costs not specifically attributable to its assets or operating areas.

Net debt is a non-GAAP measure that is calculated as working capital deficiency (excluding commodity contracts) plus the principal value of senior notes. For this calculation, Cequence uses the principal value of the senior notes rather than the carrying value on the statement of financial position as it reflects the amount that will be repaid upon maturity. Cequence uses net debt as it provides an estimate of the Company's assets and obligations expected to be settled in cash.

Funds flow from (used in) operations is a non-GAAP term that represents cash flow from operating activities before adjustments for decommissioning liabilities expenditures and net changes in non-cash working capital. The Company evaluates its performance based on earnings and funds flow from (used in) operations. The Company considers funds flow from (used in) 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 (used in) operations may not be comparable to that reported by other companies. Funds flow from (used in) operations per share is calculated using the same weighted average number of shares outstanding used in the calculation of comprehensive income (loss) per share.

Total revenue equals production revenue gross of royalties and including realized gain (loss) on commodity contracts. Management utilizes this measure to analyze revenue and commodity pricing and its impact on operating performance.

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

DESCRIPTION OF THE BUSINESS

Cequence is engaged in the exploration for and the development of oil and natural gas reserves. Cequence'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. The common shares of Cequence trade on the Toronto Stock Exchange under the symbol CQE.

All of the Company's 2018 exploration and development capital has been allocated to the Dunvegan oil prospect. The previously announced 3.0 gross (2.0 net) horizontal Dunvegan oil wells were completed and tied into permanent facilities in the first quarter of 2018 and Corporate liquids production has increased to approximately 29 percent of the Company's total production in the month of June 2018. Oil prices have strengthened in the second quarter of 2018 to their highest levels since 2014 with WTI pricing averaging US$65.17/bbl and Edmonton City Gate averaging $75.39/bbl for the six months ended 2018. Oil demand in the first half of 2018 has remained strong which together with international supply uncertainty and diminishing global oil inventories has resulted in higher pricing.

Natural gas prices have continued to remain low and volatile throughout 2018 with AECO prices averaging $1.61 Canadian per Mcf for the six months ended 2018. Concerns around oversupply in the Western Canadian Sedimentary Basin, egress constraints and planned pipeline outages have limited existing transportation access and placed downward pressure on pricing. Since April 1, 2018, the Company has been selling 10,850 GJ/d of gas in the Dawn, Ontario market. The Dawn marketing arrangement has provided the Company diversification away from the volatile AECO prices for approximately 1/3 of its gas production. For the three months ended June 30, 2018, Dawn prices averaged approximately $3.49/mcf compared to the AECO pricing of approximately $1.16/mcf. During 2017 and 2018 the Company has lowered natural gas capital spending to adjust for lower funds flow from operations and the reduced economics of the Company's natural gas weighted drilling inventory.

The Company has undertaken a number of initiatives over the past two years to manage its balance sheet through a prolonged weakness in natural gas prices. Capital expenditures have been restricted to cash flow or funded by equity. The Company continues to be committed to pursuing initiatives to improve its liquidity, long term sustainability and enhance shareholder value. Additional details are discussed in the Liquidity and Capital Resources section.

SECOND QUARTER AND SUBSEQUENT HIGHLIGHTS

On July 27, 2018. Cequence announced a series of transactions to refinance the Company's balance sheet and provide greater flexibility and liquidity to execute the ongoing business plan of the Company. Cequence entered into a second lien secured loan agreement for a $60 million term loan facility due October 3, 2022 to refinance the existing Senior Notes which were due on October 3, 2018. At the same time Cequence filed a Rights Offering Circular for holders of common shares on August 9, 2018 to subscribe for up to 245,527,883 flow-through common shares of the Company at a price of $0.035 per share for gross proceeds of up to $8.6 million. The Company has in place standby commitments from two of its directors that will, collectively, guarantee that at least $5 million will be raised under the Rights Offering. Cequence also amended its Credit Facility and extended the maturity date until September 28, 2018. Additional details are discussed in the Liquidity and Capital Resources section.

The Company's recent 3.0 gross (2.0 net) Dunvegan oil wells continue their strong performance with the Company's June 2018 crude oil production at 1,165 bbls per day up from 245 bbls of oil per day reported in the first quarter of 2018. This resulted in an overall crude oil and liquids production percentage of 29% in June 2018 up from 17% reported in the first quarter of 2018.

On May 1, 2018, the Company disposed of certain assets and associated decommissioning liabilities for proceeds of $1,429 prior to closing adjustments resulting in a gain of $1,639 recorded in the six-month period ended June 30, 2018.

The previously announced April 19, 2018 north east British Columbia asset disposition did not receive regulatory approval related to the LMR ratio and is in the process of being reversed. The British Columbia assets produced approximately 580 boe/d in the second quarter of 2018. No incremental deposit requirement is needed by Cequence for these assets. Cequence will continue to seek opportunities to divest its British Columbia assets, as they remain non-core to the Company's long-term strategy.

FINANCIAL AND OPERATING RESULTS

PRODUCTION

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Natural gas (Mcf/d)	**28,628**	42,719	**31,711**	43,959
Crude oil (bbls/d)	**864**	224	**556**	352
Natural gas liquids (bbls/d)	**240**	239	**257**	255
Condensate (bbls/d)	**459**	919	**553**	867
Total (boe/d)	**6,334**	8,502	**6,651**	8,800
Crude oil and liquids production (%)	**25**	16	**21**	17
Total production (boe)	**576,433**	773,666	**1,203,768**	1,592,777

Production for the three and six months ended June 30, 2018 averaged 6,334 boe/d and 6,651 boe/d compared to production of 8,502 boe/d and 8,800 boe/d, respectively in 2017.

For the three and six months ended June 30, 2018, oil production increased by 286 per cent and 58 per cent, respectively, as compared to the same periods of the prior year. The increase reflects the Company's recent 3.0 gross (2.0 net) Dunvegan oil wells that were completed and tied into permanent facilities in the first quarter of 2018 and which have continued to deliver increasing production volumes through 2018. For the three and six months ended June 30, 2018, natural gas production decreased 33 per cent and 28 per cent, respectively, as compared to the same periods of the prior year. Effective May 1, 2018 approximately 800 mcf/d of gas was sold in Gordondale for $1.5 million. Due to continued low AECO prices another 2,500 mcf/d of gas has been left shut-in until more stable pricing is available.

PRODUCTION REVENUE

	Three months ended June 30,		Six months ended June 30,	
$(000's)	**2018**	2017	**2018**	2017
Sales of natural gas	**5,568**	10,660	**12,720**	22,298
Sales of crude oil and condensate	**9,391**	6,080	**14,973**	13,314
Sales of natural gas liquids	**761**	568	**1,705**	1,296
Royalties	**(1,043)**	(927)	**(1,780)**	(2,282)
Production revenue	**14,677**	16,381	**27,618**	34,626

Production revenue was $14,677 and $27,618 in the three and six months ended June 2018 compared to $16,381 and $34,626 in 2017. The decreases in production revenue in 2018 is directly related to lower natural gas production volumes and pricing in 2018 compared to 2017 offset by increasing oil volumes and pricing in 2018.

With increased oil production from the Dunvegan wells in 2018, Cequence's sales revenue contribution is more heavily weighted to crude oil and liquids production as shown by the table below even with a higher overall corporate per boe production weighted more to natural gas:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Natural gas production revenue (%)	**35**	62	**43**	60
Crude oil and liquids production revenue (%)	**65**	38	**57**	40
Total production revenue before royalties (%)	**100**	100	**100**	100

TOTAL REVENUE AND PRICING

The following tables present total revenue which is a non-GAAP financial measure, with no standardized meaning under the Company's GAAP and therefore may not be comparable to similar measures presented by other issuers:

	Three months ended June 30,				
$(000's)	Natural gas	Crude oil and condensate	Natural gas liquids	**2018 Total**	2017 Total
Sales of natural gas, oil and condensate	5,568	9,391	761	**15,720**	17,308
Realized gain (loss) on commodity contracts	-	(1,107)	-	**(1,107)**	502
Total revenue (1)	5,568	8,284	761	**14,613**	17,810

(1)Refer to non-GAAP measurements.

$(000's)	Six months ended June 30, Natural gas	Crude oil and condensate	Natural gas liquids	**2018 Total**	2017 Total
Sales of natural gas, oil and condensate	12,720	14,973	1,705	**29,398**	36,908
Realized gain (loss) on commodity contracts	1,323	(1,664)	-	**(341)**	256
Total revenue (1)	14,043	13,309	1,705	**29,057**	37,164

(1)Refer to non-GAAP measurements.

Total revenue was $14,613 in the second quarter of 2018 compared to $17,810 in 2017. The decrease in revenue is attributable to a 25 percent decrease in production partially offset by a 10 percent increase in realized sales prices including hedging. For the six months ended June 30, 2018, total revenue decreased 22 percent to $29,057 from $37,164 in the comparable period of 2017. The decrease in total revenue is attributable to the 3 percent increase in realized sales prices after hedging and 24 percent decrease in production.

$(000's)	Three months ended June 30, **2018**	2017	Six months ended June 30, **2018**	2017
Average prices				
Natural gas ($/Mcf)	**2.14**	2.74	**2.22**	2.80
Realized natural gas hedges ($/Mcf)	**-**	0.09	**0.23**	0.01
Natural gas including hedges ($/Mcf)	**2.14**	2.83	**2.45**	2.81
Crude oil and condensate ($/bbl)	**77.97**	58.46	**74.60**	60.36
Realized crude oil hedges ($/bbl)	**(9.18)**	1.65	**(8.29)**	1.01
Crude oil and condensate including hedges ($/bbl)	**68.79**	60.11	**66.31**	61.37
Natural gas liquids ($/bbl)	**34.91**	26.11	**36.71**	28.12
Average sales price before hedges ($/boe)	**27.27**	22.37	**24.42**	23.17
Average sales price including hedges ($/boe)	**25.35**	23.02	**24.14**	23.33
Benchmark pricing				
AECO-C spot gas (CDN$/Mcf)	**1.16**	2.78	**1.61**	2.74
Ontario Dawn gas (CDN$/Mcf)	**3.49**	4.25	**3.70**	4.28
WTI crude oil (US$/bbl)	**67.74**	48.11	**65.17**	49.91
Edmonton City Gate oil (CDN$/bbl)	**80.76**	61.51	**75.39**	63.11
US$/CDN$ exchange rate	**0.77**	0.74	**0.78**	0.75

For the three and six months ended June 30, 2018, benchmark AECO natural gas prices averaged $1.16/mcf and $1.61/mcf a decrease from $2.78/mcf and $2.74/mcf in 2017, respectively.

The Company realized natural gas prices before hedging for three and six months ended June 30, 2018 of $2.14/mcf and $2.22/mcf compared to $2.74/mcf and $2.80/mcf in 2017, respectively. The Company's average natural gas price realization in the second quarter of 2018 was an 84 percent premium to AECO compared to a discount of one percent in 2017. This increase in pricing is a result from an improvement in the cost of the company's marketing and transportation contracts from prior year with less short term and interruptible service and a diversification away from AECO only pricing.

Beginning in December 2017, the Company increased its NGTL firm service to 35,000 GJ/d at its Simonette property. The first quarter of 2018 reflects all of the Simonette gas flowing under this direct transportation contract. Gas contracts in 2017 were primarily obtained through third parties with pricing at a discount to market or to acquire transportation at a premium to firm service.

On April 1, 2018 the Company began shipping 10,850 GJ/d from AECO to the Dawn, Ontario market providing the Company with some pricing diversification from the AECO hub. Based on current forward looking natural gas prices and currency, Dawn prices, net of transportation costs and fuel, represent a premium to AECO prices.

For the three and six months ended June 30, 2018, benchmark Edmonton City Gate crude oil prices increased 31 percent and 19 percent from 2017. Benchmark condensate prices for the three and six months ended June 30, 2018 were at a six percent and eight percent premium to Edmonton par. Crude oil and condensate prices before hedges for the three and six months ended June 30, 2018 were $77.97/bbl and $74.60/bbl up 33 percent and 24 percent from the same period in 2017. Natural gas liquids prices for the three and six months ended June 30, 2018 were $34.91/bbl and $36.71/bbl up 34 percent and 31 percent from the same time period in 2017.

COMMODITY PRICE MANAGEMENT

	Three months ended June 30,		**Six months ended June 30,**	
$(000's)	**2018**	2017	**2018**	2017
Realized gain (loss) on commodity contracts	**(1,107)**	502	**(341)**	256
Unrealized gain (loss) on commodity contracts	**216**	2,152	**(1,431)**	7,610
Total	**(891)**	2,654	**(1,772)**	7,866

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.

The fair value of the commodity contracts outstanding at June 30, 2018 was a current liability of $1,154 (December 31, 2017 - current asset of $1,274 and non-current liability of $998). Cequence has the following crude oil hedges as at the date of this MD&A:

Term	**Product**	**Type**	**Average Volume (bbl/d)**	**Average Price (CDN$/bbl)**	**Basis**
July 1, 2018 to December 31, 2018	Oil	Swap	300	$71.72	WTI

OPERATING NETBACK

($/boe)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Total revenue[1]	**25.35**	23.02	**24.14**	23.33
Royalty expense	**(1.81)**	(1.20)	**(1.48)**	(1.43)
Transportation expense	**(3.00)**	(2.13)	**(2.63)**	(1.86)
Operating costs	**(11.72)**	(7.53)	**(10.92)**	(7.92)
Operating netback [2], $/boe	**8.82**	12.16	**9.11**	12.12
Operating netback [2], excluding realized hedges , $/boe	**10.74**	11.51	**9.39**	11.96

(1) Total revenue is presented gross of royalties and includes realized gain (loss) on commodity contracts.
(2) See Non-GAAP measures for definition of operating netback

Cequence's operating netback per boe, excluding realized hedging for the three and six months ended June 30, 2018 was $10.74/boe and $9.39/boe compared to $11.51/boe and $11.96/boe in 2017. Including realized hedges, operating netbacks per boe decreased by 27 percent and 25 percent, respectively. The decrease in operating netbacks was driven by higher quarterly per unit royalty, operating and transportation expenses offset by increased oil pricing per unit.

ROYALTY EXPENSE

$(000's)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Crown	**745**	495	**1,042**	1,242
Freehold / Overriding	**298**	432	**738**	1,040
Total royalties	**1,043**	927	**1,780**	2,282
Royalties as a percentage of revenue, before hedging	**7%**	5%	**6%**	6%
Per unit of production ($/boe)	**1.81**	1.20	**1.48**	1.43

Royalties as a percentage of revenue, before hedging for the six months ended June 30, 2018 was consistent with prior year. For the three months ended June 30, 2018 royalty expense increased to seven percent as a result of lower credits against crown royalties for gas cost allowances. Crown royalties operate on a sliding scale and royalty rates increase when commodity prices increase.

OPERATING COSTS

$(000's)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Operating costs	**6,758**	5,829	**13,147**	12,608
Per unit of production ($/boe)	**11.72**	7.53	**10.92**	7.92

Operating costs for the three and six months ended June 30, 2018, were $11.72/boe and $10.92/boe compared to $7.53/boe and $7.92/boe for the same period in 2017. One time expenses with the start up of the 3 gross (2 net) oil wells during spring break up added $0.5 million while the removal of long term rental equipment was approximately $0.4 million. The increase in per unit operating costs is also due to the decrease in production volumes year over year with natural gas production decreasing by 33 percent and 28 percent for the three and six-month periods ended June 30, 2018. With forecasted higher oil volumes and lower gas volumes, operating costs are anticipated to be in the $10.00 to $11.00 per boe range.

The Company will continue to monitor production in periods of low commodity and may shut in higher cost, uneconomic production. Per unit operating costs are expected to increase in this case as fixed costs will be allocated to a smaller production base.

TRANSPORTATION EXPENSE

$(000's)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Transportation	**1,728**	1,650	**3,168**	2,958
Per unit of production ($/boe)	**3.00**	2.13	**2.63**	1.86

Transportation expense for the second quarter of 2018 was $3.00/boe an increase of 41 percent from the comparative period in 2017. For the six months ended June 30, 2018, transportation expense was $2.63/boe an increase of 41 percent from $1.86/boe in 2017. The Company's new Simonette NGTL firm service of 35,000 GJ/d was recognized in the first quarter of 2018 as a transportation expense. On April 1, 2018, the Company's Empress to Dawn, Ontario gas contract began with 10,850 GJ/d of volumes contracted at a cost of $0.77 per GJ for a period of 10 years. In the comparable periods of 2017, a portion of the gas contracts obtained through third parties would have been secured as a commodity price offset instead of a transportation expense.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

$(000's)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
G&A expenses	**1,542**	1,223	**2,968**	2,457
Administrative and capital recovery	**(55)**	(41)	**(231)**	(225)
Total G&A expenses	**1,487**	1,182	**2,737**	2,232
Per unit of production ($/boe)	**2.58**	1.53	**2.27**	1.40

G&A costs have increased in 2018 with the Company incurring additional legal and advisor fees associated with the evaluation of strategic financial alternatives and the ongoing restructuring efforts announced on July 27, 2018 around the Rights Offering and the extension of the Senior Notes and Credit Facility. Unit costs have also increased as production volumes are lower in 2018 compared to 2017.

FINANCE COSTS

	Three months ended June 30,		**Six months ended June 30,**	
$(000's)	**2018**	2017	**2018**	2017
Interest and standby fees expense on credit facilities	**19**	81	**64**	243
Interest expense and standby fees on senior notes	**1,452**	1,453	**2,887**	2,887
Amortization of transaction costs	**120**	108	**237**	214
Accretion expense on senior notes	**93**	83	**183**	164
Accretion expense on provisions	**197**	208	**406**	428
Total finance costs	**1,881**	1,933	**3,777**	3,936
Per unit of production ($/boe)	**3.26**	2.50	**3.14**	2.47
Interest per unit of production ($/boe)	**2.55**	1.98	**2.45**	1.97

Finance costs for the three and six months ended June 30, 2018 were $1,881 and $3,777 compared to $1,933 and $3,936 in 2017. Interest and standby fees on the demand credit facility were lower in 2018 as the facility size was reduced. The Company remains undrawn on its senior credit facility.

OTHER INCOME

	Three months ended June 30,		**Six months ended June 30,**	
$(000's)	**2018**	2017	**2018**	2017
Gain on sale of property and equipment	**(1,643)**	(60)	**(1,639)**	(120)
Interest income	**(17)**	(20)	**(57)**	(59)
Other	**(48)**	(73)	**(96)**	(114)
Total other income	**(1,708)**	(153)	**(1,792)**	(293)

During the six months ended June 30, 2018, the Company disposed of certain oil and properties and associated decommissioning liabilities for proceeds of $1,429 prior to closing adjustments. The sales resulted in a gain recognized in comprehensive loss of $1,639.

DEPLETION, DEPRECIATION AND IMPAIRMENT

$(000's)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Depletion and depreciation expense	**6,310**	6,927	**11,139**	13,858
Impairment loss	**-**	96,200	**-**	96,200
Total depletion, depreciation and impairment	**6,310**	103,127	**11,139**	110,058
Per unit of production ($/boe)	**10.94**	133.30	**9.25**	69.10
Per unit of production, excluding impairment ($/boe)	**10.94**	8.95	**9.25**	8.70

Depletion and depreciation expense for the three and six months ended June 30, 2018 was $6,310 ($10.94/boe) and $11,139 ($9.25/boe). Depletion and depreciation expense in 2018 is lower than prior year due to reductions in net book values resulting from the impairment charge in the second quarter of 2017. Unit costs have also increased as production volumes are lower between the periods.

Impairment expense recognized for the six months ended June 30, 2017 was $96,200. The impairment was a result of decreased commodity prices in 2017.

SHARE BASED PAYMENTS

Stock Options

The Company has 11,716,668 stock options outstanding with an average exercise price of $0.58. The options have a five year life and vest evenly over a three year period on the anniversary date of their grant. For the three and six months ended June 30, 2018, Cequence recorded $2 and $146 (2017 – $300 and $557) in share based payment expense related to stock options with a corresponding increase to contributed surplus.

Restricted Share Units

The Company issues RSUs as part of its long term incentive program. The program is designed to offer cash compensation based on the underlying value of the RSU unit. RSUs are granted to directors, officers and employees of the Company and vest annually in equal amounts over a three year period. For the three and six months ended June 30, 2018, Cequence recognized $73 and ($6) (2017 – $66 and $84) in share based payment expense related to RSUs with a corresponding increase / (decrease) to share based payment liability.

A summary of the status of the Company's stock option and RSU plans during the six months ended June 30, 2018 and year ended December 31, 2017 is as follows:

	RSUs		Stock Options	
Number (000's)	**2018**	2017	**2018**	2017
Outstanding, beginning of period	**2,666**	3,010	**13,220**	11,003
Granted	**-**	700	**-**	5,025
Cancelled/Forfeited	**(360)**	(29)	**(1,378)**	(107)
Expired	**-**	-	**(125)**	(2,701)
Settled	**-**	(1,015)	**-**	-
Outstanding, end of period	**2,306**	2,666	**11,717**	13,220

CAPITAL EXPENDITURES

	Three months ended June 30,		Six months ended June 30,	
$(000's)	**2018**	2017	**2018**	2017
Land	**149**	259	**347**	427
Geological & geophysical and capitalized overhead	**151**	146	**320**	310
Drilling, completions and workovers	**866**	1,088	**6,693**	13,728
Equipment, facilities and tie-ins	**664**	1,040	**1,924**	3,114
Office furniture & equipment	**-**	3	**-**	3
Capital expenditures	**1,830**	2,536	**9,284**	17,582
Property dispositions [(1)]	**(1,433)**	-	**(1,429)**	-
Total capital expenditures	**397**	2,536	**7,855**	17,582

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

For the six months ended June 30, 2018, capital expenditures were $9,284. Capital expenditures were focused at Simonette where the Company completed and tied in 3.0 gross (2.0 net) horizontal Dunvegan wells and drilled 1.0 gross (1.0 net) vertical Dunvegan well.

During the six months ended June 30, 2018, the Company disposed of certain oil and properties and associated decommissioning liabilities for proceeds of $1,429 prior to closing adjustments. The sales resulted in a gain recognized in comprehensive loss of $1,639.

INCOME TAXES

As at June 30, 2018, the Company has tax pools and available losses of $613,307 (December 31, 2017 - $616,660). Due to the uncertainty of future realization, a deferred tax asset has not been recognized.

At June 30, 2018, Cequence has the following tax pools:

Classification	**Amount $(000's)**	**Annual Deductibility**
Canadian exploration expense	166,252	100%
Non-capital losses	311,470	100%
Undepreciated capital cost	40,689	Primarily 25%, declining balance
Canadian oil and gas property expense	7,676	10%, declining balance
Canadian development expense	60,144	30%, declining balance
Other	27,076	Various
	613,307	

The Company's non-capital losses expire in 2027 and thereafter. Based on the Company's expected cash flow and available tax pools, Cequence does not expect to be taxable for the next three years.

PROVISIONS – DECOMMISSIONING LIABILITIES

Decommissioning liabilities represent the estimated future cost of abandoning and reclaiming the company's oil and natural gas wells and related facilities. Total decommissioning liabilities at June 30, 2018 were $36,594 compared to $38,478 at December 31, 2017. Decommissioning obligations are adjusted periodically for revisions to the future liability costs and the estimated timing of costs to be incurred in future years. The Company estimates that it will incur $1,171 of decommissioning obligations in the twelve months ended June 30, 2019. The following table summarizes the changes in decommissioning liabilities for the respective periods:

	June 30, 2018	December 31, 2017
Balance, beginning of period	**38,478**	38,161
Property dispositions	**(1,116)**	(776)
Accretion expense	**406**	870
Liabilities incurred	**-**	371
Abandonment costs incurred	**(2,857)**	(1,079)
Revisions in estimated cash flows	**1,402**	(185)
Revisions due to change in discount rates	**281**	1,116
Balance, end of period	**36,594**	38,478

The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are $60,023 (December 31, 2017 - $63,742). These cash flows have been discounted using a risk-free interest rate of 2.16 percent (December 31, 2017 – 2.20 percent) based on Government of Canada long-term benchmark bonds. The Company expects these obligations to be settled in approximately 1 to 50 years (December 31, 2017 – 1 to 50 years).

LIQUIDITY AND CAPITAL RESOURCES

The Company's capital comprises shareholders' equity, demand credit facilities, senior notes and working capital. Cequence manages the capital structure and makes adjustments considering economic conditions and the risk characteristics of the underlying assets. Historically, the Company has managed its debt levels and working capital through its hedging program, issuing common shares, adjusting capital expenditures, and executing asset dispositions. The Company typically carries a working capital deficiency as cash balances are used to repay short term borrowings. The Company has available a $9 million on demand senior credit facility with no amounts drawn on as at June 30, 2018 (excluding letters of credit of $1.6 million).

$(000's)	**As at June 30, 2018**	As at December 31, 2017
Cash	**3,186**	10,971
Demand credit facility	**-**	-
Senior notes – principal	**(60,000)**	(60,000)
Accounts payable and accrued liabilities	**(28,684)**	(33,106)
Share-based payment liability	**(148)**	(153)
Provisions – current	**(1,171)**	(1,466)
Accounts receivable	**12,253**	14,739
Deposits and prepaid expenses	**1,078**	514
Net debt [1]	**(73,486)**	(68,501)
Funds flow from operations [1] - trailing twelve months	**10,629**	19,329
Net debt to funds flow from operations trailing twelve months[1]	**6.9:1**	3.5:1

[1] Refer to non-GAAP measurements

At June 30, 2018, the Company's net debt to funds flow from operations of 6.9:1 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 in 2017 and 2018, has reduced the Company's funds flow from operations and limited the availability of new capital to repay debt or expand development activity. During this time period, the Company has lowered capital spending, announced a flow through share rights offering and reduced its G&A to manage its leverage and to limit borrowing on its senior credit facility. The Dunvegan oil development and operating results achieved in 2018 together with recent increases to oil pricing are both anticipated to have a positive impact on funds flow from operations.

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 to funds flow from operations ratio. The Company continuously monitors changes in forecasted funds flow from operations as a result of changes to forward commodity prices and as appropriate will make adjustments to planned capital expenditures.

On July 27, 2018, Cequence announced a series of transactions to refinance the Company's balance sheet and provide greater flexibility and liquidity to execute the ongoing business plan of the Company. The Rights Offering and the extension on the Credit Facility and Senior Notes are described in more detail below.

Senior Credit Facility

As at June 30, 2018, Cequence had a $9,000 (December 31, 2017 - $12,000) on demand credit facility available from a syndicate of Canadian chartered banks (the "Credit Facility") and has drawn $nil (December 31, 2017 - $nil) under the facility except for letters of credit outstanding of $1,590 (December 31, 2017 - $1,540).

The Credit Facility has a term maturity date of September 28, 2018 and is secured by a first floating charge debenture, general assignment of book debts and Cequence's oil and natural gas properties and equipment. The Credit Facility may be extended beyond the initial term, if requested by the Company and accepted by the lenders. If the Credit Facility does not continue to revolve, amounts borrowed under the facility must be repaid on the term maturity date. The senior credit facility is reviewed on a semi-annual basis with the lender holding the right to request an additional review. The next scheduled review is expected to be completed in late September 2018. Upon closing of the Rights Offering and Term Loan, the Company has received a commitment from its lender to further extend the maturity date of the Credit Facility to May 31, 2019 with a borrowing base of $7 million.

The Credit Facility has a covenant that requires Senior Debt to twelve-month trailing 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 to be less than 3:0 to 1:0, respectively. Senior Debt is defined as the sum of Consolidated Debt less the period end balance of the senior notes. Consolidated Debt is defined as the sum of the Company's period end balance of the credit facility and senior notes. The Company was in compliance with the lender's covenant at June 30, 2018 with a ratio of 0.1 times (December 31, 2017 – 0.1 times).

Senior Notes

In October 2013, Cequence closed an investment with CPPIB Credit Investments Inc., ("CII"), a wholly-owned subsidiary of Canada Pension Plan Investment Board ("CPPIB"), for an initial investment by CII of $60,000 in unsecured five year senior notes (the "Senior Notes") with a further $60,000 of notes available at a future date, subject to the approval of both CII and Cequence on terms to be confirmed at the time of issuance. In addition, Cequence granted CII 3.0 million warrants to purchase common shares. The initial investment of $60,000 of senior notes were issued at par and carry a 9% coupon rate per annum. A standby charge of 0.7% is applied to the further $60,000 of notes available at a future date.

On July 27, 2018, Cequence entered into a second lien secured loan agreement with CII for a $60 million loan facility due October 3, 2022 (the "Term Loan") to refinance the existing Senior Notes. Interest will be paid quarterly at the rate of 5% per annum if the 12-month trailing Funds Flow from Operations is equal to or less than $40 million; and 10% per annum if the 12-month trailing Funds Flow from Operations is greater than $40 million. Funds Flow from Operations is defined as cash flow from operating activities before decommissioning liability expenditures and net change in non-cash working capital.

Cequence has granted the lender second lien security over all of the Company's assets (with the exception of its Simonette joint venture property) through a $100,000 demand debenture, which will rank junior in priority to the security securing the obligations under the Company's Credit Facility pursuant to an intercreditor agreement to be signed by the lenders.

The Term Loan is subject to the successful closing of not less than $5 million under the Rights Offering as described below on or before September 30, 2018 based on the standby agreement described below.

Senior Note Covenants

The Senior Note agreement contained incurrence covenants that use a Debt to Cashflow test of 2.5 times to limit the incurrence of certain indebtedness and restricted payments without debtholder approval. For this purpose, Debt is defined as the Company's period end balance of the credit facility and senior notes. Cashflow is equivalent to the Company's calculation of funds flow from operations for the trailing twelve months. The incurrence covenants do not contain provisions that make the notes callable. Generally, the incurrence covenants also restricted payments around dividends and other distributions; stock repurchases; subordinated debt prepayment; and certain investments outside of the oil and gas business. At June 30, 2018, the Company's Debt to Cashflow ratio was in excess of 2.5 times (December 31, 2017 – 2.4 times). The Company does not currently anticipate initiating an action that would be restricted by the incurrence covenants. Cequence does not currently anticipate any payments that would be restricted by the incurrence covenants.

Term Loan Covenants

The Term Loan is subject to a cross default clause and the same financial covenants as the Company's 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 limit 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.

	2018	**2019**	**2020**	**2021**	**2022+**	**Total**
Senior Notes [1]	-	-	-	-	60,000	60,000
Interest payments [1]	2,205	3,000	3,000	3,000	2,250	13,455
Accounts payable and accrued liabilities	28,684	-	-	-	-	28,684
CDE flow-through share Expenditures [2]	5,000	-	-	-	-	5,000
Office leases	179	261	-	-	-	440
Pipeline transportation	3,071	6,117	6,117	6,117	32,136	53,558
Gas processing	2,094	4,154	4,166	4,154	34,625	49,193
Total	41,233	13,532	13,283	13,271	129,011	210,330

(1) On July 27, 2018, Cequence refinanced the existing Senior Notes with a second lien secured loan for $60 million due October 3, 2022 subject to the successful closing of the Rights Offering. The maturity date and the revised interest rate of 5% have been reflected in the above table.
(2) Upon closing of the Rights Offering the Company will have a commitment to fully spend the net proceeds raised to drill 2.0 oil wells in the Dunvegan oil formation at Simonette to incur CDE expenditures and is reflected in the table based on the $5 million minimum standby amount.

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 of 42 mmcf/d or approximately $4,154 per year concluding April 30, 2030.

In the third quarter of 2017, the Company advanced the start date of approximately 26 mmcf/d of natural gas transportation to December 17, 2017 from April 2018. The contract reduces the Company's reliance on short term and interruptible transportation contracts and is expected to improve netbacks by lowering the cost of transportation or improving sales prices. Beginning December 17, 2017, the Company obtained firm transportation to AECO on the NGLT pipeline system for approximately 35 mmcf/d with a term until March 2026.

In September 2017 the National Energy Board approved TransCanada Pipelines application for new transportation service from Empress, Alberta to Dawn, Ontario. The Company has contracted to ship 10,850 GJ/d of natural gas to the Dawn hub at a cost of $0.77/GJ for a period of 10 years beginning April 1, 2018. The transportation commitment provides market diversification for approximately 33 percent of its current natural gas production. Historically, pricing at the Dawn hub has been at a premium to AECO. As part of this commitment, the Company entered into a five-year contract to transport AECO gas to Empress at an annual cost of approximately $750.

OUTSTANDING SHARE DATA

	Post planned Rights Offering	**August 10, 2018**	**June 30, 2018**	December 31, 2017
Common shares [1]	**388,385**	**245,528**	**245,528**	245,528
Stock options	**10,995**	**10,995**	**11,717**	13,220
Restricted share units	**2,306**	**2,306**	**2,306**	2,666
Warrants [2]	**36,800**	**3,000**	**3,000**	3,000

(1) Cequence has an unlimited number of common voting shares and common non-voting shares with no par value. The number of outstanding shares will increase under the Rights Offering and is presented in the table above based on the minimum standby commitment of $5 million received and 142,857,000 of incremental shares issued on September 13, 2018. Assuming that the rights offering is fully subscribed for at $8.6 million and 245,528,000 of incremental common shares are issued the common shares outstanding would be 491,056,000
(2) Warrants have an exercise price of $2.03 to purchase common shares which expire on October 3, 2018. Under the new Term Loan there will be 36.8 million warrants issued at an exercise price of $0.10 which have a 4-year life.

On July 27, 2018, Cequence filed a Rights Offering Circular for holders of common shares on August 9, 2018 (the "record date") to subscribe for up to 245,527,883 flow-through common shares of the Company at a price of $0.035 per share (the "Rights Offering) for gross proceeds of up to $8.6 million. The Company has in place standby commitments from two of its directors that will, collectively, guarantee that at least $5 million will be raised under the Rights Offering whereby the Company would issue an additional 142,857,000 incremental shares.

Cequence expects that the Rights Offering is expected to close on or about September 13, 2018.

As part of the refinancing Cequence will issue 36.8 share purchase warrants entitling the lender to purchase common shares of the Company at a price of $0.10 per common share which are exercisable for 4 years from the date of issuance.

SELECTED FINANCIAL INFORMATION

A reconciliation of cash flow from operating activities to funds flow from operations and other selected financial information is as follows:

			Six months ended June 30,
$(000's)	**2018**	2017	2016
Cash flow from operating activities	**4,427**	12,458	3,142
Decommissioning liabilities expenditures	**2,857**	314	1,597
Net change in non-cash working capital	**(1,857)**	1,355	(3,499)
Funds flow from operations	**5,427**	14,127	1,240
Per share – basic and diluted ($)	**0.02**	0.06	0.01
Total revenue	**29,057**	37,164	27,115
Comprehensive loss	**(6,470)**	(89,648)	(18,100)
Per share – basic and diluted ($)	**(0.03)**	(0.37)	(0.09)
Total assets	**272,669**	285,589	379,867
Demand credit facilities	**-**	-	2,160
Senior notes – principal	**60,000**	60,000	60,000

Funds flow from operations was $5,427 for the six months ended June 30, 2018 compared to $14,127 in 2017. The decrease in funds flow from operations is mainly due to decreased production volumes and pricing in 2018.

Cequence recorded a comprehensive loss of $6,470 for the six months ended June 30, 2018 compared to comprehensive loss of $89,648 in 2017. The decrease is mainly due to the impact of the impairment of $96 million recorded in 2017 and decreases in volume and pricing year over year.

QUARTERLY INFORMATION

FINANCIAL

($ thousands except per share data)	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3
Total revenue[1]	**14,613**	14,443	13,585	15,087	17,810	19,354	17,253	14,707
Royalties expense	**1,043**	737	391	465	927	1,355	467	636
Transportation expense	**1,728**	1,440	1,023	1,590	1,650	1,308	1,151	1,001
Operating costs	**6,758**	6,389	7,972	7,004	5,829	6,779	6,184	6,228
Comprehensive income (loss)	**(2,745)**	(3,725)	(6,638)	(3,076)	(94,899)	5,251	(9,077)	(880)
Per share – basic & diluted	**(0.01)**	(0.02)	(0.03)	(0.01)	(0.39)	0.02	(0.04)	(0.00)
Funds flow from operations [2]	**2,191**	3,236	1,583	3,619	6,781	7,346	6,625	3,385
Per share – basic & diluted	**0.01**	0.01	0.01	0.01	0.03	0.03	0.03	0.02
Capital expenditures	**1,830**	7,454	5,593	2,682	2,536	15,046	11,460	2,810
Net acquisitions (dispositions) [3]	**(1,433)**	4	(4,277)	-	-	-	(54)	(5,167)
Net capital expenditures	**397**	7,458	1,316	2,682	2,536	15,046	11,406	(2,357)

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

OPERATIONAL

	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3
Production volumes								
Natural gas (Mcf/d)	**28,628**	34,828	33,331	40,729	42,719	45,214	45,005	44,320
Oil (bbls/d)	**864**	245	283	388	224	481	140	175
NGLs (bbls/d)	**240**	274	257	250	239	270	209	261
Condensate (bbls/d)	**459**	647	617	841	919	814	760	798
Total (boe/d)	**6,334**	6,970	6,713	8,266	8,502	9,101	8,609	8,621
Average selling price, including realized hedges								
Natural gas ($/Mcf)	**2.14**	2.70	2.33	2.12	2.83	2.79	2.92	2.28
Crude oil and condensate ($/bbl)	**68.79**	62.59	66.73	57.70	60.11	62.50	56.27	53.78
NGLs ($/bbl)	**34.91**	38.30	38.55	27.86	26.11	29.92	25.61	24.09
Total ($/boe)	**25.35**	23.02	22.00	19.84	23.02	23.63	21.78	18.54
Operating netback, including realized hedges ($/boe)								
Price	**25.35**	23.02	22.00	19.84	23.02	23.63	21.78	18.54
Royalties	**(1.81)**	(1.18)	(0.63)	(0.61)	(1.20)	(1.65)	(0.59)	(0.80)
Transportation	**(3.00)**	(2.30)	(1.66)	(2.09)	(2.13)	(1.60)	(1.45)	(1.26)
Operating costs	**(11.72)**	(10.18)	(12.91)	(9.21)	(7.53)	(8.28)	(7.81)	(7.85)
Operating netback	**8.82**	9.36	6.80	7.93	12.16	12.10	11.93	8.63

The company's funds flow from operations and comprehensive income (loss) has been negatively impacted by low commodity prices, in particular natural gas prices. AECO natural gas prices averaged $2.18/Mcf in 2016 and $2.23/Mcf in 2017, significantly lower than previous years. The Company has reduced capital expenditures on new wells during this time period due to lower funds flow from operations and restricted access to cost effective capital.

The Company's quarterly 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. During 2015, the Company recorded impairment expense of $230,400, including $144,000 in the fourth quarter. 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 the 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.

OUTLOOK INFORMATION

The Company's guidance for the year ended December 31, 2018 includes the results of the second quarter, the 3 gross (2.0 net) Dunvegan oil well results, the restructured $60 million Senior Notes (with its 5% interest rate), a minimum Rights Offering equity raise of $5 million, the inclusion of the north east B.C. asset operating results, and an additional planned 2 gross (2 net) Dunvegan oil wells drilled and on production in the fourth quarter of 2018. As a result, oil production increases from 245 bbl/d in the first quarter of 2018 to an expected average second half 2018 rate of 1,050 to 1,150 bbl/d. The increase in oil production combined with improved oil prices and the Dawn, Ontario gas contract provide an estimated second half 2018 funds flow from operations of approximately $12 million.

(000's, except per share and per unit references)	**Guidance year ended December 31, 2018**
Average production, BOE/d [(1)]	6,850
Funds flow from operations ($)[(2)]	17,000
Funds flow from operations per share[(2) (4)]	0.06
Exploration and development expenditures, ($)	19,500
Net wells	4.0
Operating and transportation costs ($/boe)	14.50
G&A costs ($/boe)	2.60
Royalties (% revenue)	6
Crude – WTI (US$/bbl)	65.40
Natural gas – AECO (CDN$/GJ)	1.50
Period end, net debt ($) [(3)]	66,500
Weighted average basic shares outstanding[(4)]	287,800

[(1)] Average production estimates on a per BOE basis are comprised of 76% natural gas and 24% oil and natural gas liquids in 2018.
[(2)] Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures and net changes in non-cash working capital.
[(3)] Net debt is calculated as working capital deficiency (excluding commodity contracts) plus the aggregate principal amount of the senior notes and is calculated based on the minimum standby commitment of $5 million received less estimated costs of $125,000.
[(4)] Weighted average basic shares outstanding is based on the minimum standby commitment of $5 million received and 142,857,000 of incremental shares issued on September 13, 2018. Assuming that the rights offering is fully subscribed for at $8.6 million and 245,528,000 of incremental common shares are issued the weighted average shares would be 318,177,000 for December 31, 2018 and funds flow from operations would be $0.05.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer ("CEO") and Contract Interim Chief Financial Officer ("CFO") are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's CEO and CFO have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that 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 periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

The Committee of Sponsoring Organizations ("COSO") framework provides the basis for management's design of internal controls over financial reporting. Management and the Board work to mitigate the risk of a material misstatement in financial reporting; however, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met and it should not be expected that the disclosure and internal control procedures will prevent all errors or fraud.

As at June 30, 2018, CEO and CFO have concluded, based on their evaluation of the design and operating effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting ("ICFR") that disclosure controls and procedures and ICFR are effective.

CHANGES IN ACCOUNTING POLICIES

IFRS 15 "Revenue from contracts with customers"

Cequence adopted IFRS 15 with a date of initial application of January 1, 2018. IFRS 15 replaces existing revenue recognition guidance and provides a single, principles-based five-step model to be applied to all contracts with customers. Cequence used the modified retrospective approach to adopt the new standard, applying the standard retrospectively only to contracts that were not completed contracts on January 1, 2018. Under the transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to deficit. As a result of applying the requirements of IFRS 15, including the application of certain practical expedients such as the right to invoice method of measuring the Company's progress towards complete satisfaction of its performance obligations, there was no change or adjustments to the Company's consolidated financial statements as a result of the adoption of IFRS 15. Additional disclosure requirements required by IFRS 15 are detailed in Notes 3 and 7 of the consolidated financial statements.

IFRS 9 "Financial Instruments"

On January 1, 2018, Cequence adopted IFRS 9 as issued by the IASB. IFRS 9 includes a new classification and measurement approach for financial assets and liabilities, and a new expected loss impairment model for financial assets including credit losses. The adoption of IFRS 9 did not have a material impact on Cequence's consolidated financial statements. Additional disclosures related to Cequence's financial assets are included in Note 3 and 13 of the consolidated financial statements.

FUTURE ACCOUNTING POLICIES

In January 2017, the IASB issued IFRS 16 "Leases". For lessees applying IFRS 16, a single recognition and measurements model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers". The Company is currently evaluating the impact of adoption of this standard and the effect on Cequence's consolidated financial statements has not yet been determined.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by Cequence are disclosed in the annual MD&A and consolidated financial statements for the year ended December 31, 2017. 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 circumstances may result in actual results or changes to estimate amounts that differ materially from current estimates. There have been no significant changes to the critical accounting estimates used in applying accounting policies for the three and six-months periods ended June 30, 2018.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments, including derivative financial instruments, recognized in the consolidated balance sheet consist of cash, accounts receivable, deposits, commodity contracts, demand credit facilities, senior notes and accounts payable and accrued liabilities. There have been no significant changes to the financial instruments and related risks that Cequence is exposed to for the three and six-months periods ended June 30, 2018.

OFF BALANCE SHEET ARRANGEMENTS

The Company has certain lease agreements that are entered into in the normal course of operations, including operating leases for which no asset or liability value has been recorded on the consolidated balance sheet as at June 30, 2018.

The Company has not entered into any guarantee or off balance sheet arrangements that would materially impact the financial position or results of operations as at June 30, 2018.

RISK ASSESSMENT

The acquisition, exploration and development of oil and natural gas properties and the production, transportation and marketing of oil and natural gas involves many risks, which may influence the ultimate success of the Company.

While the management of Cequence realizes these risks cannot be eliminated, they are committed to monitoring and mitigating these risks. These risk include, but are not limited to:

- Volatility in market prices and demand for oil, NGLs and natural gas and hedging activities related thereto;
- Variance of the Company's actual capital costs, operating costs and economic returns from those anticipated;
- The ability to find, develop or acquire additional reserves and the availability of the capital or financing necessary to do so on satisfactory terms;
- Risks related to the exploration, development and production of oil and natural gas reserves and resources;
- Negative public perception of oil sands development, oil and natural gas development and transportation, hydraulic fracturing and fossil fuels;
- Actions by governmental authorities, including changes in government regulation, royalties, taxation, and wildlife management including the Caribou Action and Range Planning that may impact the Company's Simonette area;
- Actions by governmental authorities, including changes in government regulation, royalties and taxation;
- The availability, cost or shortage of service equipment, raw materials, supplies or qualified personnel;
- Dependence upon oil and gas infrastructure, certain of which the Company does not control;
- The ability to satisfy obligations under the Company's firm commitment transportation and gas processing arrangements;
- The possibility that the Company's drilling activities may encounter sour gas;
- The concentration of the Company's assets in the Simonette area;
- First Nations claims;
- Limited intellectual property protection for operating practices and dependence on employees and contractors;
- Environmental, health and safety requirements;
- Extensive competition in the Company's industry;
- Third party credit risk including dependence on limited customers and counterparties;
- Variations in foreign exchange rates and interest rates;
- Litigation.

For additional information regarding the risks that the Company is exposed to, see the disclosure provided under the heading "Risk Factors" in the AIF, which is available on the SEDAR website at www.sedar.com

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: the fact that the Company will continue as a going concern; future capital investments and the repayment of the Company's debt; the Company's plans to continue to seek opportunities to divest its British Columbia assets; the Company's future cash flows, planned capital expenditures and the source of funding thereof; the Company's guidance under the heading "Outlook Information"; projections with respect to the Company's production; future performance expectations of the recently completed Dunvegan wells; the possible curtailing of gas production due to low AECO prices; the estimated number of oil locations remaining on the Company's land, the impact of the completion of Cequence's debt refinancing and the terms thereof; the Company's lender's support for the extension and the new borrowing base of the Company's Credit Facility; the timing, proceeds and number of shares to be issued under the Company's Rights Offering; 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; projections relating to the volatility of crude oil and natural gas prices in 2018 and beyond; the effect of the Company's risk management program, including the impact of derivative financial instruments; the impact of the climate change initiatives on operating costs; and the impact of Western Canada pipeline constraints.

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 and the new borrowing base of the Credit Facility; the ability of the Company to satisfy the conditions precedent to the Loan Agreement and any other closing conditions relating to the Term Loan or 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 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. 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 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.